FMO

Entrepreneurial
Development
Bank

ANNUAL REPORT

2018

Our mission is to
empower entrepreneurs to
build a better world

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AT A GLANCE

FMO is the Dutch development bank

Since 1970 we have been a driving force behind investments empowering local entrepreneurs in emerging markets. We believe in a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources.

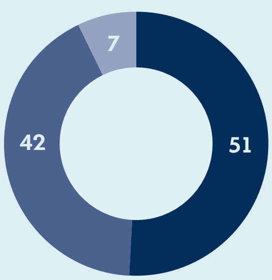
We invest with the aim of enhancing local prosperity in places where this is needed most. We focus on the private sector in the following three industries: Energy, Financial Institutions and Agribusiness, Food & Water. In these markets we empower entrepreneurs to build a better world. We take risks that the commercial sector is not 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, decrease inequality and improve climate. We have a strategy that aims to be your preferred partner to invest in local prosperity.

FMO has its head office in The Hague, the Netherlands with a local office in Johannesburg, South Africa.

2018 ORGANISATION

Ownership structure %



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

Ratings

AAA
Fitch ratings

AAA
Standard&Poor's

85/ 100
Sustainalytics

Prime
Oekom Research

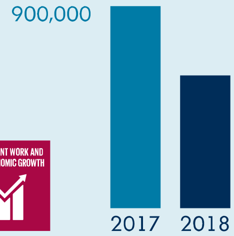
Employees

533
Total number of employees

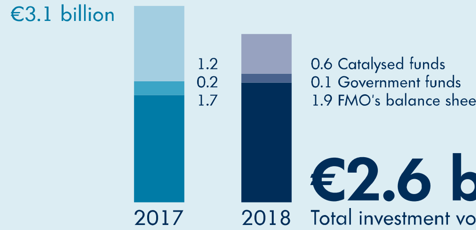
50
Number of nationalities

39%
of women in senior and middle management

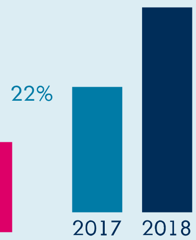
2018 HIGHER IMPACT PORTFOLIO



615,000
Jobs supported

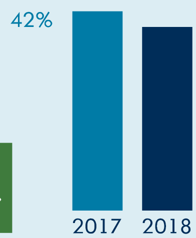


€2.6 billion
Total investment volume



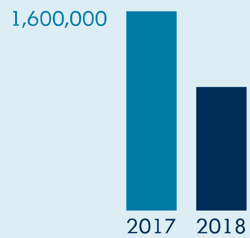
36%
Reducing inequality investments (% of total)

Investments in least developed countries and in inclusive business



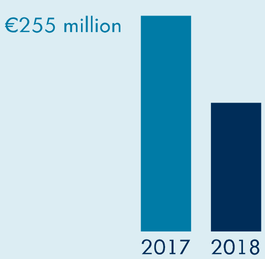
36%
Green investments (% of total)

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

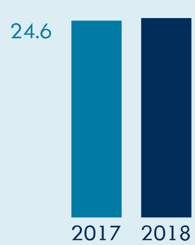


988,000
Avoided greenhouse gas emissions (tCO_2eq)

2018 FINANCIAL PERFORMANCE



€151 million
Net profit

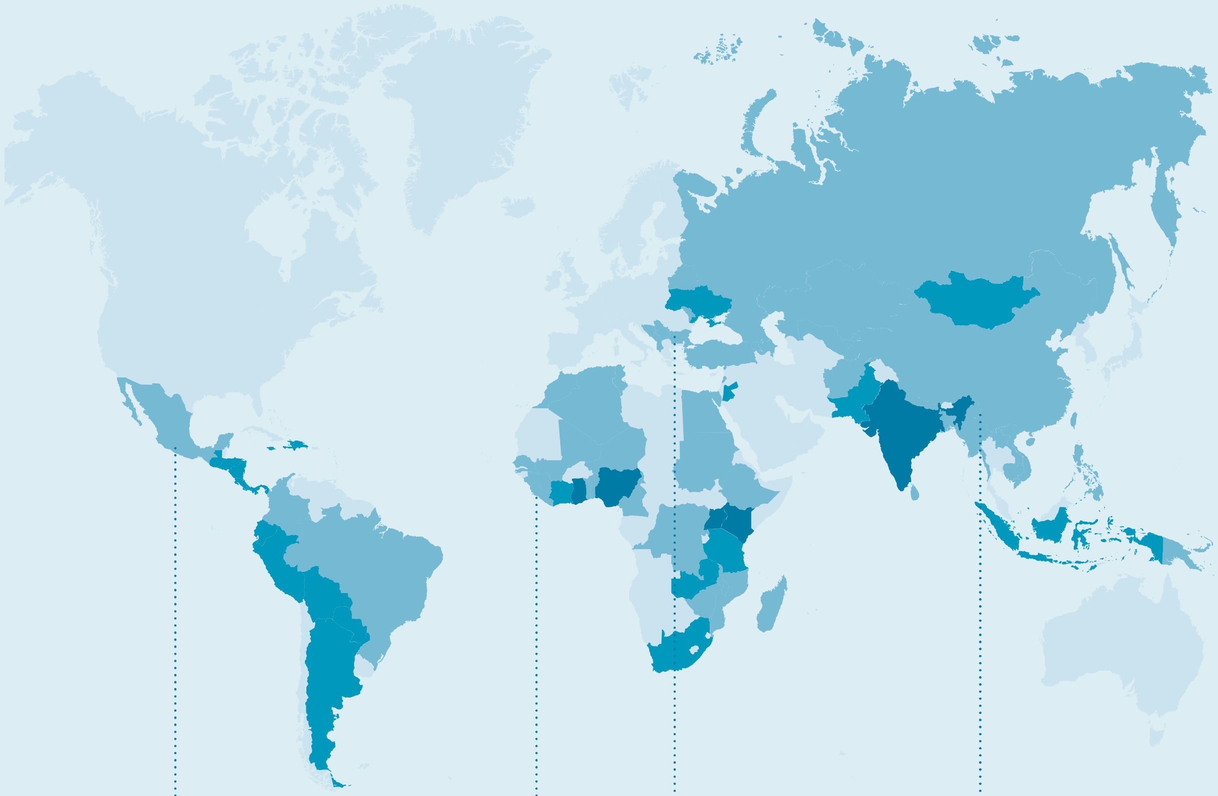


24.6
CET1(%)

Note: total committed portfolio consists of €8.5 billion for FMO and €1.1 billion for government funds

€9.6 billion

Total committed portfolio

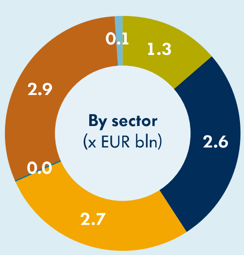


Total committed portfolio by region (per 31 December 2018)

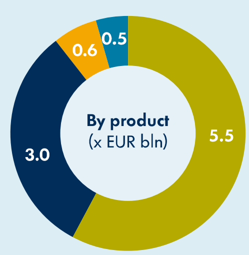
Latin America & the Caribbean	Africa	Eastern Europe & Central Asia	Asia	Non-region specific
€1.8 bln	**€3.3** bln	**€1.5** bln	**€2.3** bln	**€0.7** bln

Total committed portfolio

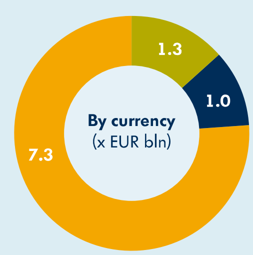
€9.6 bln



- Agribusiness, Food & Water
- Energy
- Financial Institutions
- NL Business
- Private Equity
- Other



- Loans
- Equity
- Mezzanine
- Guarantees



- EUR
- Local currency
- USD

KEY FIGURES

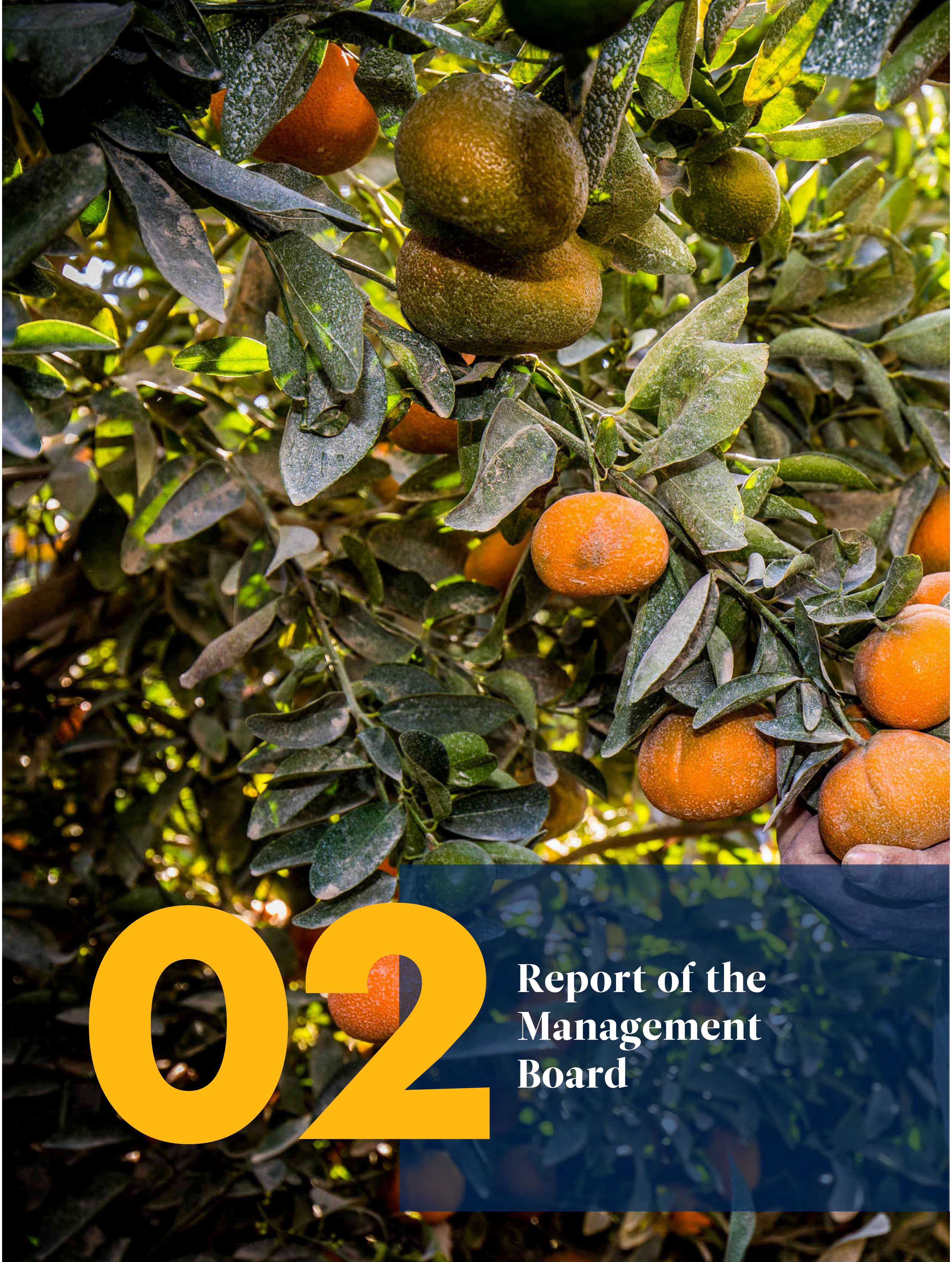
In € million unless stated otherwise

Strategic objective	Performance metric	2018	2017	2018 target
Higher impact portfolio	Total investment volume	2,637	3,057	2,630
	of which			
	for FMO's balance sheet	1,873	1,737	1,548
	Government funds	135	210	162
	Catalysed funds	629	1,111	920
	Green (% of total)	36%	42%	32%
	Reducing Inequalities (% of total)	36%	22%	25%
	ESG Target Performance (% of risks managed)[1]	95%	n/a	90%
Deeper relationships	Catalysed funds	629	1,111	920
	Client Satisfaction (NPS score)[2]	69.5	n/a	70
	Employee engagement	7.4	7.4	7.5
	NL Business[1]	30	n/a	100
Higher productivity	Implementation strategic projects	according to plan		according to plan
	Operating income	286	444	370

Financial indicators	Performance metric	2018	2017
Profit & Loss account	Operating income	286	444
	Operating expenses	-107	-99
	Impairments	-12	-62
	Net profit	151	255
	Underlying net profit	108	n/a
Balance sheet	Net loans	4.8	4.2
	Equity investment portfolio (incl. associates)	1.8	1.7
	Total assets	8.5	8.3
	Shareholders' equity	3.0	2.8
	Debentures & notes	5.1	5.1
Ratios at end of period (%)	Non Performing Loans (NPL)	8.1%	5.6%
	Return on average shareholders' equity	5.2%	9.1%
	Common Equity Tier 1 (CET 1)	24.6%	24.6%

1 For 2018 new targets were introduced to align with our steering metrics.

2 Client satisfaction is measured through a client satsifaction survey once every 3 years.



02 Report of the Management Board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Dear reader,

We look back on 2018 as a pivotal year for the development finance industry in general and FMO in particular. Various countries significantly upped their funding for development finance, sparking more opportunities for the private sector in our markets. At the same time, development finance institutions took on a more prominent role, making some bold decisions.

