FMO

Entrepreneurial
Development
Bank

Annual report

2017

INVESTING IN LOCAL PROSPERITY

Maria Mendoza González works at the coffee plantation Finca La Castilla in Nicaragua. The plantation is part of the Matagalpa Agroforest Resilient Landscape program aimed at fostering an entrepreneurial mind-set of smallholders and supporting the establishment of a coffee outgrower scheme around Cafetalera Nicafrance, an agroforestry company specialized in the production of high quality shade-grown coffee.

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

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FMO AT A GLANCE

FMO is the Dutch development bank
Since 1970 we have been the driving force behind investments empowering entrepreneurs in emerging markets. We invest with the aim of enhancing local prosperity in places where this is needed most. We focus on underserved markets in key sectors for development, taking risks that few others are willing to take. Our role extends beyond financing, as we challenge businesses to meet high international standards regarding the welfare of people, corporate governance and the environment. These businesses in turn create jobs and tax income, and contribute to a healthy private sector improving people's prospects for a better life. FMO has its head office in The Hague, the Netherlands with a local office in Johannesburg, South Africa.

Higher goal
FMO, your preferred partner to invest in local prosperity.

Vision
We believe in a world in which, in 2050, 9 billion people will live well and within the means of the planet's resources.

Mission
We empower entrepreneurs to build a better world.

2017 INVEST IN LOCAL PROSPERITY

8 DECENT WORK AND ECONOMIC GROWTH

900,000
Jobs supported

€3.1 billion
Total new commitments

10 REDUCED INEQUALITIES

41
Inclusive and gender equality investments

Number of new investments that contribute to reducing inequality.

13 CLIMATE ACTION

1,600,000
Avoided Greenhouse Gas emissions (tCO_2eq)

42%
Green investments (% of total)

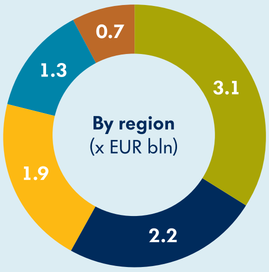
Investments that mitigate climate change but also support biodiversity conservation, reduced water usage and sustainable forestry and agriculture practices.

2017 FINANCIAL PERFORMANCE

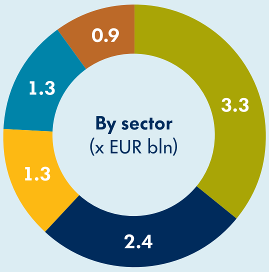
€255 million
Net profit

24.6%
CET1 (%)

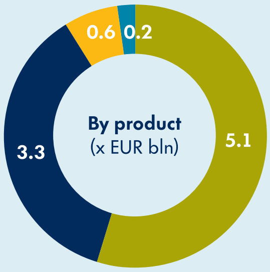
€9.2 billion
Total committed portfolio



- Africa
- Asia
- Latin America and the Caribbean
- Eastern Europe and Central Asia
- Non-specific region



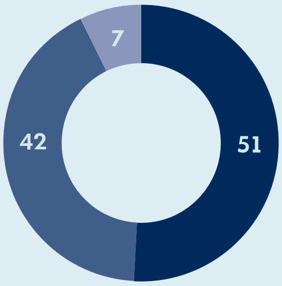
- Financial Institutions
- Energy
- Infrastructure, Manufacturing & Services
- Multi-sector fund investments
- Agribusiness, food & water



- Loans
- Equity
- Mezzanine
- Guarantee

2017 RATINGS

Ownership structure %



- The State of the Netherlands
- Dutch banks
- Employers' associations, trade unions and individual investors

Ratings

AAA
Fitch ratings

AAA
Standard&Poor's

85 / 100
Sustainalitics

Prime
Oekom Research

Employees

444
Average # of FTEs

47
Number of nationalities

2017 Highlights

FMO, your preferred partner to invest in local prosperity

During 2017 we have reviewed our operating environment and updated our corporate strategy towards 2025 to align with the Sustainable Development Goals, and increase focus and impact in our activities. We have set ourselves the goal to be 'your preferred partner to invest in local prosperity'.

Successful close of Climate Investor One at USD 475 million

Following the first close of USD 412 million on the 23rd of June 2017, Climate Investor One (CIO) continues to build momentum in successfully onboarding the European Union as a donor to CIO and MP Pensjon of Norway as a commercial investor in CIO for a final total close of USD 475 million.

Green finance symposium – India

Indian Yes bank and FMO along with DEG and Proparco organized an investment symposium on 'The Opportunity of Green Finance in India', where the four banks signed a charter to champion green finance in India. Through the charter, the four banks committed to mobilize green investments, seize opportunities in India's sunrise sectors, and contribute to achieving India's Nationally Determined Contribution and Sustainable Development Goals targets, towards climate change.

Stakeholder engagement

Following an internal review and consultation with our stakeholder community in September 2017, FMO published updated position statements on Human Rights, Land Governance, and Gender on its website. Our Human Rights position statement is a firm commitment to respect human rights. We explicitly and systematically address human rights in our due diligence and across our investment process.

FinTech for inclusion summit – The Netherlands

FMO was the proud host and organizer, together with Accion Venture Lab and Quona Capital, of the FinTech for Inclusion CEO Forum & Summit. At the summit over 80 FinTech start-ups, investors and funders, banking and financial institutions gained insights in market developments from leading actors who are advancing financial inclusion through innovative FinTech solutions across the world.

Female leadership journey – Ghana

FMO developed with our partner Access Bank Ghana and Better Future, the female leadership journey. A global group of 18 female leaders partnered to drive impact in women finance, to learn from each other and from local female entrepreneurs.

KEY FIGURES

The figures and percentages mentioned throughout this integrated annual report are the figures related to the financing activities from FMO's own funds including the FOM facility. FMO also manages several funds for the Dutch government. Where government funds are included, this is explicitly stated.

In EUR x mln unless stated otherwise

	2017	2016	2015	2014	2013
(in)Direct jobs supported (in FTEs) (x'000)[1]	900	812	843	n/a	n/a
Avoided GHG emissions (tCO2eq)(x'000)[2]	1,600	500	787	n/a	n/a
Green investments[3]	1,297	519	685	530	n/a
Catalyzed funds[4]	1,111	905	923	879	822
New commitments[5]	1,946	1,550	1,584	1,632	1,524
of which government funds	210	118	184	177	144
Total committed portfolio	9,155	9,778	9,256	8,013	6,633
of which government funds[6]	1,222	1,239	1,194	978	844
Net loans	4,139	4,527	4,307	3,860	2,981
Equity investments portfolio[7]	1,710	1,828	1,500	1,149	962
Shareholders' equity	2,830	2,774	2,511	2,138	1,963
Debt securities and debentures/notes	5,101	5,181	5,348	4,197	3,610
Total assets	8,323	8,553	8,421	7,088	6,184
Income					
Net interest income	200	217	227	169	155
Income from equity investments	191	56	44	72	43
Other income including services	53	27	49	19	56
Total income	444	300	320	260	254
Total expenses	-99	-86	-79	-62	-62
Operating profit before value adjustments	345	214	241	198	192
Value adjustments					
- to loans and guarantees	-15	43	-10	-36	4
- to equity investments	-47	-44	-19	-15	-22
Total value adjustments	-62	-1	-29	-51	-18
Taxes	-37	-43	-41	-25	-36
Net profit	255	176	174	124	133
Average number of full-time employees (in FTEs)	444	404	372	362	342

1 (In)direct jobs supported is the indicator for our strategic goal of doubling our impact by 2020. We measure this by comparing the baseline period (the average of the 2010-2012 new investments) with the end line period (the average for 2018-2020) for new investments. 2015 was the first year we measured our progress. Baseline figure (2012) for jobs supported is 500,000.

2 Avoided GHG emissions is the indicator for our strategic goal of halving our footprint by doubling GHG avoidance by 2020. It is measured in a similar way as the (in)direct jobs supported. 2015 was the first year we measured our progress. Baseline figure (2012) for avoided GHG emissions is 575,000 tCO^2 equivalent.

3 Green investments are the new investments for FMO's account, the government funds and catalyzed funds that have been labeled as green investments.

4 Catalyzed funds are new investments made on behalf of third parties.

5 New commitments and Total committed portfolio concern both investments for FMO's account and investments for government funds managed by FMO.

6 The government funds include MASSIF, IDF, AEF and FOM-OS.

7 Including investments in associates.

II

Report of the MANAGEMENT BOARD

FINANCIAL INCLUSION IN A CHALLENGING PLACE
Afghanistan | The First MicroFinance Bank
Sector | Financial Institutions

Farida, 39 years old, taylor since ten years. She works at home, in the Qala-e Fatoh area in Afghanistan. In the last seven years, she received six loans from the First MicroFinance Bank in Afghanistan to buy machines and fabrics. Since then she has expanded her business and has now eight women working for her.

The First MicroFinance Bank, Afghanistan provides sustainable financial services to small and micro businesses and households in one of the most non-inclusive and least financially penetrated countries in the world.

In 2017 the bank opened the country's first women-only branch. This unique branch in Kabul is served and supervised by twenty-one all-women staff and caters to only women customers. The bank plans to open 2 similar branches in Herat and Mazar-e-Sharif – one each in 2018 and 2019. The bank was also runner-up in the 2017 European Microfinance Awards for their housing improvement loan product to help solve the huge housing deficit due to migration, refugees, high birth rates and frequent earth quakes.

We extended our partnership with The First MicroFinance Bank, Afghanistan through a local currency loan of USD 5 million in Afghan Afghanis from MASSIF, the fund that FMO manages on behalf of the Dutch government.

LETTER FROM THE CEO

It makes me truly proud to look back on 2017. FMO showed excellent results, creating record development impact and financial profit. We also reviewed our strategy and recalibrated our roadmap towards 2025. I am certain that our results – in impact, numbers and strategy – are the result of the passion and professionalism of our employees as well as the strong relations we enjoy with our partners in the Netherlands and worldwide.

'Your preferred partner to invest in local prosperity' – this is the goal we defined for the period up to 2025 and the result of a thorough review of our operating environment today: one with rising stakeholder expectations, a more crowded development finance market and a stronger international call to reduce economic and social inequalities amongst countries.

We use the term 'local prosperity' to emphasize that positive impact on local stakeholders, their communities and ultimately general society, is at the heart of everything we do. In our strategy for the period up to 2025, we will steer on our contribution to the SDGs in general, and three in particular: Decent Work and Economic Growth (SDG8), Reduced Inequalities (SDG10), and Climate Action (SDG13). These are the areas where we feel we can have the biggest impact in the countries where we can make the biggest difference. Investing in local prosperity is something we do in partnership with others (SDG17). During 2017, we made significant steps in stakeholder engagement. We revised our sustainability policy with specific attention to climate action and human rights through a process of extensive stakeholder consultation. The progress we made is reflected in the open and positive feedback we received from our stakeholders, including the Dutch government and various non-governmental organizations. We are both proud of and grateful for this feedback, as it demonstrates that our stakeholders understand that we are very serious about continuous learning and constructive dialogue.

To be effective in supporting local prosperity, we aim to be the preferred partner to our key stakeholders. Of course, these include our clients, with whom we will strengthen relationships in order to tailor our services to their needs. To this end, we will invest more time in better understanding our clients' situation, increasing sector knowledge, building partnerships and further tailoring our support to clients' needs – both financial and non-financial, for example through technical assistance. We will also strengthen our relationships with public and private investors, who are essential impact catalysts as co-investors in our projects. And finally, yet importantly, we aim to be the preferred partner for the Dutch government through private sector investment and climate finance. Our strategy towards 2025 aligns fully with the sustainable development goals, contributing to key priorities of the Dutch government.

To achieve our 2025 goal, we will need to further challenge ourselves as an organization. It is one thing to say that we will increase impact going forward. Actually achieving it will require a different way of working. We have increased the focus of our operations on financing financial institutions, energy and agribusiness, food & water, and downscaled our involvement in infrastructure, manufacturing and services. On an organizational level, we launched several internal projects to strengthen our efficiency and effectiveness, among them a business process optimization project. This project aims to optimize our processes and systems, so we can better serve our clients. It will be implemented in 2018 and subsequent years. Moreover, we are looking at ways to systematically incorporate constructive dialogue with our stakeholders. Because as a partner, we can only continue to evolve if we continue to observe, converse, listen and learn.

On to results. I am truly pleased that in 2017 we outperformed our impact targets. Our new commitments exceeded EUR 3 billion, including more than EUR 1.1 billion of catalyzed funds. Over 40% of our new commitments were green and we made more than 40 investments that contribute to reducing inequalities. Through our new commitments we estimate that we will support 900,000 jobs while avoiding 1,600,000 tons of GHG emissions.

Our results also show that impact and profit can go hand in hand. Our net profit for the year amounted to a record level of EUR 255 million. This performance was supported by several exits from private equity investments and robust performance of our loan business.

The drive and entrepreneurship of FMO's employees makes a difference to our projects. An important breakthrough regarded the first close of the Climate Investor One fund, an innovative blended finance concept in the renewable energy space. Another example is our co-investment in the Finforward FinTech marketplace. Through this initiative we support African banks to start using FinTech instruments, enabling them to include the unbanked in the African financial system. Last special mention regards the smooth preparations leading to successful implementation of IFRS 9 per January 1, 2018.

For me personally, it was also a memorable year. It was my first full year as CEO of FMO. It was also the year in which I announced my departure after having served on the Management Board of FMO for 9.5 years. This naturally gives me mixed feelings, as it is both an honor to assume a senior position at another development finance institution, and a loss to leave FMO at this point. I will leave FMO with pride – our results for 2017 and the clear strategic direction going forward give me confidence that FMO will become the preferred partner for investing in local prosperity.

EXTERNAL ENVIRONMENT

This chapter outlines the context in which FMO operated in 2017. We will also look at what some of the changes in our external environment meant to our organization and our stakeholders, and how we responded.

Addressing global issues

The United Nations Sustainable Development Goals (SDGs) and the Paris Climate Agreement have set joint public and corporate agendas aimed at ending extreme poverty, reducing inequality and tackling climate change. They recognize that people living in poverty tend to suffer most from climate change, so these challenges will need to be addressed in tandem. Development banks can make significant contributions to the SDGs and have a role in limiting temperature increases below 1.5 - 2.0 degrees Celsius.

Stakeholder needs

By design, we address global issues every day. Our public and private stakeholders share our commitment to the SDGs and the Paris Climate Accord. They challenge us on how we, as a development bank, can set ambitious targets to address global issues and be transparent about outcomes achieved. We set targets to generate impact and with the help of our partners and expert recommendations, such as those from the Task Force on Climate-related Financial Disclosures and the EU High-level Group on Sustainable Finance, we refine ways to share progress.

Risks, opportunities and dilemmas

FMO has updated its strategy for the period up to 2025, in which we partner with others to invest in local prosperity focusing on projects that contribute to SDG 8 (Decent Work and Economic Growth), SDG 10 (Reduced Inequalities) and SDG 13 (Climate Action). We will deepen our focus on energy, financial institutions, and the agribusiness, food & water sectors because we believe this is where we can add more value. It did present us with the dilemma of whether to proceed in sectors such as manufacturing, ports and telecoms. To dedicate more resources to our focus sectors, we have decided to discontinue our debt offering in non-focus areas.

NGOs and local stakeholders have become more vocal

Local communities, NGOs, governments and the media increasingly expect development banks to foster local prosperity through investments with a positive impact on local communities. For high-impact projects they expect sponsors and financiers to ensure that local communities are consulted early on, to ensure that negative effects are mitigated and local communities benefit from positive spin-offs of the project.

Stakeholder needs

NGOs and local stakeholders call upon development banks to be more transparent about their investments. There is an increasing call to include dialogues with local stakeholders in the early stages of the investment cycle, and stakeholders wish to be informed through early disclosure of project information as well as progress reporting once projects are underway.

Risks, opportunities and dilemmas

FMO has implemented its updated sustainability policy, supported by various position statements, among other things regarding human rights, after fruitful consultations with a wide range of stakeholders including NGOs and the Dutch government. The increasing demand for transparency also leads to additional reporting requirements, such as EU reporting guidelines and the Dutch banking sector agreement on international responsible business conduct regarding human rights (IMVO).

Market dynamics are changing

Various forces are shaping the landscape for development banks. Public funds have increasingly become available for private projects, sometimes at subsidized rates. At the same time, the role of private impact investors has become more prominent as an efficient and affordable solution for banks and companies that used to be dependent on development bank funding.

Stakeholder needs

FMO clients often appreciate the added value we bring to their companies: capacity development, technical assistance, Environmental and Social Governance (ESG) knowledge as well as financial expertise and networks. They also expect faster services, priced at levels comparable to other impact investors. Governments expect development banks to take a leading role in blending public funds in private projects.

Risks, opportunities and dilemmas

We feel that these forces offer a strong opportunity for FMO to catalyze other financiers in high-impact projects, by building on our record of accomplishment to manage high-impact government funds and by catalyzing ever more private investors in high-impact projects. We are increasing the efficiency of our services, while strengthening our offering, such as ESG support.

Value for the Netherlands

In recent years FMO has increasingly been requested to combine impact in developing countries with value creation for the Netherlands. In addition to supporting Dutch international commitments in meeting SDGs and climate goals, FMO should enable Dutch companies to invest in developing countries and emerging markets, in case commercial funding is not available.

Stakeholder needs

The Dutch government has called upon FMO to clearly show how it supports the SDGs. Dutch companies indicate the need for financial and non-financial support for their activities in developing countries and emerging markets. FMO is called upon to align these two goals and in doing so, support the aid and trade agenda of the Dutch government.

Risks, opportunities and dilemmas

Our strategy for the period up to 2025 is designed to create local prosperity by focusing on three SDGs in particular. More decent jobs, less inequality and climate action create local stability, providing a more prosperous outlook and removing root causes of forced migration. FMO has taken steps to play a central role in assisting Dutch companies with investments in emerging markets through its subsidiary NedLinx B.V., which originated from the NL Business department. In these activities, FMO will uphold its approach to being additional to the market and avoiding competition with commercial financiers, whilst maintaining high ESG standards.

Regulatory developments

In December 2017, the Basel Committee announced the completion of the Basel III reforms. The long-awaited new agreement, referred to as Basel IV, sets the new global standards for capital requirements for banks, including the new standardized approach to credit risk. Of particular relevance to FMO is the proposed new capital treatment of equity exposures.

Stakeholder needs

An essential part of FMO’s added value as a development bank is our ability to provide clients in developing countries with long-term capital.

Risks, opportunities & dilemmas

New regulations aim to make the banking sector more robust and better prepared for future crises. However, the proposed higher capital requirements for equity investments in Basel IV will limit our ability to provide clients with long-term capital, thereby having an effect on banks in developing countries and the use of financial instruments for economic development in these countries. As providing high-risk finance in developing countries is our core business we are challenged to define mitigating measures with the purpose to maximize our impact in responding to product demand from our clients.

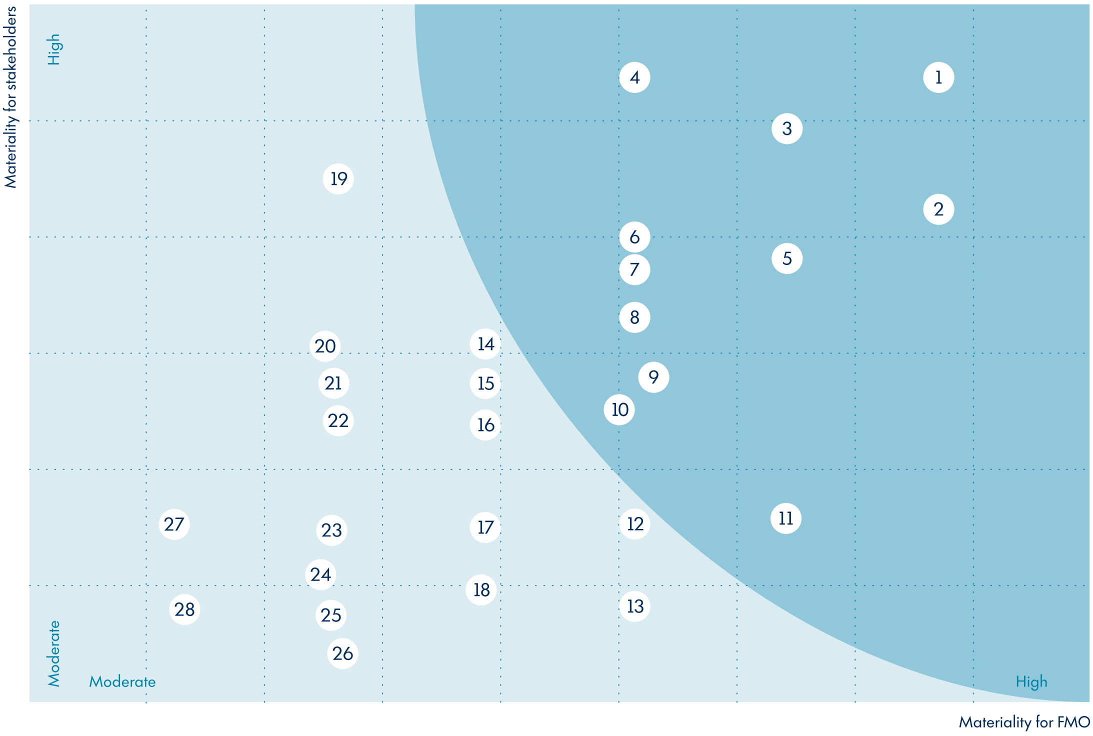
FMO's stakeholders and engagement

We actively engage with our stakeholders to find out what matters most to them, improving our decision-making and accountability in the process. We have identified FMO's stakeholder groups based on the influence they have on FMO's strategy as well as the extent to which they are affected by FMO's strategy. The following table gives an overview of our key stakeholder groups and how we engage with each of them.

Stakeholder group	Engagement	Frequency
Clients – We actively seek clients and projects with high potential for positive impact in terms of economic growth, social progress and environmental sustainability. Our clients are companies, financial institutions, private equity fund managers, and infrastructure and energy project developers in developing countries.	Regular business meetings, specific events or conferences	Frequent
State of the Netherlands – We were founded as a public-private partnership with 51% of our shares held by the State of the Netherlands, through the Ministry of Finance. As part of the Dutch government's international development agenda, our mandate is to promote private sector development in developing countries. The Dutch government also guarantees our financial commitments and entrusts us with the management of a number of government funds that have strong synergies with the overall FMO strategy.	Organized meetings with Ministry of Finance and Ministry of Foreign Affairs	Regular
Shareholders – The remaining 49% of our shareholders' capital is provided by commercial banks, trade unions and other members of the private sector.	Annual General Meeting of shareholders	Annually
Employees – Our employees are highly qualified and exemplify our cultural values: engaged, excellence, cooperation, and making a difference.	Works council meetings, department meetings, town hall meetings	Scheduled
Investors – We offer investors access to our expertise with regard to responsibly investing in emerging markets while providing our clients with increased access to financing and diversified lending. We also catalyze commercial banks with our syndicated loans.	Roadshows, frequent meetings	Frequent
Partner DFIs – Our financing partners co-finance with us and deliver valuable local knowledge about the markets in which we operate.	Business meetings	Scheduled
Non-governmental organizations (NGOs) – Through engaging with NGOs we aim to learn and improve on our ESG investment policies and practices.	Specifically organized meetings	Scheduled
Local communities and clients of clients - With our support, our clients create jobs (directly and indirectly in the value chain), manufacture products and deliver services in a more environmentally sustainable and socially responsible way.	Ad hoc meetings	Ad hoc
Dutch Central Bank (DNB) – We manage risks within well-defined boundaries. Our In Control Framework ensures continuous measurement and monitoring of the drivers in our risk universe.	Regular organized meetings	Scheduled
Knowledge partners – Universities, NGOs, etc that help us develop relevant knowledge in order to finance innovative projects.	Organized meetings	Scheduled

2017 Materiality Assessment

To establish what matters most to our key stakeholder groups we have updated and validated the materiality assessment performed in 2016. 2017 was a year of extensive stakeholder dialogues. FMO sought feedback to understand whether stakeholder needs changed during the year. The outcomes of these dialogues were verified by desk research and used to update the 2016 results. The outcome of the materiality assessment is included in the matrix below, in which the major changes are indicated. For a detailed description of the topics included in this overview please refer to the 'Glossary of terms' annex.



1 Development impact
2 Financial sustainability and risk appetite of FMO
3 Transparancy & Accountability
4 ESG risk management
5 Inclusive development
6 Additionality of FMO' activities
7 Client satisfaction
8 Catalyzing public & private capital
9 Innovation and knowledge management at FMO
10 Environmental footprint of our investments
11 Support Dutch companies
12 Health and (travel) safety FMO employees
13 Taxation (investment portfolio)
14 Human Rights
15 Local stakeholder engagement
16 Promote ESG best practices
17 Networks
18 Employee development in FMO
19 Investing in resource efficiency and renewable energy
20 Biodiversity
21 Business integrity of FMO
22 Good labor practices and decent work conditions
23 Diversity and equal opportunity
24 Safeguard privacy of FMO's clients
25 Role in public debate
26 FMO's own direct environmental impact
27 Remuneration policy of FMO
28 Local presence

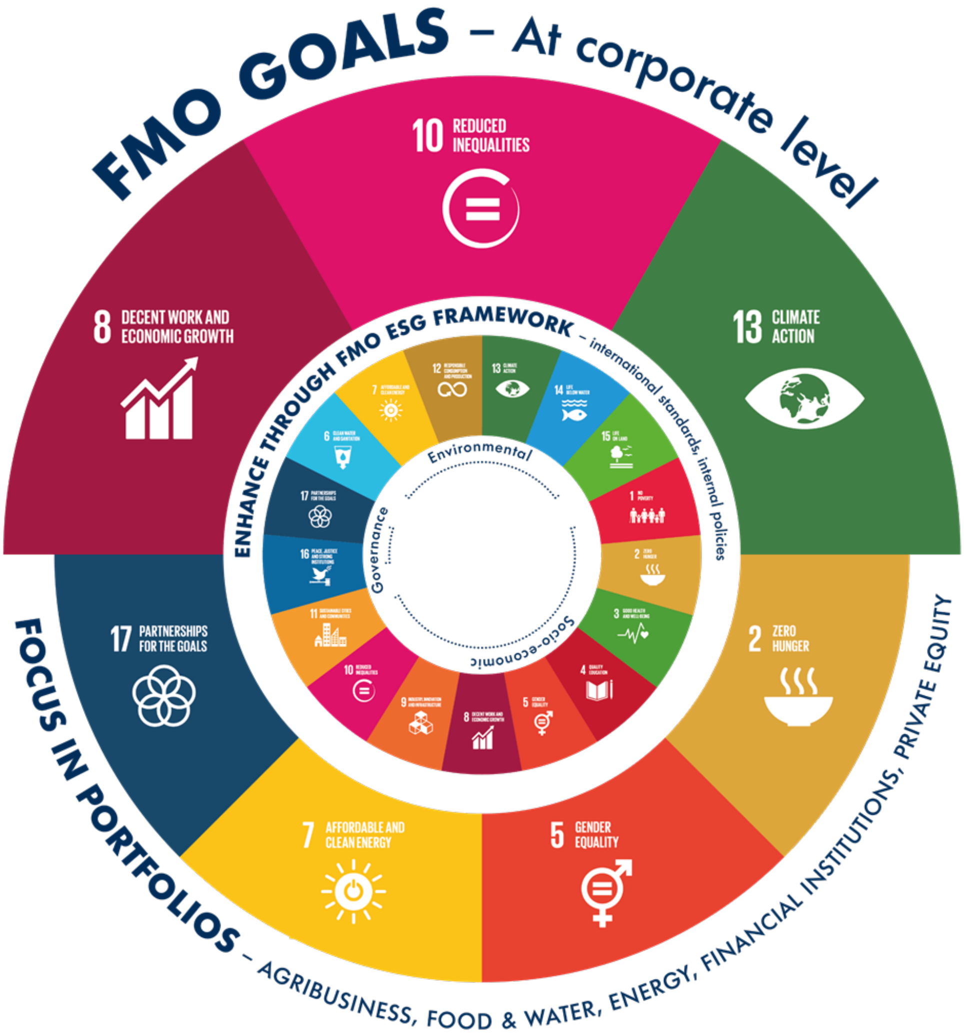
The results reflect the external environment in which we operate. As a development bank we recognize the importance of having strong ESG risk management to ensure that we invest in a sustainable manner, taking into account all stakeholders involved. We also acknowledge the importance of being transparent on how we invest and being accountable for the results we achieve. In a more competitive landscape, having in-depth sector and product knowledge as well as the ability to deliver innovative services has become more important. The last few years have also shown that combining profitable and impactful investments with value for the Netherlands has become more of a priority.

The reporting process for this integrated report was guided by our strategic priorities and mirrored against material topics from the matrix.

OUR STRATEGY

During 2017 we reviewed our operating environment and updated our corporate strategy towards 2025. Our updated strategy was aligned with the Sustainable Development Goals (SDGs), building on increased focus and impact in our activities. We have set ourselves the goal to be 'Your preferred partner to invest in local prosperity'.

Across FMO's investments we contribute to Decent Work and Economic Growth (SDG 8). In the period up to 2025 we will raise the proportion of our portfolio focused on Reduced Inequalities (SDG 10) and Climate Action (SDG 13). To contribute to SDG 10, we are increasing inclusive (including gender-focused) investments and investments in least developed countries (LDCs). We can contribute to SDG 13 by increasing climate mitigation and adaptation investments and identifying ways to align our strategy with international climate ambitions (1.5 - 2.0-degrees pathway). In view of this, we will continue our journey to double our impact and halve our footprint by 2020.



Investing in local prosperity also means that we support our clients with the aim of having positive impact on local stakeholders, their communities, and ultimately society at large. During project screening, we therefore ensure that our clients engage with local stakeholders to understand their perspectives, address their concerns, and ensure that they benefit from positive spin-offs from the project concerned and are properly compensated for any negative repercussions that the project may have on them.

Our approach

To deepen our relationships with clients and stakeholders, we focus on those sectors where we can have the biggest impact. To that end we decided to discontinue our debt offering to non-focus sectors and deepen our expertise in financial institutions, energy and agribusiness, food & water. We continue to invest in expertise on environmental and social risk management and engagement, with specialist staff for stakeholder management and an explicit and systematic focus on human rights.

Agribusiness, food & water

Investing across the agribusiness value chain - enhancing food security, supporting sustainability, efficient water use, and promoting inclusive development.

Inputs Seeds, Animal feed, Fertilized

Primary production Crops, Livestock, Production, Fishing

Processing Crushing, Storage, Handling, Packaging

Trade Trading, Exporting

Distribution Logistics, to Retail

Energy

Investing in long-term projects in the areas of generation and distribution - promoting the transition to a low-carbon system and safeguarding energy security.

Wind

Solar

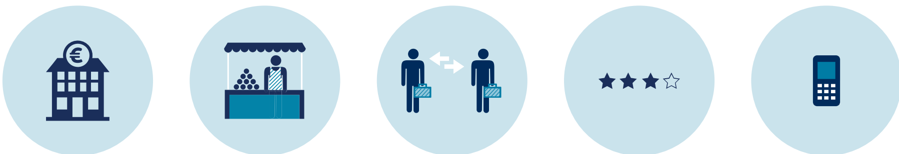
Hydro (run-of-the-river)

Off-grid solutions

Resource efficiency & refurbishment

Financial Institutions

Investing in long-term financing solutions, increasing access to finance and supporting financial inclusion.



(Universal/SME) banks

Microfinance

Leasing companies

Insurance companies

FinTech

We strengthen our fund management proposition for public sector funds, for which we have established a dedicated Public Investment Management team. Engaging commercial investors to co-invest with FMO, both through FMO Investment Management (FMO IM) and through syndicated transactions, remains a priority. Through our combined objective of financing for both financial returns and development impact, we scale impact investing in emerging markets.

Our goal to 'invest in local prosperity' is not only important to local people, but also to the Netherlands. Decent work, less inequality and climate action increase local stability. This is important for the Netherlands and the countries close to us, for example in the 'Circle around Europe' and in Africa. We want to maximize local impact by using our deep expertise in development finance to support Dutch business activities in emerging markets. To that end we have set up NedLinx B.V., a fully owned subsidiary with a broad mandate to finance both private and public sector counterparts in emerging markets even beyond the traditional FMO sectors. Through the envisaged joint venture of NedLinx B.V. with Invest-NL we can serve Dutch businesses with a single point of contact for a broad internationally oriented product suite.

Steering the organization

Meeting our goal for 2025 requires organizational transition. We will optimize how we work at FMO through five key changes. We wish to:

1. Be more proactive: approach our clients more proactively and increase our understanding of their needs and the context in which they operate.

2. Strengthen focus: having a clear sector focus, allowing us to increase our expertise, develop deeper relationships, and create a higher-impact portfolio.
3. Strengthen collaboration: foster effective collaboration across the organization and specifically between debt, equity, syndications and capacity development departments. In this manner we improve our client offerings and speed up operational processes.
4. Strengthen effective decision making: we promote clear roles and responsibilities, take well-informed decisions and stick to them. This leads to higher productivity.
5. Strengthen our external orientation: by being more externally oriented, we increase our local knowledge and understanding of our markets, clients and stakeholders, and anticipate how to respond to their expectations.

The following table gives an overview of how our strategic objectives are linked to our external environment and our stakeholders, how we steer towards meeting these objectives, and the results we achieved during 2017.

Strategic objective	Link with external environment	Material aspect	Key performance indicators	2017 targets	2017 performance
Investing in local prosperity	Addressing global issues	Development impact	Total new commitments	EUR 2.5 bln	EUR 3.1 bln
		Environmental footprint of our investments	Green investments	30% of total	42% of total
		Inclusive development	Reducing inequalities investments	› 10 inclusive & gender equality investments	41 inclusive & gender equality investments
	NGOs and local stakeholders have become more vocal	ESG risk management	ESG action items	Complete › 90% of actions due	89% of actions due
		Transparency & accountability			
Being the preferred partner	Market dynamics are changing	Catalyzing public & private capital	New commitments state funds	EUR 100 mln	EUR 210 mln
			Catalyzed funds	EUR 0.9 bln	EUR 1.1 bln
		Client satisfaction			
		Additionality of FMO's activities			
		Financial sustainability and risk appetite of FMO	Operating income	EUR 400 mln	EUR 444 mln
		Innovation and knowledge management at FMO			
	Value for the Netherlands	Support Dutch companies	Dutch business transactions	EUR 500 mln	EUR 94 mln

" Accelerating the transition to a zero-emissions world "

Interview with Giel Linthorst, director Sustainable Finance at Ecofys

Reducing greenhouse gases to meet the Paris Climate Agreement is a challenge. But FMO takes it step further, Giel Linthorst (Ecofys) is helping them to develop and implement a climate strategy in line with a 1.5°C pathway.

Global warming is a huge threat to our planet. As a result, Climate Action is a Sustainable Development Goal with a particularly tight deadline. The emission of greenhouse gases (GHG) has to be drastically reduced as soon as possible if we want to achieve a maximum rise in temperature of 2˚C rise, as agreed in the Paris Climate Agreement.

But even if the rise in temperature is limited to 2˚C, the impact on the world will still be enormous. Developing countries in particular will be forced to face the negative consequences of climate change, such as droughts and rising sea levels. FMO has therefore decided to take a more stringent approach to climate action and follow a path to limit the rise in temperature to 1.5˚C. This implies striving towards net zero carbon dioxide emissions around 2050. “It’s a hugely ambitious pathway to take,” Giel Linthorst, Director Sustainable Finance at Ecofys explains. “But one that is fully in line with FMO’s 2025 strategic ambitions.”

Bigger targets, swifter action

FMO met its first challenge straight away: there was no readymade scenario to follow for a 1.5˚C path. Linthorst: “The IPCC offers a wealth of information and guidelines for the 2˚C scenario but has only recently began developing the more stringent approach. That’s why FMO approached us, to help them develop the pathway and integrate it in daily operations.”

Ecofys based the 1.5˚C pathway on the IPCC’s and IEA’s 2˚C scenario and adjusted it using existing scientific literature. Given that FMO predominantly invests in developing countries, the 1.5˚C pathway was developed with geographical scope non-OECD. In addition to geographical scope, the 1.5˚C pathway covers specific sectors; power, industry, buildings, transport and agriculture and land-use change.

Aligning with the pathway

Next challenge was to develop a methodology to align FMO’s portfolio with the developed pathway. Linthorst: “As FMO has already implemented a carbon accounting approach of their portfolio, we decided to develop an emission-based approach. Taking the approaches supported by the Science Based Targets initiative of CDP, UN Global Compact, WRI and WWF, we developed three potential approaches to align a financial portfolio to these pathways and receive guidance to steer investments. Next steps for FMO will be to apply these approaches to their portfolio and steer their investments in line with this pathway.”

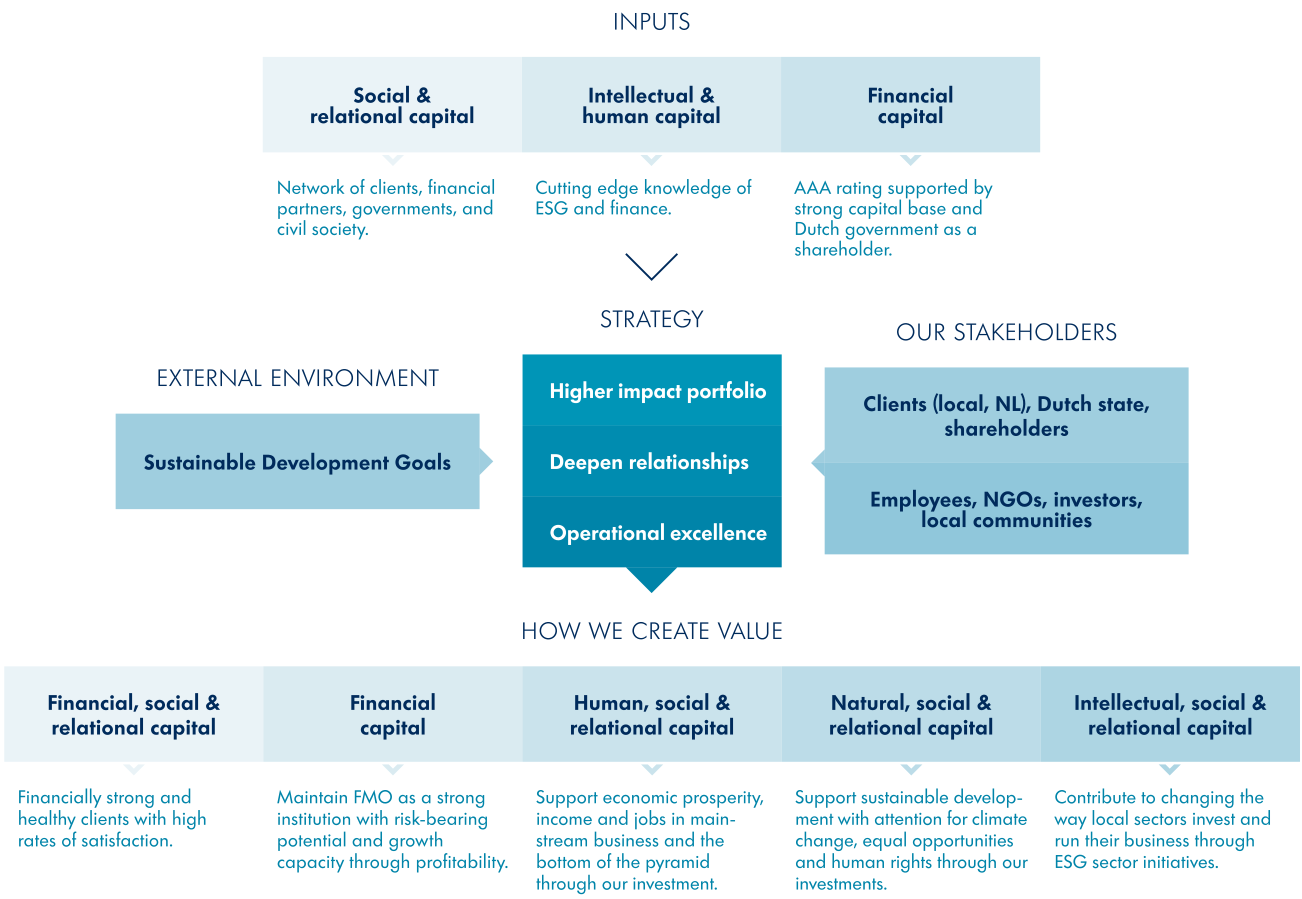
The pressure is on

FMO is a true frontrunner in terms of GHG reduction but Linthorst is confident that other banks will have to follow soon. “More and more local and federal governments, like France, Sweden and the state of California, are putting pressure on financial institutions to align their portfolios with the climate goals of the Paris Agreement.”

Can FMO keep up the good work? Linthorst is confident that the bank can stay on track, as long as it acts fast. “Fully integrating the 1.5˚C pathway in all operations is key. In this way, FMO can inspire others to take on the climate challenge and find ways to effectively address GHG reduction.”

OUR BUSINESS MODEL

Since 1970, FMO has made a positive difference in emerging economies by empowering entrepreneurs to build a better world. We create value by investing in the private sector in a socially responsible and environmentally sustainable manner, helping countries to grow their economy, strengthen their communities and protect the environment. In this, we are additional to the market, investing where few others will, preparing the way for other investors.



The diagram above presents our business model, which makes use of elements of the International Integrated Reporting Council (IIRC) reporting framework while focusing on the elements that are most relevant to us.

Our strategic priorities Our strategic priorities – as well as our mission and vision – are developed and adjusted in response to our key stakeholders. Naturally, we align our priorities to broader worldwide developments and priorities. The SDGs are of overarching importance, as they provide a joint public and corporate agenda that supports FMO to steer its priority areas on impact.

Our key inputs Our solid track record as a development bank demonstrates our cutting-edge knowledge of ESG and commercial finance in developing countries. This strength is nourished by an internal culture defined by a drive to fulfill our mission and the willingness to take risks, balanced by our risk awareness. Our employees exemplify our corporate values: engagement, excellence, cooperation, and making a difference. Performance on these values are part of the periodic appraisals and performance management cycle. In onboarding procedures for our new colleagues, FMO's Code of Conduct plays an important role. Key elements in this code (integrity, transparency, respect and professionalism) are reflected in policies and procedures and monitored by management. Should our colleagues have a concern regarding any of these elements or values, they can raise these concerns via our Speak Up policy. Besides organizational and operational controls we deem softer controls on behavior and culture to be very important. Leading by example and providing open feedback, in which we invested much time and effort in recent years, are important elements in this approach. And lastly, our company culture is a regular topic in our discussions with FMO's Supervisory Board.