Last year brought more consensus that climate change and inequality are among the world's most pressing challenges. We are harmonizing our procedures around impact reporting, and global institutions such as the G20, World Bank, and IFC have put impact reporting on their agenda. Also, globally, we see growing interest in Africa; its different African regions and countries are rightfully seen as opportunities for the private sector.

This renewed vigour was also noticeable in the Netherlands. In 2018, the Minister for Foreign Trade and Development Cooperation launched a policy that calls on the private sector to play a more prominent and innovative role in achieving the Sustainable Development Goals. FMO is asked to participate in a Dutch state-owned company that will help the Dutch private sector to invest outside the Netherlands. This company, which we are building together with the Dutch Enterprise Agency (RVO) and other relevant players, will provide Dutch corporates with a knowledgeable and clear point of entrance to successfully do business in countries that are sometimes considered to be some of the most challenging environments in the world.

In addition, our mandate for the Dutch state's Infrastructure Development Fund and Access to Energy Fund was extended for a decade until 2028 and both funds will grow substantially.

Another of last year's highlights was FMO Investment Management's first close of the NN-FMO Emerging Markets Loans Fund. Its largest fund to date ($250 million) enables European institutional investors to co-invest alongside FMO. We are also proud that the European Commission awarded us the management of the NASIRA risk-sharing facility, which will allow us to finance underserved entrepreneurs in the European neighbourhood and Sub-Saharan Africa. We also signed an agreement with the United Nation's Green Climate Fund (GCF), which will enable us to provide blended finance solutions to accelerate climate mitigation and adaptation projects. And we developed a pioneering vision and underlying accounting methodology for limiting global warming to only 1.5°C, which we presented at the COP24 meeting in Poland.

Our first and foremost priority is to achieve higher impact on Decent Work and Economic Growth (SDG 8), Reduced Inequalities (SDG 10) and Climate Action (SDG 13). Our two other strategic pillars are to deepen relationships with all our stakeholders and to increase our productivity.

Looking back on 2018, the Management Board is pleased with our overall results across all three goals. In terms of impact we performed above target on our green and inequality investments and were on target for our overall volume. This is mainly due to a solid performance in our three core markets, which are Agribusiness, Food & Water, Energy and Financial Institutions, while the private equity portfolio contributed less to the results than expected. Also we mobilized less capital then we had hoped for.

We organised the fifth edition of our Future of Finance conference and the second edition of Making Solar Bankable. Both events offer a platform for our clients, partners and investors to build international networks and share experiences and perspectives on relevant themes for their sector. And Queen Máxima of the Netherlands, who is the UN Secretary-General's Special Advocate for Inclusive Finance for Development, was keynote speaker at Power of Partnerships. This event brought together female entrepreneurs from emerging markets, financial institutions and women business networks to see how finance can contribute towards gender equality. Furthermore, FMO scored an 8.5 in our client satisfaction survey, in which our clients complimented us on our professionalism, competence and reliability.

In terms of the third strategic goal, which is to increase productivity, in 2018 we worked to make our own house future proof. We began optimising and digitising our core processes, working on better impact reporting, our management information systems as well as business process optimisation. FMO's effectiveness and efficiency, however, are not yet where we want them to be, and this continues to have our full attention, which will require additional investments in the coming years. We also embarked on a journey to redefine FMO's values and corresponding behaviours. All of our staff were involved in a process that yielded four values that underpin our culture: making the difference, diversity, quality and integrity. These four values and their accompanying twelve behaviours will be guiding us in our process to further improve FMO itself and in our role as a platform organisation.

The Management Board itself experienced a dynamic 2018. Peter joined FMO in July and the three of us quickly found a new rhythm and pace. Working together we realised that FMO had a lot of untapped potential for having more impact and we determined ways to realise that. Not just by further improving the efficiency and the effectiveness of our organisation, for example through digitalisation and by innovating with partners, but also by building on our leadership in the industry. Together with the European DFIs we are well positioned to increase understanding of the European way of thinking around development by the other bilateral and multilateral development institutions.

The new year holds an ambitious agenda for FMO. We will strengthen relations with NGOs, governments and institutional investors, and find more mobilizing partners. We also want to build on the appetite to invest in emerging countries we have witnessed. Therefore, we have budgeted approximately €3 billion of sustainable investments in emerging economies, and encourage Dutch businesses to make investments that contribute towards the SDGs. Finally, we will work with our partners to achieve better aligned impact measurement and strengthen our own internal ability to be effective and efficient.

Inequality and climate change are monumental challenges and the work that needs to be done in the emerging economies is extensive. But we also feel excitement and optimism. Because the entrepreneurs we partner with are creative; because the countries we operate in are resilient; and because new technologies are enabling new solutions. We sincerely believe that the world will come together to solve these challenges because doing nothing is not an option.

We would like to thank all our stakeholders for their continuous support in the last year, including our clients and investors, the Dutch Ministries of Finance and of Foreign Trade and Development Cooperation, the NGOs that help us to improve and, most of all, our colleagues for giving their best every day.

Fatoumata Bouaré, Chief Risk & Finance Officer
Linda Broekhuizen, Chief Investment Officer
Peter van Mierlo, Chief Executive Officer

OUR SDGs

10 REDUCED INEQUALITIES
8 DECENT WORK AND ECONOMIC GROWTH
13 CLIMATE ACTION
17 PARTNERSHIPS FOR THE GOALS
2 ZERO HUNGER
7 AFFORDABLE AND CLEAN ENERGY
5 GENDER EQUALITY
ENHANCE THROUGH FMO ESG FRAMEWORK
Environmental
Governance
Socio-economic
FOCUS IN PORTFOLIOS

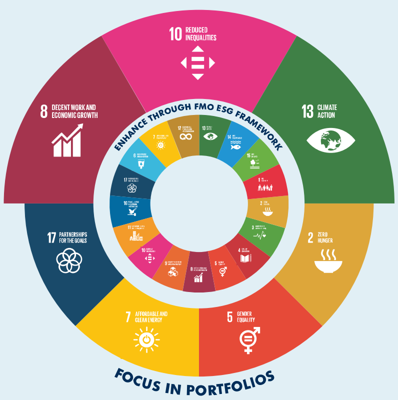
OUR VISION

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

OUR MISSION

We empower entrepreneurs to build a better world.

OUR SDGs



STRATEGIC GOAL

Your preferred partner to invest in local prosperity.

OUR MARKETS

OUR STRATEGY

→ Higher Impact Portfolio

→ Deeper Relationships

→ Higher Productivity

OUR VALUES AND BEHAVIOURS

Making the difference	Diversity	Quality	Integrity
We are courageous and entrepreneurial	We respect differences and listen	We are accountable and support clear decisions	We are responsible and compliant
We create value for all our stakeholders	We embrace dilemmas	We communicate expectations and share feedback	We are transparent and build trust
We accelerate sustainable development	We include multiple perspectives	We learn, professionalize and innovate together	We are true to our vision and mission

In 2018 we saw the world's two prime challenges – climate change and inequality – become even more pressing.

The UN Intergovernmental Panel on Climate Change (IPCC) released a landmark report saying the world has only 12 years to keep global warming under 1.5°C, or risk catastrophic floods, heat, drought and poverty for hundreds of millions of people. Meanwhile the 2018 COP24 climate conference in Poland, which follows up on the 2015 Paris Climate Agreement, failed to reach an agreement on how countries will step up their emission cuts. Current targets put the world on a path towards 3°C of warming and new targets will only be discussed in 2020. COP24, however, did result in an agreement on how governments will measure, report on and verify their emissions-cutting efforts.

Recent reports also confirm the need to reduce inequality, which in turn implies the availability of jobs. The World Inequality Report 2018 showed that although the poorest half of humanity captured 12% of global income growth between 1980 and 2016, the top 1% captured 27%. Oxfam's 'Public good or private wealth' report puts it in concrete terms: the wealth of the world's 2,208 billionaires increased by $2.5 billion per day in 2018, while 3.4 billion people were living on less than $5.50 a day. Improving the lives of all these people is only possible if the world's economies are able to create stable and well-paid jobs, something FMO focuses on through its investments. The number of required jobs is high and increasing, though, due to growth of the global population.

Promote inclusive and sustainable economic growth, and decent work for all

Reduce inequalities within and among countries

Taking urgent action to tackle climate change and its impacts

In 2018 we also saw slow progress towards a more universally shared method of reporting on impact. In 2018 the UN suggested ways that corporations should report progress on the 17 SDGs. By and large, however, development finance institutions and other stakeholders each have their own way of measuring and reporting impact, making it hard to determine which approaches are most useful. FMO is actively encouraging the financial industry to try to align its approaches.

While progress on climate change and inequality is frustratingly glacial, technological developments are occurring at a breakneck pace. Around us we are seeing incredible developments in artificial intelligence, quantum computing, data analytics, robotics, drones, blockchain, 3D printing, and the fusion of biology and technology. We believe that some of these technologies have the power to change the fortunes of underserved people, if these developments can be scaled up to the benefit of all.

Blended finance

More funding is becoming available towards the realisation of the SDGs as stakeholders are recognising there is an urgent need to act. On the one hand, the capital of existing multilateral banks such as the World Bank and the IFC is being strengthened. On the other hand, new multilateral banks are being designed, such as the European Investment Bank's EU Bank for external Investment and Partnership.

Meanwhile, public institutions such as the European Commission and the Green Climate Fund are increasing their capacity to blend public resources with private capital. We see this as an opportunity to pursue higher risk and higher impact projects in our focus sectors and mobilise commercial parties with structures that make risks acceptable to them.

To ensure the effective and efficient use of blended finance and avoid market distortion or crowding out private capital, multilaterals and DFIs need to align their blended finance approaches. Given our strategic goal to crowd-in commercial investors, FMO actively engages in this discussion. We do so in co-operation with our peers through EDFI, the association of European Development Finance Institutions.

Dutch foreign policy

In May 2018, the Dutch Ministry of Foreign Trade and Development Cooperation published its new vision on sustainable development. In a report entitled 'Investing in Global Prospects; for the world, for the Netherlands', the Ministry describes how it aims to support efforts to tackle the root causes of poverty, migration, terrorism and climate change in unstable regions in the Sahel, the Horn of Africa, the Middle East and North Africa.

FMO's 2025 strategy and four-year plan align with this new policy, by including investments in the European Neighbourhood, and by supporting youth, women, refugees and their host communities. We believe that this area in general and these groups in particular have tremendous potential for having a positive impact on all our three SDGs.

That is why with other stakeholders we are contributing to the development of an Africa strategy for the Dutch private sector and why we support the investments of Dutch businesses in emerging markets through our NL Business activities, for which we will set up a new institution with the Dutch state.

Transparency and accountability

Local communities, NGOs, governments and the media increasingly expect development banks and their partners to pay attention to and communicate transparently about the full impact of their investments. This is key to truly fostering local prosperity.

FMO's environmental, social and governance (ESG) management procedures ensure that, where necessary, local communities are consulted early on in the project development process, negative effects are sufficiently mitigated, and local communities genuinely benefit from our investments. Stakeholders also expect early disclosure of project information.

FMO acknowledges this need for transparency and accountability. To this end we have implemented our Sustainability Policy and Disclosure Policy and we have ongoing dialogue with stakeholders such as NGOs and the Dutch government. By tapping into the expertise of NGOs, we enrich our understanding of local circumstances and inform our decision-making and policy development.

Regulatory change

National and international regulations impact the banking activities of FMO, such as how performance is reported or limiting certain equity investments. In 2018 FMO implemented IFRS 9 and this significantly impacted the volatility of our reported financials. Moreover, the proposed amendments to the CRR (CRR-2) and the implementation of Basel IV into European legislation could tighten the capital requirements of FMO and, in turn, lower our ability to provide high risk capital, as well as make us less competitive than parties not subjected to a regulatory regime. The final proposed text, however, does include an exemption for the risk-weighted assets rules for multi & bilateral developments' private equity investments in developing countries. As these regulations are still subject to debate and approval at EU level, it remains uncertain how they will ultimately affect us.

Also in 2018 the European Commission launched the Action Plan on Financing Sustainable Growth to encourage green investments and mitigate the risks to investors posed by climate change. Measures include a unified EU classification system, regulations on how financial market participants should integrate ESG in their decision-making, and a new market standard on sustainability disclosures.

It is difficult to predict the timing or form of any other future regulatory or enforcement initiatives, so we closely monitor developments in the legislative process. Please refer to the Risk Management section for further details.

Stakeholders and material topics

We actively engage with our stakeholders to find out what matters most to them and improve our decision-making and reporting. 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 that strategy.

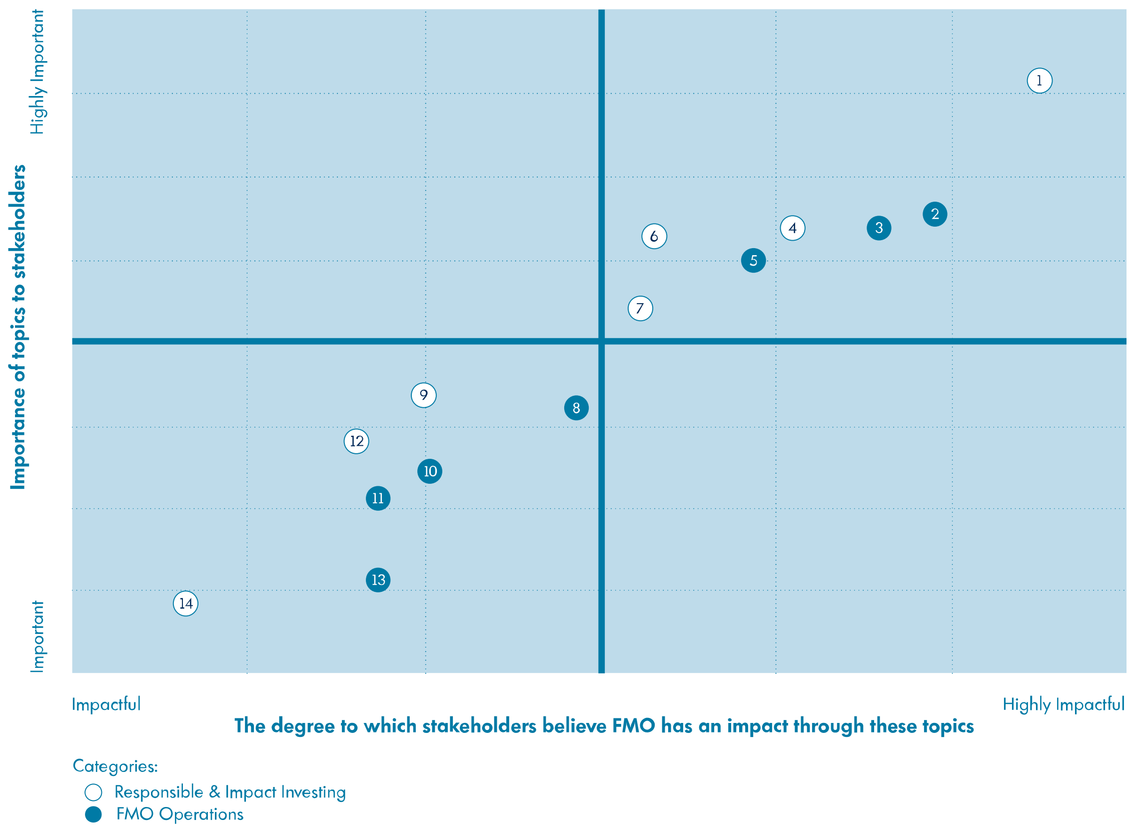
The following table provides an overview of our key stakeholders and how we engage with each of them. It also outlines which topics and subtopics are most material to them.

Stakeholder group	Engagement	Frequency	Most Material Topics/Subtopics
Clients - 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	Development impact (inclusive development, early stage projects, mobilizing private and public capital) Financial sustainability Client satisfaction (product offering)
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.	Organized meetings with Ministry of Finance and Ministry of Foreign Trade and Development Cooperation	Regular	Development Impact (inclusive development, early stage projects, additionality) Financial sustainability Transparency and accountability
Shareholders - The remaining 49% of our shareholders' capital is provided by Dutch commercial banks, trade unions and other members of the private sector.	Annual General Meeting of shareholders	Annually	Financial sustainability Development impact (environmentally sustainable development, early stage projects) Transparency and accountability
Employees - Includes Directors and FMO Management Board	Works council meetings, department meetings, town hall meetings	Scheduled	Development impact (inclusive development, environmentally sustainable development) Financial sustainability Environmental footprint (GHG emissions, deforestation)
Investors - Includes Bond Investors, Public Investors and Commercial partners who help us catalyze private capital through syndicated loans.	Roadshows, frequent meetings	Frequent	Development impact Transparency and accountability Business integrity
Partner DFIs - Includes International Financial Institutions and Multilateral banks	Business meetings	Scheduled	Development impact (environmentally sustainable development, inclusive development) Financial sustainability Promote ESG best practices
Non-governmental organizations (NGOs) - Includes international organizations with corporate/local presence that represent environmental and human rights advocates, knowledge centers and banking whistle blowers.	Specifically, organized meetings	Scheduled	Environmental footprint of FMO's investments (GHG emissions, deforestation) Human rights (local stakeholder engagement, land and livelihood) Development impact (environmentally sustainable development, early stage projects)
Local communities and clients of clients* - As FMO is active in more than 80 countries, we work with NGOs to gain deeper understanding of local community needs.	Ad hoc meetings	Ad hoc	N/A
Supervisor and regulator*	Regular organized meetings	Scheduled	N/A
Knowledge partners – Universities, NGOs, evaluation partners, etc.	Organized meetings	Scheduled	Environmental footprint of FMO's investments (deforestation and land use change, Greenhouse gas emissions) Promote ESG best practices Development impact (environmentally sustainable development)

* Not included in materiality survey, please refer to How we report

In 2018, FMO's key stakeholders were asked to rank 14 topics on their importance and the degree to which they believe FMO has an impact on them, as prescribed by Global Reporting Initiative (GRI) standards. The results are used to guide the reporting process for this annual report. A more detailed explanation of the assessment is included in the How we report section. For a full list of topics and subtopics please see annex Glossary of terms. The results were plotted along two dimensions: the importance to stakeholders (on the vertical axis) and their impact on society, environment and the economy (plotted on the horizontal axis). The top right quadrant represents FMO's material topics, the topics our stakeholders found to be highly important and very impactful.

Materiality matrix



1. Development impact through responsible investing
2. Financial sustainability and risk appetite of FMO
3. Transparency & accountability of FMO's activities
4. Environmental footprint of FMO's investments
5. Business integrity of FMO
6. Promote ESG best practices
7. Human rights
8. Client satisfaction
9. Responsible taxation of FMO's investments
10. Environmental impact of FMO's operations and business travel
11. Employee engagement at FMO
12. Role in public debate
13. Data protection and privacy
14. Animal welfare

The results of the survey provide validation that FMO's strategic focus and reporting is in line with stakeholder expectations. There is consensus among our stakeholders on the importance of sustainable economic growth, reducing inequalities (both part of Development impact through responsible investing), and climate action (Environmental footprint of FMO's investments).

Furthermore, our stakeholders confirm the importance of financial sustainability and risk appetite. A strong balance sheet and profitable operations allow us to further increase our investments for impact, but also enable us to attract partners to co-finance the businesses and projects that generate impact, allowing us to act as a catalyst. Finally, the results confirm that being accountable and transparent is conditional to our role as development bank.

The survey also taught us that some areas have become more important and impactful. Stakeholders increasingly expect us to be accountable for the human rights risks in our portfolio. In 2018, we made human rights an integral part of our investment process and published our first human rights progress report.

We have also continued our engagements with the Dutch Banking sector on human rights to further implement the UNGPs through the Dutch Banking Agreement on Human Rights. We recognise that we still have work to do to track the outcomes of our clients' efforts to respect human rights and will continue to invest in this area.

Another area is business integrity. Stakeholders expect us to ensure our funding contributes to a better world, benefitting the people that need it most. At FMO we take substantial measures to ensure that our investment process as well as employees, clients and partners adhere to high ethical standards. Please refer to the next section that describes our investment process in chapter Our business model for more information on human rights and business integrity.

A third area that has become more important is FMO’s role in promoting ESG best practices. Our stakeholders support our efforts to use our unique position in the Netherlands and our markets to share knowledge and networks, thereby leveraging our impact beyond our financing.

DILEMMA:

Economic growth vs climate change

FMO shares our stakeholders' concern for the state of the world and we believe that doing makes a difference. That is why our investments are designed to create decent work and economic growth, reduce inequality and fight climate change. We acknowledge, however, that in pursuit of these goals the need for economic growth and action on climate change can conflict with one another.

The most recent report from the Intergovernmental Panel on Climate Change (IPCC) emphasises it is crucial to prevent temperatures from increasing by more than 1.5°C. Considering current emission levels, investments that only reduce emissions may not be enough. And investments in low emitting sectors won't ensure any aggregate advance unless everyone follows. This means there is a need for more ambitious projects and for governments, the private sector and the financial sector to step up their efforts.

If, for example, investments were to be directed at unsustainable sectors where large improvements are possible, conflicting results may occur. Such investments would allow countries to achieve growth and reduce inequality, but at the cost of prolonging the existence of unsustainable industries.

FMO constantly weighs up climate impact against supporting decent work and economic growth, and reducing inequalities. Sometimes we do invest in high-emission sectors, like the dairy industry where we support the livelihood of smallholder farmers. We subsequently advise and guide those clients on how to minimise their CO_2 footprint. On the other hand, in 2016 FMO published its position statement not to finance coal-based power and coal mining projects. Increasingly, we do see capital and jobs shifting to greener industries.

Now, we are not trying to solve the conflict between growth and climate change, but we do try to make the best possible investment decision. That is why we support efforts in the financial sector to develop broadly-shared measurement standards, such as the Platform Carbon Accounting Financials (PCAF) and globally accepted reporting rules and definitions. These will make it easier to make better informed investment decisions.

What we also did in 2018 was to publish for consultation our work on a methodology to establish a 1.5°C emissions reduction pathway for our portfolio, as well as develop a greenhouse gas (GHG) accounting approach for absolute emissions. In 2019 and beyond we will use this methodology as a guide which will measure our progress towards a portfolio which is in line with the 1.5°C pathway.

OUR BUSINESS MODEL

Since 1970, FMO has made a positive difference in emerging economies by empowering entrepreneurs to build a better world. We create long-term value by investing in the private sector and at the same time support direct and indirect jobs, decrease inequality or have a mitigating impact on climate change.

Our business model is visualised in the below diagram, which combines elements from the International Integrated Reporting Council (IIRC) reporting framework and the elements that are most relevant to us.

Inputs - Our key assets	External environment	Why	How	What	Outputs - Value created for our stakeholders:
Human Professional and skilled staff **Intellectual** Knowledge of finance and ESG in developing countries **External relationships** Network of clients, investors, partners, universities & think tanks **Financial** Strong capital base AAA rating Dutch state guarantee	**External developments** **Stakeholders:** • Clients • Dutch state • Shareholders • Employees • Investors • Partner DFIs • NGOs • Local communities • Supervisor and regulator • Knowledge partners	**Vision** We believe in a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources **Mission** We empower entrepreneurs to build a better world **Strategic goal** Your preffered partner to invest in local prosperity	**Strategy 2025** • Higher impact portfolio • Deeper relationships • Higher productivity **Guiding principles** • Additionality • Catalysing • Good governance **Core values** • Making the difference • Diversity • Quality • Integrity **Our markets** • Agribusiness, Food & Water • Energy • Financial Institutions • Dutch Business **Regions** • Africa • Asia • Eastern Europe & Central Asia • Latin America & the Caribbean	**Long term finance** • Loans • Syndicated loans • Private equity • Guarantees • Trade finance **Investment management** • FMO Investment Management • Public Investment Management **Advisory & capacity building** • ESG reviews and action plans • Capacity development • Knowledge exchange • Masterclasses & events • Sector-wide sustainable finance initiatives	**Clients** The means to build sustainable companies that contribute to local prosperity **Local communities** Economic prosperity for current and future generations through income and jobs with attention for the environment, equal opportunities and human rights **Employees** Career development in an international and mission-driven organization **Investors** Investments for both financial returns and development impact **Dutch state** Contribution to Dutch foreign trade & development objectives **Shareholders** Development impact and stable risk-return

Our key inputs - Our solid track record as a development bank demonstrates our cutting-edge knowledge of ESG and commercial finance in developing countries. These qualities are further strengthened by employees who feel a strong drive to fulfil our mission and a willingness to take risks, balanced by our risk awareness.

Our partnerships include networks of clients, knowledge partners and financial partners such as multilateral and development finance institutions, commercial investors, banks, and governments. By connecting their networks and resources to our own, and by inspiring them to take action, we can greatly increase the impact we all have on the world around us. Considering how urgent and complex climate change and inequality are, we need this alignment if we are going to turn things around.