Our networks, including networks of clients or financial partners as well as knowledge partners, are also crucial to our business model. Our financial partners are other development finance institutions, commercial investors and banks as well as governments. They leverage our own capital, allowing us to increase our impact beyond our own financial means. Our knowledge partners help us transfer best practices to our clients.

Finally, yet importantly, FMO has a AAA credit rating, which allows us to attract funding for long-term development at affordable rates. Our AAA rating follows from our ownership structure (the State of the Netherlands owns 51% of the shares) and the Dutch state guarantee.

Additionality FMO aims to be additional with its investments, meaning that we provide products and services which the market does not provide, or does not provide on an adequate scale or on reasonable terms. FMO provides financial additionality by providing financial products that are not readily available from commercial banks or investors on workable terms and conditions. FMO can also provide ESG inputs that other parties do not provide: this applies if FMO offers unique value adding services or provides unique expertise in ESG standard setting or in enhancing green and inclusive outcomes that are of value to the client. In 2017 100% of our investments were financially additional and 40% were both financially additional and ESG additional.

Our investment process

FMO makes complex investments in businesses and projects in developing countries. We aim to create sustainable development in places where it is needed most and other financiers shy away from the risk. Before we invest and during the investment period, we carefully research the financing opportunity and assess its wider impact on local communities, the environment and society.

Our investments are guided by a framework of policies that ensure that sustainability is at the heart of our operations and our way of working adheres to the highest ethical standards. The environmental risks we assess relate to the impact a project may have on for example air emissions and water quality and availability. Social risks include workers' health and safety and labor rights. Human rights risks are, in addition to the company's employees, related to the impact on the community, land rights or indigenous people.

As a bank FMO runs the risk of becoming involved in money laundering or terrorism financing. Furthermore, FMO runs the risk of financing sanctioned entities or financing customers with a bad reputation in general. One important way of mitigating these risks is to ensure that FMO conducts business with reputable customers and has adequate policies and procedures to deter criminal activities.

For an overview of the applicable investment policies, guidelines and tools, see www.fmo.nl/policies-and-position-statements.

1. SOURCING

Within our key sectors we identify potential opportunities by means of deep-rooted networks in developing countries.

In our initial selection we check the country, exclusion list, the viability of the investment plan and the business itself, the impact of our financing and our additionality. Only opportunities that make a meaningful contribution to our strategic SDGs on both corporate and sector level are further analyzed.

2. SCREENING

If the financing opportunity meets our investment criteria, we continue to analyze potential risks and challenges.

Since we work in challenging business environments, we further research our potential client and the local situation by conducting a Know-Your-Customer assessment to ensure that the client complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations. This includes checks such as verifying the ultimate beneficial owners of the clients, identifying politically exposed persons and screening against international sanctions lists. These integrity checks are also performed during the relationship with the clients.
During this stage we also make an initial risk categorization based on the potential effects on environmental, social and human rights conditions, as well as governance structures benchmarked against the IFC Performance Standards.

3. DUE DILIGENCE

To fully understand and map the risks and opportunities, we conduct thorough due diligence, including on-the-ground research through local visits.

We visit the client and local stakeholders to discuss the impact of FMO's financing, their business, and environmental, social and human rights risks in detail. We continue analyzing the business, its financials, the business plan, legal aspects, ESG, the client's tax practices and policies, with our tax department providing expert advice where needed. If we identify gaps in meeting international standards or policies, we develop action plans to mitigate and manage the identified risks and promote positive development in these areas.

4. ENGAGEMENT

As the long-term viability of a project often depends on its social license to operate, we engage key stakeholders to better understand the local context.

We consult local key stakeholders early in the project to better understand the local context and assess the impacts of our involvement. Moreover, we give stakeholders the opportunity to provide input for our decision-making on new transactions with a high environmental or social risk profile. As of 2018, we publish all our proposed investments on our website.

5. CONTRACTING

After internal approval, we sign an agreement with our clients to ensure that our requirements and conditions are legally binding.

For each investment, we assess the ESG risks, identify where improvements can be made and establish action plans for further development. We disclose our investments on our website after contracting.

6. MONITORING & VALUE CREATION

Throughout the lifetime of the investment we monitor performance and progress and look for opportunities to add value.

We receive annual or more frequent financial reports, conduct assessments (including ESG reviews) with the help of local consultants and pay regular visits. If necessary, we support our clients with capacity development and technical assistance to improve their business and identify new opportunities.

" All farmers have a right to innovation "

Interview with Victor Gladky, CFO of Astarta Holding

Smoothing the transformation into a sustainable world is not just about climate action or green innovations. It's also about creating sustainable economic growth and enabling everyone to participate in it.

In recent years the agri-industry in Ukraine has made enormous progress. Victor Gladky welcomes the changes. He is the CFO of Astarta, a vertically integrated agro-industrial holding specializing in sugar and agricultural production. "This year marks the 25th anniversary of our company. Its development during those years closely mirrors the development of Ukraine: the move from state-owned organizations to privately-owned companies, and the rise of the market economy. In 2006, for instance, Astarta was the first Ukrainian company to be registered on the Warsaw stock exchange. And last but certainly not least, this opened a lot of business opportunities and increased access to the financial market."

Agriculture: an anchor for the economy

Astarta is a major player in Ukraine. The company employs over 8,000 people on a full-time basis, owns 8 sugar factories and 30,000 milk cows and leases 250,000 ha of land. Astarta is a large producer of sugar and milk, corn and wheat, and has a strong position in the production of soybean milk and oil. Much of its produce is exported. "Agriculture in Ukraine has opened up for investments," Victor explains.

Of course, there are still challenges. The country has had to shake off the negative image of bureaucracy and corruption that long existed. Also, rising tensions between Ukraine and Russia have not exactly contributed to stability. Nonetheless Ukraine has grown to become a large agricultural producer. It's the leading producer of sunflower oil worldwide and in the top three for corn, rapeseed and barley, as well as the top six exporter of grain. Victor: "Over twelve percent of the GDP is derived from primary agriculture and agriculture is responsible for more than forty percent of the export proceeds. It's an important anchor for the economy and contributes significantly to the stability of our national currency."

Access to sustainable innovation

Not surprisingly, the demographics of the country reflect the importance of agriculture. “Thirty percent of the population (12 million) lives in rural regions,” Victor explains. “Many of them are dependent on agriculture. So you can imagine that implementing innovations in agricultural technology has enormous impact on the revenues and exports and on the lives of people in rural regions.”

Astarta has played a key role in ensuring that sustainable innovations are available to all its partners – midsized and small farmers. Victor: “In the rural regions, 4.4 million people produce food for themselves or the village market. Together, they account for forty-five percent of agricultural production. There are some 47,000 small farmers and 3,000 medium-to-large sized farmers. Making sure that innovation penetrates all segments is essential if you want to increase food production and improve revenues. Astarta believes that all farmers have a right to innovation.”

Stability and a positive outlook

Partnering with FMO has helped Astarta create access to finance and innovation. “We started working together in 2008, in the middle of the financial crisis,” says Victor. “FMO’s financial support was vital to us at that moment due to the collapse of the Ukrainian financial system. It offered stability and a positive outlook. We realize that partnering with us probably wasn’t an easy decision to take, in view of Ukraine’s country risk profile and the world financial situation. But FMO did and that laid the basis for much of our future work. We are also proud that Astarta fulfilled its obligation timely and in full.”

The partnership continues to expand

Over the years the partnership has expanded to include technical advice and support in environmental protection and CSR policy. Victor: “Having a partnership with a global financial institution like FMO creates opportunities for exchanging information with their partners in other parts of the world. We see the added value of this.”

“You know, I see our 25th anniversary as a moment to look ahead to what we want to achieve rather than looking back to the past. And there is a lot to look forward to!”

OUR PERFORMANCE

FMO performed well in 2017: we reached the vast majority of our targets and our development impact grew significantly, in line with the projected path towards doubling our impact and halving footprint by 2020. At the same time, we materially increased activities aimed at reducing inequalities, one of the developments which kick-started implementation of the strategy for the period up to 2025. FMO also achieved a record net profit this year, while maintaining a strong capital position and improving the quality of the portfolio.

Strategic performance

Investing in local prosperity

In the period up to 2025, we will focus on three SDGs across our focus sectors: Decent Work and Economic Growth (SDG 8), Reduced Inequalities (SDG 10), and Climate Action (SDG 13). Through our sectoral and geographic focus, we will contribute to SDG 8 across all our investments. We also set specific targets for 2017 on investments aimed at reducing inequalities (SDG 10) and green investments (SDG 13).

During 2017 we closed a total of EUR 3.1 billion in new commitments (2016: EUR 2.5 billion), estimated to support 900,000 direct and indirect jobs (2016: 812,000). With this performance we are on track towards doubling our impact (by doubling the number of jobs supported) by 2020 (baseline: 500,000 jobs). The closing of the Climate Investor One fund contributed to 34% of the jobs supported. Growth of new commitments in 2017 outpaced that of jobs supported. Lower growth of jobs supported is partly explained by a lower share of indirect investments in small and medium enterprises (SMEs). We assume that investments in SMEs support more jobs than investments in corporates; therefore, this had a downward effect on the supported jobs.

Another factor was the update of the macroeconomic data underlying the impact model we use to calculate indirect jobs. We updated the statistical data on economic structures, capital scarcity and labor productivity to ensure that the model reflects reality as much as possible. Because of economic progress, labor productivity tends to increase over time, which influences the calculations in our impact model. For more information on how we measure the impact of our new commitments, please refer to section ‘How we report’.

We made 41 investments that contribute to reducing inequalities, outperforming our target of 10 transactions for 2017. In particular, the financial institution and energy sectors made good progress. We made several loans to banks, earmarked to support women-owned businesses, for instance in Indonesia, and in Ghana we initiated a leadership program to better understand and support the needs of women entrepreneurs in Africa. In addition, we actively engaged with our clients in the financial institutions sector to prepare them for use of FinTech tools, providing the ‘unbanked’ with financial services. A particularly innovative transaction regarded our financing of a company in Uganda and Kenya that offers off-grid solar energy connections using mobile FinTech solutions. This approach allows unbanked people to obtain credit for buying their solar batteries.

Impact indicators

For many years we have focused on inclusive finance through microfinance, rural-based infrastructure and agriculture. Below we present estimated inclusive development figures for the companies and projects in our loan and equity portfolio.

Sector	Impact indicator	12/31/2017	12/31/2016
Financial Institutions	Number of SME loans	1,100,000	1,200,000
	Number of micro loans	22,900,000	24,400,000
Agribusiness, food & water	Number of smallholders supported	1,400,000	1,200,000
Energy	Equivalent number of people served via power generation	33,000,000	31,700,000

The figures relate to the loan and equity portfolio per year end. Lower micro and SME loans are the result of divestments of large contributors, which had more micro and SME loans in portfolio combined than new Financial Institutions commitments. The number of smallholders supported in 2017 is higher due to new investments and increased reach of existing clients. The equivalent number of people served increased as more projects became operational and we are reporting on more energy projects invested in with PE funds than last year.

42% of total new commitments in 2017 concerned green investments, outperforming our target of 30%. The outperformance was mainly driven by strong performance of our investments in renewable energy projects. The results also benefitted from the updated energy strategy, which was broadened to also invest in off-grid energy and captive energy plants as well as transmission and distribution. In addition, we closed several green lines with our financial institutions clients. The strong performance on green investments translated into an estimated 1,600,000 tons of avoided GHG emissions (2016: 500,000). With this number we are well on track towards our ambition to halve our footprint (through doubling the number of avoided GHG emissions) by 2020 (baseline: 575,000). The high level of GHG avoidance in 2017 also follows from closing the Climate Investor One fund (making up for 37% of the total GHG avoidance), which is discussed in more detail in the section 'Being the preferred partner'.

FMO published its updated sustainability policy in early January 2017, followed by a human rights position statement, a land governance position statement and a gender position statement, which are integral to our sustainability policy. FMO engaged intensely with various stakeholders before approval and publication of the sustainability policy and the policy statements. We made drafts available to and actively asked for feedback from the Dutch government, clients, partners, and civil society organizations.

FMO's updated sustainability policy signals an explicit move away from a policy framework which only intends to mitigate negative effects of investments, instead steering towards investments that support the transition to a greener and more inclusive economy, supporting people at the base of the pyramid. It includes a pledge to contribute to limiting the global temperature increase to 2.0 or, preferably, 1.5 degrees Celsius.

To ensure compliance with applicable Environmental, Social and Governance (ESG) standards at project level, together with our clients we will decide on an action plan which should result in full compliance within a reasonable period. For 2017 we set ourselves the target to implement 90% of the actions due in 2017. By the end of the year 89% of actions due had been implemented. As of 2018 we implemented a new system to track and mitigate ESG risks in our investment portfolio. The system builds on FMO's existing classification and mitigation of ESG risks to better monitor performance, helping to highlight the highest-priority risks in order to improve insight and focus resources.

In July 2017, FMO and Finnfund exited the Agua Zarca hydro-electric power project in Honduras. Our exit from the project intended to reduce international and local tensions in the area. The exit followed on the conclusions of the Independent Fact Finding Mission, that undertook a review of the project after the violent death of environmental activist Berta Cáceres, and the recommendations of the independent facilitator. In an effort to meet some of the development needs of communities in the area, FMO and Finnfund committed to making funds available for the realization of several projects for these communities.

In addition, on 16 November 2017, FMO published the compliance review by the independent expert panel (IEP) of our complaint mechanism regarding FMO's investment in the Sendou power plant in Senegal. Although the IEP recognized considerable improvements by both FMO and the Sendou project company since the start of the project, it also identifies certain omissions by FMO during the due diligence phase prior to the project in 2009. According to the IEP, certain Environmental & Social items, especially community engagement, could have been considered more carefully by FMO. FMO acknowledged that, during the due diligence phase some key Environmental & Social items should have been considered more carefully and contextual risk should have been better analyzed. FMO has incorporated the lessons learned from this and other projects into our policies, and believes that the project company is on the right track with the strong support of its stakeholders, the Senegalese Government and the Lenders, and is taking the necessary actions in order to make the project fully compliant with the applicable standards once operational.

Being the preferred partner

Catalyzing co-financiers in our projects is an excellent way to leverage our own balance sheet and increase our impact. It results in alignment between public financiers, commercial investors and ourselves to meet SDG targets. FMO catalyzed a total of EUR 1.1 billion during 2017, outperforming the target for the year (EUR 900 million).

In 2017, our efforts to blend public funds and private funds paid off. In June, Climate Investor One (CIO) reached its first close. Six months later, in December, a second close was realized, bringing the total fund size to USD 475 million. With these funds, CIO will provide expertise, technology and financing to renewable energy projects. CIO can finance the full project development cycle, ranging from early stage project development activities, to equity financing during construction and debt finance once the project is operational. This innovative concept was financially supported by the Dutch government and FMO. These contributions allowed Norwegian and British pension funds, among others, as well as a Dutch insurance company to participate in lower-risk tranches of the facility.

The strong performance of emerging equity markets and a continued low interest rate environment in the Eurozone, combined with the wider adoption of the SDGs among institutional investors, proved supportive of market appetite for impact investing in emerging markets. This helped FMO Investment Management (FMO IM) during 2017 in securing significant investor commitments. Notably a USD 100 million initial commitment from a large Swedish pension fund in the NN-FMO Emerging Markets Loan Fund, expected to have a first close in 2018. In 2017 FMO started to underwrite transactions for the fund ensuring a swift deployment of capital after first close. The fund will participate in FMO loans to financial institutions, renewable energy projects and agribusiness companies throughout the value chain. This new institutional fund will be the fourth proposition for FMO IM, combining measurable impact with market rate financial returns.

Below is an overview of performance of the other propositions for which FMO IM performs a portfolio advisory or portfolio management role.

- The ACTIAM-FMO SME Finance Fund, with a Net Asset Value by year end of EUR 163 million, participates in FMO loans to financial institutions with an objective to improve access to finance for emerging markets based SME companies. Investors are primarily Dutch medium-sized pension funds and insurance companies. The fund will continue to re-invest its proceeds in new loans as the fund end-term was extended in December by two years to November 2025. Over 2017 the fund showed a net return of 0.8%, due to one impairment in the total portfolio of 49 loans. The return since inception end of 2013 amounts to 10.0%, with an annualized return since inception of 2.4% (please note that all figures for the fund are unaudited).
- By end of 2017 the FMO Privium Impact fund increased to USD 76 million with a total of 32 loan participations across FMO’s focus sectors financial institutions, renewable energy and agribusiness. The fund offered a net return of 2.1% to its retail investors. The fund showed a strong performance with no provisioning in the loan portfolio so far. The fund was set up in close co-operation with ABN AMRO MeesPierson who were given exclusive distribution rights so far. This exclusivity will be lifted in 2018 which is expected to lead to a higher inflow and diversification of investor base.
- In March 2017 FMO IM signed an Investment Advisory Agreement with the ASN Groenprojectenfonds’ (Green Projects Fund) fund manager ACTIAM Impact Investing to invest up to 10% (currently approximately EUR 40 million) from the ASN Groenprojectenfonds in FMO's renewable energy transactions. FMO Investment Management acts as the investment advisor for the fund and co-ordinates and advises upon participation in new FMO loans to hydro, solar and wind energy projects. In 2017 the fund made two loan commitments totaling USD 7.2 million.

We aim to be the preferred partner for the Dutch government in support of its international development ambitions. We took important steps in 2017 to that end by aligning our strategy with the SDGs.

For many years FMO has managed the Dutch government funds MASSIF, AEF and IDF. With these funds we can invest early on, taking high risks, and by doing so catalyzing new investors, including FMO. During 2017 we outperformed the EUR 100 million target for new commitments of these funds.

- Since 1 January 2017, MASSIF has been operated as FMO’s inclusion fund, investing in intermediaries that reach out to (1) Micro, Small and Medium Enterprises (MSMEs) in fragile and low-income countries, (2) MSMEs in rural areas, (3) women-owned MSMEs and (4) people at the

base of the pyramid. New commitments in 2017 amounted to EUR 99 million and included a local currency loan for MSMEs in Afghanistan and a loan for women and young entrepreneurs in Jordan.
- Through the Infrastructure Development Fund (IDF) and the Access to Energy Fund (AEF), FMO invests in high-risk infrastructure and energy projects with a strong focus on supporting off-grid solutions for people, currently not connected to the energy grid. New commitments in 2017 amounted to EUR 27 million for IDF and EUR 84 million for AEF (this latter amount includes EUR 50 million related to the investment in the Climate Investor One fund). The IDF fund realized several successful exits during the year, among others from the investment in an Indonesian renewable energy developer.
- The Capacity Development (CD) program supports knowledge transfer and provision of technical expertise in areas of environmental and social risk management, in green, in gender equality, and in governance and risk management. During 2017 we supported 73 clients through CD. One example is the ship recycling sector initiative in Bangladesh, putting safety and environmental risks in the process of dismantling ships high on the agenda of banks and ship recycling companies. Because of this initiative, in 2017 the first large ship recycling company received a certification under the Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships.

During 2017, FMO intensified its investments in the so-called ‘Circle around Europe’, mainly the Middle East and Northern Africa. These investments fit efforts of the Dutch government to support economies in this region. In total, during 2017 we invested more than EUR 770 million (including catalyzed amounts) in countries included in the Circle around Europe. To name one example, we made an investment of EUR 13 million in a fund which on-lends to financial intermediaries that finance small businesses and micro entrepreneurs in fragile areas. We funded the investment from MASSIF, and further supported the fund with a technical assistance grant.

We have taken concrete steps to support internationally oriented Dutch businesses that are looking for financing solutions and enable them to become more competitive in development projects with a social impact in the international markets. We proactively contributed to the preparation of Invest-NL, a new institution aspiring to provide export and investment solutions and other foreign investment instruments for activities of Dutch SMEs and corporates in developing countries and emerging markets. We also established NedLinx B.V., a subsidiary in which we positioned the NL Business activities, and are exploring whether this subsidiary could become the joint venture partner for Invest-NL as a response to international business ambitions.

In parallel, we closed a total of EUR 94 million worth of new commitments that involved Dutch companies. The NL Business department built a broad pipeline of export finance and other investments. Based on the size of the pipeline we feel that our additionality is recognized in the market, giving us confidence going forwards.

In the field of project development, we initiated early stage project development activities out of the Project Development Facility (PDF), a Dutch government funded facility. Through PDF we aim to make early stage projects bankable. We have built up a pipeline of projects in agribusiness & food and in climate projects, mostly in the water sector (sanitation, distribution etc.). To further infuse these efforts we joined forces with the Netherlands Water Partnership (NWP). While FMO designs financial solutions, NWP mobilizes the Dutch water sector.

Financial performance

FMO generated a record net profit of EUR 255 million for the full year, translating into a return on shareholders’ equity of 9.1%. The results follow from robust performance of our loan portfolio, strong results from our equity investments, and limited value adjustments.

Interest income in 2017 amounts to EUR 200 million (2016: EUR 217 million). Although the loan portfolio performed well, interest income remained below levels in 2016, mainly because of a decrease in the size of our portfolio following a weaker US dollar. Income from equity investments amounted to EUR 191 million (2016: EUR 56 million). The strong results reflect the favorable economic context, and include two large exits from investments in respectively Asia and Eastern Europe.

Due to hiring additional staff and higher advisory costs our operating expenses increased to a total of EUR 99 million (2016: EUR 86 million).

The quality of the loan and equity portfolio remained solid throughout 2017. Non-performing loans decreased to 5.6% (Dec 2016: 7.5%), as 2017 did not bring any country shocks with material impact on the portfolio quality. The share of non-performing loans further improved mostly because of write offs on a number of non-performing loans. Additional value adjustments on loans and impairments of equity invested amounted to EUR 62 million (2016: EUR 1 million). Value adjustments included a net release of EUR 31 million of the group-specific provision, which is mainly explained by a net improvement of country ratings and amendments of assumptions regarding the expected loss given default in the portfolio.

Total assets amount to EUR 8.3 billion per December 2017, down from EUR 8.6 billion in 2016. The decrease mainly follows from the development of the loan and equity portfolio, which decreased by EUR 0.6 billion to EUR 5.8 billion at year end 2017. Growth of the portfolio as a result of new business was more than offset by weakening of the US dollar, in which the majority of our assets is denominated. Capital market operations in 2017 supported net cash needs resulting from investment and market operations. In May 2017, FMO issued its fourth sustainability bond, a 6-year EUR 500 million transaction. Over 50 investors were involved, highlighting the interest in green bonds and FMO's strong reputation in the green investment community. FMO has disbursed EUR 1.5 billion to eligible projects in the period November 2012 – December 2017. For more information on eligible projects, please refer to the Sustainability Bond Newsletter.

Shareholders' equity increased by EUR 56 million to EUR 2.8 billion by the end of 2017, with net profit over 2017 partially offset by a decrease of the available for sale reserve, which is mostly explained by currency revaluations and recycling of exit results through the Profit & Loss account.

The Common Equity Tier I ratio (CET 1 ratio) increased from 22.7% in 2016 to 24.6% by the end of 2017. The increase of the CET 1 ratio is in similar fashion mainly explained by inclusion of the net profit of the first half of 2017, and a lower asset base following the weaker US dollar.

For more information on financial performance, risk management, solvency, liquidity, and use of financial instruments, please refer to our annual accounts.

Organizational results

Transitioning towards 2025

Achieving our ambitions for 2025 requires increasing the operational excellence of our organization. In 2017, the first steps in this transition were taken. We streamlined our organizational structure in the Front Office, allowing for more integrated business development. We also developed a set of steering metrics for our Front Office, which provide focus to our activities, and support higher impact in our investment portfolio, while balancing financial performance and productivity. Finally, we started a business process optimization (BPO) project during 2017 to improve our commercial processes and systems in order to better serve our clients. The project will continue into 2018, but during 2017 we already achieved several quick wins.

Increasing diversity

During 2017, we were proud to announce that we have become Europe's first development finance institution and the second company in the Netherlands to become EDGE certified. Economic Dividends from Gender Equality (EDGE) is the leading global standard for gender equality in the workplace. Certification required a rigorous external assessment of the workplace environment through an employee survey, and review of company policy and practice against best international practice. Certification fits FMO's philosophy that an organization can only thrive if it is built on a diverse and inclusive organizational culture.

By year end of 2017, our total staff amounted to 492 employees, all of whom are covered under the collective labor agreement. The gender distribution was 51% male to 49% female. Total staff of FMO represented 47 nationalities, with 35% of our employees born outside the Netherlands. We welcomed the appointment of Fatoumata Bouaré as Chief Risk and Finance Officer (CFRO) in October 2017, and she brings diversity of thought and culture to our Management Board. Key figures on FMO's workforce are included in the following table.

HR figures	2017	2016
Total number of employees	492	443
Number of new recruits	82	74
% of women in senior and middle management	40	30
Number of nationalities	47	39
Number of trainings held by the FMO Academy	128	83
% staff turnover	8	7
% absenteeism	3	3
Total FTEs at year end	**467**	**419**

Accountability and compliance

FMO successfully prepared itself for the introduction of IFRS 9 per January 1, 2018. Although the risk-return profile of FMO's investments remains the same, changes in the classification of private equity investments and loans, as well as changes in the administration of impairments on loans in line with IFRS 9, might lead to more volatility in FMO's Profit & Loss account. The continuously evolving regulatory landscape for banks requires a thorough understanding and a structured implementation process. To that end, FMO put in place the Financial Regulation Committee (FRC) in 2017, as a successor to the former Prudential Regulation Committee. The FRC ensures that FMO continues to adhere to existing financial regulation and is able to assess the impact of these regulations on our business strategy. At FMO we take substantial measures to ensure that our employees, clients and counterparts adhere to the highest ethical standards. For more information on compliance, please refer to the 'How we invest' section of this report. In 2017, no major incidents regarding FMO employees being involved in bribery, corruption or other integrity issues were reported, nor were any concerns raised through our Speak Up policy.

" Working together for the best results "

Interview with Hans Docter, Director for Sustainable Economic Development at the Dutch Ministry of Foreign Affairs

The public and private sector are increasingly combining forces to achieve lasting impact in developing countries. To Hans Docter, Director for Sustainable Economic Development at the Dutch Ministry of Foreign Affairs, it's an approach that makes perfect sense.

"Working together with the private sector is crucial in order to reach the Sustainable Development Goals the United Nations has set for important issues such as climate, gender and inclusion," Hans Docter says. "We need everyone on board! Achieving the Sustainable Development Goals (SDGs) will take between US$5 and $7 trillion, with an investment gap in developing countries of about $2.5 trillion.

At the same time, the most recent OECD DAC report shows that in 2016 the total official development assistance reached a peak of only $142.6 billion. Where else are the trillions to come from?" Finding the right partners to enable a project to truly take off isn't always easy. That is where an organization like FMO truly adds value, according to Hans: "FMO is the biggest development finance organization in the Netherlands. Conceived as a public-private partnership, FMO is well placed to bring banks, insurance companies and other financial institutions on board around SDG finance."

Paving the way for investment

The role that each party plays in a development project can differ from country to country and project to project. Hans: "Generally speaking, the public sector focuses on aspects that build the economic backbone, such as infrastructure, strengthening the business climate. Another important public role is to help create markets where the private sector does not yet provide services to the poor. The innovative power of the private sector is needed to develop products, services and business models that are affordable to the poor and scalable. Working together generates the best results."

FMO manages a number of funds on behalf of the Dutch Government. "These funds take high risks and pave the way for other investments from private parties," Hans explains. "Without them, it would be difficult to attract private investment for development impact. The funds help to get markets started and help to create sustainable solutions. Over time, investments out of these funds have to be taken over by private investment funds."

Each fund focuses on a specific goal or sector. "For MASSIF, for instance, the focus is on financial inclusion of small businesses and micro-entrepreneurs, women and youth entrepreneurs who do not have access to financial services. In addition, the fund supports innovations in inclusive business. IDF focuses on creating a reliable infrastructure in, for instance, agriculture, transport and water. Last but not least, AEF supports long-term access to energy services in Sub-Saharan Africa. These funds also attract private investors to leverage our contribution so we can reach a bigger development impact with our limited resources."

Making results visible

The Dutch government works closely with FMO on these and other projects. "We have become a real team in recent years," Hans affirms. "As our policy has changed to focus more on collaboration with the private sector, our ties with FMO have become even closer. I particularly appreciate the role FMO plays in defining results and making these visible to all the parties involved. Seeing tangible results is all-important in order to keep everyone on board. FMO has really set the standard for this on an international level."

And there are indeed good results to share. "FMO has made great progress with programs aimed at gender equality, broadening finance opportunities for women and opening up more jobs to women," Hans continues. "The same applies to financial inclusion. Investing in digital solutions opens opportunities for the millions of people all over the world who have no or limited access to financial services. And digital solutions like apps are an interesting market for private investors to enter, too."

Increasing awareness among Dutch investors

FMO has an excellent network abroad but is not as well-known in the Netherlands, its home market. It's an area the organization intends to address in the coming years in a joint venture with Invest-NL. A good move, according to Hans. "Dutch companies and financial institutions that are interested in investing in projects in developing countries have to be enabled to contribute successfully. FMO has a strong track record and network in emerging economies, so making these more accessible to Dutch companies is a priority for us."

OUTLOOK

Our outlook for 2018 is overall positive with expected economic growth in developing countries and emerging markets of 4% on average. We are positive that in the current external environment we will be able to attract sufficient funding and find skilled employees, which should enable us to carry out our plan for 2018.

To support economic growth and decent jobs, we aim to close a total of EUR 2.5 billion new commitments in 2018, similar to the target for 2017. This number includes EUR 0.9 billion of catalyzed funds. In addition, FMO aims to invest close to EUR 160 million through government funds MASSIF, AEF and IDF. We will increase our focus on high-impact transactions, fostering local prosperity where we invest. To contribute to climate action, we target 32% of new commitments to be in green investments. In addition, 25% of new commitments are earmarked to contribute to reducing inequalities.

2018 TARGETS & KEY PROJECTS

Invest in local prosperity

2.5 bln	32%	25%	90%
Total investment volume (EUR)[1]	**Green** (% of total)	**Reducing inequalities** (% of total)	**ESG performance** high risk items improved after 1 yr

Be a preferred partner

920 mln	100 mln
Catalyzed funds (EUR)	**Dutch business** (EUR)

Financial sustainability & Operational excellence

370 mln	BPO	FO&PM	IM
Operating Income (EUR)	**Business Process Optimization** - project	**Front Office & Performance Management** - change program	**Information Management** - program

[1] Consisting of FMO-A, state funds, catalyzed funds

Further execution of our sustainability agenda remains a priority. With regard to managing the ESG risks in our portfolio we have set a working goal for 2018, subject to review as we gather baseline data from across the portfolio and embed the new system. The goal aims to ensure that at least 90% of high-risk items are at least partially managed and on a clear pathway to improvement within one year after contracting of the projects concerned. In addition, we will continue the development of the GHG measurement frameworks and tools required to inform our climate action strategy.

During 2017, we prepared ourselves for the establishment of Invest-NL and for a joint venture with FMO's NL Business activities which is envisaged to be incorporated in 2019. In the meantime we will continue to support Dutch companies investing in our markets through services ranging from support in early stage project development to providing export finance. Our aim is to close EUR 100 million of new commitments that are Dutch business related.

In 2018 an independent external consultancy firm will perform an in-depth client satisfaction survey (2015: 8.6 out of 10). The findings from this survey will among other things serve to inform the refinement of our steering metrics (see below).

To achieve our ambitions for 2025, we will continue to optimize the organization and how we empower and steer our people. To do this, several projects and initiatives will be undertaken.

In the first place, we will implement Front Office and Performance Management change programs. These programs will facilitate personal leadership and collaboration for the effective achievement of organizational and personal goals. A second crucial initiative concerns the BPO project, increasing operational efficiency of the organization. The BPO project will be implemented in 2018 and the first half of 2019. A third initiative involves the refinement of the steering metrics, which were developed and implemented in 2017. We will use the experience we gain in using the steering metrics, as well as the development of our climate action strategy, to further inform our strategic ambitions and future target setting.

Finally, we will continue our Information Management program. Improving our data and information management will support effective decision-making and address the increasing demand from our stakeholders for transparency on how we work and accountability for the results we achieve.

" Technology will drive financial inclusion "

Interview with Jorge Ruiz, Founder and CEO, Above and Beyond Tech

Financial inclusion is a major challenge in developing countries. FinTech solutions could be the answer, Jorge Ruiz (Above and Beyond Tech) explains.

Although financial inclusion is not a Sustainable Development Goal in its own right, it contributes to many of them by leveling the playing field and encouraging economic growth. However, the sheer size of the group of 'underserved' people – which consists of both consumers and small to medium-sized businesses – makes it a difficult issue to tackle.

Fortunately, the rise of financial technologies – or FinTech – offers potential solutions to tackle this. Digital financial services, whether offered by banks or FinTech companies, promise to reach new customers with appropriate financial products. Increased mobile phone and smart phone ownership is driving this change. Jorge Ruiz, founder and CEO of Miami-based FinTech firm Above and Beyond Tech (a&b), firmly believes that these tools will make a difference. “Providing financial services on a digital platform makes perfect sense. The average cost of a transaction is much lower and it offers enormous scaling potential, to expand financial services to the entire world.”

A running start

a&b helps 'traditional' financial institutions to connect with selected FinTech, enabling them to introduce innovative, digital financial services to existing and new customers in a very efficient way. Together with FMO, a&b developed FinForward, a program aimed at the African market. “It all happened really quickly,” Jorge recalls. “Andrew Shaw from FMO contacted me about FINCONECTA, our program for Latin America and the Caribbean. We met up in the Netherlands a few weeks later and two months after that we launched the FinForward program!”

The skill sets of a&b and FMO are clearly complementary. FMO has longstanding experience in the African market and a solid reputation among local financial institutions, while a&b has the platform, technological expertise, and a network in FinTech. This gave FinForward a running start when it launched in October of last year. Results so far have been very positive. Jorge: “It took a little while for the financial institutions to fully understand the value of the proposition, but now there are new partners every week."

A growing ecosystem

FinForward currently has partners in over 36 countries in the African region. In 2018 Jorge is confident that more will follow. FinTech developers have been eager to take part, too. Jorge: "To date, we have received 700 applications and selected 145 companies to participate in FinForward. Their services cover a wide array of aspects, from biometrics to credit analysis. And their number is continuously growing. It's an ecosystem; it grows organically." Jorge can see the FinForward concept expanding to include new regions and new sectors. "Geographical expansion is logical, but I can see the model working across industries too. Agritech would be a natural next step, creating access to finance for small farmers."

The digital transformation

Looking further ahead, a&b foresees financial institutions investing more heavily in their digital infrastructure and downsizing their physical presence. "Geographical borders will 'disappear' and financial institutions will be able to offer services all over the world," Jorge says. "And there will be a shift towards open banking architecture, which will truly open up the market. By 2025 we'll see financial institutions embedded in open banking architecture in every single market." Jorge sees platforms like FinForward driving the change, by creating open ecosystems and marketplaces for digital financial services.

Smoothing the path

"Technology will drive financial inclusion," Jorge concludes. "We see it happening around us and banks have to have a strategy for digital transformation and make technology work for them. And that's where initiatives like FinForward can really contribute, by smoothing the path to a fully digital world."

What is FinForward?

FinForward is a FinTech innovation program dedicated to accelerating the digitization of the African financial sector by connecting financial institutions in Africa with FinTech companies worldwide. The program allows participating financial institutions and mobile money providers in Africa to connect, test and integrate with FinTech companies that solve problems that they face. FinForward website: finforward.tech

IN CONTROL STATEMENT

FMO has internal risk management and control systems that enables us to take risks and control them and that comply with international best practices.

Adequate internal risk management and control systems strongly support the attainment of objectives in the following categories:

- Realization of strategic and business objectives;
- Effectiveness and efficiency of processes;
- Reliability of financial reporting; and
- Compliance with laws and regulations.

The Management Board regularly considers the design and effectiveness of FMO's internal risk management and control systems (taking into account the approved risk appetite) and discusses all related significant aspects with senior management. The results of the Management Board's monitoring of FMO's internal risk management and control system – including significant changes and planned major improvements – and the defined risk appetite are discussed with FMO's Audit & Risk Committee, which reports these to the Supervisory Board.

Based on our monitoring of the company's internal risk management and control systems, and cognizant of their inherent limitations described below, we have concluded that FMO is in compliance with the requirements of best practices 1.4.2 and 1.4.3 of the Dutch Corporate Governance Code. The Management Board makes the following statement:

- The report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
- The afore mentioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- Based on the current state of affairs as explained in the Financial Performance paragraph, it is justified that the financial reporting is prepared on a going concern basis; and
- The report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.

We note that the proper design and implementation of internal risk management and control systems significantly reduces, but cannot fully eliminate, the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees or others, management overriding controls, or the occurrence of unforeseeable circumstances.

Another limiting factor is the need to consider the relative costs and benefits of risk responses. Properly designed and implemented internal risk management and control systems will therefore provide reasonable, but not absolute, assurance that FMO will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business.

Regarding internal risk management and control systems the Management Board has identified the following areas of improvement. These are actively managed:

- The current and upcoming Regulation puts pressure on FMO and requires significant attention and effort from it's resources. To further enhance management of the regulatory implications the risk governance has been adapted by installing the Financial Regulation Committee. A Privacy project is addressing the adherence to the current Data Protection Act and new GDPR regulation and the KYC review processes are reinforced to fully meet the requirements.
- Data quality issues remain an attention point, although some data quality improvements have been realized. In order to further improve the accessibility, consistency, granularity and quality of risk & finance data, an Information Program has been put in place to further mitigate this risk.
- FMO is in the process of further strengthening its risk management and internal control framework for front to end processes. Next to this specific focus on for instance ESG, (operational) risk management and information security is put on the 2018 agenda.

Responsibility statement

We have committed to ensuring, to the best of our abilities, that this report was prepared and is presented in accordance with the Integrated Reporting framework and that the integrity of all information presented can be assured.

In accordance with article 5:25c sub 2 part c of the Dutch Financial Supervision Act (Wft) we state that, to the best of our knowledge:

- The annual accounts give a true and fair view of the assets, liabilities, financial position and profits of FMO and its consolidated companies;
- The annual report gives a true and fair view of the position on the balance sheet date and developments during the 2017 financial year of FMO and its consolidated companies; and
- The annual report describes the material risks that FMO faces.

The Hague, March 15, 2018

Jürgen Rigterink, ***Chief Executive Officer***

Jürgen Rigterink
German, 1964, male
Appointment in current position
2016-2020
Jürgen will end his tenure as CEO on 1 April 2018.

Linda Broekhuizen, ***Chief Investment Officer***

Linda Broekhuizen
Dutch, 1968, female
Appointment in current position
2014-2018, 2018-2022
As of 1 April 2018, Linda will be acting CEO until succession is in place.

Fatoumata Bouaré , ***Chief Risk & Finance Officer***

Fatoumata Bouaré
Ivorian (Ivory Coast), 1966, female
Appointment in current position
2017-2021

III

Report of the SUPERVISORY BOARD

BECOMING PART OF THE COMMUNITY
Costa Rical CMI
Sector | Energy

" We really try to engage with the community and not only donate money for social projects, but to be a part of those social projects."

Carolina Baltodano, Environmental and Social Coordinator at CMI Energía's wind farms in Cost Rica

Wind farms are a crucial part of Costa Rica's drive to reduce its reliance on fossil fuels and move to clean, infinite sources of electricity. Understandably, the prospect of a wind farm nearby can sometimes be viewed with apprehension. The Alisios Wind Plants' social acceptance by these communities is critical for their long-term success.

CMI is a family-owned business with an energy division focused on renewable energy projects; their teams come from the region and are engaged with several local communities. CMI Energía's wind farm teams identify and seek to understand any negative impact ranging from deforestation, bird and bat collisions, noise and shadow flicker, and strive to compensate or mitigate those impacts with measures such as the relocation of people living too close to the wind turbines, training of the staff on proper management of wild life, and having a strong reforestation program, among others.

For the Alisios Wind Plants, which have a total installed capacity of 80 MW, a robust reforestation program is in place, ensuring that for every tree that is cut, ten new trees will be planted. Alisios' current social projects involve, among others, a scholarship program, entrepreneurship initiatives and trainings, support to local schools with school supplies, improvement of schools' infrastructure, water access projects, support to health centers with health supplies and infrastructure improvement, recycling campaigns, and environmental talks.

Alisios' social engagement becomes apparent during informal meetings of Alisios' social coordinator, Jenny Brizuela, held with the people from the community. The representatives of this community asked Jenny for advice on how to guard their children against the temptation of drugs, which becomes an issue as they join a secondary school in the nearby, larger city.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board is pleased with FMO's performance in 2017. The organization significantly grew its green business and supported economic growth and jobs in Africa, Asia and Latin America. Moreover, FMO achieved a record profit result in 2017.

Building on its strategy for 2017-2020, FMO has developed a robust strategy to lead the institution to 2025. FMO's new corporate goal to be 'your preferred partner to invest in local prosperity' fits today's world, which requires financial institutions to care for society as a whole. With its new strategy, FMO is well prepared for the challenges of the coming years.

Key events in 2017

FMO's working environment was dynamic in 2017. The organization is well aware of challenges, requirements and opportunities that the current multi-stakeholder environment brings to the organization and to its way of working in projects. FMO's clients are its primary partners, yet it is the clients' social and environmental impact, that really matters. That is why FMO engages with stakeholders at an early stage of a project's development and why it is committed to being fully accountable to them. Similarly, ensuring that it is attentive and responsive to the State of the Netherlands matters to FMO: as the Dutch development bank, it has a significant role to play in and contribution to make to the implementation of the national commitments to the SDGs. Increasingly, Dutch businesses are becoming important partners to FMO in co-contributing to these commitments.

In its Strategy 2025, FMO has identified three SDGs as particularly relevant: SDG 8 Decent Work and Economic Growth (measured by the number of jobs supported), SDG 10 Reduced Inequalities (measured by increasing share of reducing inequalities investments), and SDG 13 Climate Action (measured by GHG avoided and increasing share of green investments). FMO will contribute to reduced inequalities by focusing on inclusive businesses and prioritizing least developed countries in Africa and Asia. Regarding the cooperation with Dutch businesses, a new vehicle to enhance the effectiveness of such cooperation is being developed under the leadership of the State of the Netherlands, under the provisional name of Invest-NL. In preparation of the establishment of Invest-NL, FMO took an important step by already positioning its NL Business activities in the newly established 100% subsidiary NedLinx B.V.