FMO has a AAA credit rating, which allows us to attract funding for long-term development at affordable rates. Our AAA rating is strategically important for FMO and follows from the Dutch State guarantee.

Why - We believe in a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources. Our mission is to empower entrepreneurs to build a better world. Our goal is to be the preferred partner for our stakeholders to invest in local prosperity.

How - All our investments are guided by the following principles:

- Additionality: providing financial products and services which commercial banks or other investors do not provide, or do not provide on an adequate scale or on reasonable terms. FMO can also be additional through sharing ESG expertise that other parties do not possess. In 2018 100% of our investments were either financially or ESG additional and 43% were both financially additional and ESG additional;
- Catalysing: maximising the flow of finance to FMO's target sectors and groups. This requires FMO to maximise the growth in and utilisation of its equity and the leverage provided by its financing activities;
- Good governance: adherence to the principles of good governance in the widest sense. FMO sets the standard in several areas of its operations, including social and environmental policy.

Our actions are guided by four shared values and the behaviours through which they are expressed. During 2018 we started a process to determine these values and behaviours and performance on these values will be part of the periodic appraisals and performance management cycle. FMO's Code of Conduct plays an important role when onboarding new colleagues. Key elements in this code (integrity, transparency, respect and professionalism) are reflected in policies and procedures and monitored by management. Concerns regarding any of these elements can be raised via our Speak Up Policy.

Besides organisational and operational controls we feel that behaviour and culture have a significant impact on our integrity. In recent years we have encouraged staff at all levels of the organisation to lead by example and provide open feedback. In the years ahead we will continue to strengthen our culture in this area, something that is regularly discussed with FMO's Supervisory Board.

What - We offer long-term financing through loans, private equity, guarantees and trade finance. Where appropriate we provide our funding in local currencies. Thanks to our experience and track record, we can offer other public and commercial partners the chance to invest comfortably with us, allowing us to mobilize more funding for our clients and achieve greater impact. Our role extends beyond that of a financier. We actively promote best practice in ESG, and support knowledge exchange and technical expertise and bring key players and regulators together to create sector level playing fields.

Our outputs – Through the financing and services we provide we create long-term value for our stakeholders. Our investments support local economic growth and jobs, reduce inequality, and fight climate change in countries that are most vulnerable to it. We enable local and Dutch entrepreneurs to grow their businesses through our financing. We provide opportunities for investors to invest for impact and return. Our value creation goes beyond financing, however. We empower entrepreneurs to develop sustainable business models by means of trainings, peer-to-peer learning, and sector-wide initiatives through our capacity development programme. By doing so they are better equipped to make a positive contribution to the global challenges we are all facing, but we also firmly believe that our clients will perform better because of this, in turn making our investments better and reducing risk. Healthy returns enable us to further increase our ability to invest for impact.

Investment process

FMO aims to promote sustainable development in places where it is needed the most and financing can be hard to obtain. To this end, we make investments in businesses and projects in emerging countries. These investments are not only financially complex, but also involve a broad range of stakeholders with widely different needs in environments that are not always stable and transparent. To successfully deal with all these factors, FMO follows a well-organised investment process that comprises six parts, visualised below.

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. To this end, our investments are guided by policies that ensure that sustainability is at the heart of our operations and our way of working adheres to high ethical standards. The environmental risks we assess relate to the impact a project may have on emissions to air including but not limited to greenhouse gas emissions, water consumption, waste management and biodiversity. Our environmental risk assessment is guided by IFC Performance Standard (IFC PS) 3 Resource Efficiency and Pollution Prevention and IFC PS 6 Biodiversity. Our social risk assessment is also guided by the IFC Performance Standards and considers among others workers health and safety, labour rights, the impact of the investment on local communities, land rights or indigenous people.

As a bank FMO runs the risk of becoming involved in money laundering or financing terrorism. 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 we conduct business with reputable customers and have adequate policies and procedures to deter criminal activity. For more on FMO's risk management please refer to the risk management section. Applicable investment policies and guidelines can be found on our website.

Our investment process

I CLIENT SELECTION

Within our key markets, we identify project opportunities to pursue.

Our ESG staff are part of our investment teams so that ESG considerations are included from the start. In our initial selection, we check country, exclusion list, the viability of the investment plan and the business itself, the impact of our financing and our additionality

II CLEARANCE IN PRINCIPLE

We perform an initial assessment of risks and opportunities, define the key terms of client engagement, and scope any further assessment needs.

We document these processes in a 'clearance in principle' proposal, informing FMO's decision to continue preparing an opportunity for a final investment decision.

We conduct a Know Your Customer assessment to ensure that the client complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations. The financing opportunity is also assessed against potential effects on environmental, social and human rights conditions, as well as governance structures.

III DUE DILIGENCE

We carry out a detailed project assessment. We document the results in a finance proposal informing FMO's final decision to invest.

We perform a site visit, including visits to key stakeholders. Where needed, we engage consultant support in various fields also regarding our client's tax practices where we can offer in-house expertise. We define and negotiate further ESG requirements and conduct further human rights contextual risk assessment as informed by 'clearance in principle'. This includes on-the-ground research and consultation with local civil society.

IV DECISION TO INVEST

Our credit department evaluates all finance proposals and writes credits advices in support of a final investment decision by the investment committee.

After investment approval, FMO discloses proposed investments for 30 days prior to contracting. We do this by using a World Map on our website. This provides stakeholders with the opportunity to provide their input.

V CONTRACTING & INVESTMENT DISCLOSURE

FMO includes ESG and if needed human rights-related requirements and conditions in all its agreements with clients to ensure that they are legally binding.

We disclose all contracted investments during the full tenor of our engagement in the World Map on our website. Finalize and include ESG and human rights -related covenants and ESG action plans as needed in the legal agreement. Signed investments are disclosed on FMO website, including ESG categorization and rationale.

VI DISBURSEMENT

Disbursement can take place upon achievement of the disbursement related conditions, ESG and other, as set in the legal agreement.

VII MONITORING & VALUE CREATION

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

We continue to work with our clients to ensure implementation of our ESG requirements. We review the client's and consultant's ESG monitoring reports and accident and incident reports. We conduct client visits and perform an annual client credit review.
We also conduct a regular and more systemic ongoing community support check.

Environmental, social and governance management

FMO's commitments on environmental and social issues are anchored in our sustainability policy. Following extensive consultation with a wide range of NGOs and other stakeholders, the current policy was approved for implementation by FMO's Management Board in December 2016. We also published a series of position statements on specific issues such as human rights and land governance (2017). These statements embed environmental and social requirements into our investment criteria and processes together with the IFC Performance Standards on Environmental & Social Sustainability and World Bank Group Environmental, Health & Safety Guidelines.

To help implement and live its sustainability policy, FMO has set up a team of more than 35 environmental and social (E&S) specialists and governance specialists. These are embedded in our commercial deal teams. Together with the commercial staff these experts have day-to-day responsibility for screening, assessing, structuring and monitoring FMO's investments with respect to environmental and social issues.

The directors of FMO's investment departments have overall responsibility for ensuring that proposals submitted to FMO's Investment Committee have undergone appropriate due diligence and include sufficient information on environmental and social risks, impacts and any required mitigation measures.

Independent scrutiny, challenge and advice is provided by FMO's Credit Department, which includes additional E&S specialists.

Human rights – an integral part of our ESG approach

Respecting human rights is an integral part of our overall ESG approach and is systematically addressed throughout our investment process. E&S specialists on our investment teams work with our clients to manage human rights throughout our projects. In 2018 we developed a human rights toolkit that enhances our human rights risk analysis as part of the E&S due diligence. This includes a desk based contextual risk analysis, including an early warning system for risks to human rights defenders, (continuously) assessing community support for our projects and how our projects would change (or have changed) the acquisition, tenure and usage of land.

In 2018 we started piloting Human Rights Risk Assessment (HRRA) as part of our regular environmental and social due diligence. The objective of this pilot was to better understand the additional value that an explicit human rights risk assessment by a dedicated human right specialist can bring in terms of: (i) identifying risks to workers, local communities and other rights holders, and (ii) informing the management of such risks.

During the year we have carried out HRRA pilots on five investments: two in the Agriculture, Food & Water sector and three in the Energy sector. Four of these were new investments, and we used HRRA as part of our detailed assessment to inform our final decision to invest. One pilot was carried out in collaboration with an existing client as part of our monitoring.

The FMO governance team: a consultative approach that targets long-term sustainability

Good governance plays a critical role in ensuring that the companies and projects with which FMO works are sustainable throughout their life cycle, enjoying the confidence of investors and counterparties. Even after FMO completes its dealings with a company – for example, when a loan is repaid – our goal is to leave the business or project in the best possible position to raise finance from commercial sources in the future, to grow and to achieve its long-term strategic objectives.

How we get involved

Every deal that FMO considers is subject to early screening - something that is far from a box-ticking exercise. As FMO, we consider it important to ensure professional advice is available to our clients that can help them improve their governance processes, and make their corporate structures both more robust and more transparent.

Therefore, FMO maintains an in-house team of corporate governance specialists, experienced in dealing with emerging and frontier markets. Their role is to use the opportunity created by FMO's engagement to discuss governance with the board and management of companies. The governance team works closely with investment teams where it is felt we can add value and help to advance the interests of the companies we deal with.

"We frequently become engaged in new areas for the bank, be it new markets or sectors, new types of projects, and when FMO has the right to nominate a director to the board of an investee company. In those cases, our unit supports the investment team to find the best possible individual for the board seat, typically nominating external candidates with the most complementary skills and expertise", says Rebeca Sanchez de Tagle White, FMO's senior corporate governance officer. FMO also works with other partners, for example private equity funds that are involved as a co-investor alongside FMO.

Why good governance matters to FMO

Governance issues for a development bank often go deeper than board-level personnel matters. "We require a more granular level of analysis, and ask questions about working practices, strategy setting and decision-making. While these may be difficult questions, they can help our clients to avoid difficult and damaging situations in the future", says Rebeca.

"We often deal with family-owned businesses where founders and their relatives are employed in senior executive or board-level roles. We need to be sensitive to these circumstances and to the goals and concerns of firms' creators.

Our methodology includes a deep assessment of the company," adds Rebeca. "We need to explain to the owners why various governance reforms will benefit the company. We want their company to be alive and well for the long haul."

Governance in the financial sector

Cultural sensitivity is particularly important for clients in the financial services sector, where FMO sometimes needs to push back against arguments centred on local or cultural issues that are used to justify why banks and other financial institutions are shirking governance responsibilities.

While there may be an awareness of what good financial industry governance looks like, principals at banks and other institutions will often have arguments as to why things are different in their particular market, which will need to be addressed.

“With debt clients it can sometimes be tough to explain why an independent board may be necessary, and conversations can take a while to digest,” says FMO corporate governance officer Jasper Veel. "But, in the end, financial institutions come to appreciate an outside opinion - it helps them to think more broadly about their business."

A consultative approach to governance

While the governance team at FMO is small, albeit growing, the expertise of its members is on hand for clients in cases where there is perceived to be a need. Jasper adds: “we take a highly consultative approach, requiring us to understand how our clients have been established and have grown to where they are now.”

While these functions are in many ways similar to the consulting services offered by the management consultants at major banks, the markets in which FMO operates require to be both sensitive to local situations and able to come up with non-traditional solutions.

Ultimately, the aim of the governance team at FMO is to help companies - and other investors - minimise their risks, and reduce the possibility of a corporation or project going out of business, while ensuring long-term success. The main added value of a good governance proposition is that it can help firms raise further funding from commercial parties in the future and enable the business to mature and grow over the long term.

Helping Georgian banks to push back against a dollarised economy

Georgia has benefited from a growing economy, strong international trade ties and a reputation for being business-friendly. While the economy has overcome a number of shocks over the past 20 years, the country's financial services sector has faced the persistent problem of a high degree of dollarisation - use of the US dollar as a substitute for the lari, the national currency.

A dollarised financial system can expose developing economies, and individual companies within them, to significant currency risks when mismatches arise between assets in local currency and liabilities in US dollars - hence efforts by the National Bank of Georgia, the country's central bank, to reduce the level of dollarisation.

The dollarisation phenomenon is common to many frontier and emerging markets, but in the case of Georgia, high levels of inflation have exacerbated the impact on the local economy, with depreciation of the currency creating debt service problems for institutions that borrow in dollars and lend in lari. A side-effect has been to push local currency interest rates higher.

Supporting the uptake of local currency activity

De-dollarising its economy should improve Georgia's financial stability and contribute to the development of its domestic capital markets. FMO is one of a number of supranational institutions that have provided an important source of GEL-denominated funding for domestic financial organisations.

We have been working with Bank of Georgia, one of the country's two dominant commercial banks, in a relationship stretching back to 2011. Over this period the bank has expanded its operations both within the domestic market and internationally, and has become an important provider of financial and banking services to both private and corporate clients.

In August 2018 FMO issued a GEL160 million ($65 million) loan to Bank of Georgia, raised via a lari-denominated bond listed on the Georgian Stock Exchange, the first by FMO of a GEL bond and our largest local currency bond to date.

The funding programme will protect Bank of Georgia by helping to finance its local currency lending business, reducing the risk of currency mismatches in the bank's balance sheet. It will also help Bank of Georgia comply with the de-dollarisation measures instituted by the National Bank of Georgia, requiring institutions to increase their levels of lari-based lending to both retail and business customers.

This transaction was followed in October by a five-year loan facility of GEL103 million ($40 million) to TBC Bank, with which FMO has been in partnership since 2006. The facility, also funded by a placement of bonds on the Tblisi exchange, will primarily help finance young entrepreneurs running micro, small and medium-sized enterprises in Georgia, as well as mortgage loans for retail customers.

The importance of local currency bonds

In the past FMO has provided loans to both Bank of Georgia and TBC Bank with currency risk hedged by Amsterdam-based Currency Exchange Fund (TCX), which was initiated by FMO in 2007. TCX manages currency risks by pooling non-correlated frontier and emerging markets currencies, despite often challenging market conditions, and since 2016 it has been working closely with FMO to develop a market for local currency bonds that can feed into a growing supply of local currency lending.

Last year's issue of local-currency bonds by FMO also introduce AAA-rated bonds to the GEL fixed-interest market, which historically has been dominated by government issues. The bonds will also be available as a pledge for repo transactions with the central bank.

Local currency bonds can tap both local savings and offshore investment, playing a critical role in the practical de-dollarisation of economies. We see growing appetite from investors for this type of bond, leading to larger deal sizes.

FMO's aim is to help make Georgia’s local currency economy more stable, robust and, ultimately, more dynamic. GEL-denominated loans funded by bonds of this kind help FMO to protect clients in emerging and frontier markets from the most damaging consequences of fluctuation in the exchange rate with the US dollar, particularly sudden depreciation, which can disrupt and delay vital economic activity. The confidence shown by the FMO bond also represents a signal to help attract other outside investors to Georgia.

FMO's ultimate strategic goal is to 'become the preferred partner to invest in local prosperity'. Our strategy is built on three pillars: higher impact, deeper relations and higher productivity.

Higher impact

We believe in a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources. To achieve this vision, many challenges, highlighted by the SDGs, need to be addressed. FMO will pursue investments that support the SDGs in general and three in particular: Decent Work and Economic Growth (SDG 8), Reduced Inequalities (SDG 10) and Climate Action (SDG 13).

- The central goal of SDG 8 is increased economic growth and decent work for all. This lies at the core of FMO's mandate as a development bank and FMO is expected to make a meaningful contribution to this goal. FMO ensures that projects adhere to IFC Performance Standards, including IFC PS 2, which states that employees receive fair treatment, and jobs comply with national labour laws, promote health and safety, and avoid child labour. Since 2014, FMO has been using an input/output impact model to make an ex-ante estimate of direct and indirect employment supported through its investments.
- Two tracks underlie SDG 10 – Reducing Inequalities: investments in the least developed countries (reducing inequality among countries) and investments in inclusive business (reducing inequality within countries, for example, in gender, microfinance, smallholders, youth, or refugees). These two tracks are combined in one label: an investment can acquire the Reduced Inequalities label by investing in a least developed country or in an inclusive business. An inclusive business, in line with the IFC and G20 definition, expands access to goods, services and livelihood opportunities on a commercially viable basis, to people living on less than $8 per day in purchasing power parity terms or lacking access to basic goods, services and income.
- SDG 13 translates into reducing greenhouse gas emissions, increasing resource efficiency, preserving and growing natural capital, and supporting climate adaptation. Since 2015, FMO has been steering on SDG 13 through its green label, classifying investments as green if they contribute to i) climate change mitigation, ii) climate change adaptation or iii) other types of footprint reduction. A precise set of criteria underlies the Green label supporting green investments, including renewable energy, energy efficiency, certified agricultural production and forestry.

In the context of higher impact, and in line with our ambition defined in 2013, we continue to work on Doubling Impact and Halving Footprint. By 2020 we aim to annually support through our investments, 900,000 jobs [1] on average over 2018-2020, against an annual average baseline of 500,000 jobs in 2010-2012. In terms of greenhouse gases avoided, we aim to improve our baseline of 575,000 tons of CO_2 equivalent by avoiding at least an average of 1.15 million tons of CO_2 equivalent per year by 2020 over the same period. To achieve the higher impact we aspire to, we focus our investments in three industries: Agribusiness, Food & Water, Energy and Financial Institutions. All three markets meet our criteria for achieving positive impact, and are essential to sustainable, inclusive growth. In addition, we help Dutch companies invest in developing countries with our capital and expertise.

1 The ambition has been adjusted from 1,000,000 to 900,000 jobs. In 2017 we updated the FMO Impact Model with new statistical data to reflect macro-economic progress in the countries where we invest. As a result, the jobs supported per Euro invested decreased by 10% on average. The decision to adjust our ambition in line with these macro-economic changes was taken end of 2017 and implemented in 2018.

Deeper relationships

With a portfolio of €9.6 billion, FMO is a relatively small investor and the SDG challenges we tackle are incredibly large and complex. The only way mankind can achieve the SDG goals, is if all stakeholders pool their resources, and if developed and developing countries realise their fates are inextricably linked. That is why at FMO we seek to deepen the relationships we have with our stakeholders.

This means we approach our clients, partners and stakeholders proactively to jointly develop opportunities, and increase our understanding of their needs. In addition, we believe that improving employee engagement and client satisfaction will help us succeed. But deeper relationships also mean that we actively try to catalyse our funds by arranging loan syndications, through commercial fund management, and by blending public and private financing sources. We accept a relatively high share of the risk involved in an investment, giving other financiers the space and comfort to co-invest with us.

We also maximise our impact by using our deep expertise in development finance to support Dutch businesses in emerging markets. Not only does this help to grow their business, but by investing in decent work, reducing inequality and undertaking climate action it also helps to improve local stability, thereby addressing the root causes of irregular migration in the European Neighbourhood and Africa.

Higher productivity

In order to maximise our impact, we believe we should maximise our productivity. In 2017, FMO embarked on an ambitious and comprehensive process of organisational change. We are optimising our business processes to improve our client offerings and provide faster service to our clients. In addition, we are strengthening our decision-making and fostering effective collaboration, especially between our sector departments, syndications and capacity development departments. We are also promoting clear roles and responsibilities and investing in digital tools to strengthen processes.

In € million unless stated otherwise

Be the preferred partner to invest in local prosperity				
	Material aspects	**Key performance indicators**	**2018 targets**	**2018 performance**
Higher impact	Development impact through responsible investing	Total investment volume	2,630	2,637
		of which		
		For FMO's balance sheet	1,548	1,873
		Government funds	162	135
		Catalysed funds	920	629
		Reducing inequalities (% of total)	25%	36%
	Environmental footprint of FMO's investments	Green (% of total)	32%	36%
	Promote ESG best practices	ESG target performance (% of risks managed)[1]	90%	95%
	Human rights	New admissible complaints received	n/a	1 new complaint received
Deeper relationships	Development impact through responsible investing	Catalysed funds	920	629
		Client satisfaction (NPS score)	70	69.5
		Employee engagement	7.5	7.4
		NL Business	100	30
	Transparency & accountability of FMO's activities	Score in latest Transparency Benchmark	n/a	191 points (out of 200; TB 2017)
	Business integrity of FMO	Major incidents reported of FMO employees involved in bribery, corruption or other integrity issues	n/a	Zero major incidents reported
Higher productivity	Financial sustainability and risk appetite of FMO	Operating income	370	286

1 Target applies to high-priority ESG risks related to new clients contracted in 2017 where FMO was in the lead

FMO in its mobilizing role

Meeting the SDGs will require an additional global investment of $2.5 trillion per year and it will require an additional $13.5 trillion to implement the COP21 Paris climate accord. This cannot be done without crowding in private sector finance. FMO is committed to using its own balance sheet to catalyse more from commercial investors and attract additional public funds. Public funds de-risk the private sector's entry into projects and markets. In 2018, FMO has further enlarged its platform function for public and private investors. The mandates of Access to Energy Fund (AEF) and Infrastructure Development Fund (IDF) were renewed and the accreditation with the Green Climate Fund was finalized. In addition, FMO will also manage the NASIRA risk-sharing facility in partnership with the EU. FMO facilitates the following public and private investor platforms:

- Public funds and programs for the Dutch government (e.g. MASSIF, IDF, AEF), EU (NASIRA), and other public parties such as the Green Climate Fund (GCF);
- Funds managed on behalf of EDFI like ElectriFI and AgriFI (both funded by EU);
- All the commercial investment funds we have developed, such as the ACTIAM-FMO SME Finance Fund, FMO Privium Impact Fund, and NN FMO Emerging Markets Loan Fund;
- Investment platforms such as Arise and Climate Investor One, which FMO initiated.

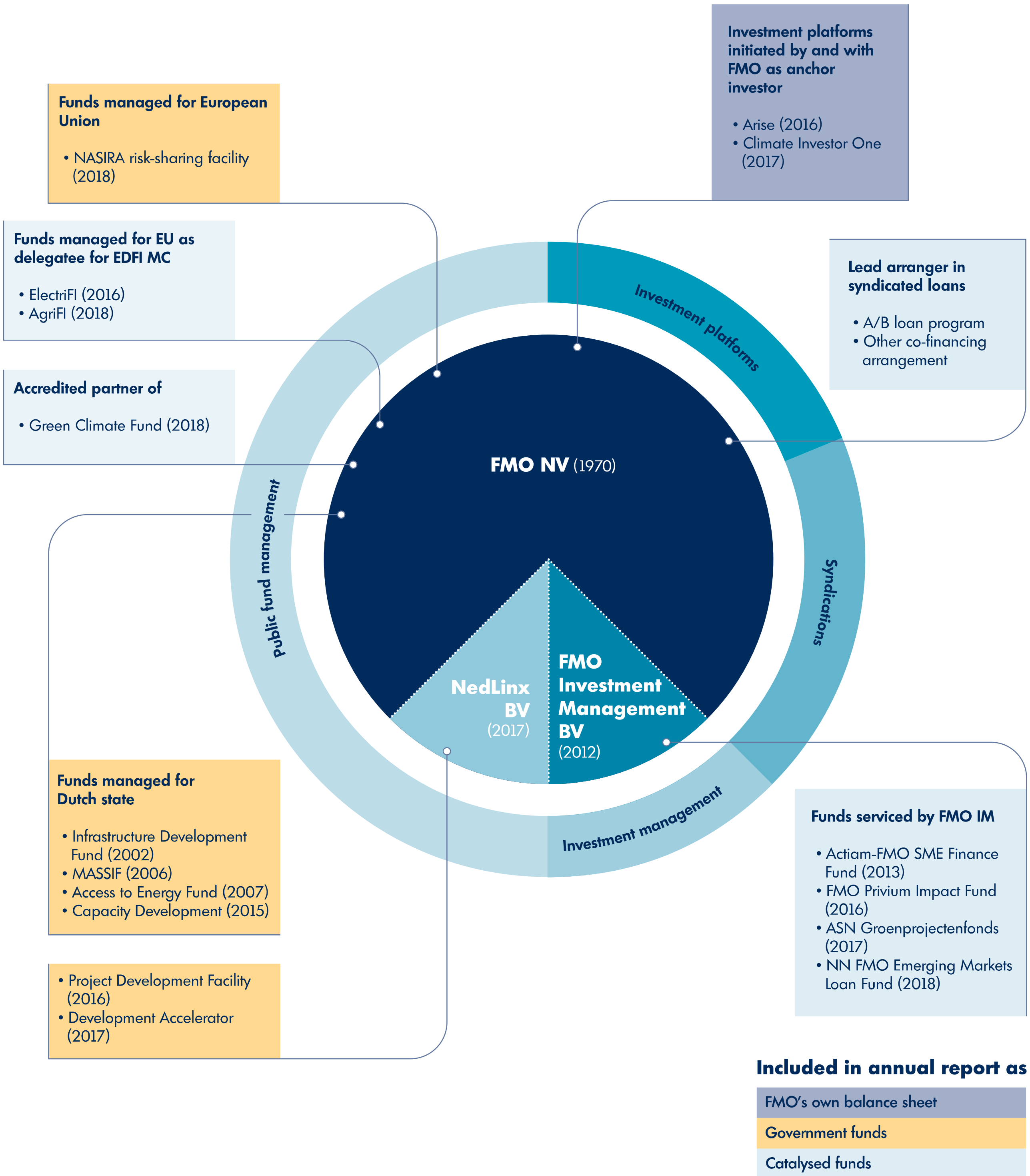
Throughout this report we report aggregated figures for the impact realised through the investments we make from our own balance sheet as well as the different funds and programs that we invest on behalf of other parties (government funds and catalyzed funds) unless otherwise specified.