In September 2017, Jean Frijns stepped down as Chairman of the Supervisory Board, closing a seven-year tenure. We are extremely grateful for the role that he played during these years. As Chairman, Jean Frijns took particular pride in stimulating FMO's sustainability strategy. More in general, making use of his extensive corporate governance expertise, he facilitated professionalization of the organization. He also played an important role in appointments at the Supervisory Board and the Management Board of the organization. Per October 1, 2017 Pier Vellinga took over Jean's role as Chairman.

Supervisory Board roles in 2017

In general, the Supervisory Board approves FMO's strategy, risk appetite and budget, and monitors implementation. While giving due attention to all of these matters, redefinition of FMO's strategy has received the most attention. The new strategy will shape the development impact that FMO seeks to achieve in the period up to 2025, while making clear what this will require in terms of culture and management. Focus areas of the Supervisory Board in 2017 included:

1. Strategy setting
2. Culture and management
3. Supervision
4. Stakeholder engagement
5. Role as employer
6. Corporate governance

Strategy setting

The Supervisory Board advised the Management Board in the strategy process. We engaged in-depth with the Management Board in various formal and informal meetings. In addition, we held various sessions with the strategy consultant Boston Consulting Group, discussing FMO's long-term value creation and strategic options for the future. We fully support the outcome of this process and approved important elements of the strategy in our meeting of February 14, 2017 and a final version in June 2017.

With its new strategy, FMO steps up its ambition to increase its impact, deepen client relationships and become more productive. Most importantly, it reflects the wish of FMO to deepen its development impact with its clients but also for stakeholders surrounding the client. It is ultimately global 'society' that matters for development. This integrated approach is well reflected in FMO's aim to be the preferred partner to invest in local prosperity. FMO partners with its clients, non-governmental organizations, other public and private investors and the State of the Netherlands to offer climate solutions, increase decent employment and reduce income inequality.

To do this, FMO needs to further strengthen the focus of its operations. The choice to deepen the focus on energy, financial institutions and agribusiness, food & water is logical to us, as is the choice to stop financing other sectors (including general manufacturing and services). FMO will also strengthen its country focus. Prioritization will be given to impact creation in least developed countries in Africa and Asia, while operations in China and the Balkans will stop. Having said that, we fully support FMO's ambition to increase investments in the 'Circle around Europe'. This will support local economies in Northern Africa and the Middle East.

We also applaud that FMO further stepped up its client ambitions in line with the Paris Climate Agreement. FMO is currently analyzing what a 1.5 - 2.0-degrees Celsius pathway would require for FMO's net GHG emissions going forward. Before 2017 FMO already decided to stop direct investments in coal and coal fired power plants and going forward will focus primarily on renewable energy. We expect FMO to further shape its climate action strategy that will lead the organization on a path which is compatible with the 1.5 - 2.0-degrees Celsius goal going forward.

Culture and management

In order to make its strategic ambitions happen, productivity in the organization will need to increase. In part, this is about improving business processes. We applaud efforts to this end and various quick wins already gained.

However, at least as important to productivity are behavior and a supportive company culture. The theme of culture has been on the agenda in the past and will become even more pressing going forward. FMO has always had a strong culture based on a passion for development. This needs to be maintained as a core strength. It needs to be complemented by behavior in which management and employees take responsibility for their actions, are collaborative and are open. As a strong example, we applaud the town hall meetings organized by Chief Executive Officer Jürgen Rigterink, in which he periodically faces all employees to respond to any questions they have. As Supervisory Board, we engaged with the Management Board and supported its efforts to keep aspects of culture on the agenda of the organization.

Supervision

The Supervisory Board regularly discusses FMO's risk profile and other financial and accounting matters in all of its meetings. In-depth discussions on these matters were prepared by the Audit and Risk Committee (ARC), which met three times during the year. Members of the ARC include Supervisory Board members Koos Timmermans (Chairman), Alexandra Schaapveld and Thessa Menssen. In 2017, the ARC advised the Supervisory Board amongst others on the following topics: the transition to IFRS 9, the internal and external audit plans and the Business Plan 2018.

In terms of financial results, FMO had an exceptional year, while managed as a AAA institution. It achieved a record net profit and further strengthened its capital position. The quality of the portfolio improved significantly, while asset and liability management policies were conservative and stayed within the parameters of FMO's risk appetite. The Supervisory Board approved the annual update of FMO's risk appetite in its meeting of August 21, 2017.

Preparation of FMO for the introduction of IFRS 9 as per January 1, 2018 was a major project during 2017. The ARC carefully monitored progress in this transitional project. It is satisfied that FMO has implemented all material IFRS 9 requirements per the start of 2018. The Supervisory Board notes that implementation of IFRS 9 per 2018 could materially increase volatility of FMO's reported profits going forward.

Another important effort concerns the improvement in quality of FMO's information management. Priorities have been set in consultation with the Dutch Central Bank and the auditor. This program is ongoing and received a significant investment in capacity in 2017. It will receive continued attention from the Supervisory Board in 2018.

Stakeholder engagement

FMO proceeded in 2017 to strengthen its relationships with Dutch stakeholders. These include the State of the Netherlands, Dutch civil society and Dutch businesses. In particular, in the field of sustainability, engagements were intense. Discussions around FMO's Human Rights, Land Governance and Gender Position Statements were well received. As Supervisory Board, we engaged most intensely with the

Dutch Ministry of Finance and Ministry of Foreign Affairs. We particularly focused on FMO's new strategy in these discussions, requesting their feedback on options and choices made. In addition, we have engaged with the State of the Netherlands on Invest-NL.

Role as employer

The Supervisory Board appoints Management Board members. It has evaluated the performance of the Management Board as a whole and that of its individual members. These functions were combined in the Selection, Appointment & Remuneration Committee (SARC), which convened three times during the year, members being Dirk Jan van den Berg (Chairman) and Pier Vellinga. In 2017, the SARC advised the Supervisory Board on amongst others, the succession of the CRFO, two new Supervisory Board members and the composition of the Supervisory Board committees.

The Supervisory Board appointed per October 15, 2017 Ms. Fatoumata Bouaré as FMO's Chief Risk & Finance Officer. We are pleased with her arrival. She brings strong experience in finance and risk management in emerging markets, in particular in Africa. In addition, with her cultural background, she will bring diversity and a strong understanding about clients' and societal needs in emerging markets and developing countries.

In 2017, various interactions with the Works Council took place, including the regular annual meeting. For the Supervisory Board, the Works Council is an important platform to discuss organizational issues as well as opportunities and developments in human resources.

Corporate governance

The Supervisory Board ensures that FMO complies with all applicable corporate governance codes, further described in the chapter on corporate governance. Specific responsibilities include the tasks described in the Dutch Banking Code 2015 regarding sound and ethical operation.

The Supervisory Board has performed its customary self-evaluation with regard to 2017 in the beginning of 2018. The evaluation of the Supervisory Board, its committees and the individual Supervisory Board members took place by means of a questionnaire and a discussion of the results. The assessment looked at such issues as the Board's responsibilities and composition, the quality of the meetings of the Supervisory Board and its committees, its proper functioning and relation with the Management Board, the follow-up of the priorities in 2017 and its new priorities. The Board concluded that the Supervisory Board and its committees function properly. The most important priorities for 2017 were addressed successfully, such as the new Strategy 2025, the relation with the Dutch State including the discussion on Invest-NL, the search for a new CRFO and two new Supervisory Board members. The Lifelong Learning program was effective, although there is room for further improvement. The program will be updated for the remainder of 2018.

The Board defined several points of attention for 2018. Number one is the completion of the search for a new CEO. The implementation of Strategy 2025 will be an important item on the agenda, including the strategic projects that support the implementation.

The evaluation of the Management Board and its individual members with regard to 2017 took place by the Chairman of the Supervisory Board and the Chairman of the SARC in the beginning of 2018. The Supervisory Board is satisfied with the functioning of the Management Board in 2017. The Management Board evaluated its own functioning in the beginning of 2018.

On all levels of the organization, FMO puts strong emphasis on diversity. This regards diversity of cultural backgrounds, gender and skills and competences. FMO's Human Resources department continues to pay special attention to strengthening the diversity of FMO's workforce. The Supervisory Board applauds this. We are therefore proud that FMO received the so-called EDGE certification in 2017, reflecting its progressive policies and practices aimed at full gender equality in the organization.

The Supervisory Board ensured that the compliance function is safeguarded within the Management Board and the Supervisory Board. The Chairman of the Supervisory Board regularly meets with the Compliance Manager during the year and discusses issues where relevant. The Supervisory Board is updated in writing on compliance at every regular meeting.

In line with the four core competences for Management and Supervisory Boards of Banks, Board Members are required to have sufficient expertise of the following subjects:

1. Management, organization and communication;
2. Relevant products, services and markets;
3. Sound management;
4. Well-balanced and consistent decision-making.

To this end, members of the Supervisory Board follow a formal program of lifelong learning, as also required by the Dutch Banking Code. In 2017, the program consisted of seven sessions. Topics for discussion included NL Business, Invest-NL, Strategy, Information Management, Cyber Security and Taxation. In addition, we discussed the African Arise platform as a promising model to be potentially copied to other regions and sectors.

As Supervisory Board, we collectively participated in a training on the Dutch Banking Code, which put strong attention to culture and governance. On top of this, two of our Board members took a week's worth of external courses on financial institutions. These courses included the regulatory framework and issues of risk management.

Independence, conflicts of interest and governance

The Supervisory Board is of the opinion that all of its members are independent, as required by Best Practice Provision III.2.1. of the Corporate Governance Code. No direct, indirect or formal conflicts of interest were identified in 2017. FMO has specific regulations concerning private investments. Compliance by Supervisory Board members, Management Board members and all other employees with FMO's regulations on private investments is addressed regularly.

Supervisory Board structure in 2017

Members of the Supervisory Board are appointed by the Annual General Meeting (AGM). The Board currently comprises of six members. As already mentioned, in 2017 Jean Frijns stepped down as Chairman and was succeeded by Pier Vellinga. In addition, we are very pleased with the appointment of Koos Timmermans as a new member. Mr. Timmermans is Chief Financial Officer at the Executive Board of ING Group and therefore brings a wealth of financial and banking experience. He was also appointed as Chairman of the ARC of FMO.

FMO's Supervisory Board and its committees work through regular, pre-scheduled meetings throughout the year. As needed, ad-hoc additional meetings are planned. There were 7 formal meetings of the Supervisory Board in 2017 and 1 dedicated strategy session. Members rarely missed a meeting. Supervisory Board members are in frequent contact with the Management Board so that they remain fully informed and can provide advice at all times. The Supervisory Board Chairman meets the Chief Executive Officer informally once a month. Individual Supervisory Board members also attend Works Council meetings, along with the Chief Executive Officer.

Proposals and recommendations to the annual general meeting

Having stated all of the above, the Supervisory Board endorses the report of the Management Board. We propose that the AGM adopt the 2017 Annual Accounts audited by EY Accountants LLP. In accordance with Article 6 (2) of the State-FMO Agreement of November 16, 1998 and the current dividend policy, we propose that the AGM approve the allocation of EUR 249 million (2016: EUR 169 million) to the contractual reserve. The remaining amount of EUR 5.6 million (2016: EUR 6.7 million) is the distributable component of profits. We recommend that the AGM adopt our proposal to pay a cash dividend of EUR 13.89 (2016: EUR 16.71) per share. This proposal for dividend distribution can be withdrawn if FMO's economical and financial conditions deteriorate significantly in the period up to the moment of distribution of the dividend.

This reservation is the result of the recommendation of the European Central Bank on December 28, 2017, and adopted by the Dutch Central Bank.

We trust that the AGM will also discharge the Management Board for its management of FMO and the Supervisory Board for its supervision during the reporting year.

Attendance Supervisory Board 2017	Regular SB meetings	SB meetings incl. extraordinary meetings	ARC meetings	SARC meetings
Prof. dr. J.M.G. Frijns	100%	100%	-	100%
drs. A.E.J.M. Schaapveld MA	100%	86%	100%	-
Prof. dr. ir. P. Vellinga	75%	86%	-	100%
Ir T. Menssen MBA	75%	71%	67%	-
drs. D.J. van den Berg	100%	86%	-	100%
drs. J.V. Timmermans[1]	100%	67%	100%	-

1 As of September 29, 2017

Members of the Supervisory Board

P. (Pier) Vellinga, *Chairman*
Male, 17-04-1950, Dutch

Appointment in current position
2008-2020

Principal position
Emeritus Professor on Climate Change at Wageningen University

Other positions
Director Climate and Water at the Wadden Academy

A.E.J.M. (Alexandra) Schaapveld
Female, 05-09-1958, Dutch

Appointment in current position
2012-2020

Principal position
Non-Executive Director at Société Générale S.A.

Other positions
Non-Executive Director of Bumi Armada Berhad
Supervisory Board Member Vallourec S.A.

T. (Thessa) Menssen
Female, 04-05-1967, Dutch

Appointment in current position
2016-2020

Principal position
CFO of Royal BAM Group

Other positions
Supervisory Board Member and Chairwoman of the Audit Committee at PostNL

D.J. (Dirk Jan) van den Berg
Male, 18-12-1953, Dutch

Appointment in current position
2016-2020

Principal position
Chair of the Executive Board of Sanquin Blood Supply

Other positions
Vice-Chairman of the Supervisory Board of Gasunie
Member of the Governing Board of the European Institute for Innovation and Technology

J.V. (Koos) Timmermans
Male, 12-03-1960, Dutch

Appointment in current position
2017-2021

Principal position
CFO of ING Group

Other positions
Member of the Management Board of the Dutch Banking Association
Member of the Advisory Board of Euronext

IV

CORPORATE GOVERNANCE

PIONEERING SPIRIT PAYS OFF
Asia-Pacific region I Equis
Sector I Energy

"It was evident many years ago that a new approach to energy in Asia was essential to combat the effects of climate change. Additionally, following the Fukushima nuclear disaster in Japan in 2011, there was clearly very strong demand for renewable energy across the region."

David Russell, CEO of Equis

FMO's investment in Singapore-based infrastructure fund manager Equis Energy demonstrates how development finance institutions cannot only support a growing industry in the transition to clean energy, but exit on favorable terms as well.

In 2011, FMO was an anchor investor in Equis' debut fund targeting renewable energy and infrastructure in Asia. FMO's investment was crucial to reach the first close of this fund whereas other investors were only willing to step in a subsequent close of the fund.

As an investment partner we provided stable and long-term capital to support this first-time fund manager in its growth ambitions. We also worked with Equis to embed environmental, social (ESG) and governance considerations into their strategy and investment process.

Convinced by the capabilities of a professional team, the investment strategy and a carefully managed approach, FMO invested alongside Equis in the independent energy project developers Energon and Soleq. We also provided capital to top-up the first fund and invested in Equis' follow-up fund that shared a similar focus on developing and managing renewable energy and infrastructure assets.

In October 2017, Equis reached an agreement for the sale of its 180 renewable energy assets comprising 11,135 MW in the Asia-Pacific region for USD 5 billion to Global Infrastructure Partners (GIP). For FMO – and for other investors looking at this asset class in emerging markets – these investments and this exit form an important proof-of-concept and confirms our renewable energy strategy.

CORPORATE GOVERNANCE

Sound corporate governance at FMO is crucial for two reasons. The first reason is that as a public-private development bank, our own governance, structure and reporting lines must be both sound and transparent. The second reason relates to our mission to encourage sustainable growth for our clients in order to maximize development impact: we believe that in order to carry out this mission, we should set a high standard of corporate governance ourselves.

Articles of association

FMO's articles of association were last amended in 2009, the year in which the first version of the Dutch Corporate Governance Code came into effect. Its bylaws were updated in 2013.

Governance structure

FMO's corporate governance structure is based on the premise that FMO is a long-term partnership of stakeholders who, directly or indirectly, influence or are influenced by the achievement of our objectives.

INVESTMENT	CORPORATE	RISK MANAGEMENT & FINANCE
Linda Broekhuizen Chief Investment Officer	**Jürgen Rigterink** Chief Executive Officer	**Fatoumata Bouaré** Chief Risk & Finance Officer
Agribusiness, food & water Suzanne Gaboury Director	**Corporate Secretary** Catharina Oosterbaan	**Credit, Legal & Special Operations** Huub Cornelissen Director
Energy Frederik van Pallandt Director a.i.	**Internal Audit** Friso Schellekens Director	**Finance** Paul Buijze Director
Financial Institutions Huib-Jan de Ruijter Director	**Human Resources** Danny Klappe Director	**ICT** Femke de Jong Director
Private Equity Jaap Reinking Director	**Strategy & Corporate Affairs** Jorim Schraven Director	**Risk & Compliance** Melchior de Bruijne Director
Funds, Syndications & Value creation Idsert Boersma Director	**NedLinx B.V** Janet Nieboer Director	**Treasury** Matthijs Pinxteren Director
FMO Investment Management B.V. Yvonne Bakkum Managing Director		

Stakeholders include clients, the Dutch government, shareholders and other providers of capital, employees, NGOs and local communities in the countries where we work, as well as partners.

The entire organization is expected to take the interests of all stakeholders into account at all times. In governance terms, this expectation is expressed through the responsibilities and accountability of the Management and Supervisory Boards with regard to our shareholders and other stakeholders.

The daily management of our bank lies with the Management Board, consisting of three members: the Chief Executive Officer, the Chief Risk & Finance Officer and the Chief Investment Officer. They are formally responsible for the management of our bank and are appointed by the Supervisory Board.

FMO's Supervisory Board supervises and advises the Management Board. New members of the Supervisory Board are appointed by the General Meeting of Shareholders, on the nomination of the

Supervisory Board. The Supervisory Board has two committees: the Audit and Risk Committee and the Selection, Appointment and Remuneration Committee, which advise and prepare decision-making at a detailed level.

Appointment of both Supervisory Board members and Management Board members is subject to the approval of the Dutch Central Bank, which assesses the reliability and suitability of the candidates.

Solid risk management framework

FMO has a solid risk management framework in place reflecting its banking license, AAA rating and mandate to do business in high-risk countries. The Management Board keeps regular oversight over risk processes, and considers risk-based delegated authorities to the risk departments. There are three lines of defense in place, with the role of the Front Office being balanced by the Risk departments and an Internal Audit department, which performs assessments as to whether processes are controlled well.

FMO has a Risk Appetite Statement in place, which is updated on an annual basis, approved by the Management Board and subsequently by the Supervisory Board. Adherence to the Risk Appetite Statement and existing risk limits is continuously managed by the Asset and Liability Committee (ALCO) and the Investment Committee (IC).

FMO's largest credit and ESG risks are embedded in its emerging market debt and equity portfolio. To allow for this, FMO ensures diversification of credit risk in its portfolio through risk limits per country, sector and product.

In addition, it has developed a set of investment criteria which set minimum standards for the acceptance of credit and ESG risks. These standards have been guided by a number of standards, among them the IFC Performance Standards, OECD Guidelines and the UN Guiding Principles on Business and Human Rights. If an investment entails a severely increased risk, the project is transferred to the Special Operations team. FMO applies a conservative capital management framework and avoids financial risks other than credit risk as much as possible, in particular interest rate risks and foreign currency risks.

To promote fair business practices and increase public trust in the private sector, FMO is dedicated to fighting money laundering, terrorist financing, corruption and bribery. We actively support Transparency International's Netherlands branch in order to encourage dialogue between Dutch corporates on best practices in doing business. FMO is also guided by the OECD Convention on Combating Bribery, the UN Convention against Corruption and the Financial Action Task Force (FATF) recommendations on combating money laundering and the financing of terrorism.

Aligned remuneration policies

Remuneration policies are also fully aligned with the principle of attaching equal importance to Front Office and Risk functions, by ensuring similar salary scales for both functions and avoiding bonus structures that incentivize excessive risk taking. FMO discontinued variable remuneration for members of the Management Board and Directors (as well as for its Identified Staff) in 2012.

In the 2017 Annual Meeting of Shareholders no further amendments to the remuneration policy for the Management Board members were proposed. More details on the remuneration of Management Board members and other specific staff members can be found on FMO's website: www.fmo.nl/corporate-governance. Remuneration aspects of Management Board members are also discussed in paragraph Related Party Information of the Annual Accounts. The ratio between the remuneration of our CEO (being the highest-paid individual) and the median of all other colleagues in (Dec.) 2017 was 3.5.

Independent complaints mechanism

FMO has an Independent Complaints Mechanism (ICM) together with the Deutsche Investitions- und Entwicklungsgesellschaft (DEG). This allows affected parties the possibility to raise their complaints with an Independent Expert Panel (IEP).

The Supervisory Board was informed by the IEP about the follow-up on the two complaints that have been investigated since the establishment of the mechanism. The IEP has a dual mandate: a fact-finding and monitoring role and a problem-solving role. Escalating to the problem-solving role is only possible if all parties agree and there is a reasonable expectation that a mutually-agreed resolution of the complaint will be possible.

The Supervisory Board is convinced of the importance of the ICM and would like to thank the IEP for their diligent work. For more information, please see the FMO website: www.fmo.nl/project-related-complaints.

Corporate governance codes

FMO abides by two governance codes: the Dutch Banking Code and the Dutch Corporate Governance Code. We comply with the Banking Code or will otherwise explain in a document the way in which the Banking Code was applied, including concrete examples. This document can be found on our website: https://www.fmo.nl/about-us/governance-codes-and-regulations

The Dutch Corporate Governance Code ('the Code') only applies to organizations whose shares are listed on a regulated market. As a non-listed bank, FMO is not required to adhere to the Code, but has chosen to do so. The Supervisory Board and the Management Board fully endorse the basic principle on which the Code is based, namely that the company is a long-term partnership of our various stakeholders. In 2014, FMO published a policy specifically regarding bilateral contacts with our shareholders, which is provisioned by the Code and is available on our website: https://www.fmo.nl/about-us/governance-codes-and-regulations

On December 8, 2016 a revised version of the Code was presented, since its role in society had developed over time. From this annual report covering 2017 onwards we will report on compliance using the revised Code (see below). The main modernization is the focus on long term value creation and the introduction of culture as part of good corporate governance.

FMO promotes diversity at all levels, including the Management and the Supervisory Boards. As principle 2.1.5 of the Code requires, FMO has diversity policies, which are included in the Profiles of the Supervisory Board and the Management Board. The aim is to have well-balanced boards, which are up to their task and can come to solutions, while considering the members' different perspectives, backgrounds and experiences. The results of the efforts are that as of the upcoming AGM in May 2018, the SB will consist of 50% men and 50% women. In 2017, the MB consisted of 33% men and 67% women. In both boards, the ages of the members are well distributed and knowledge and experience comply with the applicable matrixes. In 2017, FMO proudly welcomed its first African Management Board member, Fatoumata Bouaré.

The relevant principles and best practice provisions of the new Corporate Governance Code have been implemented, with the exception of the following principles and best practice provisions, which can be explained as follows:

BPP 1.3.6 This provision only applies if the company does not have an internal auditor. FMO does have an internal auditor.

BPP 2.2.2 Section 2.7 of the SB Standing Rules needs amendment. However, in practice only the Chairman of the Supervisory Board, Pier Vellinga, exceeds the eight years as, in short, he was the best candidate to succeed the former Chairman, Jean Frijns, who retired October 1, 2017.

BPP 2.2.4 In 2017, several changes took place with regard to the Supervisory Board: a new Chairman of the Supervisory Board, a new Chairman of the Audit and Risk Committee (new member) and a new Chairman of the Selection, Appointment and Remuneration Committee were appointed. Furthermore, another new member was searched for, who will be appointed in 2018. Due to these changes, the Supervisory Board deemed it wise to discuss the succession plan again in the beginning of 2018. A preliminary schedule was published on the website at the beginning of 2018.

BPP 2.3.10 Section 6.1 of the Standing Rules of the Supervisory Board needs a slight amendment regarding the Company Secretary. This will be seen to in 2018.

BPP 2.4.2 Other positions of the SB members are reported on at least yearly. However, this should have been discussed in the SB meeting. This will be done in 2018.

BPP 2.8.1 – 2.8.3 Stipulations on takeover bids are not implemented, given our stable majority shareholder, the State of the Netherlands.

BPP 3.4.2. No specific overview with the elements of the labor agreement with the new CRFO has been published on FMO's website before her appointment. However, the MB remuneration policy is published on the website. Further, the compensation of all MB members is incorporated in the Annual Report.

BPP 4.1.4 The explanation of the agenda of the AGM is not published on FMO's website, since this document is sent to all shareholders of FMO.

BPP 4.1.8 Koos Timmermans was present at the EGM of September 27, 2017. Fatoumata Bouare was not, as she came from abroad and was travelling. The CEO read a statement on her behalf.

BPP 4.2.3 This provisions relates to analysts' meetings and presentations to institutional investors. This provision is of no practical significance to FMO and therefore do not apply.

BPP 4.2.6 This best practice provision requires the Management Board to provide a survey in the annual report of all anti-takeover measures to prevent control from being relinquished. FMO has not incorporated any anti-takeover measures in its articles of association, which has to do with the fact that FMO has a stable majority shareholder, namely the State of the Netherlands. Therefore, an overview as meant in this provision is not incorporated in this annual report.

BPP 4.3.3 This provision does not apply, as this provision refers to a legal entity that does not apply a so-called '*structuurregime*'. FMO is a so-called '*structuur*' legal entity as defined in paragraph 2.4.6 of the Dutch Civil Code.

BPP 4.3.4 This provision does not apply, as this provision refers to financing preferred shares, which FMO does not use in its share capital.

BPP 4.3.5 and 4.3.6 These provisions do not apply, as FMO is not an institutional investor.

BPP 4.4.1 – 4.1.8 These provisions concern the issuing of depositary receipts for shares. There is no such requirement at FMO, apart from the articles of association, which lay down that the company is not permitted to cooperate in issuing depositary receipts of shares.

BPP 5.1.1 – 5.1.5 These provisions do not apply, as FMO does not have a one-tier board.

FMO Investment Management

FMO Investment Management B.V. (FMO IM) is a 100% subsidiary of FMO. The purpose is to build and grow investment management for professional investors. This is part of FMO's strategic ambition to catalyze commercial investors to emerging markets and strengthen its position as a leading impact investor. FMO IM's mission is to scale up impact investing by providing investors with access to FMO's deal flow in sustainable emerging market investments.

Governance

FMO IM has a license as an investment firm and is authorized to execute portfolio management, process receipt and transmission of orders, and provide investment advice. FMO IM prepared itself for and implemented new regulatory requirements (MiFID II) in 2017. FMO IM has its own Management Board. As sole shareholder of FMO IM, FMO determines the charter and scope within which the company operates, and FMO has approval rights for specific matters. FMO IM has a dedicated Advisory Council (Raad van Advies) which, apart from having a general advisory function, and acting as sounding board, focuses on conflicts of interest between FMO IM and FMO. Two of the three members of this council are independent members.

NedLinx B.V.

NedLinx B.V. is a 100% owned subsidiary of FMO. It was established as of October 1, 2017. All of FMO's activities which previously fell under the responsibility of the NL Business department are now included in NedLinx B.V. Please see 'Our performance' for further context.

V

COMBINED INDEPENDENT AUDITOR'S AND ASSURANCE REPORT

MAKING SMALLHOLDER FARMING PROFITABLE
Nigeria | Babban Gona
Sector | Agribusiness, food & water

"The problem for small farmers in Nigeria is economies of scale, no matter how hard they work. We're trying to solve this challenge by helping to build thousands of grassroots-level farmer cooperatives and supporting each member with services they need to become highly productive commercial farmers."

Kola Masha, Managing Director, Babban Gona

Babban Gona is a financially sustainable and scalable agricultural enterprise co-owned by its farmers. The company provides cost effective end-to-end services to a network of franchise farmer groups on credit that is repayable at the end of the season.

Babban Gona creates much-needed jobs in northern Nigeria and a path to rise out of poverty and subsistence farming for smallholder farmers by turning subsistence farmers into commercial ones, creating jobs and giving young people a reason to stay on the land.

Through our Farmer Finance program, we provided a USD 4 million loan to Babban Gona. The investment came from MASSIF, the financial inclusion fund that FMO manages on behalf of the Dutch government.

COMBINED INDEPENDENT AUDITOR'S AND ASSURANCE REPORT

EY
Building a better working world

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Combined Independent auditor's report on the 2017 financial statements and sustainability information

To: the shareholders and Supervisory Board of Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V.

Our conclusions

We have audited the financial statements 2017 of Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V. ('FMO' or 'the Company'), based in The Hague. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of FMO as at 31 December 2017, and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of FMO as at 31 December 2017, and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

We have reviewed the sustainability information for the year ended 31 December 2017 of FMO based in The Hague. The scope is described in section Our Scope. A review engagement is aimed at obtaining limited assurance.

Based on our procedures performed, nothing has come to our attention that causes us to believe that the accompanying sustainability information does not present, in all material respects, a reliable and adequate view of the policy and business operations with regard to corporate social responsibility and the thereto related events and achievements for the year ended 31 December 2017, in accordance with the Sustainability Reporting Guidelines version G4 of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in the chapter 'How we report' in the Annual Report 2017.

Basis for our conclusions

We performed our assurance engagements in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3810N, "Assurance engagements relating to sustainability reports", which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information".

Our responsibilities under those standards are further described in the section Our responsibilities in this report.

We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Our independence

We are independent of FMO in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, 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. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagements. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics)".

Our scope

Our engagements scope

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2017
- The following statements for 2017: the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholder's equity and the consolidated statement of cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2017
- The company profit and loss account for 2017
- The notes comprising a summary of the significant accounting policies and other explanatory information

The sustainability information consists of the chapters 'FMO at a glance', 'External environment', 'Our strategy', 'Our business model', 'Our performance' and 'How we report' in the 2017 Annual Report of FMO.

Limitations to the scope of our review engagement

Unexamined prospective information

The sustainability information includes prospective information, such as ambitions, strategy, plans, expectations and estimates. Inherently, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

Unreviewed references to external sources

The calculations in the impact and footprint data as included in the Report of the Management Board, calculations are mostly based on external sources. The sources used are explained in the document 'FMO Impact Model Methodology version 2.0' on www.fmo.nl/development-impact. The external sources and websites FMO refers to in the sustainability information, are not part of the sustainability information as reviewed by us. We therefore do not provide assurance on this information.

Materiality

General

The scope of our assurance procedures is influenced by the application of materiality. Our assurance engagements aim to provide assurance about whether the financial statements and the sustainability information are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be 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 and the sustainability information. The materiality affects the nature, timing and extent of our assurance procedures and the evaluation of the effect of identified misstatements on our conclusions.

Financial statements

For the audit of the financial statements our considerations regarding the materiality are as follows:

Materiality	EUR 15 million (2016: EUR 11 million)
Benchmark used	5% of profit before taxation (2016: 5%)
Additional explanation	Based on our professional judgment, a benchmark of 5% of profit before taxation is an appropriate quantitative indicator of materiality and it best reflects the financial performance of FMO. We have applied the initial planning materiality of EUR 15 million as set in our planning phase. Based on the actual profit before taxation as of 31 December 2017 we reassessed the materiality and concluded to apply the materiality initially set.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 750 thousand, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Sustainability information

Based on our professional judgment we determined materiality levels for each part of the sustainability information and for the sustainability information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the organization.

Based on professional judgement, we determined the materiality for specific quantitative information with a bandwidth between 5% and 10%.

Our scope for the group audit of the financial statements

FMO is the head of a group of entities and subsidiaries. The financial information of FMO is included in the consolidated financial statements of FMO. FMO is structured based on the sectors: Financial Institutions, Energy, Agribusiness and Infrastructure, Manufacturing & Services and on the Treasury segment. Fund investments are classified among the other segments primarily based on the sector in which the fund is active. FMO's product range includes commercial loans, equity investments and guarantees. The services rendered are related to funds managed on behalf of the Dutch State and catalysing funds (such as syndications). FMO operates in the following four geographical markets: Africa, Asia, Europe & Central Asia, Latin America & the Caribbean. As FMO obtains its revenues from customers in developing countries, no revenues are derived from FMO's country of domicile, the Netherlands.

Because we are ultimately responsible for the opinion, we are responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Our group audit focused on the operating segments based on its size and risk. Decisive were the size and/or the risk profile of the group entities or operations. With respect to FMO's associates and subsidiaries we did not request other external auditors to perform any additional audit or review procedures as the total size of the subsidiaries and the associates represent 0.4% and 2.5% of the balance sheet total respectively. On this basis, we did not select any group entities for which an audit or review had to be carried out on the complete set of financial and non-financial information or specific items. Our group audit mainly focused on the stand-alone financial information of FMO. By performing these procedures we have been able to obtain sufficient and appropriate audit evidence about the FMO's financial information to provide an opinion about the consolidated financial statements.

Our key audit & review matters

Key audit and review matters are those matters that, in our professional judgment, were of most significance in our assurance procedures for the financial statements and the sustainability information. We have communicated the key audit and review matters to the Supervisory Board. The key audit and review matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our assurance procedures for the financial statements and the sustainability information as a whole and to conclude thereon, and we do not provide a separate conclusion on these matters.

For the audit of the financial statements we identified the following key audit matters:

Valuation Loans to the private sector	
Key audit matter	Loans to the private sector are classified as loans and receivables and amount to EUR 4,100 million as at 31 December 2017. These loans are measured at amortised cost, less a provision for loan losses (EUR 204 million). Certain aspects of the accounting for loan losses require significant judgment of management, such as the identification of loans that are deteriorating, the assessment of objective evidence for impairment, the value of collateral and the estimation of the recoverable amount. Due to the significance of loans to the private sector and the related estimation uncertainty, we consider the valuation of these loans as a key audit matter. Refer to section 'Value adjustments on loans' in the Significant accounting policies, note 5 'Loans to the private sector', note 9 'Movement in value adjustments' and related disclosures of credit risk within section Financial risk management in the notes to the financial statements.
Our audit approach	Our audit approach included testing both the effectiveness of internal controls around determining loan loss provisions as well as substantive audit procedures. Our procedures over internal controls focused on controls around the accuracy of loan and collateral data, the determination of risk ratings and the process for identifying arrears and the management thereof. In our audit, supported by our model audit experts we also considered the process around the internal validation and implementation of the models used to determine the loan loss provisions, as well as the periodic evaluation of the parameters applied in these models. We examined a selection of loan exposures that either continued to be, have become, or were at risk of being individually impaired. We applied professional judgement in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that were potentially more sensitive to developing economic trends. For selected loan files, we challenged management's estimate of the recoverable amount, based on available financial information, market information and, where applicable, the analysis of alternative recovery scenarios. Finally we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS.
Our observations	We have made recommendations to management relating to embedding observable impairment triggers in the risk/lending system, evidencing periodic review of repayment capacity, back testing of leading scenarios for calculating individual provisions and recommendations with regard to model governance and validation in our 2017 management letter to FMO's management and the Audit & Risk Committee of the Supervisory Board. Overall, we assess that the Loans to the private sector after

	deduction of loan loss provisions are fairly stated and concur with the related disclosures in the financial statements.
Valuation of Available for sale equity investments at fair value	
Key audit matter	The Available for sale equity investments amount to EUR 1,503 million as at 31 December 2017. These available for sale equity investments are measured at fair value with the corresponding fair value change recognised in other comprehensive income. The valuation of investments is inherently subjective - most predominantly for the level 3 equity investments since these are valued using inputs other than quoted prices in an active market. Key inputs used in the valuation of individual level 3 equity investments are amongst others net asset values for the fund investments and recent transaction prices, book and earnings multiples and expected cash flows for the direct investments. Certain aspects of the accounting for fair values on equity investments require significant judgment, such as the assessment of the reliability of available valuation information, determining the appropriate peer group for establishing multipliers, and the identification of whether objective evidence of impairment exists for individual equity investments resulting in an impairment. In these cases, the difference between historical cost and fair value is transferred from other comprehensive income to the income statement. Due to the significance of equity investments at fair value and the related estimation uncertainty, we consider the valuation of these equity investments as a key audit matter. Refer to section 'Equity investments' in the Significant accounting policies, note 7 'Equity investments' and related disclosures of 'Equity risk' and 'Fair value of financial assets and liabilities' within section Financial risk management in the notes to the financial statements.
Our audit approach	Our audit approach included testing both the effectiveness of internal controls around FMO's valuation process for equity investments as well as substantive audit procedures. Our audit procedures comprised, amongst others, of an assessment of the methodology and the appropriateness of the valuation models and inputs used to value investments available for sale. Further, we used our internal valuation experts to assess the valuation of a sample of individual equity investments (level 3), and to assess whether the valuations performed by FMO were within a pre-defined tolerable differences threshold. As part of these audit procedures we assessed the accuracy of key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with external data. For listed equity investments (level 1) we agreed the year end valuation to external data sources. We also evaluated FMO's assessment whether objective evidence of impairment exists for individual investments for which the fair value is below historical cost at balance sheet date including the consistent application of the accounting policy for significant and/or prolonged decline in fair value compared to its historical cost. Finally, we assessed the completeness and accuracy of the disclosures relating to investments to assess compliance with disclosure requirements included in EU-IFRS.
Our observations	We have made recommendations to management relating to evidencing the equity valuation process and periodic back testing to audited financial statements in our 2017 management letter to FMO's management and the Audit & Risk Committee of the Supervisory Board. Overall, we assess that the Available for sale equity investments at fair value after deduction of value adjustments are fairly stated and concur with the related disclosures in the financial statements.
Valuation of derivative financial instruments at fair value	
Key audit matter	Derivative financial instruments are measured at fair value and amount to EUR 259 million (asset) and EUR 147 million (liability) as at 31 December 2017. FMO utilizes derivative instruments for both economic hedging and hedge accounting purposes, using, amongst others, (cross-currency) interests rate swaps and currency forwards to

	reduce the interest rate risk and currency risks. These instruments are valued based on models and assumptions that are not observable by third parties and are generally considered model based. The use of different valuation techniques and assumptions is subject to industry best practices and illiquidity adjustments, and could produce significantly different estimates of fair value. Associated risk management disclosure is complex and dependent on high quality data. Due to the significance of derivative financial instruments and the related estimation uncertainty we consider the valuation of these derivatives as a key audit matter. Refer to sections 'Derivative instruments' in the Significant accounting policies, note 4 'Derivative financial instruments' and related disclosures of 'Equity risk' and 'Fair value of financial assets and liabilities' within section Financial risk management in the notes to the financial statements.
Our audit approach	Our audit approach included testing both the effectiveness of relevant controls over valuation and hedge accounting as well as substantive audit procedures. On a risk based approach, we assessed the valuation of collateralised derivatives with the assistance of our valuation experts. This included a challenge of the market observable and significant unobservable inputs used in pricing models in line with industry best practices and a test of hedge effectiveness. Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS.
Our observations	We have made recommendations to management relating to embedding the discount curve in its treasury system in our 2017 management letter to FMO's management and the Audit & Risk Committee of the Supervisory Board. Overall, we assess that derivative financial instruments at fair value are fairly stated and concur with the related disclosures in the financial statements.
Reliability and continuity of the information technology and systems	
Key audit matter	FMO is dependent on the IT infrastructure for the continuity and reliability of their business processes and financial reporting. FMO continuously made investments to further improve the IT environment and IT systems. Furthermore, the role of financial disclosures is important to stakeholders and increasing data granularity in financial reporting and regulatory reporting requirements urge for high quality data and an adequate IT environment. We therefore consider this as a key audit matter.
Audit approach	Our IT auditors assessed the reliability and continuity of the IT environment, insofar as needed within the scope of our audit of the 2017 financial statements. Amongst others, we tested the IT general controls related to logical access and change management and application controls embedded in FMO's key processes. In addition, we assessed the reliability and continuity of the IT environment and the possible impact of changes during the year either from ongoing internal restructuring initiatives or from external factors such as reporting requirements.
Our observations	We have made recommendations to management relating to logical access management in our 2017 management letter to FMO's management and the Audit & Risk Committee of the Supervisory Board. Overall, the combination of the tests of the controls and the substantive tests performed, provided sufficient evidence to enable us to rely on the continued operation of the IT systems for the purposes of our audit.

For the review of the sustainability information, we identified the following key review matters:

Measurement of impact and footprint data, methodology and reporting	
Key review matter	FMO has set the strategic objective to 'be the preferred partner' and to 'invest in local prosperity'. The objective to invest in local prosperity has been quantified by, among others, (in)direct jobs created and expected GHG emissions avoided respectively. This ambition has a central place in FMO's strategy and messaging. The information on impact and footprint data has been significant for our review due to the materiality of the figures in light of the above as well as the level of judgment involved in definitions, boundaries and calculation. Refer to the section 'Investing in local prosperity' in the chapter 'Our performance' and to the chapter 'How we report' in the 2017 Annual Report of FMO.
Our review approach	We have reviewed the continued suitability of the developed reporting methodology and underlying assumptions as well as the consistent application of these in 2017. We conducted an in-depth analysis of the underlying drivers for the 2017 data reported and determined that the most material assumptions and limitations as included in the document 'FMO Impact Model Methodology version 2.0' on www.fmo.nl/development-impact, have been properly disclosed in the chapter 'How we report' in the 2017 Annual Report.
Our observations	We have made recommendations to management relating to evidencing the reliability of third party information used for calculating the impact and footprint information in our 2017 management letter to FMO's management and the Audit & Risk Committee of the Supervisory Board. We concur with the reporting methodology and underlying assumptions made by management, including the related disclosures in the 2017 Annual Report.

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:

- FMO at a glance
- Report of the Management Board
- Report of the Supervisory Board
- Corporate Governance
- 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 or in our review of the sustainability information.

Management is responsible for the preparation of the other information, including the Report of the Management Board 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.

Report on other legal and regulatory requirements

Engagement
We were engaged during the Annual General Meeting of shareholders of FMO on 4 December 2015, as of the audit for the year 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services
We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided
In addition to the statutory audit of the financial statements we provided the following services:
- Regulatory reporting: We issued auditor's reports and reports of factual findings following the audit of the prudential statements prepared by management on behalf of the Dutch Central Bank, consisting of Financial Reporting (FinRep), Common Reporting (CoRep), Interest rate risk reporting.
- Capital market transactions: We issued comfort letters and/or consent letters in relation to (updated) offering circulars, prospectuses and registration statements prepared in connection with securities offerings or funding programs of FMO.
- State funds: We will issue opinions on the 2017 "Verantwoordingen" of the State Funds prepared in accordance with the "subsidiebeschikkingen".