Cooperation among European DFIs through the EDFI association

EDFI, the Association of European Development Finance Institutions, was founded in 1992 and currently has 15 member institutions. EDFI member institutions are focused on the development of private sector enterprises and operate in emerging and frontier economies. They are mandated by their governments to contribute to the SDGs by creating jobs, boosting growth, and fighting poverty and climate change. Although EDFI members have slightly different mandates and strategies they are guided by a common vision: To improve people's lives – for current and future generations – in the world's poor places through the engine of private sector growth.

For more on our cooperation through the EDFI association and its financing facilities please visit our website.

FMO in its mobilizing role



DILEMMA:

Reducing inequalities vs financial sustainability

In many countries around the world, women, youth and rural communities are not seen as equal to men, adults and urban communities. These marginalised groups are often excluded from the formal economy, which not only undermines their sense of fulfilment and self-worth, but also hampers social and economic development.

We strongly feel that women, youth and rural communities have a fundamental human right to be included and treated equally. We also believe that the business case for including women, youth, and rural communities in the formal economy is strong. That is why FMO is passionate about reducing inequality.

Achieving equality, however, is frustratingly difficult. It requires transformative change that can only come about if many different stakeholders work together using innovative approaches. In practice this means smaller but time-consuming investments with a higher probability of not delivering the returns our customers expect.

And herein lies our dilemma. On the one hand we need to explore uncommon approaches with uncertain outcomes. On the other hand we need to ensure we invest sustainably over time and that we offer our investors market-based opportunities.

In all honesty, we don't have a perfect solution to this dilemma. What we try to do, however, is two things. First, we look for attractive investment opportunities in inclusive models that deliver and are scalable, and translate these into structural approaches and new products, such as gender lines and FinTech. Second, we actively look for blended finance opportunities, as a temporary tool, to transform and grow the business towards bankable and financially sustainable investments.

Bringing cocoa home to Ghana with Niche

Ghana produces the world's highest-quality bulk cocoa beans and is the world's second largest producer of cocoa, accounting for 20% of global production. But a great deal of the actual cocoa processing does not take place in Ghana.

Niche was set up to fill the vacuum that existed in local cocoa processing, with the aim of producing high-quality, semi-finished cocoa products and confectionery. There was also growing demand from the premium chocolate sector for a quality processed product that would enable confectioners to focus on top-end refining and marketing. Niche is also the only independent active grinder in Ghana that is not linked to a large trader or processor.

Tackling cocoa's new challenges

The strategy is the brainchild of the firm's founder, Edmund Poku, who originally came up with the idea for Niche while working on his MBA thesis, and returned to Ghana from a career abroad in investment banking to make it a reality. He found the cocoa industry was facing a mix of longstanding and new challenges, including price volatility, fluctuations in the value of the cedi, Ghana's currency, and the entry into the market of new competitors.

Niche was supported through a technical assistance grant from FMO in 2007, and went on to develop a 30,000-tonne processing plant that it subsequently sold in 2015 to French multinational Touton. Niche is now operating a much larger factory with additional refined cocoa capabilities.

Contributing to Ghana's cocoa industry and society

Niche is positioned to bring substantial benefits to both the cocoa industry and Ghana's wider society and economy. It has already demonstrated through the Touton factory sale that it is possible for a privately-owned local firm to compete against state-owned companies and multinationals.

The company employs more than 340 people domestically, and its activities represent an important source of foreign exchange earnings for Ghana. Poku says Niche is already playing an important role in disseminating critical technical knowledge within Ghana's cocoa-processing industry while improving the livelihoods of local farmers. The company also strongly embraces ESG principles – it is UTZ-certified for the provision of 100% environment-friendly cocoa and also sells organic cocoa.

Improving the lives of cocoa growers

One of the big social issues tied up with cocoa farming in West Africa is how the industry can improve the lives of the thousands of cocoa farmers who supply their crops twice a year. Niche is working closely with two cocoa co-operatives to produce certified products and enhance the position of the country's farmers, who work under highly challenging conditions.

FMO continues to work with Niche and is supporting its expansion plans, in 2018 extending a $10 million loan to finance a new cocoa liquor facility, which will help to expand its processing capacity from 60,000 to 90,000 tonnes. The plant will produce high quality, semi-finished cocoa products including cocoa liquor, butter and powder sought by global confectioners.

Creating opportunities for local people

The changes are contributing to Niche's progression up the value chain, in the process creating job opportunities and skills in the local economy. While the company continues to compete in established sectors, it is also seeking to expand its reach into new areas of the industry and meet the needs of untapped markets – for example, the increasing demand for chocolate in developing economies.

It remains important for Niche to obtain working capital on affordable terms. A further $1 million from FMO has been earmarked for resource efficiency investments, assisting Niche with further water and energy efficiency projects. FMO is also examining the case for further capacity development to enable the distribution of affordable cocoa drinks to 5.5 million schoolchildren in Ghana.

Financing India's solar energy revolution

India faced demand for electricity that outstripped its generation capacity; the country relied heavily on imported coal, and industry and consumers still suffered from frequent power outages. There was a lack of long-term funding for clean energy projects, including rooftop solar panels and wind power, and around a quarter of the population – 300 million people – had no access to electricity.

The Indian government remains committed to the goal of creating 100 GW of solar power capacity by 2022, an ambitious plan that would require $35 billion in capital and entail 95% annualised growth over the next four years. The government also aims to provide 24-hour electricity to the entire country within the next few years. Private and development capital, including from international sources, is already playing an important role.

The government is delivering on ambitious growth targets for solar power generation, and in 2018 overtook the US to become the world's second largest solar energy market.

Funding rooftop power in India

The scarcity of production resources also represents an opportunity for countries and companies to more easily make a development leap to a better diversified energy mix instead of relying only on fossil fuels for their economic growth. This opportunity was seized by Azure Power already in 2009. At that time, the entire country had only 10 MW of installed solar generation capacity, compared with more than 25 GW now.

It is a remarkable growth story, in the course of which power costs for Azure's clients have dropped by 80% over the past five years. FMO has taken an active role in this revolution by financing Azure Power and its sister company Azure Rooftop Power. In 2017, we provided Azure Power with a local currency senior loan facility for the equivalent of $30 million, financing that will enable the company to expand its power generation platform rapidly.

In May 2018, together with IFC, Proparco and OEeB, FMO agreed to finance a further $135 million of rooftop solar projects, which will provide to 200 MW of power generation capacity. Azure Rooftop Power is delivering rooftop solar power solutions for a wide range of clients, from government institutions to commercial and industrial businesses.

Local challenges, strategic success

Doing business in India is accompanied by inevitable social and environmental risks, for example with regard to land acquisition. It represents a complex and challenging context for companies such as Azure, which has projects installed and operating throughout the country, and it is critical for Azure to adopt a holistic approach towards safety, health, environment and social-related (SHES) issues.

FMO has supported Azure in integrating a social due diligence process and introducing a land acquisition procedure for all new projects. The company has created a dedicated SHES department, headed by a manager responsible for oversight across the company's growing portfolio, including ground-mounted and rooftop installations. In a FMO-supported workshop, Azure teams have developed innovative solutions to tackle SHES compliance risks throughout the business, and cash-based incentives are provided to staff to reinforce good practice.

With more than 600 personnel on the ground, Azure is well accustomed to dealing with the many linguistic and cultural differences which make India such a complex market in which to operate, especially when introducing new technologies such as solar panels.

Its growth has directly and indirectly created many jobs in India, including in poorer states such as Uttar Pradesh, and it has created cash flows to communities that previously lacked many basic resources but now benefit from a sustained source of income.

A pioneer in the market, Azure has an established track record of installing solar projects and is making a significant contribution to helping India achieve its clean energy power generation targets. From a wider perspective, sustainable energy resources are set to play a vital role in meeting India's energy needs as the country's economic growth drives increased demand for power.

Contribution to the SDGs per sector

In € million unless otherwise stated	SDGs	Total	Agribusiness, Food & Water	Energy	Financial Institutions	NL Business[2]	Private Equity
Total investment	8 DECENT WORK AND ECONOMIC GROWTH	**€2,637**	€504	€620	€1,219	€21	€273
...resulting in jobs supported		**615,000**	67,000	91,000	371,000	-	86,000
FMO-A		**€1,873**	€334	€498	€794	€17	€230
+ Government funds		**€135**	€35	€12	€45	€0	€43
+ Catalysed funds		**€629**	€135	€110	€380	€4	€0
...of which Reducing Inequality	10 REDUCED INEQUALITIES	**€958**	€188	€147	€556	-	€67
Green investments...	13 CLIMATE ACTION	**€940**	€189	€473	€222	€5	€51
...resulting in GHG avoidance (in tCO_2eq)		**988,000**	370,000	409,000	178,000	-	31,000
ESG target performance[1]		**95%**	93%	96%	100%	0%	89%

[1] Target applies to high-priority ESG risks for new clients contracted in 2017 where FMO was in the lead
[2] Total investments for Dutch Business reported elsewhere in this report (€30 million) include €9 million investment made through Agribusiness, Food & Water

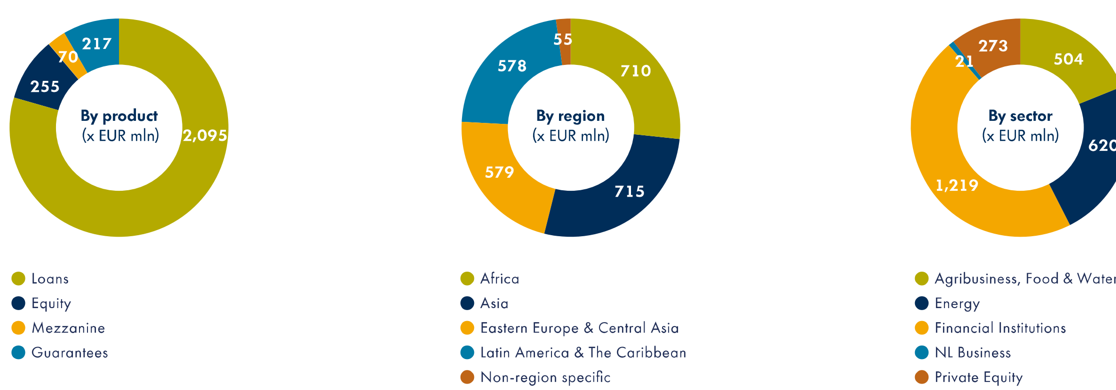
FMO's strategy builds on three pillars, which are a higher impact portfolio in our chosen industries (Agribusiness, Food & Water, Energy and Financial Institutions) deeper relations and higher productivity.

In doing so, our focus is on three Sustainable Development Goals. The first is Decent Work and Economic Growth (SDG 8), which involves supporting an increase in the number of jobs. The second is Reduced Inequalities (SDG 10) within countries through inclusive finance and between countries by supporting least developed countries. The third is Climate Action (SDG 13), by reducing greenhouse gas emissions, increasing resource efficiency, preserving and growing natural capital, and supporting climate change adaptation.

Higher impact portfolio

Note: new commitments consist of €1,873 million for FMO, €135 million for government funds and €629 million catalysed funds. Below our 2018 new commitments.

2018 NEW COMMITMENTS



SDG 8 Decent Work and Economic Growth

In 2018, FMO invested €2.6 billion (2017: €3.1 billion) in projects and products that support SDG 8, in line with our target. This amount includes €0.7 billion invested on behalf of other parties. We estimate that this has supported 615,000 direct and indirect jobs (2017: 900,000), which puts us below our ambition to double the number jobs supported by 2020. The lower number of jobs is mainly explained by the lower volume invested in 2018, in particular for our Private Equity department.

A more detailed look shows we invested, from FMO's book and on behalf of other parties, €1.2 billion in the financial institutions industry, €504 million in agribusiness, food and water and €620 million in the energy industry. In terms of our products, €2.1 billion was invested in debt products and € 217 million in (trade) guarantees. At €255 million, our equity investments failed to meet our target due to unfavourable market conditions and a greater focus on exits, direct investment and portfolio management.

Investments were made in all four regions with slightly more funds flowing to Africa (€710 million) and Asia (€715 million). A further €579 million was invested in Europe and Central Asia and finally we invested €578 million in Latin America and the Caribbean.

In line with the Dutch Ministry of Foreign Trade and Development Cooperation's 2018 vision on sustainable development we invested a total of €594 million in the European Neighbourhood. The majority of these investments concerned investments in Turkey, Georgia and Armenia.