Responsibilities

Responsibilities of management and the Supervisory Board
Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code.

Management is also responsible for the preparation of the sustainability information in accordance with Sustainability Reporting Guidelines version G4 of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in the chapter 'How we report' in the 2017 Annual Report), including the identification of the stakeholders and the determination of material issues. The choices made by management with respect to the scope of the sustainability information are included in the chapter 'How we report' in the 2017 Annual Report.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements and the sustainability information that are free from material misstatement, whether due to fraud or errors.

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

The Supervisory Board is responsible for overseeing the company's (financial) reporting process.

Our responsibilities
Our responsibility is to plan and perform the assurance engagements in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusions.

Our audit of the financial statements has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.
Our review of the sustainability information is aimed to obtain a limited level of assurance. The procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in audit engagements.

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

We apply the 'Nadere voorschriften kwaliteitssystemen' (Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

A further description of our responsibilities is included in the Annex to the combined independent auditor's report.

Amsterdam, 15 March 2018

Ernst & Young Accountants LLP

Signed by N.Z.A. Ahmed-Karim

Annex to the combined independent auditor's report

<table>
<tr><th colspan="2">Work performed</th></tr>
<tr><td colspan="2">We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagements performed by a multi-disciplinary team, in accordance with Dutch Standards on Auditing and the Dutch Standard 3810N, "Assurance engagements relating to sustainability reports", ethical requirements and independence requirements.</td></tr>
<tr><td>Our audit to obtain reasonable assurance about the financial statements (consolidated and corporate) included the following:
▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
▶ Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if</td>
<td>Our review to obtain limited assurance about the sustainability information included the following:
▶ Performing an external environment analysis and obtaining insight into relevant social themes and issues and the characteristics of the organization.
▶ Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information, including the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by management.
▶ Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review engagement.
▶ Reconciling the relevant financial information with the financial statements.
▶ Obtaining an understanding of the procedures performed by the internal audit department of FMO.
▶ Identifying areas of the sustainability information where material misstatements, whether due to fraud or error, are likely to arise, and performing further procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These procedures consisted amongst others of:
  ▶ Interviewing management and relevant staff at corporate and business division level responsible for the sustainability strategy, policies and results.</td></tr>
</table>

Work performed	
such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures. ▸ Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.	▸ Interviewing relevant staff responsible for providing the information as disclosed in the sustainability information, carrying out internal control procedures on the data and consolidating the data in the sustainability information. ▸ Reviewing relevant internal and external documentation, on a limited test basis, in order to determine the reliability of the sustainability information. ▸ Evaluating whether the assumptions as included in the impact and footprint data, which are included in the document 'FMO Impact Model Methodology version 2.0' on www.fmo.nl/development-impact, are reasonable. ▸ Evaluating the suitability and plausibility of the external sources used in the calculations on which the impact and footprint data is based, which are included in the document 'FMO Impact Model Methodology version 2.0' on www.fmo.nl/development-impact. ▸ An analytical review of the data and trends submitted for consolidation at corporate level. ▸ Evaluating the presentation, structure and content of the sustainability information as a whole, including the disclosures, in relation to the reporting criteria used.
Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items. We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the assurance procedures and significant findings, including any significant findings in internal control that we identify during our assurance engagements. In this respect we also submit an additional report to the Audit & Risk Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report. We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other	

Work performed
matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements and the review of the sustainability information of the current period and are therefore the key audit and review matters. We describe these matters in our combined auditor's report and assurance report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

VI

CONSOLIDATED ANNUAL ACCOUNTS

EMPOWERING MICRO-ENTREPRENEURS
Cambodia | PRASAC
Sector | Financial Institutions

"I want to further grow the company for my children and buy a truck for transporting the sculptures."

Together with her husband, **Sem Oun** (58) runs a sculpture studio in the village of Batheay in the Kampong Cham province in Cambodia. Since 2010 she has been a client of PRASAC.

PRASAC started as a project funded by the European Union. Today PRASAC is Cambodia's largest microfinance institution (MFI), whose mission it is to provide sustainable access to financial services to rural communities and micro-enterprises. The company operates in twenty-five provinces, where it serves nearly 350,000 customers 90% of which live in rural areas. Over the last ten years, PRASAC has grown its asset from USD 37 million to USD 1.3 billion.

In 2006, FMO syndicated various international shareholders with the purpose of assisting PRASAC in growing and transforming itself into a modern professional organization. Throughout the years, FMO assisted the company with finance – introducing bio-gas loans together with the SNV Netherlands Development Organization, issuing syndicated and subordinated loans – and has been an influential shareholder. We engaged with PRASAC on embedding an environmental and social management system and client protection principles, and setting up structures and policies to strengthen the company's operations.

In 2017 FMO sold its minority stake to Hong Kong's The Bank of East Asia and Sri Lanka's LOLC Group. The new shareholder structure will further help pave PRASAC's path toward becoming a licensed commercial bank.

CONSOLIDATED ANNUAL ACCOUNTS

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

(before profit appropriation)	Notes	Page number	2017	2016
Assets				
Banks	(1)	122	71,763	58,178
Short-term deposits	(2)	122	1,544,118	1,242,604
Interest-bearing securities	(3)	122	362,916	575,117
Derivative financial instruments	(4)	123	259,402	186,510
Loans to the private sector	(5), (9)	124, 127	4,100,425	4,469,948
Loans guaranteed by the State	(6), (9)	124, 127	38,956	56,768
Equity investments	(7)	125	1,502,833	1,712,112
Investments in associates	(8)	126	207,482	116,060
Property, plant and equipment	(10)	128	12,866	9,168
Current income tax receivables	(31)	137	7,458	-
Deferred income tax assets	(31)	137	10,587	10,618
Current accounts with State funds and other programs	(11)	128	274	1,901
Other receivables	(12)	129	120,713	21,753
Accrued income	(13)	129	83,136	92,028
Total assets			**8,322,929**	**8,552,765**
Liabilities				
Short-term credits	(14)	129	125,935	39,464
Derivative financial instruments	(4)	123	147,424	423,981
Debentures and notes	(15)	129	5,101,288	5,180,977
Current accounts with State funds and other programs	(16)	130	182	75
Current income tax liabilities	(31)	137	-	16,434
Wage tax liabilities			117	340
Deferred income tax liabilities	(31)	137	9,682	13,688
Other liabilities	(17)	130	5,039	7,441
Accrued liabilities	(18)	130	56,721	51,408
Provisions	(19)	130	46,588	45,422
Total liabilities			**5,492,976**	**5,779,230**
Shareholders' equity				
Share capital			9,076	9,076
Share premium reserve			29,272	29,272
Contractual reserve			1,726,404	1,477,843
Development fund			657,981	657,981
Available for sale reserve			400,687	571,075
Translation reserve			-16,696	9,221
Other reserves			10,602	9,394
Undistributed profit			5,556	6,682
Shareholders' equity (parent)			**2,822,882**	**2,770,544**
Non-controlling interests			7,071	2,991
Total shareholders' equity	(20)	**133**	**2,829,953**	**2,773,535**
Total liabilities and shareholders' equity			**8,322,929**	**8,552,765**
Contingent assets and liabilities:				
- Effective guarantees issued	(32)	138	68,129	61,050
- Effective guarantees received	(32)	138	-175,042	-224,754
Irrevocable facilities	(32)	138	1,785,159	1,820,239

all amounts in EUR x 1,000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2017

(before profit appropriation)	Notes	Page number	2017	2016
Income				
Interest income			284,622	282,401
Interest expense			-84,739	-65,861
Net interest income	**(21)**	**134**	**199,883**	**216,540**
Fee and commission income			6,723	6,691
Fee and commission expense			-712	-547
Net fee and commission income	**(22)**	**135**	**6,011**	**6,144**
Dividend income	(23)	135	36,592	16,819
Results from equity investments	(24)	135	154,571	39,041
Results from financial transactions	(25)	136	16,103	-8,779
Remuneration for services rendered	(26)	136	29,372	28,565
Other operating income	(27)	136	1,348	1,186
Total other income			**237,986**	**76,832**
Total income			**443,880**	**299,516**
Operating expenses				
Staff costs	(28)	136	-71,559	-63,685
Other administrative expenses	(29)	137	-23,909	-19,357
Depreciation and impairment of PP&E assets	(10)	128	-3,154	-2,565
Other operating expenses	(30)	137	-48	-75
Total operating expenses			**-98,670**	**-85,682**
Value adjustments/ impairments on				
Loans	(9)	127	-18,110	38,069
Equity investments and associates	(7), (8)	125, 126	-46,919	-43,996
Guarantees issued	(9)	127	3,042	4,920
Total value adjustments			**-61,987**	**-1,007**
Share in the result of associates	(8)	126	9,293	6,247
Total result on associates			**9,293**	**6,247**
Profit before taxation			**292,516**	**219,074**
Income tax	(31)	137	-37,281	-42,969
Net profit			**255,235**	**176,105**
Net profit attributable to				
Owners of the parent company			254,117	176,105
Non controlling interest			1,118	-
Net profit			**255,235**	**176,105**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(before profit appropriation)	Notes	Page number	2017	2016
Net profit			**255,235**	**176,105**
Other comprehensive income				
Share of other comprehensive income of associates due to exchange differences			-25,917	5,110
Available for sale financial assets			-174,394	127,574
Income tax effect			4,006	-11,851
Items to be reclassified to profit and loss	**(34)**	**142**	**-196,305**	**120,833**
Actuarial gains/losses on defined benefit plans			1,610	-39,750
Income tax effect			-403	9,937
Items not reclassified to profit and loss	**(34)**	**142**	**1,207**	**-29,813**
Total other comprehensive income, net of tax			**-195,098**	**91,020**
Total comprehensive income			**60,137**	**267,125**
Total comprehensive income attributable to:				
Owners of the parent company			59,019	267,125
Non-controlling interests			1,118	-
Total comprehensive income			**60,137**	**267,125**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium reserve	Contrac-tual reserve	Develop-ment fund	Available for sale reserve	Trans-lation reserve	Other reserves	Undist-ributed profit	Non-controlling interests	Total
Balance at January 1, 2016	**9,076**	**29,272**	**1,308,420**	**657,981**	**455,352**	**4,111**	**39,207**	**6,231**	**1,266**	**2,510,916**
Exchange differences on translating associates and subsidiaries	-	-	-	-	-	5,110	-	-	-	5,110
Available for sale financial assets	-	-	-	-	127,574	-	-	-	-14	127,560
Actuarial gains/ losses on defined benefit plans	-	-	-	-	-	-	-39,750	-	-	-39,750
Income tax effect other comprehensive income	-	-	-	-	-11,851	-	9,937	-	-	-1,914
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**115,723**	**5,110**	**-29,813**	**-**	**-14**	**91,006**
Changes in subsidiary Equis DFI Feeder LP [2]	-	-	-	-	-	-	-	-	1,739	1,739
Net profit	-	-	169,423[1]	-	-	-	-	6,682	-	176,105
Dividend declared	-	-	-	-	-	-	-	-6,231	-	-6,231
Balance at December 31, 2016	**9,076**	**29,272**	**1,477,843**	**657,981**	**571,075**	**9,221**	**9,394**	**6,682**	**2,991**	**2,773,535**
Exchange differences on translating associates and subsidiaries	-	-	-	-	-	-25,917	-	-	-	-25,917
Available for sale financial assets	-	-	-	-	-174,394	-	-	-	1,150	-173,244
Actuarial gains/ losses on defined benefit plans	-	-	-	-	-	-	1,610	-	-	1,610
Income tax effect other comprehensive income	-	-	-	-	4,006	-	-402	-	-	3,604
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**-170,388**	**-25,917**	**1,208**	**-**	**1,150**	**-193,947**
Changes in subsidiary Equis DFI Feeder LP [2]	-	-	-	-	-	-	-	-	1,812	1,812
Net profit	-	-	248,561[1]	-	-	-	-	5,556	1,118	255,235
Dividend declared	-	-	-	-	-	-	-	-6,682	-	-6,682
Balance at December 31, 2017	**9,076**	**29,272**	**1,726,404**	**657,981**	**400,687**	**-16,696**	**10,602**	**5,556**	**7,071**	**2,829,953**

1 Under the Agreement State-FMO of November 16, 1998, it is required to add this part of the net profit to the contractual reserve. Therefore this profit is not distributable.

2 Changes driven by movements in the underlying investment portfolio of Equis DFI Feeder such as subscription and sales.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	Page number	2017	2016
Operational activities				
Net profit			255,235	176,105
Adjusted for non-cash items:				
- Result of associates			-9,293	-6,247
- Unrealised (gains) losses arising from changes in fair value			-186,091	7,761
- Unrealised (gains) losses arising from changes in foreign exchange rates			108,209	46,615
- Unrealized (gains) losses arising from other changes			8,374	7,794
- Value adjustments			65,342	-1,672
- Depreciation and impairment of PP&E assets			3,154	2,565
- Income tax expense			37,281	42,969
Changes in:				
- Income tax paid			-61,545	-46,166
- Net movement (disbursements and repayments) in loans (including guaranteed by the State)			-117,213	-79,637
- Purchase of and proceeds from equity investments and associates			-107,377	-233,442
- Movement other assets and liabilities [1]			-123,792	65,665
- Movement in short-term deposits [1]			414,451	242,088
- Movement in short-term credits [1]			105,058	-36,388
Net cash flow from operational activities	(35)	**143**	**391,793**	**188,010**
Investment activities				
Purchase of interest-bearing securities			-142,692	-74,235
Redemption/sale of interest-bearing securities			344,078	112,507
Investments in PP&E assets			-6,852	-4,107
Divestments of PP&E assets			- -	
Net cash flow from investment activities	(36)	**143**	**194,534**	**34,165**
Financing activities				
Proceeds from issuance of debt securities, debentures and notes	(15)	129	1,229,760	612,748
Redemption of debt securities, debentures and notes	(15)	129	-983,643	-891,209
Dividend paid			-6,682	-6,231
Net cash flow from financing activities	(37)	**143**	**239,435**	**-284,692**
Net cash flow			**825,762**	**-62,517**
Cash and cash equivalents				
Net foreign exchange difference			-96,211	-16,963
Banks and short-term deposits at January 1 [2]			833,636	913,116
Banks and short-term deposits at December 31 [2]			1,563,187	833,636
Total cash flow			**825,762**	**-62,517**
Operational cash flows from interest and dividends				
Interest received			291,953	282,572
Interest paid			-97,793	-64,727
Dividend received			36,592	16,819

1 Movement is excluding foreign exchange results. Foreign exchange results are included in unrealized gains (losses).

2 This balance corresponds with the following items in the consolidated balance sheets: banks and short term deposits to the extent that the maturity date is less than 3 months.

ACCOUNTING POLICIES

CORPORATE INFORMATION

The 2017 financial statements of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereafter referred to as 'FMO' or 'the company') were prepared by the Management Board and signed by all members of the Management Board and the Supervisory Board on March 15, 2018 and will be submitted for adoption in the General Meeting of Shareholders on May 22, 2018.

FMO was incorporated in 1970 as a public limited company and is located at Anna van Saksenlaan 71, The Hague, The Netherlands and is registered under ID 27078545 in the Chamber of Commerce. FMO finances activities in developing countries to stimulate private sector development. In addition, FMO provides services in relation to government funds and programs.

Financing and investing 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, agribusiness and private equity.

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'

We arrange syndicated loans by bringing together investors – commercial banks and other development finance institutions (DFIs) - with FMO structuring the financing. This enables us to provide our clients with increased access to finance and more diversified lending, while giving our financial partners efficient opportunities to enter new markets.

FMO also stimulates Dutch investments in emerging markets. Apart from focusing on Dutch SME companies investing abroad, FMO supports mid-sized corporates, seeking trade finance or engaging in consortia finance for development of large infrastructure projects in our markets.

Commercial fund management

FMO's subsidiary, FMO Investment Management B.V., carries out portfolio management activities for third party investment funds, which are invested in FMO's transactions in emerging and developing markets. Through these funds FMO IM offers investors access to our expertise in responsible emerging market investing.

Services in relation to government funds and programs

Apart from financing activities from its own resources, FMO provides loans, guarantees and equity capital from government funds, within the conditions and objectives of those funds. The funds consist of subsidies provided under the General Administrative Law Act regarding MASSIF, Access to Energy Fund ('AEF'), the Infrastructure Development Fund ('IDF'), Capacity Development Program ('CD'), Partnership Development Fund ('PDF') and Fund Emerging Markets for Developing Countries (also called 'FOM-OS').

FMO incurs a risk in MASSIF as it has an equity share of 2.32% (2016: 2.34%). With respect to the remaining interest in MASSIF, and the full risk in the other government funds, FMO has a contractual right and obligation to settle the results arising from the funds' activities with the State. The economic risks related to these funds are predominantly taken by the State, and FMO has limited power over policy issues regarding these funds. FMO receives a remuneration for managing the funds. Therefore, with the exception of FMO's equity share in MASSIF, the funds' assets and the funds' liabilities are not included in the annual accounts. The segment information paragraph provides more detail on the loans and equity investments managed for the risk of the State.

SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated annual accounts (the 'annual accounts') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union and with Part 9 of Book 2 of the Dutch Civil Code for the financial period ended on 31 December 2017. These annual accounts are based on the 'going concern' principle.

The consolidated annual accounts are prepared under the historical cost convention except for:

- equity investments, interest-bearing securities, short-term deposits and all derivative instruments that are measured at fair value.
- The carrying value of debt issued that is qualified for hedge accounting, is adjusted for changes in fair value related to the hedged risk. For all financial instruments measured at fair value settlement date accounting is applied by FMO.

- Investments in associates are accounted for under the equity method.

Loans (to the private sector and guaranteed by the State) and private equity investments are recognized when funds are transferred to the customers' account. Other financial assets and liabilities are initially recognized on the trade date, i.e., the date that FMO becomes a party to the contractual provisions of the instruments.

Adoption of new standards, interpretations and amendments

Adopted

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

Amendments to IAS 7 Statement of Cash Flows – Disclosure initiative

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is currently not yet endorsed by IASB although initial effective date is set at 1 January 2017. The Bank is currently evaluating the impact.

Amendments to IAS 12 Income Taxes – Recognition of deferred tax assets for unrealized losses

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is currently not yet endorsed by IASB although initial effective date is set at 1 January 2017. FMO is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

Not effective, not adopted

The standards issued and endorsed by the European Union, but 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 of IFRS 9 Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. EU has endorsed IFRS 9 in November 2016. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

FMO will apply IFRS 9 as issued in July 2014 and endorsed by the EU in November 2016. For FMO the effective date of application is from 1 January 2018. Starting from 2016 FMO set up a multidisciplinary implementation team with members from Risk Management, Finance and other operational teams to prepare for IFRS 9 implementation. All the required changes have been implemented successfully as of January 2018. Based on the completed assessment, the total adjustment of the adoption of IFRS 9 on the opening balance of FMO's equity at 1 January 2018 is limited.

Classification and measurement

From a classification and measurement perspective, the new standard requires all financial assets, except for equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair Value through Profit or Loss (FVPL), Fair Value through Other Comprehensive Income (FVOCI), and amortized cost.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets;and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition FMO may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

For equity investments that are not held for trading an irrevocable election exists (on an instrument-by-instrument basis) to present subsequent changes in fair value in OCI. IFRS 9 also requires that derivatives embedded in host contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

FMO's financial liabilities is not impacted by IFRS 9.

Business model assessment

FMO has made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that is considered includes:

- how the performance of the portfolio is evaluated and reported to management of FMO;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how FMO's stated objective for managing the financial assets is achieved and how cash flows are realized.

Contractual cash flow assessment

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, FMO has considered the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, FMO has considered among others:

- Contingent events that would change the amount and timing of cash flows – e.g. prepayment and extension features, loans with performance related cashflows;
- Features that modify the consideration for the time value of money – e.g. regulated interest rates, periodic reset of interest rates;
- Loans with convertibility and prepayment features;
- Terms that limit FMO's claim to cash flows from specified assets – e.g. non-recourse assets
- Contractually linked instruments

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- Banks that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Short-term deposits that are designated as at FVTPL under IAS 39 will in general continue to be measured at FVTPL under IFRS 9.
- Interest bearing securities that are classified as available for sale under IAS 39 are measured at amortised cost under IFRS 9.
- Derivative financial instruments which are classified as held for trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- A significant part of the Loans to the private sector and Loans guaranteed by the State that is classified as loans and receivables and measured at amortised cost under IAS 39 will also be measured at amortised cost under IFRS 9. The remaining part does not fully reflect payments of principal and interest and will therefore be measured at FVTPL under IFRS 9.
- The majority of the equity investments that are classified as available for sale under IAS 39 will be measured at FVTPL under IFRS 9. The available for sale reserve of these investments (approximately €380 million) have been transferred to other reserves as per 1 January 2018. However, some of the equity investments are held for long-term strategic purposes and will be designated as at FVOCI on 1 January 2018. The available for sale reserve of these strategic investments (approximately €18 million) has been transferred to a fair value reserve.

On the adoption of IFRS 9 at 1 January 2018, the impact of these changes is limited.

Impairment

IFRS 9 also fundamentally changes the loan loss impairment methodology. The standard replaces IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. FMO estimates allowance for expected losses for the following financial assets:

- Banks;
- Interest bearing securities;
- Loans to the private sector and loans guaranteed by the State;
- Loan commitments and financial guarantee contracts issued.

ECL measurement
To calculate the ECL, FMO estimates the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to FMO under the contract, and the cash flows that FMO expects to receive, discounted at the effective interest rate of the loan.

Definition of default
Under IFRS 9, FMO will consider a financial asset to be in default when:

- The client is past due more than 90 days on any material credit obligation;
- A loan is credit-impaired (stage 3);
- FMO judges that the client is unlikely to pay its credit obligation to FMO.

This definition is largely consistent with the definition that is being used for regulatory purposes. However, for IFRS 9, a client can be more than 90 days past due but deemed not in default because FMO has reasonable and supportable information to corroborate a more lagging default criterion. This can result in some loans being automatically labelled in default due to the regulatory definition but remaining in Stage 2 and not labelled in default due to reasonable and supportable information about the specific loan.

Impairment stages
FMO groups its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are first recognized, an allowance is recognized based on 12-month expected credit losses.
- Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, an allowance is recorded for the lifetime expected credit loss.
- Stage 3 – Impaired loans: a lifetime expected credit loss is recognised for these loans. In addition, in Stage 3, interest income is accrued on the amortised cost of the loan net of allowances.

Significant increase in credit risk
IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs. FMO considers whether there has been a significant increase in credit risk of an asset by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. This assessment is based on either one of the following items:

- The change in internal credit risk grade with a certain number of notches compared to the internal rating at origination;
- The fact that the financial asset is 30 days past due, unless there is reasonable and supportable information that there is no increase in credit risk since origination;
- The application of forbearance.

Credit-impaired financial assets
Financial assets will be included in Stage 3 when there is objective evidence that the loan is credit impaired. The criteria of such objective evidence are the same as under the current IAS 39 methodology explained in the section 'Value adjustments on loans' of the Accounting policies and in Note 9. Accordingly, the population is the same under both standards.

Forward looking information
FMO incorporates forward-looking information in both the assessment of significant increase in credit risk and in the measurement of the ECL. Forward-looking information such as macro-economic factors and economic forecasts are considered. FMO has formulated a 'base case' scenario which represents the more likely outcome resulting from FMO's normal financial planning and budgeting process.

Impact
On the adoption of IFRS 9, the impact of the new impairment requirements is limited.

Hedge accounting
With respect to hedge accounting IFRS 9 allows to continue with the hedge accounting under IAS 39. FMO applies IFRS 9 in its entirety. The impact is insignificant for FMO compared to IAS 39.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation
Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower. In October 2017 the IASB amended the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments in case of early repayment of loans. This amendment is effective for annual reporting periods beginning on or after 1 January 2019 and does not have impact for FMO.

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 2018. 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. This standard will not have significant 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 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. Based on our preliminary assessment impact of this standard is limited to the building and cars we are renting/ leasing.

IFRS 17 Insurance Contracts
IFRS 17 was issued in May 2017 and is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cashflow. The standards is expected to be effective on or after 1 January 2021. This standard does not have impact on FMO.

Amendments to IFRS 2 Share-based payment – Classification and measurements of share-based payment transactions
In June 2016, the IASB issued amendments to IFRS 2 containing the clarification and amendments of accounting for cash-settle share-based payment transactions that include a performance condition, accounting of share-based payment transactions with net settlement features and accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments do not have impact on FMO.

Amendments to IFRS 4 Insurance contracts – Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts
The amendments provide two options for entities that issue contracts within the scope of IFRS 4 and will have no impact on FMO. The amendment is expected to be effective starting from 1 January 2018.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. The effective date of this amendment has been postponed indefinitely pending the outcome of the IASB research project on the equity method of accounting. These amendments will have minor impact on FMO.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
The amendment clarifies that IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Furthermore, the paragraph regarding interests in associates or joint ventures that do not constitute part of the net investment has been deleted. The amendment is expected to be effective starting from 1 January 2019. These amendments will have minor impact on FMO.

Amendments to IAS 40 Investments property – Transfers of investment property
These amendments provide guideance and include criteria for transfers of property to, or from, investment property in accordance with IAS 40. This amendment is effective for annual reporting periods beginning on or after 1 January 2018 and will have no impact on FMO.

Annual Improvements 2014-2016 Cycle
Amendments regarding IFRS 1 First time adoption of IFRS, IFRS 12 Disclosure of interest in other entities and IAS 28 Investments in associates and joint ventures. These amendments mainly comprise additional guidance and clarification and have a minor impact on FMO.

IFRIC Interpretation 22 Foreign currency transactions and advance consideration
The interpretation provides clarifications on the transaction date for the purpose of determining the exchange rate with respect to the recognition of the non-monetary prepayment asset or deferred income liability and that a date of transaction is establisched for each payment or receipt in case of multiple advanced payments or receipts. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018.The interpretation has a minor impact on FMO.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments
The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax lossess, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. The interpretation has minor impact on FMO.

Estimates and assumptions

In preparing the annual accounts in conformity with IFRS, management is required to make estimates and assumptions affecting reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment is inherent to the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from such estimates and the differences may be material to the annual accounts. For FMO the most relevant estimates and assumptions relate to the determination of the fair value of financial instruments based on generally accepted modeled valuation techniques of our equity investments and the determination of the counterparty-specific and group-specific value adjustments. Estimates and assumptions are also used for the pension liabilities and determination of tax and others.

FMO's impairment methodology for the loan portfolio results in the recording of provisions for:

- Counterparty specific value adjustments and
- Group-specific value adjustments.

The detailed approach for each category is further explained in the accounting policy for "loans to the private sector" and includes elements of management's judgement, in particular the estimation of the amount and timing of future cash flows when determining the counterparty specific value adjustments. These estimates are driven by a number of factors, the changing of which can result in different levels of the counterparty specific value adjustments.

Additionally, judgements are applied around the inputs and calibration of the model for group-specific value adjustments including the criteria for the identification of (country/regional) risks and economic data. The methodology and assumptions are reviewed regularly in the context of loss experience.

Fair value of financial instruments

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. When available, the fair value of an instrument is measured by using the quoted price in an active market for that instrument. 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.

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. and Nedlinx B.V. 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. carries out certain portfolio management activities for third party investment funds which are invested FMO's own transactions in emerging and developing markets. Nedlinx B.V was incorporated in November 2017 and will focus on financing activities to Dutch SME companies investing abroad.

FMO has a 63% stake in Equis DFI Feeder L.P. and all other subsidiaries are 100% owned by FMO.

Segment reporting

In June 2017 we have updated the FMO corporate strategy to align with the Sustainability Development Goals, and increase focus and impact in our activities. The sectors where we can have the biggest impact and will have our focus are Financial Institutions, Energy and Agribusiness. We have decided to stop our debt offering in the Infrastructure, Manufacturing and Services sector as we no longer consider this to be our focus sector. We will still manage our assets in the Infrastructure, Manufacturing and Services sector. As a result 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 the segment reporting. 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 2017 there were no transactions between the operating segments.

Fiscal unity

FMO forms a fiscal unity for corporate income tax purposes with its fully-owned Dutch subsidiaries Nuevo Banco Comercial Holding B.V., Asia Participations B.V. and FMO Investment Management B.V.. As a consequence, FMO is severally liable for all income tax liabilities for these subsidiaries.

Foreign currency translation

FMO uses the euro as the unit for presenting its annual accounts. All amounts are denominated in thousands of euros unless stated otherwise. In accordance with IAS 21, foreign currency transactions are translated to euro at the exchange rate prevailing on the date of the transaction. At the balance sheet date, monetary assets and liabilities and non-monetary assets that are not valued at cost denominated in foreign currencies are reported using the closing exchange rate.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the profit and loss account under 'results from financial transactions'.

Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For non-monetary financial assets, which are classified as available for sale, unrealized exchange differences are recorded directly in shareholders' equity until the asset is sold.

When preparing the annual accounts, assets and liabilities of foreign subsidiaries and FMO's share in associates are translated at the exchange rates at the balance sheet date, while income and expense items are translated at weighted average rates for the period. Differences resulting from the use of closing and weighted average exchange rates, and from revaluation of a foreign entity's opening net asset value at closing rate, are recognized directly in the translation reserve within shareholders' equity. These translation differences are maintained in the translation reserves until disposal of the subsidiary and/or associate.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and when there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derivative instruments

Derivative financial instruments are initially recognized at fair value on the date FMO enters into a derivative contract and are subsequently remeasured at its fair value. Changes in the fair value of these derivative instruments are recognized immediately in profit and loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Part of the derivatives related to the asset portfolio concerns derivatives that are embedded in other financial instruments. Such combinations are known as hybrid instruments and arise predominantly from providing mezzanine loans and equity investments. These derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract. These derivatives are measured at fair value with changes in fair value recognized in profit and loss.

Hedge accounting

FMO uses derivative financial instruments as part of its asset and liability management to manage exposures to interest rates and foreign currencies. FMO applies fair value hedge accounting when transactions meet the specified criteria. When a financial instrument is designated as a hedge, FMO formally documents the relationship between the hedging instrument(s) and hedged item(s). Documentation includes its risk management objectives and its strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

A valid hedge relationship exists when a specific relationship can be identified between financial instruments in which the change in value of one instrument, the 'hedge instrument', is correlated highly negatively to the change in value of the other, the 'hedged item'. To qualify for hedge accounting, this correlation must be within 80% to 125%, with any ineffectiveness recognized in the profit and loss account.

FMO discontinues hedge accounting when it is determined that:

1. A derivative is not, or ceased to be, highly effective as a hedge;
2. The derivative has expired, or is sold, terminated or exercised; or
3. The hedged item has matured, is sold or is repaid.

FMO only applies fair value hedge accounting on the funding portfolio. Changes in the fair value of these derivatives are recorded in the profit and loss account. Any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk are also recorded in the profit and loss account. If a hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the 'unamortized fair value adjustment') is treated as follows:

- In case of interest-bearing instruments, that amount is amortized and included in net profit and loss over the remaining term of the original hedge;
- In case of non-interest-bearing instruments, that amount is immediately recognized in profit and loss.

If the hedge item is derecognized, e.g. sold or repaid, the unamortized fair value adjustment is recognized immediately in profit and loss.

Interest income and expense

Interest income and expense are recognized in the profit and loss account for all interest-bearing instruments on an accrual basis using the 'effective interest' method based on the fair value at inception. Interest income and expense also include amortized discounts, premiums on financial instruments and interest related to derivatives.

When collection of loans becomes doubtful, value adjustments are recorded for the difference between the carrying values and recoverable amounts. Interest income is thereafter recognized based on the original effective yield that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fee and commission income and expense

FMO earns fees from a diverse range of services. The revenue recognition for financial service fees depends on the purpose for which the fees are charged and the basis of accounting for the associated financial instrument. Fees that are part of a financial instrument carried at fair value are recognized in the profit and loss account. Fee income that is part of a financial instrument carried at amortized cost can be divided into three categories:

1. *Fees that are an integral part of the effective interest rate of a financial instrument*
   These fees (such as front-end fees) are generally treated as an adjustment to the effective interest rate. When the facility is not used and the commitment period expires, the fee is recognized at the moment of expiration. However, when the financial instrument is to be measured at fair value subsequent to its initial recognition, the fees are recognized in revenue as part of the interest.
2. *Fees earned when services are provided*
   Fees charged by FMO for servicing a loan (such as administration fees and agency fees) are recognized as revenue when the services are provided. Portfolio and other management advisory and service fees are recognized in line with the periods and the agreed services of the applicable service contracts.
3. *Fees that are earned on the execution of a significant act*
   These fees (such as arrangement fees) are recognized as revenue when the significant act has been completed.

Dividend income

Dividends are recognized in dividend income when a dividend is declared. The dividend receivable is recorded at declaration date, taking the uncertainties of collection into account.

Cash and cash equivalents

Cash and cash equivalents consist of banks (assets and liabilities) and short-term deposits that mature in less than three months from the date of acquisition. Short-term deposits are designated at fair value. Unrealized gains or losses of these short-term deposits (including foreign exchange results) are reported in the results from financial transactions.

Loans to the private sector

Loans originated by FMO include:

1. Loans to the private sector in developing countries for the account and risk of FMO;
2. Loans provided by FMO and, to a certain level, guaranteed by the State.

Loans are recognized as assets when cash is advanced to borrowers. Loans are initially measured at cost, which is the fair value of the consideration paid, net of transaction costs incurred. Subsequently, the loans are valued at amortized cost using the effective interest rate method.

Interest on loans is included in interest income and is recognized on an accrual basis using the effective interest rate method. Fees relating to loan origination and re-financing are deferred and amortized to interest income over the life of the loan using the effective interest rate method.

Value adjustments on loans

At each reporting date FMO assesses the necessity for value adjustments on loans. Value adjustments are recorded if there is objective evidence that FMO will be unable to collect all amounts due according to the original contractual terms or the equivalent value. The value adjustments are evaluated at a counterparty-specific and group-specific level based on the following principles:

1. *Counterparty-specific:*
   Individual credit exposures are evaluated based on the borrower's characteristics, overall financial condition, resources and payment record, original contractual term, exit possibilities and, where applicable, the realizable value of the underlying collateral. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. In case of a loan restructuring, the estimated recoverable amount as well as the value adjustments are measured by using the original effective interest rates before the modification of the terms. Value adjustments for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.
2. *Group-specific:*
   All loans that have no counterparty-specific value adjustment are divided in groups of financial assets with similar credit risk characteristics and are collectively assessed for value adjustments. The credit exposures are evaluated based on local political and economic developments and probabilities of default (based on country ratings) and loss given defaults, and taking into consideration the nature of the exposures based on product/country combined risk assessment. The probabilities of default and the loss given defaults are periodically assessed as part of FMO's financial risk control framework.

A value adjustment is reported as a reduction of the asset's carrying value on the balance sheet. All loans are reviewed and analyzed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared to prior estimates will result in a change in the value adjustments and will be charged or credited to the profit and loss account. A value adjustment is reversed only when the credit quality has improved to the extent that reasonable assurance of timely collection of principal and interest is in accordance with the original or revised contractual terms.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously recorded value adjustments. If no value adjustment is recorded, the write-off is included directly in the profit and loss account under the line item 'value adjustments'.

Interest-bearing securities

Interest-bearing securities include bonds and loans and are classified as available for sale investments. The interest-bearing securities are carried at fair value. The determination of fair values of interest-bearing securities is based on quoted market prices or dealer price quotations from active markets. Unrealized revaluations due to movements in market prices net of applicable income taxes, are reported in the available for sale reserve under the shareholders' equity except for foreign currency exchange results which are recorded under the results from financial transactions in the profit and loss accounts. Value adjustments and realized results on disposal or redemption are recognized in profit or loss. Interest accrued on interest-bearing securities is included in interest income.

For the interest-bearing securities an assessment is performed on each reporting date to assess whether there is objective evidence that an investment is impaired.

Equity investments

Equity investments in which FMO has no significant influence are classified as available for sale assets and are measured at fair value. Unrealized gains or losses are reported in the available for sale reserve net of applicable income taxes until such investments are sold, collected or otherwise disposed of, or until such investment is determined to be impaired. Foreign exchange differences are reported as part of the fair value change in shareholders' equity. On disposal of the available for sale investment, the accumulated unrealized gain or loss included in shareholders' equity is transferred to profit and loss.

Impairments

All equity investments are reviewed and analyzed at least semi-annually. An equity investment is considered impaired if its carrying value exceeds the recoverable amount by an amount considered significant or for a period considered prolonged. FMO treats "significant" generally as 25% and "prolonged" generally as greater than 1 year. If an equity investment is determined to be impaired, the impairment is recognized in the profit and loss account as a value adjustment. The impairment loss includes any unrealized loss previously recognized in shareholders' equity. The impairment losses shall not be reversed through the profit and loss account except upon realization. Accordingly, any subsequent unrealized gains for impaired equity investments are reported through shareholders' equity in the available for sale reserve.

Investments in associates

Equity investments in companies in which FMO has significant influence ('associates') are accounted for under the equity accounting method. Significant influence is normally evidenced when FMO has from 20% to 50% of a company's voting rights unless:

1. FMO is not involved in the company's operational and/or strategic management by participation in its Management, Supervisory Board or Investment Committee; and
2. There are no material transactions between FMO and the company; and
3. FMO makes no 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 recognize FMO's share of the investee's results or other results directly recorded in the equity of associates.

Property, plant and equipment (PP&E)

ICT equipement

Expenditures directly associated with identifiable and unique software products controlled by FMO and likely to generate economic benefits exceeding costs beyond one year, are recognized as PP&E assets. These assets include staff costs incurred to make these software products operable in the way management intended for these software products. Costs associated with maintaining software programs are recognized in the profit and loss account as incurred. Expenditure that enhances or extends the performance of software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software.

Furniture and leasehold improvements (PP&E)

Furniture and leasehold improvements are stated at historical cost less accumulated depreciation.

Depreciation

Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

ICT equipment	Five years
Furniture	Five years
Leasehold improvements	Five years

PP&E assets are reviewed for impairment whenever triggering events indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are reported in operating profit. Repairs and renewals are charged to the profit and loss account when the expenditure is incurred.

Debentures and notes

Debentures and notes consist of medium-term notes under FMO's Debt Issuance Programme or other public issues. Furthermore a subordinated note is also included in the Debentures and Notes. Under IFRS this note is classified as financial liability, but for regulatory purposes it is considered as Tier 2 capital.

Debentures and notes can be divided into:

- Notes qualifying for hedge accounting (valued at amortized cost and adjusted for the fair value of the hedged risk);
- Notes that do not qualify for hedge accounting (valued at amortized cost).

Debentures and notes valued at amortized cost

Debentures and notes are initially measured at cost, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is amortized cost, using the effective interest rate method to amortize the cost at inception to the redemption value over the life of the debt.

Debentures and notes eligible for hedge accounting

When hedge accounting is applied to debentures and notes, the carrying value of debt issued is adjusted for changes in fair value related to the hedged risk. The fair value changes are recorded in the profit and loss account. Further reference is made to 'derivative instruments' and 'hedge accounting'.

Provisions

Provisions are recognized when:

1. FMO has a present legal or constructive obligation as a result of past events; and
2. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
3. A reliable estimate of the amount of the obligation can be made.

A provision is made for the liability for retirement benefits and severance arrangements. Further reference is made to 'retirement benefits'.

Leases

FMO has operational leases. The total payments due under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Guarantees

Provisions and obligations resulting from issued financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies as set out in 'interest income' and 'fee and commission income'. These fees are recognized as revenue on an accrual basis over the period commitment.

Provisions and obligations resulting from guarantees are included in 'other liabilities'.

Received financial guarantee contracts are unfunded risk participation agreements (guarantor shares credit risk, but do not participate in the funding of the transaction). In case clients fail to fulfill their payment obligations the guarantor will make corresponding payments to FMO.

Retirement benefits
FMO provides all employees with retirement benefits that are categorized as a defined benefit. A defined benefit plan is a pension plan defining the amount of pension benefit to be provided, as a function of one or more factors such as age, years of service or compensation. Employees are entitled to retirement benefits based on the average salary, on attainment of the retirement age of 67. Starting from January 1, 2018 this retirement age has been adjusted to 68.

This scheme is funded through payments to an insurance company determined by periodic actuarial calculations. The principal actuarial assumptions are set out in note 19. All actuarial gains and losses are reported in shareholders' equity, net of applicable income taxes and are permanently excluded from profit and loss.

The net defined benefit liability or asset is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for unrecognized actuarial gains/losses and past service costs. Independent actuaries perform an annual calculation of the defined benefit obligation using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using, in accordance with IAS 19, interest rates of high-quality corporate bonds, which have terms to maturity approximating the terms of the related liability. FMO has a contract with a well established insurer, in which all nominal pension obligations are guaranteed and the downside risk of pension assets is mitigated.

When the fair value of the plan's assets exceeds the present value of the defined benefit obligations, a gain (asset) is recognized if this difference can be fully recovered through refunds or reductions in future contributions. No gain or loss is recognized solely as a result of an actuarial gain or loss, or past service cost, in the current period.

FMO recognizes the following changes in the net defined benefit obligations under staff costs:

- Service costs comprising current service costs, past-service costs (like gains and losses on curtailments and plan amendments)
- Net interest expense or income

Past-service costs are recognized in profit and loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that FMO recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Taxation
Income tax on profits is recognized as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise. The tax effects of income tax losses, available for carry-forward, are recognized as a deferred tax asset if it is probable that future taxable profit will be available against which those losses can be utilized. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods using the liability method. Deferred tax assets are recognized for temporary differences, resulting in deductible amounts in future periods, but only when it is probable that sufficient taxable profits will be available against which these differences can be utilized. The main temporary differences arise from the post-retirement benefits provision and the fair value movements on interest-bearing securities and equity investments.

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the period in which the asset will be realized or the liability will be settled. Current and deferred taxes are recognized as income tax benefit or expense except for unrealized gains or losses on available for sale investments and actuarial results related to the defined benefit obligation, which are recorded net of taxes directly in shareholders' equity.

Shareholders' equity
Contractual reserve
The contractual reserve consists of the cumulative part of the annual net results that FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998. This reserve is not freely distributable.

Development fund
This special purpose reserve contains the allocations of risk capital provided by the State to finance the portfolio of loans and equity investments.

Available for sale reserve (AFS reserve)
The available for sale reserve includes net revaluations of financial instruments classified as available for sale that have not been reported through the profit and loss account.

Translation reserve
The assets, liabilities, income and expenses of foreign subsidiaries and associates are translated using the closing and weighted average exchange rates. Differences resulting from the translation are recognized in the translation reserve.

Other reserves
The other reserves include the cumulative distributable net profits and actuarial gains on defined benefit plans. Dividends are deducted from other reserves in the period in which they are declared.

Undistributed profit
The undistributed profit consists of the part of the annual result that FMO is not obliged to reserve under the Agreement State-FMO of November 16, 1998.

Non-controlling interests
The non-controlling interest in 2016 and 2017 was related to the investment in Equis DFI Feeder L.P. held by other investors.

RISK MANAGEMENT

INTRODUCTION

This chapter provides an overview of FMO's risk governance and risk management approach. The different sections describe the key risk domains according to applicable disclosure requirements and developments that took place in 2017. Together with the quantitative Pillar 3 disclosures - available on FMO's website - it constitutes FMO's Pillar 3 disclosure.

Risk governance

FMO has in place a structured risk governance, ensuring an effective level of alignment between oversight and management responsibility for risk. The risk based roles and responsibilities are organised in adherence to the ‘three lines of defence’ principle to ensure appropriate levels of segregation. The Management Board has established a number of committees that are responsible for decision-making on certain subjects and for advising the Managing Board on risk related topics.

Asset and Liability Committee (ALCO). The ALCO assists the Management Board by evaluating, monitoring and steering the financial risk profile of FMO in accordance with the risk appetite as approved by the Supervisory Board. The ALCO approves the Treasury and Risk policies, the limit framework, the economic capital model, recovery plan and discusses capital and liquidity adequacy planning. The Supervisory Board approves the Internal Capital Adequacy Process (ICAAP) and the Internal Liquidity Adequacy Process (ILAAP). The ALCO complies with the recommendations of the Banking Code (see the annual report for more information on the Banking Code). The CRFO, Directors of Risk Management & Compliance, Treasury, and Credit, Legal & Special Operations and two Front Office Directors are members of the ALCO.

Financial Regulation Committee (FRC). The continuously evolving regulatory landscape for banks requires a thorough understanding and a structured implementation process. To this end, FMO has in place the Financial Regulation Committee (FRC), which is a successor of the former Prudential Regulation Committee (PRC). The FRC ensures that FMO adheres to existing financial regulation and to assess the impact of these regulations on FMO’s business strategy. The FRC is chaired by the Director Risk Management & Compliance and its members are senior representatives of Finance, Treasury, Compliance and Risk Management. In terms of governance, the FRC is a sub-committee of the Asset and Liability Committee (ALCO).

Operational Risk Committee (ORC). The ORC is mandated by the Management Board to evaluate, monitor and steer the operational risk profile of FMO in accordance with the risk appetite. The ORC approves policies and supported standards and takes decisions in the context of the Product Approval and Review and Review Process (PARP). The Committee is effective as of January 2018 and is chaired by the CRFO and meets at least 4 times annually.

Investment Committee (IC). The IC is responsible to review financing proposals for new transactions in terms of specific counterparty, product as well as country risk. The IC is chaired by the Director Credit and consists of senior representatives of several departments. All financing proposals are accompanied by the advice of the Credit department. This department is responsible for credit risk assessment of both new transactions and the existing portfolio. For small exposures, the Credit department has the authority to review new transactions.

Investment Review Committee (IRC). Financial exposures in emerging markets are subject to a periodic review which is in general executed annually. Exposures which require specific attention are reviewed by the IRC. The large and higher risk exposures are accompanied by the advice of the Credit department. If the IRC concludes that a client has difficulty in meeting its payment obligations, the client is transferred to the Special Operations department – responsible for the management of distressed assets. The IRC also decides on specific loan impairments, the fair value of equity investments and monitors the asset quality of the emerging market portfolio. The IRC is chaired by the CRFO.

Compliance Committee (CC). The Compliance Committee is delegated by the Management Board to take decisions on compliance related matters and compliance issues based on proposed solutions. The Compliance Committee is chaired by the CRFO and meets at least 4 times annually. If required, the Compliance Committee can escalate decisions to the Management Board. Compliance Committee topics include compliance developments, compliance related projects, laws and regulations, compliance policies and procedures. It is the mandated authority within FMO to decide on reporting to authorities.

Risk profile and appetite

FMO’s risk appetite articulates the type and quantum of risk that FMO is able and willing to accept in pursuit of its strategy. FMO was set up to take the risks that are required or necessary to make debt and equity investments in the private sector in emerging markets. We therefore need a risk appetite that supports a stable organisation that can continue realising development impact in the long run. FMO actively pursues credit risk and equity risk resulting from loans to and private equity investments in institutions in emerging markets. Other risks cannot always be avoided, but FMO mitigates these risks as much as possible. The risk appetite is subsequently translated into the different risk metrics which define the tolerance for the individual risk types.

The Supervisory Board determines what risks FMO may assume, the appetite levels for these risks and the principles for calculating and measuring such risks. FMO's risk profile consists of the following main financial risk types: capital adequacy, investment risk, concentration risk, counterparty credit risk, market risk and liquidity risk. The main non-financial risk types are reputational risk, operational risk and compliance risk. Please note the latter is elaborated in the Annual Report under compliance and accountability.

RISK TYPE

Financial risk	Non-financial risk
Capital Maintain a strong capital position that meets regulatory requirements and supports a high investment grade rating.	**Operational risk** Operational risks are not actively sought, but are inherent to doing business.
Liquidity Maintain sufficient liquidity to fulfil FMO's obligations.	**Compliance risk** Adherence to all relevant Compliance related laws, rules, regulations, FMO standards and policies and operate in accordance with established good business practices and behavior.
Investment risk Actively manage and diversify the investment risk in the emerging market portfolio.	**Reputational risk** FMO has a limited appetite for reputation risk when such risks would prompt key stakeholders to intervene in the decision making or running of our daily business.
Concentration risk Diversification across countries, sectors and individual counterparties, is a key strategy to safeguard the credit quality of the portfolio.	

Pillar 3 disclosure

FMO publishes the required Pillar 3 disclosures on an annual basis in conjunction with the publication of the Annual Report. Together, these documents fulfil the Pillar 3 disclosure requirements of the CRD IV regulation, including:

- EBA Implementing Technical Standards on Disclosure for Own Funds,
- Guidelines on disclosure of encumbered and unencumbered assets,
- Guidelines on materiality, proprietary and confidentiality and on disclosure frequency,
- Regulatory technical standards on disclosure of information related to the countercyclical capital buffer,
- Implementing Technical Standards on disclosure for leverage ratio.

Market discipline and transparency in the publication of solvency risks are important elements of the Basel III rules for Pillar 3. Central to these publications is information on the solvency and the risk profile of a bank, providing disclosures on such matters as its capital structure, capital adequacy, risk management and risk measurement in line with the objective of IFRS 9. The objective of FMO's disclosure policies is to practice maximum transparency in a practical manner.

The consolidation scope for prudential reporting is equal to the accounting scope for FMO. As per 30 June 2016, FMO was granted the Solo Waiver for prudential reporting on the basis of Article 7 and therefore only reports figures related to CRR on a consolidated basis.

CAPITAL MANAGEMENT

Risk appetite

FMO aims to optimize development impact. This can only be achieved with a sound financial framework in place, combining healthy long-term profitability and sound capital adequacy. Therefore, FMO seeks to maintain a strong capital position, by means of an integrated capital adequacy planning and control framework, regularly reviewed by the ALCO. FMO has risk appetite levels defined for the following metrics:

- Regulatory capital
- Economic capital

Regulatory capital (CRR/CRD-IV)
Under the CRR/CRD-IV banks are required to hold sufficient capital to cover for the risks it faces. FMO reports its capital ratio to De Nederlandsche Bank N.V. (DNB) on a quarterly basis according to the standardized approach for all risk types. Of the total capital requirement, 80.3% is related to credit risk (equity investments included), 14.6% to market risk, 4.6% to operational risk and 0.4% to credit valuation adjustment risk. Per December 2017, FMO's available qualifying capital equals EUR 2,693,622 (2016: EUR 2,681,519) which makes FMO well prepared to compensate for potential losses.

	At December 31, 2017	At December 31, 2016
IFRS shareholders' equity (parent)	2,822,882	2,770,544
Tier 2 capital	175,000	175,000
Regulatory adjustments:		
- Interim profit not included in CET 1 capital	-101,977	-62,683
- Other adjustments (deducted from CET 1)	-153,619	-157,913
- Other adjustments (deducted from Tier 2)	-48,664	-43,429
Total capital	2,693,622	2,681,519
of which common equity Tier 1 capital	**2,567,286**	**2,549,948**

Risk weighted assets	10,434,768	11,214,531
Total capital ratio	25.8%	23.9%
Common equity Tier 1 ratio	24.6%	22.7%

Following specific provisions in the CRR, FMO is required to deduct from its regulatory capital significant and insignificant stakes for subordinated loans and (in)direct holdings of financial sector entities above certain thresholds. These thresholds corresponds to approximately 10% of regulatory capital. Exposures below the 10% thresholds are risk weighted accordingly.

FMO performs an annual Internal Capital Adequacy Assessment Process (ICAAP) in which we assess our capital adequacy in light of all material risk types, stress testing and future regulation. As part of the Supervisory Review and Evaluation Process (SREP), DNB sets the minimum capital requirements. The total capital requirement for 2018 consists of the total SREP capital ratio (14.3%), the combined buffer requirement (1.875%) and the Pillar 2 Guidance (1%).

- The combined buffer requirement applicable to FMO comprises of the capital conservation buffer and the institution specific countercyclical buffer (currently 0%). Both are formally applicable as of 1 January 2016. The buffers are phased in during a period of four years, whereby the capital conservation buffer will be 1.875% in 2018 and 2.5% in 2019. The countercyclical buffer is calculated as the weighted average of the buffers in effect in the jurisdictions to which FMO has a credit exposure. Both buffers should consist entirely of Common Equity Tier 1 capital and, if the minimum buffer requirements are breached, capital distribution and remuneration (variable pay) constraints will be imposed on the bank. The constraints imposed do not relate to the operation of the bank. Per December 2017, FMO does not have exposures that activated FMO's institution specific countercyclical buffer.
- The so-called Pillar 2 guidance (P2G) indicates to banks the adequate level of capital to be maintained over and above the existing capital requirements, in order to have sufficient capital as a buffer to withstand stressed situations, in particular in context of the adverse scenario in the supervisory stress tests. The P2G is a non-binding requirement and no automatic restrictions are imposed on distributions such as dividends and bonuses. Nevertheless, credit institutions are expected to comply with P2G.

FMO's internal target capital ratio incorporates the fully phased-in capital requirement by DNB supplemented with (i) a management buffer, and (ii) a dynamic FX buffer. The dynamic FX buffer is in place to cover variations in the regulatory capital ratio following changes in the EUR/USD exchange rate that are not already covered by the structural hedge. This structural hedge - or open foreign exchange position in FMO's private equity portfolio - functions as a partial hedge against an adverse effect of the exchange rate on the regulatory capital ratios. Further information regarding the structural hedge is provided in the market risk section.

Economic capital
In addition to regulatory capital, for Pillar 2, FMO applies an economic capital (EC) model. Economic capital is calculated using a conservative confidence interval of 99.99%. This level is chosen to support an AAA rating and the bank's actual growth is steered to ensure that this will remain the case. The economic capital model differs in two elements from the regulatory capital ratios. First, the EC model captures risks that are not covered under Pillar 1: reputational risk and interest rate risk in the banking (IRRBB). Second, the EC model applies an internal model approach for credit risk resulting from FMO's emerging market loan portfolio. FMO's portfolio is invested in emerging markets, which results in a profile with higher credit risk exposure than generally applies to credit institutions in developed economies. The internal model is tailored towards these higher credit risks leading to a higher capital requirement than the standardized approach.

The most important input parameters for the EC model for credit risk are the Probability of Default (PD) and the Loss Given Default (LGD). The PD is based on the outcome of FMO's ratings methodology, which was developed in cooperation with one of the leading rating agencies. The client is assigned a rating class on a scale of F1 to F21, with the majority of the ratings of FMO clients in the range of F11 to F16, or BB- to B+ in S&P-comparable rating terms. The LGD is determined on the basis of internal expert assessments. In 2017, the internal models for corporate and financial institutions were revised and improved. Furthermore, the probability of default average for the portfolio related to these models and the loss given default average for the full portfolio was calibrated to the expected long-term average. The improvements led to an upward revision of the EC ratio 16.2% the end of 2017 (2016: 14.2%).

	At December 31, 2017	At December 31, 2016
Pillar 1		
Credit risk emerging market portfolio (99.99% interval)	1,197,960	1,348,033
Credit risk treasury portfolio	24,987	28,980
Market risk	127,574	136,786
Operational risk	38,343	35,147
Credit valuation adjustment	6,037	4,115
Total pillar 1	**1,394,901**	**1,553,061**
Pillar 2		
Interest rate risk in the banking book	67,647	99,420
Reputation risk	68,020	65,000
Economic capital (pillar 1 & 2)	**1,530,568**	**1,717,481**
Available capital		
Total Capital	2,994,355	2,938,387
Surplus provisioning (capped at 0.6% RWA)[1]	104,618	116,479
Total available capital	**3,098,973**	**3,054,866**
EC - Risk weighted assets (internal model)	19,132,105	21,468,498
EC - Total capital ratio	**16.2%**	**14.2%**

1 Surplus provisioning for the loan portfolio refers to the difference between the total provisioning minus total expected loss.

Leverage ratio

The leverage ratio represents a non-risk-adjusted capital requirement. Since January 2014, the CRR/CRD IV rules have required that credit institutions calculate, monitor and report on their leverage ratios, defined as tier 1 capital as a percentage of total exposure. On the basis of the European Commission's legislative proposal for a revised CRR, a leverage ratio of 3% is expected to become a minimum requirement with the implementation of the revised CRR. FMO's leverage ratio equals 26.6% (2016: 25.4%).

Future regulation

On 7 December 2017, the Basel Committee on Banking Supervision (BCBS) published the long-awaited completion of the Basel III reforms. FMO is closely monitoring the process of translating the Basel III reforms into European legislation, and incorporates the latest available information in terms of capital planning. The following two components of the reforms are of particular relevance to FMO.

As previously mentioned, FMO reports its regulatory capital ratio following the standardized approach for credit risk. In the current regulatory framework FMO's equity exposures are treated as investments with a particular high risk and receive a 150% risk weight accordingly. In the second consultative document by Basel, an increase to 250% for was proposed. The final standard includes three separate categories: speculative equity (400% risk weight), equity holdings under national legislated programmes (100% risk weight), and all other equity exposures (250% risk weight). The exact impact of the new standard will depend on the translation into European legislation in the coming years. As currently foreseen, the standard will become mandatory per January 2022.

In January 2016, the BCBS concluded its work on the fundamental review of the trading book (FRTB) and published a new standard on the treatment of market risk, the so-called capital requirements for market risk (bcbs 352). Although FMO does not have a trading book portfolio, the revised standards affect the capital requirements for FMO's foreign exchange position in the banking book. As previously mentioned, a depreciation of home reporting currency (Euro) can significantly affect the capital ratio since FMO's assets are mainly US dollar denominated or in local currencies. FMO has created an open foreign exchange position in its private equity portfolio in order to hedge against this adverse effect of the exchange rate on the capital ratios. The capital requirements for foreign exchange position will increase and depend on the type of currency and the correlation between the currencies. Together with the finalization of the Basel III reforms, the BCBS announced that the capital requirements for market risk will come into effect only in January 2022; three years later than initially planned giving banks more time to adapt.

INVESTMENT RISK

Risk appetite

Investment risk is defined as the risk that the actual return on an investment will be lower than the expected return. At FMO this includes both Credit Risk (Loan Portfolio) and Equity Risk. Management of Investment Risk is FMO's core business, as FMO's investment portfolio makes up the large majority of FMO's (risk weighted) assets and generates the large majority of FMO's income. In addition, the Portfolio has a risk of losses through provisions on loans and lower fair values of equity positions. FMO's appetite is to actively manage and diversify the investment risk in the emerging market portfolio. FMO has set internal appetite levels for the following risk metrics:

- Non-performing loans
- Specific provisions on loans

Risk governance

FMO has enhanced its internal credit risk management process by publishing an Investment Risk Framework to fully describe its credit risk management approach and define key regulatory terms. Credit risk from loans in emerging market countries arises from a combination of counterparty risk, country risk and product specific risks. These types of risk are assessed during the credit approval and credit review process and administrated inter alia via internal scorecards. The lending process is based on formalized and strict procedures. Funding decisions depend on both the amount of economic capital and the risk profile of the financing instrument. FMO also monitors Clients that are labelled as Reason for Concern through a quarterly Watch List process to proactively manage loans before they become non-performing. For distressed assets, the Special Operations department applies an advanced workout and restructuring approach.

Management of credit risk is FMO's core business, both in the context of project selection and project monitoring. In this process, a set of investment criteria per sector is used that reflects benchmarks for the required financial strength of FMO's clients. This is further supported by internal scorecards that are used for risk classification and the determination of capital use per transaction. For project monitoring FMO subjects its clients to periodic reviews. All credit limits and policies are annually reviewed and approved by the ALCO.

CREDIT RISK IN THE LOAN PORTFOLIO

In measuring the credit risk of the emerging market portfolio at counterparty level, the main parameters are the credit quality of the counterparties and the expected recovery ratio in case of defaults. Counterparty credit quality is measured by scoring counterparties on various dimensions of financial and company strength. Based on these scores, FMO assigns ratings to each counterparty on an internal scale from F1 (lowest risk) to F21 (highest risk), equivalent to credit quality rating scale applied by Moody's, S&P and Fitch. Likewise, the recovery ratio is assigned by scoring various dimensions of the product specific risk.

Maximum exposure to credit risk of the gross loan portfolio decreased to EUR 4,353,253 in 2017 (2016: EUR 4,825,530). The vast majority of our gross loan portfolio (84%) remains in the F11 to F16 ratings categories.

Gross exposure distributed by internal ratings

Indicative counterparty credit rating scale of S&P and Fitch	Loans neither past due nor value adjusted	Loans past due not value adjusted	Loans counterparty value adjustment	2017	%
F1 – F10 (BBB- and higher)	178,108	-	-	178,108	4.1
F11 – F13 (BB-, BB, BB+)	1,686,766	-	-	1,686,766	38.7
F14 – F16 (B-, B, B+)	1,964,450	31,516	-	1,995,966	45.9
F17 and lower (CCC+ and lower ratings)	235,689	15,534	241,190	492,413	11.3
Total	**4,065,013**	**47,050**	**241,190**	**4,353,253**	

Indicative counterparty credit rating scale of S&P and Fitch	Loans neither past due nor value adjusted	Loans past due not value adjusted	Loans counterparty value adjustment	2016	%
F1 – F10 (BBB- and higher)	245,849	13,978	-	259,827	5.4
F11 – F13 (BB-, BB, BB+)	1,804,783	3,621	-	1,808,404	37.5
F14 – F16 (B-, B, B+)	1,964,580	36,217	-	2,000,797	41.4
F17 and lower (CCC+ and lower ratings)	362,460	63,910	330,132	756,502	15.7
Total	**4,377,672**	**117,726**	**330,132**	**4,825,530**	

Apart from its on-balance finance activities, FMO is also exposed to off-balance credit-related commitments. Guarantees, which represent contingent liabilities to make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risks as loans. The majority of the guarantees are quoted in US dollars. Guarantees on export facilities are collateralized by the underlying letters of credit, and therefore carry less credit risk than a direct uncollateralized borrowing. The total outstanding guarantees add up to an amount of EUR 68,129 (2016: EUR 61,050). FMO has received guarantees for an amount of EUR 175,042 (2016: EUR 224,754). Provisions, amortized costs and obligations for guarantees add up to EUR 3,108 (2016: EUR 6,726).

Non-Performing Loans (NPL) are defined as loans with a counterparty-specific value adjustment and/or loans with interest and/or principal payments that are past due 90 days or more. FMO's NPL ratio decreased from 7.5% to 5.6% inter alia as a result of higher write-offs in 2017. The write offs relate to loans that were contracted in the period from 2008 to 2013 and were already provisioned at least 90% at the beginning of the year, with one exception (EUR 20 mln write off, contracted in 2014). NPLs remain concentrated in Diverse Sectors (62% of NPLs) and geographically in India (27% of NPLs). Activities in diverse sectors were terminated during 2017 following a strategic reorientation, while approval procedures for India have been tightened in April 2017.

Note that for the NPL ratio is influenced by the recognition of a guaranteed amount which is thus deducted from the amount of the non-performing loans. When this guaranteed amount is not taken into account the overall NPL ratio increases to 6.1% (2016: 7.9%).

Loans with interest and/or principal payments that are past due more than 90 days, amount to 4.8 % (2016: 5.0%) of the gross loan portfolio. Past due information related to our portfolio loans and receivables are presented in the table below. Apart from our loan portfolio past due is not applicable for other financial assets such as interest bearing securities and short-term deposits

Irrevocable facilities represent commitments to extend finance to clients. The irrevocable facilities amount to EUR 1,785,159 (2016: EUR 1,820,239) and is corresponding to 30% (2016: 28%) of the net exposure in emerging markets (including loans, equity investments and contingent liabilities). Irrevocable facilities are usually not immediately and fully drawn by clients, especially in case of commitments to equity funds, which have a contractual investment period of several years.

Loans past due and value adjustments 2017

	Loans not value adjusted	Loans value adjusted	Gross exposure	Counterparty specific value adjustment	Total
Loans not past due	4,065,013	28,118	4,093,131	-13,390	4,079,741
Loans past due:					
- Past due up to 30 days	23,429	7,634	31,063	-5,726	25,337
- Past due 30-60 days	19,282	-	19,282	-	19,282
- Past due 60-90 days	-	-	-	-	-
- Past due more than 90 days	4,339	205,438	209,777	-121,758	88,019
Subtotal	**4,112,063**	**241,190**	**4,353,253**	**-140,874**	**4,212,379**
Less: amortizable fees	-46,675	-1,994	-48,669		-48,669
Less: group-specific value adjustments	-63,285	-	-63,285		-63,285
Carrying value	**4,002,103**	**239,196**	**4,241,299**	**-140,874**	**4,100,425**

Loans past due and value adjustments 2016

	Loans not value adjusted	Loans value adjusted	Gross exposure	Counterparty specific value adjustment	Total
Loans not past due	4,377,672	80,513	4,458,185	-18,810	4,439,375
Loans past due:					
- Past due up to 30 days	79,347	24,214	103,561	-14,716	88,845
- Past due 30-60 days	4,122	-	4,122	-	4,122
- Past due 60-90 days	3,079	13,828	16,907	-7,189	9,718
- Past due more than 90 days	31,177	211,578	242,755	-160,143	82,612
Subtotal	**4,495,397**	**330,133**	**4,825,530**	**-200,858**	**4,624,672**
Less: amortizable fees	-48,681	-2,746	-51,427	-	-51,427
Less: group-specific value adjustments	-103,297	-	-103,297	-	-103,297
Carrying value	**4,343,419**	**327,387**	**4,670,806**	**-200,858**	**4,469,948**

When the terms and conditions of a loan have been modified significantly, FMO considers these loans as restructured. Changes in terms and conditions usually include extending the maturity, changing the interest margin and changing the timing of interest payments. The loans are assessed to determine if they qualify for derecognition and if that is the case, they are recognized as a new loan with valuation differences through profit and loss. Value adjustments related to restructured loans are being measured as indicated in the accounting policies under 'Value adjustments on loans'. In 2017, our (partial) write-offs equaled to 9 (2016: 7) loans, corresponding to 2.0% (2016: 0.6%) of our portfolio.

At the end of 2017, the counterparty-specific value adjustments as a percentage of the gross loan portfolio equaled 3.2% (2016: 4.2%). The group-specific value adjustments equaled 1.5 % (2016: 2.1%), resulting in total value adjustments of 4.7% (2016: 6.3%) of the gross loan portfolio.

Counterparty-specific value adjustments distributed by regions and sectors

At December 31, 2017	Financial Institutions	Energy	Agri-business	Multi-sector Investment Funds	Infrastructure, Manufacturing, Services	Total
Africa	15,198	-	-	-	8,686	23,884
Asia	-	13,558	-	-	59,002	72,560
Latin America & the Caribbean	1,609	5,829	-	-	22,203	29,641
Europe & Central Asia	422	8,434	3,263	-	2,670	14,789
Non-region specific	-	-	-	-	-	-
Total	**17,229**	**27,821**	**3,263**	**-**	**92,561**	**140,874**

At December 31, 2016	Financial Institutions	Energy	Agri-business	Multi-sector Investment Funds	Infrastructure, Manufacturing, Services	Total
Africa	-	-	-	-	26,325	26,325
Asia	-	9,044	-	-	115,952	124,996
Latin America & the Caribbean	1,572	8,965	-	-	8,847	19,384
Europe & Central Asia	6,885	-	3,554	-	19,714	30,153
Non-region specific	-	-	-	-	-	-
Total	**8,457**	**18,009**	**3,554**	**-**	**170,838**	**200,858**

Offsetting financial assets and financial liabilities

The disclosures as set out in the tables below include fnancial assets and fnancial liabilities that:

- are offset in the consolidated balance sheet of FMO; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar fnancial instruments, irrespective of whether they are offset in the consolidated balance sheet.

FMO receives and pledges cash collateral only with respect to derivatives.

	(a)	(b)	(c)=(a)-(b)		(d)	(e)=(c)-(d)
				Related amounts not offset in the balance sheet		
At December 31, 2017	Gross amounts recognized in balance sheet	Gross amount of financial assets/ liabilities offset in the balance sheet	Net amount presented in the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral[1)]	Net amount
FINANCIAL ASSETS						
Derivatives	255,492	-	255,492			
FINANCIAL LIABILITIES						
Derivatives	-147,424	-	-147,424			
Total	**108,068**	**-**	**108,068**	**-**	**73,240**	**34,828**

	(a)	(b)	(c)=(a)-(b)		(d)	(e)=(c)-(d)
				Related amounts not offset in the balance sheet		
At December 31, 2016	Gross amounts recognized in balance sheet	Gross amount of financial assets/ liabilities offset in the balance sheet	Net amount presented in the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral[1)]	Net amount
FINANCIAL ASSETS						
Derivatives	180,830	-	180,830			
FINANCIAL LIABILITIES						
Derivatives	-423,981	-	-423,981			
Total	**-243,151**	**-**	**-243,151**		**-258,029**	**14,878**

Credit risk mitigation

At reporting date FMO obtained collaterals on 26% of the gross amounts of our loan portfolio (2016: 27%). Collateral mainly consists of real estate, business assets or financial instruments. The collateral obtained is used to support FMO's position in renegotiation of loan terms. Due to the nature of the markets in which FMO operates, it has been proven difficult to assign reliable fair values to the collateral used to mitigate credit risk due to the limited liquidity and enforceability. As a result, the value of the collaterals obtained is considered to be fairly limited compared to the total portfolio of loans and receivables.

Aggregate exposure

The following table shows FMO's total gross exposure to credit risk. The exposures, including derivatives, are shown gross, before provisioning and the effect of mitigation through the use of master netting and collateral agreements. Only derivative financial instruments with positive market values are presented. The maximum exposure to credit risk decreased during the year to EUR 8,706,438 in 2017 (2016: EUR 8,954,682).

Maximum exposure to credit risk, including derivatives	2017	2016
On-balance		
Banks	71,763	58,178
Short-term deposits	853,717	1,156,496
Interest-bearing securities	362,916	575,117
Short-term deposits – Dutch central bank	690,401	86,108
Derivative financial instruments	259,402	186,510
Loans to the private sector	4,353,255	4,825,530
Loans guaranteed by the State	39,528	59,154
Deferred income tax assets	10,587	10,618
Current income tax receivables	7458	-
Current accounts with State funds and other programs	274	1,901
Other receivables	120,713	21,753
Accrued income	83,136	92,028
Total on-balance	**6,853,150**	**7,073,393**
Off-balance		
Contingent liabilities(guarantees issued)	68,129	61,050
Irrevocable facilities	1,785,159	1,820,239
Total off-balance	**1,853,288**	**1,881,289**
Total credit risk exposure	**8,706,438**	**8,954,682**

EQUITY RISK

With regard to equity risk that results from equity investments, a distinction can be made between:

- Exit risk, the risk that FMO's equity stake cannot be sold for a reasonable price and in a sufficiently liquid market;
- Equity risk, the risk that the fair value of an equity investment decreases.

FMO has a long-term view on its equity portfolio, usually selling its equity stake within a period of 5 to 10 years. FMO can accommodate an increase in the average holding period of its equity investments and thereby wait for markets to improve again to realise exits. Equity investments are assessed by the Investment Committee in terms of specific obligor as well as country risk. The Investment Review Committee assesses the valuation of the majority of equity investments quarterly. The performance of the equity investments in the portfolio is periodically analyzed during the fair value process. Based on this performance and the market circumstances, exits are pursued in close cooperation with our co-investing partners. The total outstanding equity portfolio at December 31, 2017, amounts to EUR 1,710,315 (2016: EUR 1,828,172) of which EUR 854,747 (2016: EUR 904,309) is invested in investment funds. Compared to the annual report of 2016 we included the associates in the equity investments to better align with internal management information.

The markets for exits from equity investments improved in 2017 leading to a significant increase in equity exits. Below the main (partial) exits of particular relevance to FMO are listed:

- In March, FMO exited from TBC Bank in Georgia, which was a highly impactful transaction with one of our long-standing partners. JSC TBC Bank is the first bank in Georgia. FMO has been a shareholder in TBC Bank for seven years and held a 5.2% stake pre-IPO, which has been diluted to 4.4% due to the primary issue (in 2014).

- In March, FMO sold its stake in Cambodia's PRASAC Microfinance Institution Limited. At the end of 2006 the small Cambodian micro finance company PRASAC (initiated as a project by the European Union), with a loan book of US dollar 23 million, attracted various international shareholders with the purpose to assist the company to grow and transform itself in a modern professional entity. Since 2006 FMO has assisted the company with loans, syndicated loans, biogas loan, technical assistance for various programs like E&S and experienced board members. We sold our interest together with most other shareholders to one new shareholder and one existing shareholder.
- In December, FMO partially exited from Equis, including SoleQ Holdings and Energon Holdings. FMO invested in 2010 in Equis Fund I, a Fund focussed on developing renewable energy in Asia. In just 7 years the Fund manager created a platform of renewable energy assets and FMO stepped in as investor in two investment vehicles (Soleq and Energon) and also in a second Fund of Equis. Equis sold all its wind and solar assets to Global infrastructure fund, a world-wide operating Fund which focusses on managing renewable assets.

Equity portfolio including Associates distributed by region and sector

At December 31, 2017	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Africa	269,587	64,521	39,348	223,105	95,647	692,208
Asia	123,905	107,175	41,260	211,280	30,183	513,803
Latin America & the Caribbean	60,309	24,053	31,341	99,874	39,499	255,076
Europe & Central Asia	15,890	10,194	3,372	74,126	10,133	113,715
Non-region specific	65,242	12,681	79	13,869	43,642	135,513
Total	**534,933**	**218,624**	**115,400**	**622,254**	**219,104**	**1,710,315**

At December 31, 2016	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Africa	186,392	53,805	28,456	201,998	94,295	564,946
Asia	200,838	168,268	53,636	227,357	25,470	675,569
Latin America & the Caribbean	61,737	28,621	41,638	117,967	45,080	295,043
Europe & Central Asia	52,464	9,957	3,570	101,307	10,839	178,137
Non-region specific	56,737	6	895	13,969	42,870	114,477
Total	**558,168**	**260,657**	**128,195**	**662,598**	**218,554**	**1,828,172**

COUNTERPARTY CREDIT RISK

Risk appetite

Counterparty credit risk in the treasury portfolio stems from short-term investments, interest-bearing securities and derivative instruments. FMO aims to balance between keeping the losses within the level of risk tolerance and supporting FMO's business strategy, thereby minimizing credit risk and concentration risk in the Treasury portfolio, derivative portfolio and the several bank accounts.

Risk governance

The treasury risks are reviewed on a monthly basis by the ALCO. The credit quality of the exposures from treasury activities is monitored on a daily basis by the Risk Management department. In cases where the creditworthiness of securities deteriorates to levels below the standard eligibility criteria for new exposures, the Risk Management department is responsible to provide the ALCO with recommended actions.

The Risk Management department approves each obligor to which FMO is exposed through its treasury activities and sets a maximum limit to the credit exposure of that obligor. Depending on the obligor’s short and long-term rating, limits are set for the total and long-term exposure. For derivatives, a separate limit is set for the weighted nominal value of the contract, the weight being dependent on the type of contract (as market volatility differs among the products).

Overview interest-bearing securities

At December 31	2017	2016
AAA	208,693	423,981
AA- to AA+	154,223	151,136
Total	**362,916**	**575,117**

Geographical distribution interest-bearing securities

At December 31	2017 (%)	2016 (%)
Belgium	-	4
Finland	17	14
France	6	10
Germany	40	17
Netherlands	25	40
Sweden	8	-
Supra-nationals	4	15
Total	**100**	**100**

Supra-nationals are international organizations or unions in which member states transcend national boundaries pertaining to the wider grouping. As per year-end 2017, our largest exposure in this category is to the European Investment Bank (EIB).

Overview short-term deposits

At December 31	Rating (short-term)	2017	2016
Dutch central bank		690,401	86,108
Financial institutions	A-1	653,140	890,087
	A-2	5,890	20,990
	A-3	-	38,734
	Unrated	-	50,039
Money market funds	AAA	174,687	76,640
Municipality		20,000	80,006
Total		**1,544,118**	**1,242,604**

The short term ratings of the counterparties are in line with our liquidity and investment policy.

In order to reduce credit risk originating from derivative contracts, FMO has entered into Credit Support Annexes (CSA) with all derivative counterparties. A CSA is a legal document which regulates credit support (collateral) between derivative counterparties. In case of FMO, the accepted collateral is cash (US dollar or Euro). Additionally, FMO is also clearing EUR and USD interest rate swap through a central counterparty, as required by the European Market Infrastructure Regulations (EMIR).

Derivative financial instruments distributed by rating

	2017		2016	
	Net exposure	CSA (%)	Net exposure	CSA (%)
AA- to AA+	36,243	100	1,517	100
A to A+	105,272	100	11,959	100
BBB	-	100	9,403	100
Central cleared	2,311	-	4,631	-
Total	**143,826**	**100**	**27,510**	**100**

The exposure of derivative financial instruments is presented for all derivatives with positive market value, if possible, netted with derivatives with a negative market value if it concerns the same counterparty. For this reason the total amount under derivative financial instruments does not equal the exposure presented in the other tables.

A sensitivity analysis of the equity portfolio is given in the section fair value of financial assets and liabilities.

CONCENTRATION RISK

Risk appetite

Strong diversification within FMO's emerging market portfolio is ensured through stringent limits on individual counterparties (single client and economic group limits), countries (from 8% to 22% of FMO's capital, dependent on country rating) and sectors (50% of country limit). Similarly, credit policies and guidelines have been formulated covering treasury operations; these are reviewed regularly and approved by the ALCO. Diversification across countries, sector and individual counterparties is a key strategy to safeguard the credit quality of the portfolio. FMO has in place risk appetite levels for the following metrics:

- Single risk exposure
- Group risk
- Sector exposure
- Country exposure
- Regional exposure

Country risk

Country risk arises from country-specific events that adversely impact FMO's exposure in a specific country. Within FMO, country risk is broadly defined. It includes all relevant factors that have a common impact on FMO's portfolio in a country such as economic, banking and currency crises, sovereign default and political risk events. The assessment of the country rating is based on a benchmark of external rating agencies and other external information. FMO determines the level of the country limits using sovereign rating by credit rating agencies. FMO recognizes that the impact of country risk differs across the financial products it offers. Group-specific value adjustments are established on the investment credit portfolio based on an incurred loss model with country risk and estimated recovery rates as main parameters.

In the course of 2017, some of the emerging markets in FMO's portfolio benefited from the uplift in the global economic and the recovery of global oil prices. Ukraine was upgraded by Moody's in August 2017. According to the rating agencies, the upgrade of Ukraine's government followed the cumulative impact of structural reforms that, if sustained, are expected to improve government debt dynamics. On the down side, S&P lowered South Africa's sovereign credit rating in two steps from BBB- to BB grade over concerns on the political and economic situation in the country. Following the rating downgrades, South Africa now has an internal rating of F12 (2016: F10).

The three largest country exposures at the end of 2017 where Turkey, India and Nigeria, together 20% of the total exposure (2016: 17%). Ratings for these 3 countries were unchanged throughout the year. Nigeria did however experience a shortage of US dollars during the year and this caused some delays in clients' ability to repay US dollar obligations. By year end most of these clients were current again. The only noteworthy change is the increase in exposure to countries rated F14. This increase is due to the upgrades of Honduras and Ivory Coast to F14 (together 4.4%) and the downgrade of regional exposures in Eastern Europe to F14 (2.3%). In general the portfolio remains well diversified across different countries. FMO has exposure in over 75 countries. The single largest country exposure is under 10% of the total loan book.

Overview country ratings

Indicative external rating equivalent	2017 (%)	2016 (%)
F9 and higher (BBB and higher ratings)	6.5	8.0
F10 (BBB-)	7.9	10.4
F11 (BB+)	-	1.9
F12 (BB)	12.2	9.7
F13 (BB-)	15.1	15.8
F14 (B+)	21.6	14.3
F15 (B)	14.6	16.5
F16 (B-)	11.2	13.1
F17 and lower (CCC+ and lower ratings)	10.9	10.3
Total	**100**	**100**

Further information with respect to the geographical diversification in the portfolio, reference is made to the segment information paragraph. With respect to the sector diversification in the portfolio, reference is made to notes 5, 6, 7 and 8 of the notes to the consolidated balance sheet.

Regional and sectoral diversification

FMO offers loans in emerging market countries. Strong diversification within FMO's emerging market portfolio is ensured through limits on individual counterparties (single client and economic group limits), countries (from 8% to 22% of FMO's capital, dependent on country rating) and sectors (50% of country limit).

Gross exposure of loans distributed by region and sector

	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At December 31, 2017						
Africa	298,070	415,002	54,978	24,144	204,384	996,578
Asia	390,154	315,634	29,339	-	219,767	954,894
Latin America & the Caribbean	596,877	351,087	195,362	-	143,681	1,287,007
Europe & Central Asia	460,693	106,841	157,321	33,274	150,956	909,085
Non-region specific	57,529	17,677	87,089	-	43,394	205,689
Total	**1,803,323**	**1,206,241**	**524,089**	**57,418**	**762,182**	**4,353,253**
At December 31, 2016						
Africa	400,351	401,465	57,557	28,430	298,350	1,186,153
Asia	568,670	308,265	27,265	-	347,990	1,252,190
Latin America & the Caribbean	587,607	478,015	139,904	-	219,885	1,425,411
Europe & Central Asia	366,620	141,885	110,700	19,142	153,459	791,806
Non-region specific	49,393	16,813	61,791	-	41,973	169,970
Total	**1,972,641**	**1,346,443**	**397,217**	**47,572**	**1,061,657**	**4,825,530**

MARKET RISK

Risk appetite

Market risk (currency and interest rate risk) arises as an associated risk from FMO’s primary business and FMO does not actively take trading positions. FMO’s appetite on market risk is low and direct currency and interest rate risk is largely hedged to remain within conservative boundaries. FMO has defined appetite levels for the following risk metrics:

- Aggregate open FX position
- Equity value at Risk (EVaR)

Currency risk

Currency risk is defined as the risk that changes in foreign currency exchange rates have an adverse effect on the value of FMO’s financial position and future cash flows.

FMO offers loans and attracts funding in emerging markets currencies as well as in hard currencies. We aim to match the currency needs of local banks and corporates, thereby reducing their currency risk. At December 31, 2017, 11% (2016: 9%) of the net loans to the private sector was in emerging market currencies. For our loan portfolio strict limits are in place on individual and aggregate currency positions and monitored on a daily basis. Currency risks are managed by matching the currency characteristics of FMO’s assets and liabilities, using derivative instruments such as (cross-) currency swaps and currency forwards. The emerging market currency loans are swapped to US dollars via either commercial parties or via The Currency Exchange Fund (TCX Fund N.V.). As a result, FMO’s open emerging market currency position of the investment portfolio, apart from equity, is limited.

FMO applies a structural approach for the foreign currency positions in the equity position for two reasons. First, FMO has created an open foreign exchange position in its private equity portfolio in order to hedge against an adverse effect of the exchange rate on the regulatory capital ratios. A depreciation of FMO's reporting currency (Euro) can significantly affect the capital ratio since FMO’s assets - and hence also our risk weighted assets - are mainly US dollar denominated or in local currencies. The US dollar long position in the equity portfolio thereby functions as a partial hedge for FMO’s regulatory capital ratios. Second, the uncertainty in the size and the timing of the cash flows for equity investments make hedging less effective. With respect to equity investments, the expected returns in local currencies are assessed in terms of their sufficiency to compensate for the currency risk. The table below illustrates that the currency risk sensitivity gap per December 2017 is almost completely part of FMO's equity investments and investments in associates.

Currency risk exposure (at carrying values)

At December 31, 2017	EUR	USD	ZAR	INR	Other	Total
Assets						
Banks	35,534	26,691	910	8,223	405	71,763
Short-term deposits	763,121	780,997	-	-	-	1,544,118
Interest-bearing securities	243,316	119,600	-	-	-	362,916
Derivative financial instruments1)	1,442,601	-1,339,441	26,486	-77,705	207,461	259,402
Loans to the private sector	486,623	3,172,747	54,696	177,075	209,284	4,100,425
Loans guaranteed by the State	28,159	10,797	-	-	-	38,956
Equity investments	300,427	1,040,448	52,124	39,337	70,497	1,502,833
Investments in associates	1,409	206,073	-	-	-	207,482
Property, plant and equipment	12,866	-	-	-	-	12,866
Deferred income tax assets	10,587	-	-	-	-	10,587
Current income tax receivables	7,458	-	-	-	-	7,458
Current accounts with State funds and other programs	274	-	-	-	-	274
Other receivables	12,660	107,877	98	3	75	120,713
Accrued income	12,104	53,232	554	1,351	15,895	83,136
Total assets	**3,357,139**	**4,179,021**	**134,868**	**148,284**	**503,617**	**8,322,929**
Liabilities and shareholders' equity						
Short-term credits	123,900	2,035	-	-	-	125,935
Derivative financial instruments1)	-658,076	1,063,635	11,861	111,942	-381,938	147,424
Debentures and notes	2,338,919	1,889,049	73,799	-	799,521	5,101,288
Current accounts with State funds and other programs	182	-	-	-	-	182
Wage tax liabilities	277	-	-160	-	-	117
Deferred income tax liabilities	9,682	-	-	-	-	9,682
Other liabilities	41,768	-59,463	-369	-	23,103	5,039
Accrued liabilities	22,057	20,363	1,253	2,245	10,803	56,721
Provisions	46,588	-	-	-	-	46,588
Shareholders' equity	2,829,953	-	-	-	-	2,829,953
Total liabilities and shareholders' equity	**4,755,250**	**2,915,619**	**86,384**	**114,187**	**451,489**	**8,322,929**
Currency sensitivity gap 2017		1,263,402	48,484	34,097	52,128	
Currency sensitivity gap 2017 excluding equity investments and investments in associates		**16,881**	**-3,640**	**-5,240**	**-18,369**	

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant currency category.