We are particularly proud that the European Commission selected FMO to manage the NASIRA risk-sharing facility, which includes €75 million in guarantees and up to €8 million in technical assistance. This encourages banks in the European Neighbourhood and Sub-Saharan Africa to provide loans to young, female and migrant entrepreneurs for their (micro) business, thereby tackling one of the root causes of irregular migration. In 2018, FMO received expressions of interest in NASIRA to guarantee Syrian entrepreneurs in Jordan, and young entrepreneurs in Lebanon and Egypt. The Dutch government also supports NASIRA with a further €7.5 million.

SDG 10 Reduced Inequalities

In 2018, FMO invested, from FMO's book and on behalf of other parties, €958 million towards reducing inequalities, exceeding our target of €627 million. Of this, €531 million contributed to reducing inequalities within countries, through investments in inclusive business such as microfinance, gender, and investments to smallholders, youth and off-grid projects. The majority of these investments (€361 million) were made through loans to banks. A sizeable investment went to Khan Bank LLC in Mongolia (this investment is described in more detail in a separate case study).

In addition to reducing qualities within countries, FMO invested €495 million towards reducing inequality between low and higher income countries. More than half of these funds (€273 million) flowed to Bangladesh, Myanmar and Uganda through investments in agribusinesses, energy projects, microfinance and other banking services.

Inspired by the Impact Management Project, we present our sector impact indicators in the context of the intended outcomes for the end-beneficiaries. Please refer to chapter 'How we report' for the indicator definitions.

Impact dimension	Access to finance			
What	By financing financial instutions with an SME portfolio, FMO aims to increase access to finance and business growth of SMEs thereby supporting jobs, inclusive development and economic growth.		By financing financial instutions with a microfinance portfolio, FMO aims to increase access to finance and business growth of microentrepreneurs.	
Who	FMO targets SMEs because they are financially underserved and typically provide more jobs than corporates relative to capital invested (Source: IFC, 2010, Scaling-Up SME Access to Financial Services in the Developing World). FMO specifically targets women-owned and youth-owned SMEs as part of the Reducing Inequalities label.		FMO invests in microfinance to create access to finance for poor households, who can use microloans to raise and smoothen household income, thereby reducing their vulnerability to economic stress.	
How much	Number of SME loans in outstanding loan portfolio of FMO's financial institution clients		Number of micro loans in outstanding loan portfolio of FMO's financial institution clients	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	1,300,000	1,100,000	19,400,000	22,900,000
	The number of SME loans increased as a result of new investments and increase of SME loans with existing clients.		The number of micro loans decreased as a result of one client reducing its micro loan portfolio, which could not be balanced by new microfinance investments.	
FMO's contribution	FMO creates value for its clients through offering financial products that commercial banks or other investors do not provide, or do not provide on an adequate scale or on reasonable terms (additionality criterium). In addition, we support clients to implement ESG practices in accordance with international standards and provide technical assistance when needed. We offer our clients access to our networks, for example to share best practices with other FMO clients. FMO has also initiated and supported (banking) sector initiatives in several countries to promote sustainable finance.			
Risk	The main risk is that our clients' stakeholders remain underserved if impact does not occur as intended.			

Impact dimension	Support for smallholder farmers		Access to energy	
What	By financing agricultural companies that support smallholders, FMO aims to improve access to markets and infrastructure for smallholder farmers. FMO finances agricultural companies that support smallholder farmers to improve their production practices thereby increasing yields and farmer income.		By financing power generation projects and off-grid power solutions, FMO aims to increase access to reliable and sustainable energy.	
Who	FMO targets smallholder farmers because they produce over 70% of the world's food needs, whereas they have limited resources to invest in business improvements and a weak market position.		Access to energy is not self-evident in many developing countries; the average electrification rate in low income countries is 28%. FMO invests in the building of (sustainable) power generation capacity in developing countries which, combined with investments in power distribution, improves access to energy. By financing off-grid power solutions, FMO invests in access to energy for rural populations.	
How much	Number of smallholders supported by companies financed by FMO		Equivalent number of people served via power generation in FMO's porfolio of Energy clients (loan and equity portfolio)	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	1,600,000	1,400,000	43,000,000	33,000,000
	The number of smallholders supported is higher due to new investments and increased reach of existing clients.		The increase of equivalent people served is a result of new investments and increased power production of existing clients.	
FMO's contribution	FMO creates value for its clients through offering financial products that commercial banks or other investors do not provide, or do not provide on an adequate scale or on reasonable terms (additionality criterium). In addition, we support clients to implement ESG practices in accordance with international standards and provide technical assistance when needed. We offer our clients access to our networks, for example to share best practices with other FMO clients. FMO has also initiated and supported (banking) sector initiatives in several countries to promote sustainable finance.			
Risk	The main risk is that our clients' stakeholders remain underserved if impact does not occur as intended.			

SDG 13 Climate Action

In 2018, FMO invested, from FMO's book and on behalf of other parties, €940 million in green transactions, exceeding our target of €796 million. Some €473 million went towards the energy sector, mainly renewable sources of energy such as wind and solar.

A further €222 million in loans were provided to financial institutions for green products and €189 million in agribusiness, for example to avoid flaring emissions, introduce energy efficient design and climate smart agriculture, reduce greenhouse gas emission and generate free electricity. These investments resulted in an estimated 988,000 tCO_2eq avoided greenhouse gas emissions (2017: 1,600.000 tCO_2eq), putting us on track towards our ambition to double the avoided greenhouse gas emissions by 2020.

In 2018, FMO launched a Global Forestry Investment Program with the initial extension of $23 million in financing to sustainable forestry plantation companies in Ghana, Sierra Leone and Laos. While such investments are considered high risk due to their uncertain returns, FMO believes in them because of their contribution to all three of our SDGs. Plantations sequester greenhouse gasses, create jobs, stimulate local markets and reduce inequalities between countries.

Not all our SDG 13 achievements were related to investments. In 2018, we published work for consultation on a methodology and accounting approach that will help us create an investment portfolio that supports the 1.5°C pathway outlined in the Paris Agreement. It took us a considerable amount of work to determine what kind of investments could potentially achieve this crucial goal and how we could subsequently report on it in a meaningful way. We proudly presented this work at the COP24 climate change conference in 2018 and intend to implement and align our approach with other stakeholders to get to international standards in the years to come.

In addition, we signed The Spitsbergen Ambition along with fourteen other Dutch financial institutions. Together, we will reduce CO_2 emissions in line with the Paris Agreement and report on the climate impact of our investments, using climate scenario analyses and science-based targets. The Spitsbergen Ambition fits perfectly with FMO's Sustainability Policy and our strategic priority to contribute to SDG 13.

ESG performance

In 2018, we introduced a new ESG performance tracker to identify and manage our client's highest priority ESG risks, based on IFC Performance Standards on Environmental and Social Sustainability and international best practice. We set ourselves a target to ensure that 90% of high-priority ESG risks related to new clients contracted in 2017 and where FMO was in the lead, should be either fully compliant with our standards or actively on their way to compliance. The 17 clients that fit these criteria accounted for a total of 164 risks that were actively tracked. In 2018, our clients managed effectively 95% of the risks, exceeding our target of 90%.

In 2018 we implemented the human rights and land rights position statement that we developed in 2017. We developed and implemented human rights due diligence guidance, conducted human rights training and awareness-raising activities, and ran human rights risk assessment pilots. In addition, we published our first human rights progress report, which describes how we embed human rights in our way of working in accordance with the United Nations Guiding Principles (UNGP) on Business and Human Rights Reporting Framework.

FMO not only wants to hold its clients to the highest standards, we want to implement best practices in our own operations. That is why in 2014, FMO and German counterpart DEG set up an Independent Complaints Mechanism (ICM). In 2018, French development finance institution Proparco announced it would join the mechanism in 2019 and a new ICM panel member was welcomed. In 2018, one new complaint was filed against FMO and DEG for their investments in Lomé Container Togo, alleging accelerated coastal erosion since the construction of the terminal. The Independent Expert Panel found the complaint admissible and further handling commenced.

On July 16, 2018 FMO received a writ of summons initiating legal action by Honduran NGO COPINH and the children of the late Berta Cáceres against FMO in relation to our former financing relationship with the Agua Zarca project. FMO recognizes the right to a legal process and trusts that the court will confirm that FMO acted in good faith.

Agribusiness, Food & Water

FMO adds value to the entire food value chain, ranging from fertilisers and seeds to smallholder farmers and food processors, traders and companies. We finance cash crops like coffee, tea and palm oil and proteins from chicken and fish, crucial for feeding growing populations. We are also concerned about access to water, carbon sequestration through forestry, and financing smallholder farmers. Combined, our investments help nations to become less reliant on food imports, create jobs and tackle climate change. Of course all our investments are held up against our ESG principles.

In 2018, this sector invested €504 million, exceeding its target of €427 million. Highlights of the year include the launch a global forestry programme with an initial investment of $23 million financed mostly out of the Infrastructure Development Fund (IDF) - including capacity development budget out of the MASSIF fund- to sustainable plantations in Ghana, Sierra Leone and Laos. FMO also committed $5 million to the Meloy Fund, which seeks to create economic opportunities for small-scale fisheries in Indonesia and the Philippines while conserving critical marine habitat.

In East Nicaragua, we deepened relations with existing client Mercon by providing a second loan to finance a coffee mill that will enable local farmers to process their own harvest. FMO also supported Nigeria's cocoa business with a $35 million loan to food trader ECOM, whose expert agronomists help some 500,000 farmers to improve their yield. Also in Nigeria, meanwhile, we contributed €34 million towards a €1 billion investment in Indorama's new fertiliser plant that minimises waste by using cutting-edge technology.

Financial Institutions

Financial institutions are crucial to helping entrepreneurs and businesses flourish by providing access to finance. At the same time this allows them to be agents of change - for instance in green and inclusive development. FMO engages with those financial institutions that take up this role and provides them with long-term financing solutions, knowledge and network. In 2018 FMO hosted the fifth edition of the Future of Finance conference, which attracted 500 people from 60 countries. We also aim to leverage our impact by taking along other, often private, investors, for instance through the funds managed by FMO Investment Management.

In 2018 FMO further increased its activities in the financial institutions sector specifically focussing on climate action and reducing inequalities. On the climate side FMO met its investment target and invested in two debut green bonds in India. On the reducing inequalities side FMO significantly exceeded its investment targets. We entered new least developed countries such as Ethiopia and expanded our presence in existing ones such as Myanmar. FMO also stepped up support for female entrepreneurs by hiring a gender finance specialist, organising a financial inclusion leadership journey for female bankers in Zambia and organizing the Power of Partnerships conference, which was headlined by Queen Máxima of the Netherlands. The conference brought together female entrepreneurs from all over the world and we will follow up on this event by working together with partners to jointly develop expertise for female entrepreneurs.

At the same time we also engaged in a number of innovative projects, such as with Kenyan start-up Apollo Agriculture to provide smallholder farmers with high-quality farming inputs on credit, crop insurance and voice-based training. In 2018 we also began implementing the FinForward programme, which was designed last year with US-based FinConecta to promote technology integration between financial institutions and 'fintechs' with the aim to increase accessibility and affordability of financial services for underserved entrepreneurs. Overall, we moved slower on these plans than expected. We found that the market was less prepared for the innovation that FinForward presented, but this seems to be a global issue as more financial institutions are figuring out their digital future.

Furthermore, we were proud to sign the NASIRA risk-sharing facility with the European Commission as their first partner for the European Fund for Sustainable Development. This programme will allow us to support local financial institutions to provide loans to young, female and migrant entrepreneurs by sharing in the risk of these loan portfolios.

Energy

When FMO began building an energy portfolio in earnest 10 years ago, the market was relatively small and hardly focused on renewable energy. In a sign of the stellar pace at which the market has evolved, FMO's new commitments amounted to €620 million in 2018, achieving 142% of the target we set for the year. FMO's portfolio now combines on-grid solutions such as power generation, transmission and distribution with off-grid solutions such as solar home systems and distributed energy.

Typical of FMO, our commitment to the energy sector is long-term and counter cyclical. In 2018, we made substantial investments in the power sector in Argentina and Turkey, despite significant macro-economic turbulence. We also made our first-ever energy investment in the Ukraine: a PV solar plant developed by our global strategic partner Scatec Solar ASA.

The year was also marked by an increased emphasis on deepening relationships. Our energy experts organised an ESG workshop for one of our key partners in Africa, DI Frontier, to ensure sustainable hydropower development.   We also facilitated clients from Mozambique and Laos to exchange experiences around community engagement and development. Where possible, we encourage our clients not only to generate electricity for the country, but also to create value for host communities and local service providers.

In 2018 our energy department conducted a number of local currency deals in India and Turkey. For companies earning their income in local currencies taking out loans in euros or dollars can be risky in case of economic distress, such as demonstrated when Argentina and Turkey devaluated their currencies, and in light of rising interest rates. FMO will continue to encourage the use of local currency loans to support developers and governments to truly embed renewable energy in the local economies.