At December 31, 2016	EUR	USD	CHF	INR	Other	Total
Assets						
Banks	21,703	32,930	565	1,177	1,803	58,178
Short-term deposits	533,453	709,151	-	-	-	1,242,604
Interest-bearing securities	575,117	-	-	-	-	575,117
Derivative financial instruments[1)]	99,934	122,105	93,593	-189,172	60,050	186,510
Loans to the private sector	458,752	3,627,327	-	199,465	184,404	4,469,948
Loans guaranteed by the State	39,452	17,316	-	-		56,768
Equity investments	323,357	1,199,472	-	42,745	146,538	1,712,112
Investments in associates	954	115,106	-	-	-	116,060
Property, plant and equipment	9,168	-	-	-	-	9,168
Deferred income tax assets	10,618	-	-	-	-	10,618
Current accounts with State funds and other programs	1,901	-	-	-	-	1,901
Other receivables	9,455	8,420	-	-5	3,883	21,753
Accrued income	12,538	59,944	-	3,278	16,268	92,028
Total assets	**2,096,402**	**5,891,771**	**94,158**	**57,488**	**412,946**	**8,552,765**
Liabilities and shareholders' equity						
Short-term credits	39,061	403			-	39,464
Derivative financial instruments[1)]	-1,382,034	2,395,079	-	22,388	-611,452	423,981
Debentures and notes	2,095,916	2,126,510	92,792	-	865,759	5,180,977
Current accounts with State funds and other programs	75	-	-	-	-	75
Current income tax liabilities	16,434	-	-	-	-	16,434
Wage tax liabilities	530	-	-	-	-190	340
Deferred income tax liabilities	13,688	-	-	-	-	13,688
Other liabilities	725	5,200	-	-	1,516	7,441
Accrued liabilities	25,668	32,065	-510	-16,576	10,761	51,408
Provisions	45,422	-	-	-	-	45,422
Shareholders' equity	2,773,535	-	-	-	-	2,773,535
Total liabilities and shareholders' equity	**3,629,020**	**4,559,257**	**92,282**	**5,812**	**266,394**	**8,552,765**
Currency sensitivity gap 2016		1,332,514	1,876	51,676	146,552	
Currency sensitivity gap 2016 excluding equity investments and investments in associates		**17,936**	**1,876**	**8,931**	**14**	

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant currency category.

As described above, FMO's loan assets in local currencies such as Indian Rupee (INR) and South African Rand (ZAR) are fully swapped to US dollar on a cash flow basis. Our positions in these currencies are therefore fully hedged. For IFRS reporting, however, the loans are recorded at (amortized) cost, while the related swaps are recorded at fair value leading to an accounting mismatch in these currencies.

Sensitivity of profit & loss account and shareholders' equity to main foreign currencies

	At December 31, 2017		At December 31, 2016	
Change of value relative to the euro[1)]	Sensitivity of profit & loss account	Sensitivity of shareholders' equity[2)]	Sensitivity of profit & loss account	Sensitivity of shareholders' equity[2)]
USD value increase of 10%	1,688	126,340	1,815	133,273
USD value decrease of 10%	-1,688	-126,340	-1,815	-133,273
INR value increase of 10%	-524	3,410	893	5,168
INR value decrease of 10%	524	-3,410	-893	-5,168
ZAR value increase of 10%	-364	4,849	-	-
ZAR value decrease of 10%	364	-4,849	-	-
CHF value increase of 10%	-	-	188	188
CHF value decrease of 10%	-	-	-188	-188

1 The sensitivities employ simplified scenarios. The sensitivity of profit & loss account and shareholders' equity to possible changes in the main foreign currencies is based on the immediate impact on the financial assets and liabilities held at year-end, including the effect of hedging instruments.

2 Shareholders' equity is sensitive to the currency sensitivity gap, including the equity investments valued at cost minus impairments.

Interest rate risk in the banking book

Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Changing interest rates mainly have an effect on the fair value of fixed interest balance sheet items.

FMO has no trading book and all assets (loans and investments) are part of the banking book. FMO's policy with regard to interest rate risk is to match funding within set boundaries: to match interest rate characteristics for assets, liabilities and derivatives per currency, and per remaining term as much as possible. The interest rate risk is mainly coming from where fixed loans or bonds are funded by floating funding or where there is a difference in reference rates or currencies, resulting in basis risk. The marked to market volatility during the holding period of the asset is less of concern for interest rate risk management as it will be held to maturity.

Earnings-based measure capture the short-term effect of changes in interest rate changes on the earnings capacity for a one and two year horizon. FMO has in place the following earnings metrics:

- Interest Rate Gap report, provides a static overview of the repricing or refinancing risk through a gap analysis of the volume (using notional) showing the mismatches in different time bands.
- Earnings at Risk (EaR) provides a dynamic projection of net interest income (NII) sensitivity to yield curve shocks.

Economic value measures capture the change in the net present value of the assets, liabilities and off-balance sheet items subject to specific interest rate shock and stress scenarios. These metrics measure the long-term effect of the interest rate changes over the full tenor of the balance sheet. FMO has in place the following economic value metrics:

- Basis Point Value (BPV) provides the change in market value of an asset and/or liability for a one basis point change in the yield curve.
- Equity Value at Risk (EVaR) provides the change in economic value of equity from a 200 bps parallel shift in interest rates for all interest curves covering all interest bearing items on the balance sheet.

ALCO has set limits for BPV and EVaR, which are monitored by Risk Management. The aggregate BPV limits are between -EUR 750 and EUR 0 and EVaR of 15% of regulatory capital. The interest position per December 2017 was a BPV of -EUR 338 (2016: -EUR 497) and a EVaR of EUR 67,647 (2016: EUR 99,420). Additionally, FMO monitors Earning at Risk (EaR) over a horizon of up to 2 years.

The following table summarizes the interest re-pricing characteristics for FMO's assets and liabilities.

Interest re-pricing characteristics

At December 31, 2017	‹ 3 months	3-12 months	1-5 years	› 5 years	Non-interest-bearing	Total
Assets						
Banks	71,763	-	-	-	-	71,763
Short-term deposits	1,544,118	-	-	-	-	1,544,118
Interest-bearing securities	12,481	19,125	219,418	111,892	-	362,916
Derivative financial instruments[1)]	-261,685	386,815	60,672	73,600	-	259,402
Loans to the private sector	1,842,416	1,142,020	457,985	658,004	-	4,100,425
Loans guaranteed by the State	16,333	4,096	14,038	4,489	-	38,956
Equity investments	-	-	-	-	1,502,833	1,502,833
Investments in associates	-	-	-	-	207,482	207,482
Property, plant and equipment	-	-	-	-	12,866	12,866
Deferred income tax assets	-	-	-	-	10,587	10,587
Current income tax receivables	-	-	-	-	7,458	7,458
Current accounts with State funds and other programs	-	-	-	-	274	274
Other receivables	-	-	-	-	120,713	120,713
Accrued income	-	-	-	-	83,136	83,136
Total assets	**3,225,426**	**1,552,056**	**752,113**	**847,985**	**1,945,349**	**8,322,929**
Liabilities and shareholders' equity						
Short-term credits	125,935	-	-	-	-	125,935
Derivative financial instruments[1)]	-171,274	287,020	28,823	2,855	-	147,424
Debentures and notes	1,806,668	575,511	1,526,742	1,192,367	-	5,101,288
Current accounts with State funds and other programs	-	-	-	-	182	182
Wage tax liabilities	-	-	-	-	117	117
Deferred income tax liabilities	-	-	-	-	9,682	9,682
Other liabilities	-	-	-	-	5,039	5,039
Accrued liabilities	-	-	-	-	56,721	56,721
Provisions	-	-	-	-	46,588	46,588
Shareholders' equity	-	-	-	-	2,829,953	2,829,953
Total liabilities and shareholders' equity	**1,761,329**	**862,531**	**1,555,565**	**1,195,222**	**2,948,282**	**8,322,929**
Interest sensitivity gap 2017	**1,464,097**	**689,525**	**-803,452**	**-347,237**	**-1,002,933**	

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant interest re-pricing category.

Interest re-pricing characteristics

At December 31, 2016	‹ 3 months	3-12 months	1-5 years	› 5 years	Non-interest-bearing	Total
Assets						
Banks	58,178	-	-	-	-	58,178
Short-term deposits	1,072,951	169,653	-	-	-	1,242,604
Derivative financial instruments[1)]	-	102,345	238,340	234,432	-	575,117
Loans to the private sector	77,080	-94,365	82,303	115,839	5,653	186,510
Loans guaranteed by the State	1,299,496	1,854,576	451,543	864,333	-	4,469,948
Equity investments	28,671	15,303	5,597	7,197	-	56,768
Investments in associates	-	-	-	-	1,712,112	1,712,112
Interest-bearing securities	-	-	-	-	116,060	116,060
Property, plant and equipment	-	-	-	-	9,168	9,168
Deferred income tax assets	-	-	-	-	10,618	10,618
Current accounts with State funds and other programs	-	-	-	-	1,901	1,901
Other receivables	-	-	-	-	21,753	21,753
Accrued income	-	-	-	-	92,028	92,028
Total assets	**2,536,376**	**2,047,512**	**777,783**	**1,221,801**	**1,969,293**	**8,552,765**
Liabilities and shareholders' equity						
Short-term credits	39,464	-	-	-	-	39,464
Derivative financial instruments[1)]	121,443	324,361	-20,428	-1,395	-	423,981
Debentures and notes	1,921,455	197,754	2,000,565	1,061,203	-	5,180,977
Other liabilities	-	-	-	-	75	75
Current accounts with State funds and other programs	-	-	-	-	16,434	16,434
Current income tax liabilities	-	-	-	-	340	340
Wage tax liabilities	-	-	-	-	13,688	13,688
Deferred income tax liabilities	-	-	-	-	7,441	7,441
Accrued liabilities	-	-	-	-	51,408	51,408
Provisions	-	-	-	-	45,422	45,422
Shareholders' equity	-	-	-	-	2,773,535	2,773,535
Total liabilities and shareholders' equity	**2,082,362**	**522,115**	**1,980,137**	**1,059,808**	**2,908,343**	**8,552,765**
Interest sensitivity gap 2016	**454,014**	**1,525,397**	**-1,202,354**	**161,993**	**-939,050**	

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant interest re-pricing category.

LIQUIDITY RISK

Risk appetite

FMO's risk appetite is to maintain sufficient liquidity to fulfil FMO's obligation. The appetite follows a similar rationale as for capital and in particular it is important to maintain sufficient liquidity in order not to utilize the guarantee from the Dutch State.

FMO's has articulated risk appetite levels for the following risk metrics:

- Survival period
- Liquidity Coverage Ratio (LCR)
- Net Stable Funding Ratio (NSFR)
- Failed funding period
- Cost of wholesale funding above peers

Additional specific thresholds are in place for managing and monitoring the risk profile. These monitoring metrics are delegated to Director Risk Management & Compliance and Director Treasury and subject to the sign-off procedure.

Risk governance

FMO traditionally has a conservative liquidity policy and funding strategy that is well suited to its business. Stress tests are conducted on FMO's liquidity position at least once a month to ensure this conservative position is maintained. The Liquidity Contingency Plan sets out FMO's strategy for addressing liquidity needs in the case of a crisis, ensuring that there are various sources of emergency liquidity available to meet all current and future financial obligations at all times, whilst at the same time avoiding excessive funding costs that could harm its business franchise. The liquidity sources include a long-term bond portfolio and a portfolio of short-term instruments such as Money Market Funds, Commercial Paper and Treasury Bills. The long-term bonds can be used as collateral to obtain cash from the Dutch central bank or commercial parties.

Liquidity position

The liquidity ambition can be impacted by a higher than anticipated need for liquidity or a lower than expected ability to obtain liquidity. Large differences in the need for liquidity can be caused by higher than expected disbursements of available facilities and guarantees (risk is capped to the total amount of available undrawn facilities and guarantees) and by collateral requirements on the derivatives portfolio (uncapped). Risks with a high impact on the access to liquidity primarily stem from access to financial markets, the ability to liquidate the treasury portfolio at a sufficient price, and credit risk in the loan portfolio. Severe scenarios for all these risks are included in the liquidity stress tests to determine the required buffer.

Throughout the course of 2017 FMO's liquidity position is comfortably within the corresponding appetite levels. We perform a weekly stress test where: value adjustments on our loan and equity portfolio are increased to 20%; we assume a large collateral outflow and; we include larger haircuts on our liquid asset portfolio. For the annual Internal Liquidity Adequacy Assessment Process (ILAAP) process, we also perform other stress tests including a severe stress scenario provided by DNB and reverse stress testing. A continuous review is performed on the liquidity position, FMO's assumptions, internal expectations and external market conditions to ensure that FMO's liquidity overview remains relevant and accurate.

The following table shows the categorization of the balance sheet per maturity bucket. This table shows the timing of the undiscounted principal cash flows, and not the market values, per instrument. The totals per instrument may therefore differ from the totals on the balance sheet. Expected cash flows resulting from irrevocable facilities being drawn are not included in the liquidity gap. For internal liquidity planning and management, cash flows from irrevocable facilities are included in the cash flow forecasts.

Categorization of principal cash flows per maturity bucket

At December 31, 2017	‹ 3 months	3-12 months	1-5 years	›5 years	Maturity undefined	Total
Assets						
Banks	71,763	-	-	-	-	71,763
Short-term deposits	1,492,333	-	-	-	52,695	1,545,028
Interest-bearing securities	-	19,000	228,717	110,500	-	358,217
Derivative financial instruments	6,554	11,818	128,993	74,762	-	222,127
Loans to the private sector	155,342	498,426	2,114,055	947,858	-	3,715,681
Loans guaranteed by the State	3,670	6,498	23,766	4,365	-	38,299
Equity investments	-	-	-	-	1,502,833	1,502,833
Investments in associates	-	-	-	-	207,482	207,482
Property, plant and equipment	-	-	-	-	12,866	12,866
Deferred income tax assets	-	-	-	-	10,587	10,587
Current income tax receivables	-	-	-	-	7,458	7,458
Current accounts with State funds and other programs	-	-	-	-	274	274
Other receivables	120,713	-	-	-	-	120,713
Accrued income	83,136	-	-	-	-	83,136
Total assets	**1,933,511**	**535,742**	**2,495,531**	**1,137,485**	**1,794,195**	**7,896,464**
Liabilities and shareholders' equity						
Banks	-	-	-	-	-	-
Short-term credits	-	-	-	-	125,935	125,935
Derivative financial instruments	-550	67,519	18,684	33,999	-	119,652
Debentures and notes	450,277	558,734	2,900,788	1,197,980	-	5,107,779
Current accounts with State funds and other programs	182	-	-	-	-	182
Current income tax liabilities	-	-	-	-	-	-
Wage tax liabilities	117	-	-	-	-	117
Deferred income tax liabilities	-	-	-	-	9,682	9,682
Other liabilities	5,039	-	-	-	-	5,039
Accrued liabilities	56,721	-	-	-	-	56,721
Provisions	-	-	-	-	46,588	46,588
Shareholders' equity	-	-	-	-	2,829,954	2,829,954
Total liabilities and shareholders' equity	**511,786**	**626,253**	**2,919,472**	**1,231,979**	**3,012,159**	**8,301,649**
Liquidity gap 2017	**1,421,725**	**-90,511**	**-423,941**	**-94,494**	**-1,217,964**	**-405,185**

Categorization of principal cash flows per maturity bucket

At December 31, 2016	‹ 3 months	3-12 months	1-5 years	›5 years	Maturity undefined	Total
Assets						
Banks	58,178	-	-	-	-	58,178
Short-term deposits	775,458	169,653	-	-	297,493	1,242,604
Interest-bearing securities	-	102,346	238,340	234,432	-	575,118
Derivative financial instruments	25,069	28,323	103,124	78,928	5,653	241,097
Loans to the private sector	229,847	596,858	2,279,249	1,168,104	-	4,274,058
Loans guaranteed by the State	4,855	9,436	35,779	6,045	-	56,115
Equity investments	-	-	-	-	1,712,112	1,712,112
Investments in associates	-	-	-	-	116,060	116,060
Property, plant and equipment	-	-	-	-	9,168	9,168
Deferred income tax assets	-	-	-	-	10,618	10,618
Current accounts with State Funds and other programs	-	-	-	-	1,901	1,901
Other receivables	21,753	-	-	-	-	21,753
Accrued income	92,028	-	-	-	-	92,028
Total assets	**1,207,188**	**906,616**	**2,656,492**	**1,487,509**	**2,153,005**	**8,410,810**
Liabilities and shareholders' equity						
Banks	-	-	-	-	-	-
Short-term credits	-	-	-	-	39,464	39,464
Derivative financial instruments	100,644	22,886	193,726	78,205	-	395,461
Debentures and notes	345,544	667,296	3,100,516	1,055,741	-	5,169,097
Current accounts with State funds and other programs	75	-	-	-	-	75
Current income tax liabilities	16,434	-	-	-	-	16,434
Wage tax liabilities	340	-	-	-	-	340
Deferred income tax liabilities	-	-	-	-	13,688	13,688
Other liabilities	7,441	-	-	-	-	7,441
Accrued liabilities	51,408	-	-	-	-	51,408
Provisions	-	-	-	-	45,422	45,422
Shareholders' equity	-	-	-	-	2,773,535	2,773,535
Total liabilities and shareholders' equity	**521,886**	**690,182**	**3,294,242**	**1,133,946**	**2,872,109**	**8,512,365**
Liquidity gap 2016	**685,302**	**216,434**	**-637,750**	**353,563**	**-719,104**	**-101,555**

The tables below are based on the final availability date of the contingent liabilities and irrevocable facilities.

Contractual maturity of contingent liabilities and irrevocable facilities

At December 31, 2017	‹ 3 months	3-12 months	1-5 years	›5 years	Total
Contingent liabilities	-	4,478	39,721	20,822	65,021
Irrevocable facilities	67,841	442,927	724,143	550,248	1,785,159
Total off-balance[1)]	**67,841**	**447,405**	**763,864**	**571,070**	**1,850,180**

At December 31, 2016	‹ 3 months	3-12 months	1-5 years	›5 years	Total
Contingent liabilities	5,954	6,284	21,925	20,161	54,324
Irrevocable facilities	167,385	357,829	707,713	587,312	1,820,239
Total off-balance[1)]	**173,339**	**364,113**	**729,638**	**607,473**	**1,874,563**

1 FMO expects that not all of these off-balance items will be drawn before expiration date.

Regulatory requirements

On 12 June 2017, DNB published its new Pillar 2 liquidity requirements methodology for Less Significant Institutions (LSIs) which have been applied from the supervisory review and evaluation process (SREP) in 2017. The liquidity requirements are a survival period of at least 6 months based on internal stress testing methodology, a Net Stable Funding Ratio (NSFR) of 100%. In addition, FMO has a institution specific Liquidity Coverage Ratio (LCR) requirement of 125%. FMO's internal liquidity appetite levels include a safety cushion over and above these minimum requirements. Following the risk appetite, FMO's liquidity positions have been well above regulatory requirements and internal appetite levels throughout 2017. Per reporting date, FMO has a survival period over 12 months (2016: over 12 months), an LCR of 542% (2016: 167%) and a NSFR of 128% (2016: 114%).

Sustainability bonds

In May 2017, FMO successfully priced its third EUR Sustainability Bond, a 6-year EUR 500 million transaction. Over 50 investors were involved, highlighting the strong following from FMO’s international investor base as well as broad support from the green investor community. Allocation was dominated by European investors (90%) with the largest proportion (43%) going to Benelux, followed by Germany / Austria / Switzerland at 14%. The Nordic and French investors were not far behind at 13% of allocations each.

OPERATIONAL RISK

Risk appetite

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks are not actively sought and have no direct material upside in terms of return/income generation, yet operational incidents are inherent to doing business. Operational incidents can result in non-compliance with applicable (internal and external) standards, in financial losses or misstatements in the financial reports. Operational incidents – including those related to information security and personal data breach – are identified and assessed and mitigating controls are evaluated and where applicable implemented. FMO has defined risk appetite levels for the following risk metrics:

- Operational incidents (P&L impact)
- Misstatements in financial reporting (P&L impact)

Risk governance

FMO has an operational risk framework in place, that supports and governs the process of identifying, measuring, mitigating, monitoring and reporting operational risks, and that aims of keeping operational risks within the operational risk profile. This framework is in line with The Principles for Sound Operational Risk Management and is aligned to the Enterprise Risk Management model of COSO (Committee of Sponsoring Organisations of the Treadway Commission). FMO aims to manage operational risk in a cost effective way.

Operational risks are managed and monitored in accordance with three Lines of Defense governance principle. Management of the first Line of Defense is primarily responsible for managing risks and embedding risk management in the day-to-day business processes. The first line acts within the risk management framework and supporting guidelines defined by specialized risk departments and committees in the second Line of Defense. Internal Audit in its role of third Line of Defense provides independent assurance on the effectiveness of the first and second lines.

Despite all preventive measures, operational incidents and/or operational losses cannot always be avoided. FMO systematically collects incident information and analyses such events in order to take appropriate action. Operational risks resulting from new products or activities are assessed in FMO’s Product Approval and Review Process.

Operational risk management also encompasses the domains of Information Security and Business continuity management.

Information is one of the bank’s most valuable assets. In recognition of the importance of protecting the bank’s information and its associated assets, such as systems and infrastructure, FMO has established a structured information security approach to ensure the confidentiality, integrity and availability of information. This approach defines the organizational framework, responsibilities and information security directives that apply to FMO, its vendors and third parties with whom the bank exchanges information.

Business continuity management ensures organizational resilience of the FMO organization and the ability to respond effectively to threats, thus safeguarding stakeholders’ interests and the organization’s reputation.

Once a year, Directors review the strategy and business/strategic objectives in a risk perspective. Based on these Risk and Control Self Assessments, Directors sign an internal In Control Statement at the end of each year, which sets the foundation for the management declaration in the Annual Report.

REPUTATIONAL RISK

Risk appetite

FMO's operations in developing and emerging markets exposes us to reputational risks such as environmental and social risks and various types of legal risks. FMO has a limited appetite for reputation risk when such risks would prompt key stakeholders to intervene in the decision making or running of our daily business. Outside of this FMO has a moderate appetite for reputation risk. As long as these activities at the outset have a clear expected contribution to FMO's goal to achieve development impact, FMO may accept incidentally the risk of negative press coverage, NGO attention, client feedback, or isolated cases of financial losses. FMO cannot fully avoid such risks due to the nature of its operations, but chooses to mitigate them as much as possible through strict policies, upfront assessment and consultation with stakeholders, and when necessary, through agreements with FMO's clients. FMO manages issues from the perspective of learning lessons and prevention. Through transparency and a willingness to respond to challenges, we aim to remain accountable and reduce our reputational risk.

Environmental, social and governance risk

FMO faces environmental and social risks in its emerging market projects. These risks stem from the nature of our projects, which in some cases could carry negative environmental and/or social impacts. Working in complex operational environments and non-ideal situations, FMO accepts there is a risk of negative press and/or negative reactions from NGOs in the context of ESG performance as long as the opportunity to create a development impact is clear and there are opportunities to mitigate the risk through environmental and social action plans and monitoring. The risk appetite for deviations from the exclusion list and human rights violations by projects financed by FMO is zero. We furthermore expect the highest standards in professional conduct. Internally, FMO strives to limit the footprint of its own workplace and strives to the highest standards in employee satisfaction.

Stakeholder management

Adequate management of relations with stakeholders (civil society, government, shareholders, investors, etc) is essential in managing FMO's reputational risk and achieving the objectives of FMO in line with its mission. FMO's mission is closely associated with our stakeholders and their expectations of FMO. Hence, stakeholder involvement represents an important factor in FMO's strategy and the development of FMO's risk appetite framework.

SEGMENT INFORMATION

SEGMENT REPORTING BY OPERATING SEGMENTS

A sector based approach on Financial Institutions, Energy, Agribusiness and Infrastructure, Manufacturing & Services is leading in the strategy to optimize development impact. For further insight into development impact reference is made to FMO's annual report. The company product range includes commercial loans, equity investments and guarantees. The services rendered are related to funds managed on behalf of the Dutch State and catalyzing funds (such as syndications). FMO's primary segmentation is the sector based approach because strategic and operating decisions by the Management Board are made based upon this segmentation.

For the measurement of profit and loss items per operating segment, FMO has followed its accounting policies, which are stated under the 'accounting policies' paragraph. In general the allocation of revenues and expenses to the segments is based upon the sector classification of financing projects. In addition to this, the funding costs (interest expenses) related to commercial loans are allocated to the segments based on an internal allocation model as FMO does not attract its funding on an individual operating segment base. Furthermore this internal allocation model is also applied to the operating expenses.

Fund investments are not recognized as a separate segment, but classified among the other segments primarily based on the sector in which the fund is active. Funds that are not invested in a specific sector or subsector have been stated in a separate column, since this is a substantial part of FMO's business. The segment Treasury is not recognized as a separate segment and its related assets and income are allocated to the focus sectors based on their asset value.

At December 31, 2017	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Loans and guarantees						
Interest and fee income	82,670	64,300	19,918	1,498	37,508	205,894
Other income	7,249	2,630	1,368	1,308	4,896	17,451
Value adjustments	6,533	-8,944	-2,441	-219	-9,997	-15,068
Other comprehensive income	-2,666	-1,587	-750	-	-1,035	-6,038
Total loans and guarantees	**93,786**	**56,399**	**18,095**	**2,587**	**31,372**	**202,239**
Equity investments (including associates and subsidiaries)						
Results from equity investments and associates	90,222	23,263	-230	49,544	1,065	163,864
Dividend income	16,926	12,479	3,159	2,759	1,269	36,592
Impairments	-3,848	-632	-15,842	-23,040	-3,557	-46,919
Other comprehensive income	-121,191	-18,597	-13,704	-36,243	-533	-190,268
Total equity investments	**-17,891**	**16,513**	**-26,617**	**-6,980**	**-1,756**	**-36,731**
Remuneration for services rendered						
Managed government funds	10,012	5,884	1,854	2,860	3,090	23,700
Syndicated & parallel transactions	3,788	1,033	383	169	299	5,672
Total remuneration for services rendered	**13,800**	**6,917**	**2,237**	**3,029**	**3,389**	**29,372**
Other						
Operating expenses	-38,525	-22,924	-10,844	-11,445	-14,932	-98,670
Income tax expenses	-21,152	-9,911	-2,462	336	-4,092	-37,281
Other comprehensive income	472	281	133	140	183	1,209
Total other	**-59,205**	**-32,554**	**-13,173**	**-10,969**	**-18,841**	**-134,742**
Total comprehensive income	**30,490**	**47,275**	**-19,458**	**-12,333**	**14,164**	**60,138**
Total other comprehensive income net of tax	-123,385	-19,903	-14,321	-36,103	-1,385	-195,097
Net profit	**153,875**	**67,178**	**-5,137**	**23,770**	**15,549**	**255,235**

At December 31, 2017	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Segment assets						
Loans (incl. guaranteed by the State)	1,749,018	1,140,455	527,476	56,293	666,139	4,139,381
Equity investments and investments in associates	534,933	218,625	115,400	622,254	219,103	1,710,315
Other assets	965,647	574,615	271,806	286,887	374,278	2,473,233
Total assets	**3,249,598**	**1,933,695**	**914,682**	**965,434**	**1,259,520**	**8,322,929**
Contingent liabilities – Effective guarantees issued	62,774	-	-	-	5,355	68,129
Assets under management (loans and equity investments) managed for the risk of the state	350,806	250,216	77,165	108,140	134,279	920,606

At December 31, 2016	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Loans and guarantees						
Interest and fee income	94,019	56,881	19,504	373	51,907	222,684
Other income	-17,525	-1,312	340	206	10,698	-7,593
Value adjustments	23,626	1,332	24,747	803	-7,519	42,989
Other comprehensive income	1,403	883	309	-	629	3,224
Total loans and guarantees	**101,523**	**57,784**	**44,900**	**1,382**	**55,715**	**261,304**
Equity investments (including associates and subsidiaries)						
Results from equity investments and associates	27,502	298	-465	18,179	-226	45,288
Dividend income	9,343	1,986	10	4,765	715	16,819
Impairments	-12,416	-5,428	-2,346	-22,967	-839	-43,996
Other comprehensive income	45,929	22,120	9,225	18,895	21,440	117,609
Total equity investments	**70,358**	**18,976**	**6,424**	**18,872**	**21,090**	**135,720**
Remuneration for services rendered						
Managed government funds	10,901	4,584	1,540	2,405	2,342	21,772
Syndicated & parallel transactions	4,225	739	651	179	999	6,793
Total remuneration for services rendered	**15,126**	**5,323**	**2,191**	**2,584**	**3,341**	**28,565**
Other						
Operating expenses	-33,153	-20,921	-7,318	-9,426	-14,864	-85,682
Income tax expenses	-15,680	-9,454	-9,592	1,767	-10,010	-42,969
Other comprehensive income	-11,531	-7,254	-2,538	-3,324	-5,166	-29,813
Total other	**-60,364**	**-37,629**	**-19,448**	**-10,983**	**-30,040**	**-158,464**
Total comprehensive income	**126,643**	**44,454**	**34,067**	**11,855**	**50,106**	**267,125**
Total other comprehensive income net of tax	35,801	15,749	6,996	15,571	16,903	91,020
Net profit	**90,842**	**28,705**	**27,071**	**-3,716**	**33,203**	**176,105**

At December 31, 2016	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Segment assets						
Loans (incl. guaranteed by the State)	1,899,787	1,285,647	412,711	46,004	882,567	4,526,716
Equity investments and investments in associates	558,167	260,656	128,196	662,599	218,554	1,828,172
Other assets	850,098	534,799	187,076	245,075	380,829	2,197,877
Total assets	**3,308,052**	**2,081,102**	**727,983**	**953,678**	**1,481,950**	**8,552,765**
Contingent liabilities – Effective guarantees issued	50,922	-	-	-	10,128	61,050
Assets under management (loans and equity investments) managed for the risk of the state	381,732	251,947	83,185	100,957	167,529	985,350

INFORMATION ABOUT GEOGRAPHICAL AREAS

FMO operates in the following four geographical markets: Africa, Asia, Europe & Central Asia, Latin America & the Caribbean. The allocation of revenues to the markets is based upon the geographical classification of the financing projects.

The following table shows the distribution of FMO's revenue based on the country risks arising from the geographical areas in which FMO invests. As FMO obtains its revenues from customers in developing countries, no revenues are derived from FMO's country of domicile, the Netherlands.

At December 31, 2017	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Income	78,398	176,941	86,367	90,267	11,907	443,880
Share in the results of associates	15,680	-6,347	-	-40	-	9,293
Total revenue	**94,078**	**170,594**	**86,367**	**90,227**	**11,907**	**453,173**

At December 31, 2016	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Income	81,918	84,706	76,117	36,352	20,423	299,516
Share in the results of associates	-550	6,797	-		-	6,247
Total revenue	**81,368**	**91,503**	**76,117**	**36,352**	**20,423**	**305,763**

INFORMATION ABOUT MAJOR CUSTOMERS

In 2017 FMO have 1 single private equity investment customer, in the financial institutions sector, that individually contributed more than 10% to FMO's total revenues (2016: 0).

SEGMENT REPORTING OF FUNDS MANAGED FOR THE RISK OF THE STATE

FMO and funds managed for the risk of the State

Apart from making disbursements from its own resources, FMO provides loans, guarantees and equity investments from special government funds, within the conditions and objectives of these facilities. The funds consist of subsidies provided under the General Administrative Law Act and other official third parties. In case of MASSIF, FMO has an equity stake of 2.32% (2016: 2.34%). In 'related parties', the relationship between the State and FMO regarding these funds and programs is described in detail.

Loans and equity managed for the risk of the State

These loans and equity investments are managed for the risk of the State.

	2017 Gross exposure	2016 Gross exposure
Loans	487,893	508,442
Equity investments	432,713	476,908
Total	**920,606**	**985,350**

Loans managed for the risk of the State

The loan portfolio comprises the loans issued by the following funds.

	2017 Gross exposure	2016 Gross exposure
MASSIF	180,893	177,018
Infrastructure Development Fund	263,168	283,468
Access to Energy Fund	32,852	31,105
FOM OS	10,980	16,851
Total	**487,893**	**508,442**

Equity investments managed for the risk of the State

The equity investments have been made by the following funds.

	2017 Gross exposure	2016 Gross exposure
MASSIF	279,840	303,709
Infrastructure Development Fund	107,110	133,389
Access to Energy Fund	45,763	36,857
European Investment Bank	-	2,953
Total	**432,713**	**476,908**

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

The significant accounting policies summary describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following table gives a breakdown of the carrying amounts of the financial assets and financial liabilities by category as defined in IAS 39 and by balance sheet heading.

At December 31, 2017	Held for trading	Designated at fair value through P&L	Loans & receivables and financial liabilities at amortized cost	Available for sale	Financial liabilities used as hedged items	Derivatives at fair value used as hedging instruments	Other	Total
ASSETS								
Banks	-	-	71,763	-	-	-	-	71,763
Short-term deposits	-	1,544,118	-	-	-	-	-	1,544,118
Interest-bearing securities	-	-		362,916	-		-	362,916
Derivative financial instruments	207,372	-	-	-	-	52,030	-	259,402
Loans to the private sector	-	-	4,100,425	-	-	-	-	4,100,425
Loans guaranteed by the State	-	-	38,956	-	-	-	-	38,956
Equity investments	-	-	-	1,502,833	-	-	-	1,502,833
Investments in associates	-	-	-	-	-	-	207,482	207,482
Property, plant and equipment	-	-	-	-	-	-	12,866	12,866
Current income tax receivables	-	-	7,458	-	-	-	-	7,458
Deferred income tax assets	-	-	-	-	-	-	10,587	10,587
Current accounts with State funds and other programs	-	-	274	-	-	-	-	274
Other receivables	-	-	120,713	-	-	-	-	120,713
Accrued income	-	-	83,136	-	-	-	-	83,136
Total assets	**207,372**	**1,544,118**	**4,422,725**	**1,865,749**	**-**	**52,030**	**230,935**	**8,322,929**
LIABILITIES AND SHAREHOLDERS' EQUITY								
Banks	-	-	-	-	-	-	-	-
Short-term credits	-	-	125,935	-	-	-	-	125,935
Derivative financial instruments	142,512	-	-	-	-	4,912	-	147,424
Debentures and notes	-	-	2,588,358		2,512,930	-	-	5,101,288
Current accounts with State funds and other programs	-	-	182	-	-	-	-	182
Current income tax liabilities	-	-	-	-	-	-	-	-
Wage tax liabilities	-	-	117	-	-	-	-	117
Deferred income tax liabilities	-	-	-	-	-	-	9,682	9,682
Other liabilities	-	-	5,039	-	-	-	-	5,039
Accrued liabilities	-	-	56,721	-	-	-	-	56,721
Provisions	-	-	-	-	-	-	46,588	46,588
Shareholders' equity	-	-	-	-	-	-	2,829,953	2,829,953
Total liabilities and share-holders' equity	**142,512**	**-**	**2,776,352**	**-**	**2,512,930**	**4,912**	**2,886,223**	**8,322,929**

At December 31, 2016	Held for trading	Designated at fair value through P&L	Loans & receivables and financial liabilities at amortized cost	Available for sale	Financial liabilities used as hedged items	Deriva-tives at fair value used as hed-ging instru-ments	Other	Total
ASSETS								
Banks	-	-	58,178	-	-	-	-	58,178
Short-term deposits	-	1,242,604	-	-	-	-	-	1,242,604
Interest-bearing securities	-	-	-	575,117	-	-	-	575,117
Derivative financial instruments	113,674	-	-	-	-	72,836	-	186,510
Loans to the private sector	-	-	4,469,948	-	-	-	-	4,469,948
Loans guaranteed by the State	-	-	56,768		-	-	-	56,768
Equity investments	-	-	-	1,712,112	-	-	-	1,712,112
Investments in associates	-	-	-	-	-	-	116,060	116,060
Property, plant and equipment	-	-	-	-	-	-	9,168	9,168
Deferred income tax assets	-	-	-	-	-	-	10,618	10,618
Current income tax receivables	-	-	-	-	-	-	-	-
Current accounts with State funds and other programs	-	-	1,901	-	-	-	-	1,901
Other receivables	-	-	21,753	-	-	-	-	21,753
Accrued income	-	-	92,028	-	-	-	-	92,028
Total assets	**113,674**	**1,242,604**	**4,700,576**	**2,287,229**	**-**	**72,836**	**135,846**	**8,552,765**
LIABILITIES AND SHAREHOLDERS' EQUITY								
Banks	-	-	-	-	-	-	-	-
Short-term credits	-	-	39,464	-	-	-	-	39,464
Derivative financial instruments	421,120	-	-	-	-	2,861	-	423,981
Debentures and notes	-	-	1,910,712	-	3,270,265	-	-	5,180,977
Current accounts with State funds and other programs	-	-	75	-	-	-	-	75
Current income tax liabilities	-	-	16,434	-	-	-	-	16,434
Wage tax liabilities	-	-	340	-	-	-	-	340
Deferred income tax liabilities	-	-	-	-	-	-	13,688	13,688
Other liabilities	-	-	7,441	-	-	-	-	7,441
Accrued liabilities	-	-	51,408	-	-	-	-	51,408
Provisions	-	-	-	-	-	-	45,422	45,422
Shareholders' equity	-	-	-	-	-	-	2,773,535	2,773,535
Total liabilities and share-holders' equity	**421,120**	**-**	**2,025,874**	**-**	**3,270,265**	**2,861**	**2,832,645**	**8,552,765**

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.

Fair value hierarchy

All financial instruments for which fair value is recognized or disclosed are categorized within the fair value hierarchy, based on lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable.

Valuation processes
For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, FMO uses the valuation processes to decide its valuation policies and procedures and analysis changes in fair value measurement from period to period.

FMO's fair value methodology and governance over it's methods includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. The responsibility of ongoing measurement resides with the relevant departments. Once submitted, fair value estimates are also review and challenged by the Investment Risk Committee (IRC). The IRC approves the fair values measured including the valuation techniques and other significant input parameters used.

Valuation techniques
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 applied 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 (level 3). A substantial part of fair value of equity investments (level 3) is based on Net Asset Value.

The fair value measurement of derivative financial instruments categorised within level 3, are mainly based on EBITDA multiples within a range of 5-13 for the relevant industry classes per country / region, adjusted for illiquidity. An increase (decrease) by 10% of these EBITDA multiples would have limited 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 and if not multiples are applied as input for the valuation. For the valuation process of the equity investments we further refer to the accounting policies within these Annual Accounts as well as the Equity Risk section of the chapter Financial Risk Management. The determination of the timing of transfers is embedded in the quarterly valuation process, and is therefore recorded at the end of each reporting period.

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 December 31, 2017, the unamortized accrual amounts to €18.479 (2016: €21.950). An amount of €6.193 was recorded as a loss in the profit and loss (2016: €6,156).

The table below presents the carrying value and estimate fair value of FMO's non fair value financial assets and liabilities.

The carrying values in the financial asset and liability categories are valued at amortized cost except for the funding in connection with hedge accounting. The underlying changes to the fair value of these assets are therefore not recognized in the balance sheet.

At December 31	2017 Carrying value	2017 Fair value	2016 Carrying value	2016 Fair value
Banks	71,763	71,763	58,178	58,178
Loans to the private sector	4,100,425	4,175,981	4,469,948	4,550,847
Loans guaranteed by the State	38,956	39,491	56,768	57,882
Total non fair value financial assets	**4,211,144**	**4,287,235**	**4,584,894**	**4,666,907**
Short-term credits	125,935	125,935	39,464	39,464
Debentures and notes	5,101,288	5,112,707	5,180,977	5,190,433
Total non fair value financial liabilities	**5,227,223**	**5,238,642**	**5,220,441**	**5,229,897**

The valuation technique we use for the fair value determination of loans to the private sector and non-hedged funding is the discounted cash-flow method. The discount rate we apply is a spread curve based on the average spread of the portfolio. A parallel downward (upward) shift of 100 basis points in the interest curves will result in an increase (decrease) of the fair value by €51 million (2016: €55 million).

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 December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Short-term deposits	-	1,544,118	-	1,544,118
Derivative financial instruments	-	255,492	3,910	259,402
Available for sale financial assets				
Equity investments	36,488	-	1,466,345	1,502,833
Interest-bearing securities	362,916	-	-	362,916
Total financial assets at fair value	**399,404**	**1,799,610**	**1,470,255**	**3,669,269**
Financial liabilities at fair value through profit and loss				
Derivative financial instruments	-	147,424	-	147,424
Total financial liabilities at fair value	**-**	**147,424**	**-**	**147,424**

At December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Short-term deposits	-	1,242,604	-	1,242,604
Derivative financial instruments	-	180,857	5,653	186,510
Available for sale financial assets				
Equity investments	61,431	-	1,650,681	1,712,112
Interest-bearing securities	575,117	-	-	575,117
Total financial assets at fair value	**636,548**	**1,423,461**	**1,656,334**	**3,716,343**
Financial liabilities at fair value through profit and loss				
Derivative financial instruments	-	423,981	-	423,981
Total financial liabilities at fair value	**-**	**423,981**	**-**	**423,981**

The following table shows the movements of financial assets measured at fair value based on level 3.

Movements in financial instruments measured at fair value based on level 3

	Derivative financial instruments	Equity investments	Total
Balance at January 1, 2016	**981**	**1,423,821**	**1,424,802**
Total gains or losses			
· In profit and loss (changes in fair value and value adjustments)	4,672	-35,851	-31,179
· In other comprehensive income (changes in fair value available for sale reserve)	-	105,578	105,578
Purchases	-	281,645	281,645
Sales	-	-118,328	-118,328
Transfers into level 3	-	-	-
Transfers out of level 3	-	-6,184	-6,184
Balance at December 31, 2016	**5,653**	**1,650,681**	**1,656,334**
Total gains or losses			
· In profit and loss (changes in fair value and value adjustments)	-1,743	-46,919	-48,662
· In other comprehensive income (changes in fair value available for sale reserve)	-	-145,400	-145,400
Purchases	-	188,369	188,369
Sales	-	-180,386	-180,386
Transfers into level 3	-	-	-
Transfers out of level 3	-	-	-
Balance at December 31, 2017	**3,910**	**1,466,345**	**1,470,255**

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

Type of equity investment	Fair value at December 31, 2017	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Private equity fund investments	826,190	Net Asset Value	n/a	n/a
Private equity direct investments	48,992	Recent transactions	Based on at arm's length recent transactions	n/a
	265,455	Book multiples	Range of book value 1.0 – 2.6	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of €27 million. To be recorded in other comprehensive income.
	189,822	Earning Multiples	Depends on several unobservable data such as EBITDA multiples (range 5-13), EV (enterprise value) /EBITDA (range 5-11)	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €19 million. To be recorded in other comprehensive income.
	48,231	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 €5 million. To be recorded in other comprehensive income.
	45,250	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.
	42,405	Firm offers	Range of book value 1.0 – 1.4	n/a
Total	**1,466,345**			

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

NOTES TO THE CONSOLIDATED BALANCE SHEET: ASSETS

1. Banks

	2017	2016
Banks	71,763	58,178
Balance at December 31	**71,763**	**58,178**

The cash on bank accounts can be freely disposed of.

2. Short-term deposits

	2017	2016
Collateral delivered (related to derivative financial instruments)	52,695	297,493
Commercial paper	606,335	652,318
Money market funds	174,687	76,640
Dutch central bank	689,991	85,688
Mandatory reserve deposit with Dutch central bank	410	420
Call Deposits	20,000	130,045
Balance at December 31	**1,544,118**	**1,242,604**

Mandatory reserve deposits are not available for use in FMO's day-to-day operations

The increase of our balance at DNB is mainly due to liquidity inflow from collateral accounts and sales proceeds of our equity investment portfolio.

Fair value loss on short-term deposits recorded in the profit and loss amounts to €45 (2016: €30 gain). The amount attributable to change in credit risk is fairly limited.

3. Interest-bearing securities

This portfolio contains marketable bonds with fixed interest rates.

FMO has no impairment charged to interest-bearing securities.

	2017	2016
Bonds (listed)	362,916	575,117
Balance at December 31	**362,916**	**575,117**

All interest-bearing securities are classified as available for sale assets. The movements can be summarized as follows:

	2017	2016
Balance at January 1	575,117	611,570
Amortization premiums/discounts	7,059	-2,479
Purchases	142,692	74,235
Sale and redemption	-344,078	-112,507
Revaluation	-8,049	4,298
Exchange rate differences	-9,825	-
Balance at December 31	**362,916**	**575,117**

For the purpose of maintaining a satisfactory regulatory USD denominated liquidity coverage ratio, FMO attracted hiqh quality liquid assets in the form of USD denominated bonds in 2017. This has led to exchange rate differences in the movement table above.

4. Derivative financial instruments

FMO utilizes the following derivative instruments for both hedge accounting and non-hedge accounting purposes:

- (Cross-currency) interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic currency exchange or interest rate exposure (for example fixed rate or floating rate) or a combination of all these (i.e. cross-currency interest rate swaps).
- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

The following table summarizes the notional amounts and the fair values of the 'derivatives other than hedging instruments'. These derivatives are held to reduce interest rate risks and currency risks but do not meet the specified criteria to apply hedge accounting at reporting period. The following table also includes derivatives related to the asset portfolio.

At December 31, 2017	Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedging instruments:			
· Currency swaps	61,214	165	-362
· Interest rate swaps	1,429,829	24,654	-1,632
· Cross-currency interest rate swaps	3,178,746	178,643	-140,518
Subtotal	**4,669,789**	**203,462**	**-142,512**
Embedded derivatives related to asset portfolio	-	3,910	-
Total derivative assets (/liabilities) other than hedging instruments	**4,669,789**	**207,372**	**-142,512**

The following table summarizes the notional amounts and the fair values of the derivatives designated as fair value hedges. These derivatives are held to hedge interest rate risks and currency risks.

At December 31, 2017	Notional amounts	Fair value assets	Fair value liabilities
Derivatives designated as fair value hedges:			
· Interest rate swaps	2,480,693	52,030	-4,912
Total derivatives designated as fair value hedges	**2,480,693**	**52,030**	**-4,912**
Total derivative financial instruments assets (/liabilities)	**7,150,482**	**259,402**	**-147,424**

For the year ended December 31, 2017, FMO recognized an ineffectiveness of €4.6 million net loss on the fair value hedges (2016: €0.2 million net loss). The loss on the hedging instruments amounts to €9.2 million (2016: €10.5 million profit). The profit on hedged items attributable to the hedged risk amounts to €4.6 million (2016: €10.7 million loss).

The comparative figures for derivatives have been included in the following tables.

At December 31, 2016	Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedging instruments:			
· Currency swaps	184,275	4,028	-1,325
· Interest rate swaps	696,006	5,818	-2,429
· Cross-currency interest rate swaps	3,144,704	98,175	-417,366
Subtotal	**4,024,985**	**108,021**	**-421,120**
Embedded derivatives related to asset portfolio	-	5,653	-
Total derivative assets (/liabilities) other than hedging instruments	**4,024,985**	**113,674**	**-421,120**

At December 31, 2016	Notional amounts	Fair value assets	Fair value liabilities
Derivatives designated as fair value hedges:			
· Interest rate swaps	3,160,896	72,836	-2,861
Total derivatives designated as fair value hedges	3,160,896	72,836	-2,861
Total derivative financial instruments assets (/liabilities)	**7,185,881**	**186,510**	**-423,981**

5. Loans to the private sector

These loans to the private sector in developing countries are for FMO's account and risk. The movements of the loans to the private sector can be summarized as follows:

	2017	2016
Balance at January 1	4,774,103	4,614,458
Disbursements	1,140,471	1,093,287
Reclassification to equity investments	-4,800	-3,841
Repayments	-1,006,703	-1,009,849
Write-offs	-88,822	-28,364
Changes in amortizable fees	2,760	684
Changes in fair value	-47	-64
Exchange rate differences	-512,377	107,792
Balance at December 31	4,304,585	4,774,103
Value adjustments	-204,160	-304,155
Net balance at December 31	**4,100,425**	**4,469,948**

The following table summarizes the loans segmented by sector.

	2017	2016
Financial Institutions	1,749,018	1,899,788
Energy	1,140,456	1,285,647
Agribusiness	506,575	380,885
Multi-Sector Fund Investments	56,290	46,004
Infrastructure, Manufacturing and Services	648,086	857,624
Net balance at December 31	**4,100,425**	**4,469,948**

	2017	2016
Gross amount of loans to companies in which FMO has equity investments	84,361	175,989
Gross amount of subordinated loans	303,263	365,113
Gross amount of non-performing loans	245,529	361,223

Non-Performing Loans (NPL) are defined as loans with a counterparty-specific value adjustment and/or loans with interest and/or principal payments that are past due 90 days or more.

6. Loans guaranteed by the State

These loans in developing countries are individually guaranteed by the Dutch State for 80% to 95%. Any losses will be compensated by the State up to the guaranteed percentage.

The loan portfolio guaranteed by the State comprises the loans issued under the FOM program. The movements can be summarized as follows:

	2017	2016
Balance at January 1	58,626	62,437
Disbursements	6,570	9,890
Repayments	-23,124	-13,691
Write-offs	-1,227	-470
Changes in amortizable fees	269	-48
Exchange rate differences	-1,845	508
Balance at December 31	39,269	58,626
Value adjustments	-313	-1,858
Net balance at December 31	**38,956**	**56,768**

The following table summarizes the loans guaranteed by the State segmented by sector.

	2017	2016
Agribusiness	20,902	31,826
Infrastructure, Manufacturing and Services	18,054	24,942
Net balance at December 31	**38,956**	**56,768**
Gross amount of subordinated loans	20,173	29,046
Gross amount of non-performing loans	2,446	6,819

7. Equity investments

These equity investments in developing countries are for FMO's account and risk. The movements in net book value of the equity investments are summarized in the following table. All equity investments of FMO are valued at fair value.

	2017	2016
Net balance at January 1	1,712,112	1,467,516
Purchases and contributions	192,326	282,504
Reclassification from loans	7,875	3,841
Sales	-195,730	-121,088
Value adjustments	-46,919	-43,996
Changes in fair value	-166,831	123,335
Net balance at December 31	**1,502,833**	**1,712,112**

The following table summarizes the equity investments segmented by sector.

	2017	2016
Financial Institutions	353,528	458,978
Energy	206,820	260,656
Agribusiness	115,400	128,196
Multi-Sector Fund Investments	609,379	646,663
Infrastructure, Manufacturing and Services	217,706	217,619
Net balance at December 31	**1,502,833**	**1,712,112**

8. Investments in associates

The movements in net book value of the associates are summarized in the following table.

	2017	2016
Net balance at January 1	116,060	32,752
Purchases and contributions	110,781	82,390
Reclassification to/ from loans	-2,735	-
Sales	-	-10,365
Share in net results	9,293	6,247
Exchange rate differences	-25,917	5,036
Net balance at December 31	**207,482**	**116,060**

All investments in associates from FMO at valued based on the equity accounting method.

On July 21, 2016 FMO signed an agreement to set up an investment vehicle, Arise B.V., together with Norfund and Rabobank. This investment vehicle intends to invest in African financial institutions. The commitment for FMO amounts to USD 211 million. In 2017 FMO distributed USD 86,9 million in cash and finalized the contribution of assets to Arise B.V. with an underlying value of USD 3,7 million. As of 31 December 2017 our outstanding commitment towards Arise B.V. amounts to USD 30 million.

Arise B.V. is a private limited liability company incorporated in the Netherlands whose statutory seat is registered at Croeselaan 18, 3521 CB Utrecht, the Netherlands and registered in the Dutch commercial register under number 64756394. FMO's share and voting rights in Arise B.V. is 27%.

The following table summarizes the associates segmented by sector.

	2017	2016
Financial Institutions	181,405	99,189
Multi-Sector Fund Investments	11,804	15,936
Infrastructure, Manufacturing and Services	1,397	935
Multi-Sector Fund Investments	12,876	-
Net balance at December 31	**207,482**	**116,060**

The following table summarizes FMO's share in the total assets, liabilities, total income and total net profit/loss of the associates.

	Arise B.V.	Other associates
Total assets	166,932	43,083
Total liabilities	1,209	1,324
Total income	1,107	462
Total profit/loss	15,218	-5,925

9. Movement in value adjustments

Movement in value adjustments FMO portfolio in the consolidated balance sheet

	Guarantees	Loans	Total
Balance at January 1, 2016	11,513	364,079	375,592
Additions	-	78,887	78,887
Reversals	-4,920	-116,306	-121,226
Exchange rate differences	-133	5,859	5,726
Write-offs	-	-28,364	-28,364
Balance at December 31, 2016	**6,460**	**304,155**	**310,615**
Additions	165	63,255	63,420
Reversals	-3,207	-45,145	-48,352
Exchange rate differences	-521	-29,283	-29,804
Write-offs	-	-88,822	-88,822
Balance at December 31, 2017	**2,897**	**204,160**	**207,057**

The value adjustments related to guarantees are included in other liabilities (see note 17).

Movement in value adjustments on FMO's loan portfolio in the consolidated balance sheet

	Group-specific value adjustments	Counterparty-specific value adjustments	Total
Balance at January 1, 2016	171,350	192,729	364,079
Additions	-	78,887	78,887
Reversals	-70,445	-45,861	-116,306
Exchange rate differences	2,392	3,467	5,859
Write-offs	-	-28,364	-28,364
Balance at December 31, 2016	**103,297**	**200,858**	**304,155**
Additions	-	63,255	63,255
Reversals	-30,596	-14,549	-45,145
Exchange rate differences	-9,416	-19,867	-29,283
Write-offs	-	-88,822	-88,822
Balance at December 31, 2017	**63,285**	**140,875**	**204,160**

Movement in value adjustments on FMO's guarantee portfolio in the consolidated balance sheet

	Group-specific value adjustments	Counterparty-specific value adjustments	Total
Balance at January 1, 2016	3,341	8,172	11,513
Additions	-	-	-
Reversals	-2,403	-2,517	-4,920
Exchange rate differences	13	-146	-133
Write-offs	-	-	-
Balance at December 31, 2016	**951**	**5,509**	**6,460**
Additions	-	165	165
Reversals	-221	-2,986	-3,207
Exchange rate differences	-160	-361	-521
Write-offs	-	-	-
Balance at December 31, 2017	**570**	**2,327**	**2,897**

Movement in value adjustments on loans guaranteed by the State in the consolidated balance sheet

	2017	2016
Balance at January 1	1,858	5,657
Additions	-	112
Reversals	-318	-3,442
Exchange rate differences	-	1
Write-offs	-1,227	-470
Balance at December 31	**313**	**1,858**

FMO's own risk participation with regard to FOM (5% to 20%) is not guaranteed. The guaranteed part is recorded under other receivables (see also note 12). In 2017 no amounts where claimed towards the guarantors which where recorded in the value adjustments (2016: €2,680).

Total value adjustments on loans in the consolidated profit and loss account

	2017	2016
Additions and reversals loans FMO portfolio	-18,110	37,419
Additions and reversals loans guaranteed by the State	-318	3,330
Guaranteed part additions and reversals loans guaranteed by the State	318	-2,680
Balance at December 31	**-18,110**	**38,069**

10. Property, plant and equipment

	Furniture	ICT equipment	Leasehold improvement	Total 2017	Total 2016
Historical cost price at January 1	9,631	13,771	265	23,667	19,560
Accumulated depreciation at January 1	-7,923	-6,512	-64	-14,499	-11,934
Balance at January 1	**1,708**	**7,259**	**201**	**9,168**	**7,626**
Investments	486	6,362	4	6,852	4,107
Depreciation	-591	-2,518	-45	-3,154	-2,565
Divestments historical cost price					
Accumulated depreciation on divestments					
Balance at December 31	**1,603**	**11,103**	**160**	**12,866**	**9,168**
Historical cost price at December 31	10,117	20,133	269	30,519	23,667
Accumulated depreciation at	-8,514	-9,030	-109	-17,653	-14,499
Balance at December 31	**1,603**	**11,103**	**160**	**12,866**	**9,168**

Software related assets are included in the ICT equipments and amount to €8,2 million (2016: €4,5 million).

11. Current accounts with State funds and other programs

	2017	2016
Current account EIB	231	299
Current account Infrastructure Development Fund	4	1,028
Current account Access to Energy Fund	39	407
Current account FOM OS	-	41
Current account Capacity Development Program	-	126
Balance at December 31	**274**	**1,901**

12. Other receivables

	2017	2016
Debtors related to equity investments	104,037	3,634
Taxes and social premiums	877	600
To be declared on State guaranteed loans	265	1,961
Accrued management fees State funds	-	5,301
Amortized fee receivables	15,534	10,257
Balance at December 31	**120,713**	**21,753**

Debtors related to equity investments reflects dividend receivables and sales proceeds of our private equity portfolio. The significantly increase is predominantly due to one large exit in December 2017 amounting to €98 million. This amount has been received in January 2018.

13. Accrued income

	2017	2016
Accrued interest on loans	58,070	63,265
Accrued interest on swaps and other assets	25,066	28,763
Balance at December 31	**83,136**	**92,028**

NOTES TO THE CONSOLIDATED BALANCE SHEET: LIABILITIES

14. Short-term credits

	2017	2016
Collateral received (related to derivative financial instruments)	125,935	39,464
Balance at December 31	**125,935**	**39,464**

Short-term credits reflect the cash collateral received for derivative contracts we held with positive value. We also refer to the section treasury counterparty credit risk in the Risk Management paragraph.`

15. Debentures and notes

Debentures and notes includes issued debt instruments in various currencies under FMO's Debt Issuance Programmes. In addition, a subordinated note of €175 million is also included in the Debenture and Notes. Under IFRS this note is classified as financial liability, but for regulatory purposes it is considered as Tier 2 capital.

Important terms of our subordinated note includes:

- Subordinated note amounts to €175 million and is denominated in Euro's.
- Interest rate is 150BPS until December 8, 2020 (first call date). Interest rate between the first call date and December 8, 2025 (final maturity date) will be based on a reset interest plus 140BPS.

The movements can be summarized as follows:

	2017	2016
Balance at January 1	5,180,977	5,347,614
Amortization of premiums/discounts	10,197	5,951
Proceeds from issuance	1,229,760	612,748
Redemptions	-983,643	-891,209
Changes in fair value	-4,853	10,887
Exchange rate differences	-331,150	94,986
Balance at December 31	**5,101,288**	**5,180,977**

Line items changes in fair value represents the fair value changes attributable to the hedge risk in connection with the debentures and notes used for hedge accounting purposes.

The following table summarizes the carrying value of the debentures and notes.

	2017	2016
Debentures and notes under hedge accounting	2,512,930	3,270,265
Debentures and notes valued at amortized cost	2,588,358	1,910,712
Balance at December 31	**5,101,288**	**5,180,977**

The nominal amounts of the debentures and notes are as follows:

	2017	2016
Debentures and notes under hedge accounting	2,460,448	3,520,606
Debentures and notes valued at amortized cost	2,647,332	1,648,491
Balance at December 31	**5,107,779**	**5,169,097**

16. Current accounts with State funds and other programs

	2017	2016
Current account MASSIF	67	62
Current account Access to Energy Fund II	-	13
Current account PDF	115	-
Balance at December 31	**182**	**75**

17. Other liabilities

	2017	2016
Amortized costs related to guarantees	212	266
Liabilities for guarantees	2,896	6,460
Other liabilities	1,931	715
Balance at December 31	**5,039**	**7,441**

The movements in liabilities for guarantees are set out in note 9.

18. Accrued liabilities

	2017	2016
Accrued interest on banks, debt securities and debentures and notes	48,135	47,405
Other accrued liabilities	8,586	4,003
Balance at December 31	**56,721**	**51,408**

19. Provisions

The amounts recognized in the balance sheet are as follows.

	2017	2016
Pension schemes	46,313	45,396
Other provisions	275	26
Balance at December 31	**46,588**	**45,422**

Pension schemes

FMO's pension schemes cover all its employees. The pension schemes are defined benefit plans and most of these plans are average-pay-schemes. FMO has a contract with a well established insurer, in which all nominal pension obligations are guaranteed. This guaranteed contract arranged that all significant risks associated with investments lies with the insurer. These significant risks are amongst others Credit risks, market risks, sufficient investment return to fund indexation of the defined benefit obligation. As a result FMO's pension plan is exposed to counterparty risk, interest rate risk (changes of discount rate), inflation and changes in the life expectancy for pensioners. The pension assets are managed by the insurance company and strict guidelines has been agreed with the asset manager. The assets of the funded plans are held independently of FMO's assets by the insurance company in separately administered funds. Independent actuaries value the schemes every year using the projected unit credit method.

The amounts recognized in the balance sheet are as follows:

	2017	2016
Present value of funded defined benefit obligations	200,777	213,449
Fair value of plan assets	-154,464	-168,053
Liability in the balance sheet	**46,313**	**45,396**

The movements in the present value of the defined benefit obligations can be summarized as follows:

	2017	2016
Present value at January 1	213,449	147,670
Service cost	10,679	9,591
Interest cost	4,070	4,187
Actuarial (gains)/losses due to changes in financial assumptions	-4,426	27,898
Actuarial (gains)/losses due to changes in demographic assumptions	-4,121	918
Actuarial (gains)/losses due to experience assumptions	-16,714	25,678
Benefits paid	-2,160	-2,493
Present value at December 31	**200,777**	**213,449**

The actuarial gain on the defined benefit obligation amounts to €25,261 (2016: €54,494 loss) and is mainly due the increase of the discount rate to 2.0% (2016: 1.8%).

The movements in the fair value of plan assets can be summarized as follows:

	2017	2016
Fair value at January 1	-168,053	-145,964
Expected return on plan assets	-3,079	-3,971
Employer contribution	-8,120	-5,214
Plan participants' contributions	-1,023	-653
Actuarial (gains)/losses due to changes in financial assumptions	6,312	-87
Actuarial (gains)/losses due to changes in demographic assumptions	-	-
Actuarial (gains)/losses due to experience assumptions	17,339	-14,657
Benefits paid	2,160	2,493
Fair value at December 31	**-154,464**	**-168,053**

As per 1 January 2017, FMO's investment account with the pension insurer has been terminated. No direct asset allocation is held in relation to the new pension insurance contract. Therefore. the fair value of the plan assets can no longer be determined based on a certain asset allocation. Due to this, paragraph 115 of IAS 19 has been applied in estimating the fair value of plan assets as per 31 December 2017 based on accrued pension rights and actuarial rates.

The movement in the liability recognized in the balance sheet is as follows:

	2017	2016
Balance at January 1	45,396	1,706
Annual expense	11,283	10,104
Contributions paid	-8,756	-6,164
Actuarial gains/losses	-1,610	39,750
Balance at December 31	**46,313**	**45,396**

The amounts recognized in the profit and loss account as net periodic pension cost are as follows:

	2017	2016
Current service cost	14,652	10,541
Net interest cost	991	216
Past service cost	-3,337	-
Subtotal	**12,306**	**10,757**
Contribution by plan participants	-1,023	-653
Total annual expense	**11,283**	**10,104**

As from 1 January 2018 onwards, the formal retirement age in the applicable Dutch Tax framework has been adjusted from 67 to 68 years of age. As a result, FMO decided in December 2017 (after consultation with the Works Council) to adjust FMO's pension scheme as of January 1, 2018. This increase of pension age from 67 years to 68 years resulted in a reduction of the defined benefit obligation of €3,337 which is recognized as past service cost.

The principal assumptions used for the purpose of the actuarial valuations at year-end are as follows:

	2017 (%)	2016 (%)
Discount rate	2.0	1.8
Expected pension indexation for active participants	1.8	1.8
Expected pension indexation for inactive participants	0.6	0.5
Wage inflation	1.5	1.5
Future salary growth	0.5-3.5	0.5-3.5

The assumption for future salary growth is a range of percentages which are based on the age of individual employees. The pension indexation is conditional.

Significant actuarial assumptions are the discount rate, indexation for active participants and (general) wage inflation. Reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Increase (+0.5%)	Decrease (-0.5%)
Discount rate	-23,981	28,493
Increase indexation for active participants	1,208	-1,467
Future salary growth	5,355	-5,023

Other provisions

The other provisions are provisions for severance arrangements. This provision is determined using present value calculations.

	2017	2016
Balance at January 1	26	-
Addition	278	26
Release	-	-
Paid out	-29	-
Balance at December 31	**275**	**26**

20. Shareholders' equity

Share capital

The authorized capital amounts to €45,380, consisting of 51% A shares of €22.69 each, which can only be held by the State, and 49% B shares, also of €22.69 each, which can be held by private investors. The voting rights for A shares and B shares are equal. In addition, the equity of the company comprises of three reserves, which result from the Agreement State-FMO of November 16, 1998. These are the share premium reserve, the development fund and the contractual reserve. As long as the company continues its activities, these reserves are not available to the shareholders. Upon liquidation of FMO these reserves fall to the State, after settlement of the contractual return to the shareholders.

	2017	2016
AUTHORIZED SHARE CAPITAL		
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
Balance at December 31	**45,380**	**45,380**
ISSUED AND PAID-UP SHARE CAPITAL		
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
Balance at December 31	**9,076**	**9,076**

Share premium reserve

Share premium reserve is sole contributed by Shareholders of A shares on the transfer to the company of investments administrated on behalf of the State at the time of the financial restructuring and amounts to €29,272 (2016: €29,272).

Other reserves

	Retained earnings	Actuarial gains/losses on defined benefit plans	Total
Balance at January 1, 2016	31,971	7,236	39,207
Gains/losses during the period	-	-29,813	-29,813
Balance at December 31, 2016	**31,971**	**-22,577**	**9,394**
Gains/losses during the period	-	1,208	1,208
Balance at December 31, 2017	**31,971**	**-21,369**	**10,602**

Contractual reserve

The addition relates to that part of the annual profit that FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998 (see 'additional information').

Development fund

This special purpose reserve contains the allocation of risk capital provided by the State to finance the portfolio of loans and equity investments. In 2005, FMO received the final contribution to the development fund under the Agreement State-FMO of November 16, 1998.

Available for sale reserve

	Equity investments	Interest-bearing securities	Total available for sale reserve
Balance at January 1, 2016	449,869	5,483	455,352
Fair value changes	64,375	5,131	69,506
Foreign exchange differences	59,426	-	59,426
Transfers due to sale	-38,192	-832	-39,024
Transfers due to impairment	37,666	-	37,666
Tax effect	-10,776	-1,075	-11,851
Balance at December 31, 2016	**562,368**	**8,707**	**571,075**
Fair value changes	81,977	-5,639	76,338
Foreign exchange differences	-143,873	-	-143,873
Transfers due to sale	-151,364	-2,414	-153,778
Transfers due to impairment	46,919	0	46,919
Tax effect	1,991	2,015	4,006
Balance at December 31, 2017	**398,018**	**2,669**	**400,687**

Included in the available for sale reserve is a negative amount of €11,978 (2016: €30,053) for fair value changes in equity investments that were previously impaired.

Translation reserve

	2017	2016
Balance at January 1	9,221	4,111
Change	-25,917	5,110
Balance at December 31	**-16,696**	**9,221**

Non-controlling interests

Equis DFI Feeder L.P.	2017	2016
Balance at January 1	2,991	1,266
Fair value changes	1,150	-13
Changes in subsidiary	1,812	1,738
Share in net profit	1,118	-
Balance at December 31	**7,071**	**2,991**

NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

21. Net interest income

Interest income

	2017	2016
Interest on loans valued at amortized cost	291,228	289,846
Interest on banks	-1,457	-805
Interest on short-term deposits	11,410	6,746
Interest on derivatives related to asset portfolio	-20,826	-19,286
Interest on available for sale interest-bearing securities	4,267	5,900
Total interest income	**284,622**	**282,401**

Included in the interest on loans is €9,112 (2016: €11,328) related to loans for which value adjustments have been recorded.

Out of the total interest income of €284,622 (2016: €282,401) the amount of interest income for financial assets that are not at fair value through profit or loss is €294,038 (2016: €294,941).

Interest expense

	2017	2016
Interest on debentures and notes under hedge accounting	-46,061	-50,864
Interest on debentures and notes valued at amortized cost	-36,216	-17,794
Interest on derivatives	-2,386	2,813
Interest on short-term credits	-76	-16
Total interest expense	**-84,739**	**-65,861**

Out of the total interest expense of €84,739 (2016: €65,861) the amount of interest expense for financial liabilities that are not at fair value through profit or loss is €36,292 (2016: €17,810).

22. Net fee and commission income

	2017	2016
Prepayment fees	1,824	1,798
Administration fees	2,231	2,053
Other fees (like arrangement, cancellation and waiver fees)	2,668	2,840
Total fee and commission income	**6,723**	**6,691**
Custodian fees and charges for the early repayment of debt securities	-712	-547
Total fee and commission expense	**-712**	**-547**
Net fee and commission income	**6,011**	**6,144**

23. Dividend income

	2017	2016
Dividend income direct investments	32,624	11,629
Dividend income fund investments	3,968	5,190
Total results from equity investments	**36,592**	**16,819**

24. Results from equity investments

	2017	2016
Result from the sale of equity investments at fair value	153,720	39,039
Result from the sale of associates	851	2
Total results from equity investments	**154,571**	**39,041**

The carrying amount of the equity investments valued at fair value at the time of sale was €282,652 (2016: €80,935). The release from the available for sale reserve at the time of the sale of equity investments at fair value was €151,091 (2016: €38,300); as a result the net result from sale of equity investments at fair value amounted to a gain of €2,629 (2016: gain of €739).

The significant increase in results from equity investments was predominantly driven by three private equity exits in Asia and Eastern Europe and contributed €109 million to our results in 2017.

25. Results from financial transactions

	2017	2016
Result on valuation of hedged items	4,615	-10,702
Result on valuation of hedging instruments	-9,234	10,525
Subtotal	**-4,619**	**-177**
Result on sale and valuation of derivatives held for trading[1)]	15,777	-21,624
Result on sale and valuation of embedded derivatives related to asset portfolio	1,763	10,175
Result on sale of interest-bearing securities	2,414	833
Foreign exchange results	-1,574	983
Other	2,342	1,031
Total results from financial transactions	**16,103**	**-8,779**

1 Hedge accounting is not applied to these derivatives. These derivatives are used for hedging interest-rate and foreign-exchange risk for loans in emerging market currencies and funding in currencies other than euros and US dollars. FMO has no derivatives for trading purposes.

26. Remuneration for services rendered

	2017	2016
Funds and programs managed on behalf of the State:		
· MASSIF	12,410	13,247
· Infrastructure Development Fund	8,213	5,089
· Access to Energy Fund	1,836	2,117
· FOM OS	300	571
· Capacity Development Program	241	180
Syndication fees, remuneration from directorships and others	6,372	7,361
Total remuneration for services rendered	**29,372**	**28,565**

Remuneration for managing funds and programs is assessed for market conformity and expressed in gross amounts. Related management expenses are included in operating expenses.

27. Other operating income

	2017	2016
Other operating income	1,348	1,186
Total other operating income	**1,348**	**1,186**

Other operating income mainly consists of received payments on written-off loans.

28. Staff costs

The number of FTEs at December 31, 2017 amounted to 467 (2016: 419 FTEs). All FTE's are employed in the Netherlands except for 2 FTE's.

	2017	2016
Salaries	-40,787	-35,933
Social security costs	-4,309	-4,075
Pension costs	-11,283	-10,104
Temporaries	-4,213	-2,773
Travel and subsistence allowances	-4,760	-4,124
Other personnel expenses	-6,207	-6,676
Total staff costs	**-71,559**	**-63,685**

29. Other administrative expenses

	2017	2016
Other administrative expenses	-23,909	-19,357

These expenses consist of services from third parties and other operational expenses. The remuneration paid to the Supervisory Board is included in these expenses. At December 31, 2017 the Supervisory Board consisted of six members (2016: five). The members of the Supervisory Board were paid a total remuneration of €120 (2016: €94).

With reference to Section 2:382a(1) and (2) of the Netherlands Civil Code, the following fees for the financial year have been charged by Ernst & Young Accountants LLP (2016: Ernst & Young Accountants LLP) to the company and its subsidiaries.

Fee charged by auditors	2017	2016
Statutory audit of annual accounts	-447	-235
Other assurance services	-269	-269
Total	**-716**	**-504**

30. Other operating expenses

	2017	2016
Other operating expenses	-48	-75

The other operating expenses includes bank charges.

31. Income taxes

Income tax by type

	2017	2016
Current income taxes	-37,653	-43,953
Deferred income taxes	372	984
Total income tax	**-37,281**	**-42,969**

The reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	2017	2016
Profit before taxation	292,516	219,074
Income taxes at statutory rate of 25% (2016: 25%)	-73,129	-54,769
Increase/decrease resulting from:		
· Settlement with local withholding taxes	4,274	4,937
· Non-taxable income and expense (participation exemption facility)	31,181	6,739
· Tax adjustments to prior periods	-93	40
· Other	486	84
Total income tax	**-37,281**	**-42,969**
Effective income tax rate	12.7%	19.6%

Current income tax

The company paid €61,545 (2016: €46,166) to tax authorities. The remaining current income tax receivable amount to €7,458 (2016: €16,434 liabilities). Per year end 2017 there were no unused tax losses and the unused tax credits amount to € 0 (2016: €687).

Deferred tax

FMO's deferred income tax assets and liabilities are summarized as follows:

	2017	2016
Deferred tax assets		
Pension provision	3,464	3,092
Actuarial gains and losses on defined benefit plans	7,123	7,526
Total deferred tax assets	**10,587**	**10,618**
Deferred tax liabilities		
Fair value movements equity investments	-8,785	-10,776
Fair value measurement of interest-bearing securities	-897	-2,912
Total deferred tax liabilities	**-9,682**	**-13,688**
Net balance at December 31	**905**	**-3,070**

OFF-BALANCE SHEET INFORMATION

32. Commitments and contingent liabilities

The company issued guarantees regarding principal and interest repayments for a number of projects. The nominal amount of the guarantees is valued at the exchange rate as per December 31, 2017 and December 31, 2016.

	2017	2016
Contingent liabilities		
Effective guarantees issued	68,129	61,050
Less: provisions, amortized costs and obligations for guarantees (presented under other liabilities)	-3,108	-6,726
Total guarantees issued	**65,021**	**54,324**
Effective guarantees received	175,042	224,754
Total guarantees received	**175,042**	**224,754**

Of the liabilities for guarantees €0 (2016: €0) is covered by a counter guarantee of the State.

	2017	2016
Irrevocable facilities		
Contractual commitments for disbursements of:		
· Loans	956,791	768,838
· Equity investments and associates	685,373	843,550
· Contractual commitments for guarantees	142,995	207,851
Total irrevocable facilities	**1,785,159**	**1,820,239**

33. Lease and rental commitments

The future lease payments under non-cancellable operating leases are based on contractual terms and can be summarized as follows:

2017	≤ 1 year	›1 - ≤ 5 years	› 5 years	Total
Buildings	2,184	9,163	6,088	17,435
Cars	816	1,049	-	1,865
Total lease and rental commitments	**3,000**	**10,212**	**6,088**	**19,300**

2016	≤ 1 year	›1 - ≤ 5 years	› 5 years	Total
Buildings	2,142	8,990	8,445	19,577
Cars	839	1,255	-	2,094
Total lease and rental commitments	**2,981**	**10,245**	**8,445**	**21,671**

RELATED PARTY INFORMATION

FMO defines the Dutch State, its subsidiaries and associated companies, the Management Board and Supervisory Board as related parties.

Dutch State

The Dutch State holds 51% of FMO's share capital. The remaining 49% is held by commercial banks and other private investors. In 2005 FMO received its last contribution to the development fund from the Dutch State. FMO has a guarantee provision from the State, which is detailed in 'additional information'.

FMO stimulates the development of small and medium Dutch-sponsored enterprises in selected emerging markets through the 'Faciliteit Opkomende Markten'. This facility is a joint initiative with the Dutch Ministry of Foreign Trade and Development Corporation. The State acts as a guarantor for 80% to 95% of the outstanding loans. As of 1 July 2016, the mandate of this facility has been transferred to the 'Rijksdienst voor Ondernemend Nederland' (RVO). After the transfer only existing loans in the portfolio and pipeline were serviced. These loans are included in the consolidated annual accounts under 'loans guaranteed by the State'.

FMO executes several government funds and programs at the risk and expense of the State. Below is a description of the different funds and programs:

1. *MASSIF*

MASSIF extends risk capital and local currency financing to financial intermediaries in developing countries who in turn serve micro- and small-scale entrepreneurs and lower income households. FMO has a 2.32% (2016: 2.34%) stake in this fund. For 2017, FMO received a fixed remuneration of €12,410 (2016: €13,247).

2. *Infrastructure Development Fund*

Through this fund, FMO concentrates on the development of the social and economic infrastructure in least developed countries. FMO aims to stimulate private investors to invest in private or public-private infrastructure projects in these countries. By providing risk capital, the Infrastructure Development Fund decreases risk for other financiers. As a result, additional private funds are attracted. For 2017, FMO received a fixed remuneration of €8,213 in accordance with the subsidy order (2016: €5,089). In 2017 one investment was transferred at arm's length from IDF to FMO.

3. *Access to Energy Fund (I and II)*3. *Access to Energy Fund (I and II)*

FMO agreed with the Dutch Minister for Development Cooperation to execute the subsidy scheme, Access to Energy Fund. Through this fund, FMO provides risk and concessional financing through equity, local currency loans, subordinated debt and grants to facilitate projects that generate, transmit or distribute sustainable energy. In 2017 the Access to Energy Fund II committed USD 55.6 million to Climate Investor One, an investment vehicle with three interlinked funds that takes projects through their whole lifecycle. For 2017, FMO received a fixed remuneration of €1,836 (2016: €2,117).

4. *FOM OS*

The program finances private sector companies with a strong focus on food security and water. For 2017, FMO received a fixed remuneration of €300 (2016: €571). The program has been closed for new commitments at the request of the Ministry of Foreign Trade and Development Corporation as per June 30, 2014.

5. Capacity Development Program

The program will invest in inclusive projects, focusing particularly on the themes of climate change and gender. For 2017, FMO received a fixed remuneration of €241.

6. Partnership Development Facility

The Partnership Development Facility aims to develop high impact projects in developing countries. The facility identifies and develops projects in trade corridors that are relevant for the local and Dutch economy. The main themes of the facility are food security and climate adaptation. For 2017, FMO received no remuneration except for staff compensation.

7. Development Accelerator

The Development Accelerator is a facility which aims to support the private sector with a focus on energy, water, health and logistics. It will contribute to sustainable cities, climate mitigation and adaptation in order to contribute to the achievement of the Sustainable Development Goals and strengthening opportunities for the Dutch business community. For 2017, FMO received no remuneration.

In our role of fund manager for the assets under management we held current account positions with State funds. The balances of those current account positions are disclosed under note 11 and note 16.

A part of our loan portfolio €38,956 (2016: €56,768) is disbursed under the a program from the Dutch State and recognized in our consolidated balance sheet (Loans guaranteed by the State). The credit risk of these loans is covered by Dutch State for 80%-95%. We refer to the section Guarantee provisions in the Agreement between the State and FMO of November 16, 1998 in the section Additional Information. The results due to addition and release of specific value adjustments follows the accounting policy for Loans to the private sector.

Subsidiaries
The consolidated subsidiaries Nuevo Banco Comercial Holding B.V., Asia Participations B.V., FMO Medu II Investment Trust Ltd. and Equis DFI Feeder L.P. are used for intermediate holding purposes. The subsidiary FMO Investment Management B.V. carries out portfolio management activities for third party investment funds which are invested in FMO's transactions in emerging and developing markets. Nedlinx B.V was incorporated in November 2017 and will focus on financing activities to Dutch SME companies investing abroad.

The transactions during the year are summarized in note D of the company balance sheet.

Associates
In line with our investment activities we hold stakes directly in private equity companies or indirectly via fund structures. Investments are treated as associates in case criteria in accordance with our accounting policies are met.

We refer to the significant accounting policies and note 8 for the transactions during the year.

Remuneration of the Management Board
FMO's remuneration policy aims to offer a competitive remuneration allowing to attract, motivate and retain capable directors with sufficient knowledge and experience in international development finance. The remuneration policy is in line with the mission of FMO, the corporate values, the strategy, the risk appetite as well as with the expectations of the various stakeholders.

The remuneration level of members of the Management Board is based on the median, composed of two equal proportions of a private benchmarks and a public benchmark. For the CEO applies an absolute cap for the fixed remuneration of € 275 per annum (2018). For the other members of the Management Board this cap amounts to € 234 and € 200 for the second echelon (Directors).

The total remuneration consists of a fixed salary, a pension arrangement and other benefits. The pension arrangement is a defined benefit, average-pay scheme with a conditional indexation arrangement. The nominal pension obligations are guaranteed by a pension insurer. Pension is accrued until the maximum cap possible under the Dutch tax framework (2017: € 103) The other benefits consist accident and disability insurance, a gross expenses fee and the use of a company car. Members of the management and other identified staff members are not entitled to any form of variable income (e.g. individual bonuses or profit-sharing).

All members of the Management Board are appointed for a period of 4 years, which can be renewed.

On December 31, 2017 the Management Board consisted of three statutory members (2016: two). The members of the Management Board have no options, shares or loans related to the company.

The total remuneration of the Management Board in 2017 amounts to €957 (2016: €1,101) and is specified as follows:

	Fixed remuneration	Pension [2)]	Allowance for retirement [3)]	Other [4)]	Total 2017
Jürgen Rigterink	271	39	43	30	383
Linda Broekhuizen	243	31	32	17	323
Fatoumata Bouaré [1)]	49	7	-	3	59
Nanno Kleiterp [5)]	25	5	6	156	192
Total	**588**	**82**	**81**	**206**	**957**

	Fixed remuneration	Pension	Allowance for retirement	Other	Total 2016
Nanno Kleiterp	303	32	72	32	439
Jürgen Rigterink	237	25	38	42	342
Linda Broekhuizen	243	25	32	20	320
Total	**783**	**82**	**142**	**94**	**1,101**

1 Fatoumata Bouaré started in the CRFO role as per October 15, 2017

2 Cost related to pension accrual up to salary of €103 (2017)

3 Allowance for retirement related to the salary above €103 (This allowance has been discontinued for all employees entering FMO as from January 1, 2017.)

4 Includes contributions to a company car, fixed expense allowance, compensation of interest on mortgage (This compensation has been discontinued for all employees entering FMO as from January 1, 2017.)

5 After stepping down as CEO as per October 1, 2016, Nanno Kleiterp continued his duties for FMO up and until January 31, 2017 as advisor of the Management Board. The remuneration includes the reward for the agreed advisory role as well as a gross severance payment of €150 in alignment with the applicable remuneration policy.

Except for pensions of €82 (2016: €68) all components above are short term employee benefits.

In accordance with the G4 Sustainability Reporting Guidelines, the ratio between the total fixed remuneration of the highest-paid individual and the median of the rest is 0.29 (2016: 0.25). Or in other words the highest-paid individual received a total fixed remuneration of 3.5 times the amount paid the Median of (the rest of) the total population (2016: 4.0 times). The difference was caused by a decrease of the fixed remuneration of the CEO of 10.5%, while at the same time the Median of the rest of the population increased with 2.4%.

The annual remuneration of the members of the Supervisory Board is as follows:

	Remuneration 2017	Committees 2017	Total 2017	Total 2016
Jean Frijns [1)]	20.8	2.3	23.1	25.8
Pier Vellinga [2)]	20.8	4.0	24.8	19.0
Alexandra Schaapveld	18.5	4.0	22.5	18.6
Thessa Menssen	18.5	3.1	21.6	11.0
Dirk-Jan van den Berg	18.5	3.3	21.8	4.7
Koos Timmermans [3)]	4.8	1.1	5.9	-
Bert Bruggink	-	-	-	7.5
Agnes Jongerius	-	-	-	7.5
Total	**101.9**	**17.8**	**119.7**	**94.1**

1 Jean Frijns stepped down as Chairman of the Supervisory Board as per 1 October 2017.

2 Pier Vellinga became Chairman of the Supervisory Board as per 1 October 2017 and stepped down as Chairman of the SARC.

3 Koos Timmermans became member of the Supervisory Board and Chairman of the ARC as per 27 September 2017.

The members of the Supervisory Board have no shares, options or loans related to the company.

SUBSEQUENT EVENTS

There has been no significant subsequent event between the balance sheet date and the date of approval of these accounts which would be reported by the Bank.

NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

34. Other comprehensive income

Other comprehensive income		2017		2016
Items to be reclassified to profit and loss				
Exchange differences on translating foreign operations		-25,917		5,110
Available for sale interest-bearing securities:				
· Unrealized results during the year	-5,639		5,131	
· Less: reclassification adjustments for results included in profit and loss	-2,414		-832	
Total available for sale interest-bearing securities		**-8,053**		**4,299**
Available for sale equity investments:				
· Unrealized results during the year	81,977		64,375	
· Foreign exchange results	-143,873		59,426	
· Reclassification adjustments for results included in profit and loss	-104,445		-526	
Total available for sale equity investments		**-166,341**		**123,275**
Total other comprehensive income before tax		**-200,311**		**132,684**
Income tax effect		4,006		-11,851
Total to be reclassified to profit and loss		-196,305		120,833
Items not reclassified to profit and loss				
Actuarial gains/losses on defined benefit plans		1,610		-39,750
Income tax effect		-403		9,937
Total not reclassified to profit and loss		**1,207**		**-29,813**
Total other comprehensive income at December 31		**-195,098**		**91,020**

Tax effects relating to each component of other comprehensive income

Tax effects relating to each component of other comprehensive income	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	-25,917	-	-25,917
Available for sale interest-bearing securities	-8,053	2,015	-6,038
Available for sale equity investments	-166,341	1,991	-164,350
Actuarial gains/losses on defined benefit plans	1,610	-403	1,207
Balance at December 31, 2017	**-198,701**	**3,603**	**-195,098**

	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	5,110	-	5,110
Available for sale interest-bearing securities	4,299	-1,075	3,224
Available for sale equity investments	123,275	-10,776	112,499
Actuarial gains/losses on defined benefit plans	-39,750	9,937	-29,813
Balance at December 31, 2016	**92,934**	**-1,914**	**91,020**

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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 ‘banks’ and ‘short-term deposits’. The cash flows are broken down according to operational, investing and financing activities. The cash flow statement is prepared using the indirect method.

35. Net cash flow from operational activities

The net cash flow from operational activities includes the company's portfolio movements, such as loans to the private sector and under guarantee of the State, equity investments, subsidiaries and associates. The net cash flow further includes the movements in working capital and current accounts with the State in regard to government funds and programs.

36. Net cash flow from investing activities

The net cash flow from investing activities includes the movements in the investment portfolio, such as the interest-bearing securities. The movements in PP&E assets are also included in the cash flow from investing activities.

37. Net cash flow from financing activities

The net cash flow from financing activities includes movements in the funding attracted from the capital market. Also included in the cash flow from financing activities are the additions to and reductions from the company's capital.

COMPANY ANNUAL ACCOUNTS

COMPANY BALANCE SHEET

As at 31 December 2017

(before profit appropriation)	Notes	Page number	2017	2016
Assets				
Banks	(A)	148	53,775	37,827
Short-term deposits	(2)	122	1,544,118	1,242,604
Interest-bearing securities	(3)	122	362,916	575,117
Derivative financial instruments	(4)	123	259,402	186,510
Loans to the private sector	(5), (9)	124, 127	4,100,425	4,469,948
Loans guaranteed by the State	(6), (9)	124, 127	38,956	56,768
Equity investments	(B)	148	1,485,286	1,687,162
Investments in associates	(8)	126	207,482	116,060
Subsidiaries	(C)	148	35,088	33,566
Property, plant and equipment	(10)	128	12,866	9,168
Current income tax receivables	(31)	137	7,458	-
Deferred income tax assets	(31)	137	10,587	10,618
Current accounts with State funds and other programs	(11)	128	274	1,901
Other receivables	(D)	149	115,503	31,265
Accrued income	(13)	129	83,136	92,028
Total assets			**8,317,272**	**8,550,542**
Liabilities				
Short-term credits	(14)	129	125,935	39,464
Derivative financial instruments	(4)	123	147,424	423,981
Debentures and notes	(15)	129	5,101,288	5,180,977
Current accounts with State funds and other programs	(16)	130	182	75
Current income tax liabilities	(31)	137	-	16,434
Wage tax liabilities			117	340
Deferred income tax liabilities	(31)	137	9,682	13,688
Other liabilities	(17)	130	6,398	8,192
Accrued liabilities	(18)	130	56,776	51,425
Provisions	(19)	130	46,588	45,422
Total liabilities			**5,494,390**	**5,779,998**
Shareholders' equity				
Share capital			9,076	9,076
Share premium reserve			29,272	29,272
Contractual reserve			1,726,404	1,477,843
Development fund			657,981	657,981
Available for sale reserve			390,671	562,126
Translation reserve			-16,696	9,221
Other reserves			20,618	18,343
Undistributed profit			5,556	6,682
Total shareholders' equity	**(E)**	**149**	**2,822,882**	**2,770,544**
Total liabilities and shareholders' equity			**8,317,272**	**8,550,542**
Contingent liabilities	(32)	138	68,129	61,050
Irrevocable facilities	(32)	138	1,766,501	1,797,534

COMPANY PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2017

(before profit appropriation)	Notes	Page number	2017	2016
Income				
Interest income			284,624	282,402
Interest expense			-84,739	-65,861
Net interest income	**(21)**	**134**	**199,885**	**216,541**
Fee and commission income			6,723	6,691
Fee and commission expense			-712	-547
Net fee and commission income	**(22)**	**135**	**6,011**	**6,144**
Dividend income	(23)	135	36,530	16,624
Results from equity investments	(24)	135	151,121	39,041
Results from financial transactions	(25)	136	18,131	-9,211
Remuneration for services rendered	(26)	136	28,756	28,246
Other operating income	(27)	136	1,348	1,185
Total other income			**235,886**	**75,885**
Total income			**441,782**	**298,570**
Operating expenses				
Staff costs	(28)	136	-70,616	-62,769
Other administrative expenses	(29)	137	-23,775	-19,222
Depreciation and impairment	(10)	128	-3,154	-2,565
Other operating expenses	(30)	137	-47	-75
Total operating expenses			**-97,592**	**-84,631**
Value adjustments/ impairments on				
Loans	(9)	127	-18,110	38,070
Equity investments and associates	(7), (8)	125, 126	-46,919	-42,846
Guarantees issued	(9)	127	3,042	4,920
Total value adjustments			**-61,987**	**144**
Share in the result of subsidiaries	(C)	148	454	-1,190
Share in the result of associates	(8)	126	9,293	6,247
Total result on associates and subsidiaries			**9,747**	**5,057**
Profit before taxation			291,950	219,140
Income tax			-37,833	-43,035
Net profit			**254,117**	**176,105**

ACCOUNTING POLICIES

ACTIVITIES

The activities of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereafter referred to as FMO) consist of financing activities in developing countries to stimulate private-sector development. Furthermore, FMO provides services in relation to government funds and programs. Further reference is made to the consolidated annual accounts.

SIGNIFICANT ACCOUNTING POLICIES

Principles of valuation and determination of results

The annual accounts are prepared in accordance with the financial reporting requirements as included in Part 9 of Book 2 of the Dutch Civil Code with the allowed application of the accounting policies (EU-IFRS) as set forth in the consolidated annual accounts. The principles of valuation and determination of results stated in the consolidated balance sheet and profit and loss account are also applicable to the company balance sheet and profit and loss account. Investments in group companies are initially recognized at cost and subsequently accounted for by the equity method.

Reference to the consolidated annual accounts

As mentioned above, the accounting policies applied in the annual accounts correspond with the consolidated annual accounts. Furthermore, the consolidated annual accounts have a limited consolidation scope and accordingly the notes to the balance sheet and profit and loss account are almost similar in both the company annual accounts and the consolidated annual accounts. In these cases, reference is made to the disclosure notes and information provided in the consolidated annual accounts. For the mandatory disclosure notes and those notes with larger discrepancies, the information is included in the notes to the company's annual accounts.

Estimates and assumptions

In preparing the annual accounts, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from such estimates and the differences may be material to the annual accounts. The most relevant estimates and assumptions relate to the determination of the fair value of financial instruments based on generally accepted modeled valuation techniques, and the determination of the counterparty specific and group-specific value adjustments. Estimates and assumptions are also used for the pension liabilities, determination of tax and depreciation of PP&E assets and others.

NOTES TO THE COMPANY ANNUAL ACCOUNTS

NOTES TO THE COMPANY BALANCE SHEET

The company annual accounts of FMO should be read in conjunction with the consolidated annual accounts including the risk management, segment information and the notes to the consolidated accounts. The FMO company annual accounts is, due to the limited investments activities of our consolidated subsidiaries, predominantly the same as the consolidated annual accounts. Therefore, for the notes to the specific items of the balance sheet and the profit & loss accounts we refer to the consolidated annual accounts to the extend these are not specifically disclosed hereafter.

With respect to the information about the maturity of the assets and liabilities recorded in the balance sheet of the company annual accounts we refer to the table with the categorization of principal cash flow per maturity bucket in the section Liquidity risk of the Risk Management Chapter.

A. Banks

	2017	2016
Banks	53,775	37,827
Balance at December 31	**53,775**	**37,827**

The cash on bank accounts can be freely disposed of.

B. Equity investments

	2017	2016
Balance at January 1	1,687,162	1,446,145
Purchases and contributions	186,905	276,299
Reclassification from loans	7,875	3,841
Sales	-180,722	-118,777
Value adjustments	-46,919	-42,846
Changes in fair value	-169,015	122,500
Balance at December 31	**1,485,286**	**1,687,162**

C. Subsidiaries

	2017	2016
Balance at January 1	33,566	33,211
Purchases and contributions	450	964
Share in other comprehensive income	618	776
Share in net results	454	-1,190
Dividend declared and received	-	-195
Balance at December 31	**35,088**	**33,566**

The investments in subsidiaries consist of the following interests in the share capital of:

1. Asia Participations B.V.: 100%
2. FMO Investment Management B.V.: 100%
3. FMO Medu II Investment Trust Ltd.: 100%
4. Nuevo Banco Comercial Holding B.V.: 100%
5. Equis DFI Feeder L.P.: 63%
6. NedLinx B.V.: 100%

The following table summarizes the carrying value of the subsidiaries.

Nedlinx B.V. was incorporated in October 2017. Main activities of Nedlinx are financing Dutch companies with activities in developing countries.

	2017	2016
Asia Participations B.V.	8,000	8,632
FMO Investment Management B.V.	4,204	4,549
FMO Medu II Investment Trust Ltd.	2,937	2,961
Nuevo Banco Comercial Holding B.V.	12,934	14,347
Equis DFI Feeder LP	7,013	3,077
Nedlinx B.V.	-	-
Balance at December 31	**35,088**	**33,566**

D. Other Receivables

	2017	2016
Debtors related to equity investments	86,873	3,634
Taxes and social premiums	877	600
To be declared on State guaranteed loans	266	1,961
Accrued management fees State funds	-	5,301
Amortized fee receivables	15,516	10,239
Intercompany receivables from subsidiaries	11,971	9,530
Balance at December 31	**115,503**	**31,265**

E. Shareholders' equity

Share capital

The authorized capital amounts to €45,380, consisting of 51% A shares of €22.69 each, which are held only by the State, and 49% B shares, also of €22.69 each, which are held by private investors. The voting rights for A shares and B shares are equal.

The equity of the company comprises three reserves, which result from the Agreement State-FMO of November 16, 1998. These are the share premium reserve, the development fund and the contractual reserve. As the company continues its activities, these reserves are not available to the shareholders. Upon liquidation of FMO, these reserves fall to the State, after settlement of the contractual return to the shareholders.

Authorized share capital	2017	2016
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
Balance at December 31	**45,380**	**45,380**

Issued and paid-up share capital	2017	2016
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
Balance at December 31	**9,076**	**9,076**

Share premium reserve

Share premium reserve is sole contributed by Shareholders of A shares on the transfer to the company of investments administrated on behalf of the State at the time of the financial restructuring and amounts to €29,272 (2016: €29,272).

Contractual reserve

The addition relates to that part of the net profit, which FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998 (see 'additional information').

Development fund

This special purpose reserve contains the annual budgetary allocations made by the State to finance the portfolio of loans and equity investments. In 2005, FMO received the final contribution to the development fund under the Agreement State-FMO of November 16, 1998.

Available for sale reserve (AFS reserve)

The available for sale reserve includes net revaluations of financial instruments classified as available for sale that have not been reported through the profit and loss account.

The following table shows the components of the available for sale reserve at reporting date.

	2017	2016
Gross gains and losses in the AFS reserve		
Equity investments at fair value	396,787	564,195
Interest-bearing securities at fair value	3,570	11,623
Subtotal gains and losses in the AFS reserve	**400,357**	**575,817**
Deferred taxes on gains and losses		
Equity investments at fair value	-8,785	-10,776
Interest-bearing securities at fair value	-901	-2,916
Subtotal deferred taxes on gains and losses	**-9,686**	**-13,692**
Net gains and losses in the AFS reserve		
Equity investments at fair value	388,002	553,419
Interest-bearing securities at fair value	2,669	8,707
Total available for sale reserve	**390,671**	**562,126**

The statement of changes in the shareholders' equity details the movements in the available for sale reserve during 2017. The statement is included in the consolidated annual accounts.

Other reserves

	Retained earnings	Actuarial gains/losses on defined benefit plans	Share in other comprehensive income of subsidiaries	Total
Balance at January 1, 2016	31,971	7,236	8,175	47,382
Gains/losses during the period	-	-29,813	774	-29,039
Balance at December 31, 2016	**31,971**	**-22,577**	**8,949**	**18,343**
Gains/losses during the period	-	1,208	1,067	2,275
Balance at December 31, 2017	**31,971**	**-21,369**	**10,016**	**20,618**

Legal reserves

Pursuant to Dutch reporting requirements in Part 9 of Book 2 of the Dutch Civil Code the table below reflects the legal reserves included in the total Shareholders's equity of €2,822,882. The legal reserves is not freely distributable to shareholders. The legal reserve includes the fair value increases contained in the AFS reserve, the Translation reserve and derivatives that are not in a hedging relationship.

	2017	2016
AFS reserve	411,938	599,641
Translation reserve	-	9,221
Derivatives not hedged	207,372	113,674
Balance at December 31	**619,310**	**722,536**

The AFS reserve consist of the positive fair value movements of our equity instruments and interest bearing securities financial assets net of tax effect.

The translation reserve reflects the translation differences between closing and average weighted exchange rates of assets, liabilities, income and expenses from foreign subsidiaries and associates. As of year end 2017 the translation reserve has a negative balance of €16,696 driven by the declined USD exchange rate. Due to the negative balance the translation reserve is not taken into account for the legal reserve.

The derivatives not hedged reflect the fair value gains of our derivate portfolio (not used for hedge accounting purposes) designated at fair value through P&L for which the fair value determination is not based on frequent quoted information.

Proposal for appropriation of profit

A company net profit of €254,117 was recorded in 2017. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €248,561 to the contractual reserve. Therefore the 2017 profit is not completely distributable. The distributable element of the net profit amounts to €5,556 (2016: €6,682). The Management Board and the Supervisory Board propose distributing a sum of €5,556 (2016: €6,682) as cash dividend equaling €13.89 per A and B share (2016: €16.71 per A and B share). This proposal for dividend distribution can be withdrawn if FMO's economical and financial conditions deteriorate significantly in the period up to the moment of distribution of the dividend. This reservation is the result of the recommendation of the European Central Bank on December 28, 2017, and adopted by the Dutch Central Bank.

SUBSEQUENT EVENTS

There has been no significant subsequent event between the balance sheet date and the date of approval of these accounts which would be reported by the Bank.

VIII

HOW WE REPORT

BUILDING GREEN BOND CAPABILITIES
Kenya I Kenya Bankers Association
Sector IFinancial Institutions

"As a country, transitioning to a sustainable economy in areas of agriculture, manufacturing, infrastructure, energy among other sectors is vital as banks tap into investment opportunities brought about by developing the first green bonds market in Kenya"

Habil Olaka, CEO of the Kenya Bankers Association

In March 2017, FMO signed a Memorandum of Understanding with the Kenya Bankers Association (KBA) and the Nairobi Securities Exchange (NSE) to drive green financial development in Kenya and contribute towards a more sustainable future in the country. In order to stimulate such investment in the green economy, the KBA and NSE have established a collaboration under the Kenya Green Bonds Program. This is endorsed by the Central Bank of Kenya.

The Kenya Green Bonds Program will accelerate the take-up of green bonds as a tool for Kenya to tap into international and domestic capital markets to finance green projects and assets. FMO is specifically supporting the Green Bonds Program in developing the industry's first pooled green bond facility to create access to the green bonds market for Tier 2 and Tier 3 banks.

The Green Bonds Program builds on the Sustainable Finance Initiative, the banking sector initiative that FMO helped to establish. The Sustainable Finance Initiative is a commitment to higher environmental and social standards by financial institutions with the aim to manage concrete business risks, increase market trust, and attract investment, especially toward green financing.

HOW WE REPORT

We prepared this integrated annual report using the principles of the Integrated Reporting framework of the International Integrated Reporting Council (IIRC). We strive for transparent reporting on our strategy, the dilemmas that we face and the way in which we are implementing our strategy in order to create value for our stakeholders.

Legal entity

This report covers the activities of Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), FMO Investment Management B.V. (FMO IM), NedLinx B.V. and FMO's intermediate holding subsidiaries: Nuevo Banco Comercial Holding B.V., Asia Participations B.V., and FMO Medu II Investment Trust Ltd. A small part of FMO's activities falls under the Fonds Opkomende Markten (FOM) facility, which is guaranteed by the Dutch government.

FMO also manages funds for the Dutch government – MASSIF, the Infrastructure Development Fund (IDF) and the Access to Energy Fund (AEF) – and executes on the Capacity Development subsidy scheme.

As it is based in the Netherlands, the FMO group falls under the Dutch tax regime. Our interest income, dividends and capital gains are subject to local tax laws, taking into account double taxation treaties between the Netherlands and the countries where we invest.

Reporting policy

The period covered by this report is the calendar year 2017. The publication date of the previous annual report was March 22, 2017. There have been no significant changes to our legal structure, activities, policies or methods of measurement in the course of 2017 that would require a restatement of information.

The figures and percentages mentioned throughout this integrated report include the figures for FMO and its subsidiaries' activities as well as those of the FMO-managed government funds, unless explicitly stated. The assets advised on by FMO IM for third parties are not included in this annual report.

Many of our financing and investing activities take place in foreign currencies, mostly in US dollars. Unless explicitly stated in specific cases, all new commitments, catalyzed funds and green investments mentioned throughout the report have been translated into our functional currency, the euro, based on the foreign exchange rates at the date of contracting. Figures referring to the year-end committed portfolio have been translated into euros using the year-end foreign exchange rates.

For the closing-of-the-books processes, data was taken from our internal systems. Data pertaining to our portfolio was taken from financial systems. Non-financial elements of our portfolio, specifically data for measuring impact and footprint, are based on data from clients and macroeconomic data sources. Information on human resources comes from our HR systems and is linked to our salary administration systems.

Data quality is important as it forms the basis for management reporting and steering. To safeguard data quality, we have implemented, inter alia, the following procedures: the quality of financial aspects, and also information on the development impact and footprint, are embedded in our core investment process and the results are analyzed by another employee following the closing of the books. Beyond that, as a third line of defense, FMO's Internal Audit department considers data quality and the underlying processes to be important audit areas.

The case studies included throughout the report offer insight into our activities and are not necessarily representative of our entire portfolio or of new commitments. They do, however, exemplify projects within our regions and strategic sectors, and highlight material activities of FMO and their inherent dilemmas from the perspective of different stakeholders.

Standards and reporting guidelines

This report has been prepared according to the legal requirements of section 2:391 of the Dutch civil code and the Dutch legal guidelines for management board reports, RJ 400. We have used the Integrated Reporting framework to describe how we create value for our stakeholders through our strategy aimed at being the preferred partner to invest in local prosperity. In the context of the external environment and our business model we describe how we are steering the organization and what this means to our achieving this strategy in practice.

We apply the Global Reporting Initiative's (GRI) fourth-generation sustainability reporting guidelines (G4) and the specific financial sector guidelines and have chosen to report in accordance with the 'Core' option. The Board Report consists of chapters 'At a glance', 'Report of the Management Board', 'Corporate Governance' and 'How we report'.

The European Parliament has adopted an EU directive that requires eligible organizations and all banks to disclose non-financial and diversity information from the end of 2016. We have incorporated the elements of this Directive in this report. Please refer to the reference table (annualreport.fmo.nl) to find the relevant information.

Materiality determination process

One of the fundamental concepts of integrated reporting is materiality. As part of an ongoing process to further develop our strategy and ensure that our reporting reflects the most material developments and issues we undertook a materiality analysis in 2015. GRI defines material topics as those aspects that reflect the organization's significant economic, environmental and social impacts or that substantively influence the assessments and decisions of stakeholders.

FMO used the issues raised by stakeholders in previous engagements as a starting point for identifying the material topics. Other commonly applied reporting guidelines as well as reporting by peers and other financial institutions were also considered. In total 28 matters were considered. To validate the developments and issues, an online survey was conducted among key internal and external stakeholders. Based on qualitative analysis and discussions of the stakeholder input with the Management Board, eleven topics were found to be the most material.

In 2017 we updated and validated the survey held in 2015, as we did in 2016. We asked input from our stakeholders directly, using feedback collected during ongoing dialogues to see if and how stakeholder needs changed in the course of the year. We verified the outcomes by desk research and consequently reflected the outcome of the assessment in the matrix in the chapter entitled 'External environment'. The reporting process for the 2017 integrated report was guided by our strategic priorities, in combination with and aligned to the material topics.

FMO impact model

We continue to use the FMO impact model to estimate the total number of direct and indirect jobs supported by FMO's investments over the year. Additionally, FMO estimates greenhouse gas (GHG) emissions avoided through of its green investments over the year using internationally accepted definitions and tools available. The jobs supported and GHG emissions avoided are estimated and reported in the year of commitment. The model makes use of data from international statistical sources and investment-specific information which we obtain from our customers' annual accounts. We do not claim that the results of our model are exact, but they do provide insight in the progress made towards meeting our ambitious goal in a consistent manner.

Limitations of the model

The impact model allows quantifying the wider impact of investing in various economic regions and sectors, both directly and through financial institutions and funds. The impact model is an economic input-output model, which is a widely recognized academic method to depict inter-linkages between sectors, which enables the model to trace product and money flows through an economy. However, it is also important to point out the limitations of this methodology:

1. The model produces ex-ante estimates of impact. Realized impact (ex-post) on the ground can differ from ex-ante expectations.
2. Estimates of indirect impact are based on industry averages (via input/output tables). In reality indirect effects will be different at the individual company level due to differences in individual company characteristics. As a result, model outcomes become less accurate for smaller numbers of investments.
3. Estimates are based on historical relations, while the methodology is based on the most recent (macro) economic data available.
4. FMO's investments are treated as investments from any other lender and it has been assumed that FMO's financial support does not affect the relations of sectors within an economy.
5. Given that the analysis is conducted for a specific moment in time, it does not take into account any structural changes in the economy (e.g. increased productivity). To better reflect economic changes, an update of the statistical data was conducted in 2017.

Taking the limitations of the model into account, we use the results only on the portfolio (and sub portfolio) level. In addition, we perform activities to provide insight in ex-post development effects, such as monitoring of direct effects, sector evaluations, effectiveness studies and impact evaluations. For more information on how we measure impact and FMO's impact model, see www.fmo.nl/development-impact.

Macroeconomic update of the impact model
At the start of 2017 we updated the FMO impact model with most recent macroeconomic data. The update ensures that the estimation of jobs supported reflects the actual economic situation as much as possible. Because of economic progress, capital scarcity tends to decrease and labor productivity tends to increase over time in the countries we invest in. The update therefore resulted ceteris paribus in roughly 10% less jobs supported per euro invested.

FMO attribution rules
We apply attribution rules to our reported impact. The supported jobs and avoided greenhouse gas emissions are reported pro rata with FMO's financing as part of the total (productive) assets or total project size. FMO's financing includes the amount in euros that we have invested and the third party amounts actively catalyzed by FMO ('catalyzed funds'). The underlying idea here is that without FMO the third party would not have invested in the project.

Furthermore, to take into account the higher impact of equity products due to its higher leverage effects on client level, the model uses a multiplier of 2 for equity products: both the number of jobs supported and the amount of GHG avoided by equity investments are multiplied by 2. The equity multiplier increases the number of jobs supported in 2017 by 35% (2016: 30%) and the amount of GHG avoided in 2017 by 35% (2016: 23%).

Avoided greenhouse gas emissions
We calculate the avoided greenhouse gases (GHG) of our clients for investments in renewable energy and energy efficiency projects. GHG avoidance for renewable energy projects is calculated as the expected electricity production once the project is operational, multiplied by the grid emission factor of the country. The GHG avoidance for energy efficiency projects is the difference between the project GHG emissions and the most likely alternative (i.e. industry average GHG emission per kWh energy production). For investments in green funds and 'green lines' to financial institutions, we estimate the expected GHG avoidance using a tool based on average GHG avoided per monetary unit per country and renewable energy technology. The reported amount of GHG avoided represents the expected annual GHG avoidance to be supported by the commitments of the reporting year.

Other reporting definitions
We have aligned our indicator definitions with internationally harmonized definitions if these are available. Below we have included the definitions of the reported impact indicators.

Smallholders supported
The number of smallholder farmers that have had active support from the client company in order to improve production practices that have beneficial effects on yields and/or reduce environmental degradation and/or improve social practices during the reporting period. Smallholder farmers are defined as marginal and sub-marginal farm households that own and/or cultivate relatively small plots of land. Common characteristics of smallholder farmers are that they have low access to technology, limited resources in terms of capital, skills and risk management, depend on family labor for most activities, and have limited capacity in terms of storage, marketing and processing. This definition has been sourced from the UN Food and Agriculture Organization (FAO). The source document is usually a social report or management report from our customer.

Number of micro loans financed
Micro enterprise loans with an original value up to USD 10,000, as reported by our financial institution customers.

Number of SME loans financed
SME loans with original value between USD 10,000 and USD 1,000,000, as reported by our financial institution customers.

Equivalent number of people served via power generation
The number of people served via power generation projects is estimated by dividing the annual amount of electric energy delivered to off takers during the reporting period by the power consumption per connected capita. The power consumption per connected capita is calculated as the electric power consumption per capita divided by the electrification rate (source: World Bank / IEA data).

Measurement of ESG risk management
We assess projects on ESG effects benchmarked against IFC Performance Standards during the due diligence and monitoring phases. If needed, we agree on actions plans and support our clients with technical assistance.

The agreed-upon ESG action plans must ensure compliance within set timeframes. 90% of actions due in 2017 had to be implemented. When deadlines for action items were postponed in 2017, approval from the Credit department (as independent second line of defense) needed to be obtained. Proposals for postponements had to be performed as Large Change Requests and changes in client contracts were mandatory.

Green investments
Investments are labelled “Green” following an internal approval process. Green investment criteria relate to the following three categories:

- **Climate Change Mitigation:** Activities that contribute to either reducing GHG emissions into the atmosphere, or sequestering GHG emissions from the atmosphere.
- **Climate Change Adaptation**: Activities intended to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience.
- **Other Footprint Reduction:** Activities that do not directly target climate change mitigation or adaptation yet have a positive impact on the environment including water, waste and biodiversity.

FMOs green eligibility criteria are aligned with the Common Principles for Climate Mitigation Finance, the Common Principles for Climate Adaptation Finance and the International Development Finance Club (IDFC) “Other Environmental Activities” with regard to water supply, waste water treatment, industrial pollution control, soil remediation and mine rehabilitation, waste management, biodiversity and sustainable infrastructure.

Catalyzed funds
Catalyzed funds are amounts committed by third parties that are demonstrably mobilized by FMO; for example syndicated loans where FMO is mandated arranger and parallel loans where FMO is formally in the lead.

2017 results include EUR 276 million third party funds from the first close of Climate Investor One, in addition to the FMO commitment of EUR 42 million and Access to Energy Fund commitment of EUR 50 million.

External assurance
We have asked EY to audit the annual accounts and to perform a review of the Report of the Management Board section of this integrated report. The scope of the review on this report is limited to the chapters ‘FMO at a glance’, ‘External environment’, ‘Our strategy’, ‘Our business model’, ‘Our performance’ and ‘How we report’. The review is conducted in accordance with Dutch Standard 3810N.

External commitments

PROJECT AND COMMITTEE MEMBERSHIPS

Project/Committee	Name	Role
Association of European Development Finance Institutions, European Financing Partners, Interact Climate Change Facility		FMO is a member
Natural Capital Coalition		FMO is a member
Arise (private equity investment holding company)	Jürgen Rigterink	Member of Supervisory Board
Royal Tropical Institute (KIT)	Jürgen Rigterink	Member of the Board of Directors
Foundation for Banking Ethics Enforcement	Linda Broekhuizen	Member of the Appeals Commission
Netherlands Council for Trade Promotion (NCH)	Linda Broekhuizen	Member of the Board of Directors
Nederlandse Vereniging van Banken		FMO is a member
Global Impact Investors Network (GIIN)		FMO is a member
IIRC Business network		FMO is a member
NpM Platform for Inclusive Finance		FMO is a member
Institutional Integrity Forum or Transparency International Netherlands		FMO is a member
Five Voluntary Principles of Mainstreaming Climate Change Actions		FMO is signatory
Platform Carbon Accounting Financials (PCAF) and the Dutch Carbon Pledge		FMO is signatory
Sustainable Development Goals Charter		FMO is signatory
Corporate Governance Development Framework		FMO is signatory

International principles

FMO follows a number of guidelines and principles, which helps us to improve the quality of our work and standardize our reporting.

IFC Performance Standards

OECD Guidelines

UN Guiding Principles on Business and Human Rights

International Labour Organization

Integrated Reporting

Global Reporting Initiative

Signatory of:

Principles for Responsible Investment

Equator Principles

Natural Capital Declaration

UN Principles for Investors in Inclusive Finance

UN Principles for Investors in Inclusive Finance

International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation – the FATF Recommendations

For our own operations, we maintain the following standards:
- MVO Prestatieladder
- The Gold Standard
- Corporate Governance Development Framework

Provision in the Articles of Association concerning the appropriation of profit

The provision and the appropriation of the net profit is based upon the Articles of Association and the Agreement State-FMO of November 16, 1998.

The General Meeting will determine which portion of the result of a financial year is reserved or in which way a loss will be incorporated, as well as the appropriation of the remaining profit, with regard to which the Supervisory Board and the Management Board can make a non-binding proposal in accordance with the provision and dividend policy adopted by the General Meeting, taking into account the relevant provisions in the Agreement State-FMO of November 16, 1998.

Proposal for appropriation of profit

A company net profit of €254,117 was recorded in 2017. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €248,561 to the contractual reserve. Therefore this profit is not completely distributable. The distributable element of the net profit amounts to €5,556 (2016: €6,682). The Management Board and the Supervisory Board propose distributing a sum of €5,556 (2016: €6,682) as cash dividend equaling €13.89 per A and B share (2016: €16.71 per A and B share). This proposal for dividend distribution can be withdrawn if FMO's economical and financial conditions deteriorate significantly in the period up to the moment of distribution of the dividend. This reservation is the result of the recommendation of the European Central Bank on December 28, 2017, and adopted by the Dutch Central Bank.

Guarantee provisions in the Agreement State-FMO of November 16, 1998

Article 7: Maintenance obligations in the event of depletion of General Risks Reserve (GRR) fund and inadequate cover for exceptional operating risks

7.1 To determine whether FMO has grounds for invoking the maintenance obligation (the 'State's Maintenance Obligation') as referred to in Article 7.2.1, the losses incurred by FMO as referred to in Article 7.2.2, as shown by the annual accounts drawn up for the relevant year in accordance with generally accepted accounting principles and in conformity with Part 9 of Book 2 of the Netherlands Civil Code and duly adopted by the competent corporate body, shall first be charged to the GRR fund.

7.2.1 The State undertakes vis-à-vis FMO to defray losses on its operations pursuant to Article 3.1 and 3.2 of this Agreement, as determined in Article 7.2.2, to the extent that such risks have not been covered by specific value adjustments and/or compensation and/or insurance benefits received or yet to be received, provided that:

a) the amount of such losses exceeds the size of the GRR fund as at December 31 of the year in which these losses were incurred; and

b) the inadequacy of the cover for general value adjustments under the GRR fund is due to abnormal operating risks, such as unforeseen political difficulties in, or transfer problems with, particular countries or the collapse of the world economy or a regional economy.

7.2.2 The parties shall consult together to determine the magnitude of such losses. Should they fail to agree, FMO's auditors and an auditor designated by the State shall make a reasonable and equitable calculation of the losses in accordance with generally accepted accounting principles.

7.3 If the circumstances arise as described in Article 7.2.1, under a) and b) and FMO requests the State to fulfill its obligations as referred to in Article 7.2, this shall give rise to a claim against the State, which shall be duly acknowledged by the State, on the first business day of the first financial year following the date of the request. Such request shall be in writing.

Article 8: Other financial security obligations

8.1 Without prejudice to the other provisions in this Agreement, the State shall prevent situations arising in which FMO is unable to meet the following (comprehensive enumerated) commitments on time: FMO's commitments in respect of:

(i) loans raised in the capital market;

(ii) short-term funds raised on the money market with maturities of two years or less;

(iii) swap agreements involving the exchange of principal and payment of interest;

(iv) swap agreements not involving the exchange of principal but with interest payment;

(v) foreign exchangeforward contracts and forward rate agreements (FRAs);

(vi) option and futures contracts;

(vii) combinations of the products referred to in (i) to (vi);

(viii) guarantees provided by FMO to third parties in respect of the financing of private companies in developing countries;

(ix) commitments relating to the maintenance of an adequate organization.

Notes to the guarantee provision

The GRR fund referred to in Article 7 is defined in Article 6 of the Agreement State-FMO of November 16, 1998, and consists of the share premium reserve of €21,211 plus the group-specific provision (formerly the general value adjustments) and the contractually required reserve. On December 31, 2017 the fund amounted (rounded) to €1,811,470 (2016: €1,603,302).

Glossary of terms

In the overview below we explain terms and topics that are included in the materiality matrix. We distinguish between topics within our own organization and external topics (via our investments), and we have listed which departments are responsible for management of the topics.

Topic	Explanation of terminology	Scope	Governance / management of material issues	Paragraph title
Development impact	FMO's positive indirect economic influence on local economies as participant or agent in socio-economic and environmental change	FMO's investments	Strategy, sector departments	Strategic performance
Transparency & Accountability	The extent to which FMO is operating in such a way that it is easy for stakeholders to see what actions are performed	FMO's own organization	Strategy	Accountability and compliance
Financial sustainability and risk appetite of FMO	The economic value generated (revenues) and distributed (operating costs, wages, payments to providers of capital and to government) by FMO within the boundaries of FMO's risk appetite	FMO's own organization	Finance, Risk Management, Credit	Financial performance
Client satisfaction	The extent to which FMO's products and services meet or surpass client expectations	FMO's own organization	Sector departments	Outlook
Additionality of FMO's activities	FMO provides products and services which the market does not provide, or does not provide on an adequate scale or on reasonable terms	FMO's investments	Strategy, sector departments	Our business model
ESG risk management	Businesses incorporating sustainable environmental, social and governance best practices enjoy stronger financial results and long-term viability; together with clients we therefore assess ESG risks, identify where ESG improvements can be made, agree on action plans for addressing improvements and support them on their way to meeting them	FMO's investments	Strategy, sector departments	Strategic performance
Inclusive development	Invest in projects with the specific aim of expanding access to goods, services and livelihood opportunities on a commercially viable basis to people at the Base of the Pyramid (people living on less than USD 8 per day in purchasing power parity or lacking access to basic goods, services, and income)	FMO's investments	Sector departments	Strategic performance
Catalyzing public & private capital	Provide access to investors to impact investing and new markets in emerging and developing countries, providing clients with increased access to finance and more diversified lending	FMO's investments	Sector departments, SYN, FIM, PIM	Strategic performance
Environmental footprint of our investments	Greenhouse gas emissions that follow from activities of companies that FMO finances	FMO's investments	Strategy, sector departments	Strategic performance
Innovation and knowledge management at FMO	FMO's approach to knowledge management and innovation within its own operations	FMO's own organization	Sector departments	Strategic performance

Support Dutch companies	Support Dutch businesses by facilitating investments in and export to emerging markets and developing countries.	FMO's investments	NedLinx B.V.	Strategic performance
Taxation (investment portfolio)	Contributions to governments are important for each nation to finance public goods such as infrastructure, health and education and thus contribute to the wellbeing of the people of such nation (for both more and less developed countries); compliance and trust from both tax payers, tax authorities and governments can create a healthy tax environment, and within FMO's power we aim to contribute to such an environment	FMO's investments	Finance & Control, sector departments	Report of the Supervisory Board
Local stakeholder engagement	FMO asks its clients to set up a local stakeholder engagement process including a local grievance mechanism; stakeholder engagement is important to identify risks and impacts at an early stage, and to help avoid, mitigate, and manage risks and impacts	FMO's investments	Sector departments	Strategic performance
Promote ESG best practices	FMO organizes seminars, training and conferences for clients, peers and industry stakeholders to enable knowledge-sharing on Environmental, Social & Good Governance practices	FMO's investments	Sector departments	Strategic performance
Networks	FMO partners with selected banks, development finance institutions, private investors, business organizations, knowledge institutes and civil society to complement the finance we provide to our clients with a network that enables the sharing of specialist knowledge and expertise	FMO's own organization	Strategy, sector departments	Strategic performance
Employee development in FMO	Policies, procedures and actions taken by FMO to provide training and education for skill and talent development and employability	FMO's own organization	Human Resources	Organizational results
Human rights	FMO recognizes that businesses have a duty to respect human rights (such as the right to information and freedom of expression, right to land, water, health and safety), and a responsibility to ensure that effective and accessible means of redressing infringements of human rights resulting from our business activities or those we support are available; human rights are an important aspect in ESG Risk Management	FMO's investments	Strategy, sector departments	Strategic performance
Diversity and equal opportunity	Actions taken by FMO and its clients to promote diversity, gender equality, equal remuneration and women's empowerment in their work force	FMO's own organization and investments	Sector departments, Human Resources	Organizational results
Investing in resource efficiency and renewable energy	Investments in resource efficiency (water, materials, waste) and renewable energy in response to climate change and resource scarcity	FMO's investments	Sector departments	Strategic performance
Biodiversity	Potential impact of FMO's investments on ecosystems	FMO's investments	Sector departments	Strategic performance
Business integrity of FMO	Policies, procedures and actions taken by FMO to ensure high standards of business conduct; examples include investment criteria, exclusion lists, anti-money laundering, anti-bribery and anti-corruption procedures	FMO's own organization	Compliance, Risk Management, Internal Audit	Accountability and compliance

Good labor practices and decent work conditions	Actions taken by FMO's clients to ensure a healthy and safe working environment, provide training and education, fair/living wages, freedom of association and collective bargaining, working hours, prevention of child/forced/compulsory labor and discrimination	FMO's investments	Sector departments	Strategic performance
Safeguard privacy of FMO's clients	Adequate systems and procedures in place to protect customer privacy and compliance with regulations	FMO's own organization	Compliance	In Control Statement
Remuneration policy of FMO	Remuneration policy and practices to reflect FMO's objectives of good corporate governance and sustained, long term value creation for its stakeholders; FMO has not had variable pay for members of the Management Board since 2012	FMO's own organization	Human Resources	Corporate Governance
Role in public debate	FMO's role in the public debate on sustainable development in developing countries	FMO's own organization	Strategy, Sector departments	External environment
Local presence	FMO has its head office in The Hague, NL and a local office in Johannesburg, SA; local presence enables more frequent contact with clients, resulting in better relationships and service	FMO's own organization	Sector departments	At a glance

Disclaimer

Presentation of information

This annual report (Annual Report) of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-Eu) and with Title 9 of Book 2 of the Netherlands Civil Code.

Cautionary statement regarding forward-looking statements

Certain of the statements in this Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that relate to, among other things, FMO's business, result of operation, financial condition, plans, objectives, goals, strategies, future events, future revenues and/or performance, capital expenditures, financing needs, plans or intentions, as well as assumptions thereof. These statements are based on FMO's current view with respect to future events and financial performance and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Words such as 'anticipate', 'believe', 'could', 'endeavor', 'estimate', 'expect', 'forecast', 'intend', 'predict', 'project', 'may', 'objectives', 'outlook', 'plan', 'strive', 'target', 'will', and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Actual results, performance or events may differ materially from those in such statements and from past results due to, without limitation: (i) changes in general economic conditions, in particular in FMO's core and niche markets, (ii) changes in the availability of, and costs associated with, sources of liquidity, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (iii) changes performance of financial markets, including emerging and developing markets, (iv) changes in interest rate levels, (v) changes in credit spread levels, (vi) changes in currency exchange rates, (vii) changes in general competitive factors, (viii) general changes in the valuation of assets, (ix) conclusions with regard to accounting assumptions and methodologies, (x) changes in law and regulations, including regulatory law and fiscal law, (xi) changes in policies of governments and/or regulatory authorities, (xii) changes in credit and financial strength ratings, (xiii) the results of our strategy and investment policies and objectives, (xiv) other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by FMO, and (xv) risks and uncertainties as addressed in this Annual Report.

The forward-looking statements speak only as of the date they are made. FMO does not undertake any obligation to publicly update or revise forward-looking statements contained in this Annual Report, whether as a result of new information, future events or for any other reason.

Neither do FMO nor any of its directors, officers or employees make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities.

Colophon

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Reporting scope
This integrated annual report covers activities that took place or had an effect on the reporting year.

FMO publishes its integrated annual report on 26 March 2018. The annual shareholders' meeting is in May. The report is audited by an external auditor. Please read EY's auditor's report for detailed information on the scope of their work. Previous reports are available on www.fmo.nl/reports