Private Equity

Our private equity activities went through a transitional period in 2018. In the preceding years we built up an equity portfolio consisting of roughly 60% invested in private equity funds and 40% in direct investments and co-investments. As we commenced implementation of our new strategy, we look to shift this balance towards 60% direct investments, co-investments and platforms versus 40% in funds.

In 2018, we managed to achieve our target of shifting emphasis to direct and co-investments, although our total investments of €273 million did not meet our target investment pace of €408 million per annum. This reflects a somewhat muted fundraising environment for funds in Africa and Latin America & the Caribbean, the relatively higher efforts required to source and execute direct investments, as well as our choice to opt out a number of potential investments to secure good returns in the long run.

We continued to build up our team by hiring a number of specialists and increasing our understanding of the direct investment market, which will serve as a good foundation for years to come. In addition, we actively managed our portfolio and ramped up the number of exits, which included Proenfar in Columbia, Equitas in India, CrediQ in El Salvador and Softlogic Life Insurance in Sri Lanka.

In 2018, we pooled our expertise in venture capital into a dedicated team, FMO Ventures. Starting in 2019 FMO Ventures will further explore running a venture capital program with a focus on pioneering technologies in our three core sectors. We are excited by the dynamism found across Asia and in African cities like Nairobi, Cape Town, Cairo, Tunis and Lagos, where start-ups are doing cutting-edge work in areas like financial technology and solar energy. By providing venture capital we believe we can contribute to the development of green and inclusive solutions. As with all our activities, we will look for opportunities to partner with other parties active in this area to create impact at scale. By investing in Partech's Africa focussed Venture Capital Fund in 2018 we found a good knowledge partner for Venture Capital. Partech Ventures is a European and Silicon Valley based VC firm.

Highlighted investments for the year include PACT (a microfinance institution in Myanmar), Giriraj Renewable Private Limited (renewable energy platform in India), Biosidus (co-investment in Argentina pharmaceuticals company), d.light (off-grid solar) and Cardinalstone (first-time fund targeting mid-size companies in Nigeria).

During 2018 we continued our involvement with Arise. Arise is an investment platform that together with Norfund and Rabobank we initiated in 2016. Arise partners with sustainable locally owned financial services providers in Sub-Saharan Africa and supports them to become financially sustainable and a strong contributor to the economy. In 2018 Arise strengthened its presence in Mozambique as well as Uganda, where Arise contributed to consolidation in the sector. FMO supported Arise in laying the foundation for a Technical Assistance (TA) Facility that will be launched in 2019 to help investees enhance their market competitiveness.

Also in 2018, we deepened our relationship with key partners, primarily by sharing our knowledge and creating valuable networking opportunities for them. In Amsterdam, we organised a seminar for fund managers in our portfolio to discuss investment and remuneration strategies. And in Georgia we organised an ESG master class for our Eastern European funds. In addition, we invested considerable time and energy in formalizing our equity processes, which will allow us to optimise our approach in 2019 and onwards.

Dutch business

FMO is a globally operating development bank with the Dutch state as majority shareholder. That is why we also support investments in and exports to developing countries by Dutch businesses. In 2018, NL Business (and other departments) made a total of €30 million in new commitments, which is below the target of €100 million. NL Business continued building its team and the transactions we aim to complete are catalysing in nature (examples of transactions we mobilized are with Rabobank and also with SMT) and additional to the market, often making them complex with long lead times.

We invested development capital on behalf of the Dutch government in projects including pre-feasibility studies and proof of concepts in areas like health, food and water. For example, in Kenya we worked with Philips and Amref Health Africa (in the Netherlands known as Amref Flying Doctors) to pilot local health clinics that can help to reduce gender inequality with a potential of scale-up (refer to case study). FMO also received the commitment from the Dutch government to expand its Development Accelerator facilities. In 2018 we completed 12 project development transactions and built a substantial pipeline of potential investments. We actively developed our partnerships and signed a new Memorandum of Understanding with Netherlands Water Partnership (NWP). We also made a start with the Finture Lab, through which we aim to finance innovative start-ups and scale-ups with ambition to export to or invest in emerging markets. By filling a gap in available funding we enable development of Dutch innovative technology-enabled solutions towards high-risk pioneering technologies such as energy storage which would allow countries to finally move away from fossil fuels and fully rely on renewables.

Finally, we continued to explore the creation of a new company to combine the NL Business activities with the international instruments of the Netherlands Enterprise Agency (RVO) with the aim to better support Dutch companies through delivering international solutions. In January 2019 the Dutch cabinet decided that to this end an institution separate from Invest-NL will be set up. Organizing these activities in a separate institution will allow for a clear international focus, clear governance and more effective and efficient operations. The new organization will provide a one-stop shop for internationally oriented Dutch businesses that are looking for project development and financing solutions and enable them to become more competitive in the international markets. In doing so it will be additional to the market. A process will be started to set up the institution with the Dutch State and FMO as shareholders. A draft law on this new institution is expected later in 2019.

Deeper relationships

FMO attaches strategic importance to deepening relations with our stakeholders, because by pooling resources and partnering we can significantly increase our impact. As part of efforts to deepen relationships, FMO catalyses and blends funds, builds partnerships, manages funds on behalf of the Dutch government, supports Dutch businesses and builds employee and client relations.

Catalysed funds

In line with SDG 17 (Partnerships for Growth) FMO seeks to catalyse funds, meaning we encourage other often larger investors to join our investments for increased impact. In 2018, FMO catalysed third party funds for a total of €629 million, which was below our target of €920 million. This result was due to FMO shifting its focus to Africa and Asia where there is less potential for catalysing at scale. Another factor was high liquidity in certain syndication markets among Development Finance Institutions in particular, which through pressure on prices might crowd out private investors. As FMO aims to crowd in private sector investors we decided to shift to other markets and clients, resulting in fewer syndicated transactions in 2018.

FMO Investment Management (FMO IM), however, was able to increase its assets under advisory to more than €500 million. This was due in part because FMO IM was able to close its fourth and largest debt fund this year, the $250 million NN-FMO Emerging Markets Loans Fund. We are particularly pleased with the participation of Alecta, Sweden's largest pension fund, because it signals that FMO has become a credible and attractive investment partner for pension funds, whose substantial liquidities can boost global efforts to achieve the SDGs. By year-end the fund participated in 24 loans to financial institutions, renewable energy projects and agribusinesses with commitments totalling $110 million. Our goal is to grow the fund to $500 million.

FMO IM's three other funds performed as follows:

- Our Privium Impact Fund increased to $131 million with a total of 51 loan participations across our focus sectors financial institutions, energy and agribusiness. The fund offered a net return of 3.9% on the A-share class (USD unhedged), 1.2% on the B-share class (Euro hedged) and (0.2%) on the recently opened I-share class (Euro hedged). The performance of the fund's euro share classes is below target due to the difference between USD libor and Euribor which continues to hamper the Euro return on the fund and secondly the first loan provision taken by the fund.
- The ACTIAM-FMO SME Finance Fund, with a net asset value by year end of €168 million, participates in FMO loans to financial institutions with an objective to improve access to finance for emerging markets-based SME companies. The fund continued to re-invest its proceeds in new loans this year. The return since inception end of 2013 amounts to 13.4%, with an annualized return since inception of 2.5%.
- FMO IM has been an investment advisor to ASN Green Projects Fund since 2017. During 2018, the fund participated in two new renewable energy transactions sourced by FMO, bringing total commitments to FMO loans by the fund to $13.5 million.

In the area of blended funds, which combines private and public funds, Climate Investor One (CIO) achieved its fourth close at $555 million. This innovative blended finance facility, which was initiated by FMO, provides funding for renewable energy projects in wind, solar and hydro in developing countries. CIO comprises three funds that finance the development, construction and operations stages of a project.

FMO established its partnership with the Green Climate Fund (GCF) by signing an agreement that enables FMO to implement GCF funded low-emission and climate-resilient projects in developing countries, with a focus on the private sector. The GCF Board approved FMO's first project under this agreement – Climate Investor One – enabling it to mobilise further commercial funds and build approximately 30 renewable energy projects over its lifetime, delivering an estimated 1,600+ MW of additional capacity in the 11 target countries.

Government funds

FMO manages three funds on behalf of the Dutch government, namely MASSIF, the Infrastructure Development Fund (IDF) and the Access to Energy Fund (AEF). These funds allow us to invest early on, take higher risks, and catalyse new investors. In 2018, a total of €135 million was invested through these funds, which was below target mainly due to fewer investments through AEF, as this type of transactions have longer lead times and structuring is often complex.

On a more positive note, the mandates for IDF and AEF were renewed in 2018 for another decade. During this time the Dutch government will commit an additional €100 million to IDF and AEF will receive a top up of €40 million to be invested in 2019. The additional funds will allow us to have more impact over time.

New commitments for IDF amounted to €53 million, just short of its target (€60 million). Set up in 2002, IDF focuses on the electricity, water, health and transport infrastructure that countries need in order to grow. Increasingly, the fund focuses on agriculture and investments that reduce GHG emissions or adapt to climate change. Meanwhile, new commitments for AEF amounted to €13 million, below the target of €30 million. Two investments were transferred to FMO's balance sheet because they no longer required high-risk funding. Set up in 2007, AEF initially focused on renewable energy for households in Sub Saharan Africa. In 2018 the investment strategy was revised and now has a global geographic focus and allows for credit to SMEs for decentralised energy generation. Going forward we will increase our focus on investing IDF and AEF to catch up and fully utilize their high-risk bearing capacity.

FMO also realised new commitments to MASSIF amounting to €69 million (target: €72 million), including an innovative (guarantee) financing to a microfinance institution in Ethiopia. Set up in 2006, MASSIF provides access to financial services such as bank accounts, savings products and loans for micro, small and medium-sized entrepreneurs. This is key to creating job opportunities and better livelihoods at the base of the pyramid.

In addition to these three funds, FMO manages a Capacity Development (CD) programme on behalf of the Dutch government. In 2018, CD contracted 54 new projects for a total of €4.6 million of funding. FMO also decided to extend its own contribution to the CD Program, totalling €2.8 million annually, while the renewal of the AEF and IDF funds will also provide additional CD funding. CD supports knowledge transfer and provision of technical expertise, particularly around green and gender investments, support to smallholders and innovative opportunities like Fintech. CD projects are key to FMO's ambitions and those of our stakeholders.

Clients

In addition to deepening relations through investments, FMO ensures that relations with clients and employees are in optimal condition. In 2018, we conducted a client satisfaction survey in which we scored an 8.5 out of 10, slightly below our 2015 score of 8.6 but still on par with peers. Our Net Promoter Score reached 69.5, an improvement over previous 68.4 and close to our target of 70.

These scores reflect our clients' appreciation for our professionalism, reliability and the effort we put in organising a range of conferences, workshops, exchange programmes that connect, inspire and teach clients. In 2018, for example, we organised the Future of Finance and Making Solar Bankable conferences, which each drew 500 participants from all over the world. The survey also indicates we can do better on lead times and our added value related to training and knowledge sharing.

Employees

By year end of 2018, our total staff amounted to 533 employees, all of whom are covered under the collective labor agreement. FMO's unique mission and the complexity of our financial investments call for inspired and empowered staff. An FMO employee engagement survey yielded an engagement score of 7.4, the same as 2017 but below our target of 7.5. On a more detailed level we find that the engagement score for our male staff is higher than for female staff (7.5 vs 7.2) and higher for non-nationals than for Dutch staff (7.4 vs 7.3). Overall, our employees support FMO's goals and ambitions, are proud to work for us and are willing to go the extra mile. However, they also said they are less satisfied with their remuneration, the level of efficiency and innovation and recognition for their work. These areas will be addressed in 2019.

We also want to increase the level of diversity of culture and gender at all levels of FMO. Diversity creates a more welcoming work environment for a wider range of people and produces better, more balanced decision-making. Diversity of backgrounds and viewpoints enhances creativity and innovation. All this leads to better solutions for our clients and aids our efforts to be a high-performing organization. It is our goal to make fullest use of the benefits FMO's diversity brings through having a good balance of gender and nationalities within our company.

Our employees in numbers	2018	2017
Total number of employees	533	492
Total FTEs at year end	508	467
Number of new recruits	104	82
Number of nationalities	50	47
% non-Dutch employees	27%	23%
% country of birth not NL	38%	35%
% of women in senior and middle management	39%	40%
% staff turnover (male/female)	12% / 11%	7% / 9%
% absenteeism	3%	3%
Number of trainings held by FMO Academy	178	128

From a gender perspective, FMO is well-balanced, with 49% female and 51% male colleagues. When it comes to the Management Board and the Directors, the share of women is currently at 39%. The network FMO Femmes supports female colleagues in their career ambitions. Gender diversity is always discussed in appointment and succession decisions.

FMO is 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.

FMO is becoming more and more international. More than one-third of our employees have been born outside of the Netherlands. Every fourth employee has a different nationality than Dutch and these colleagues together represent 50 different nationalities. Accepting diverse cultures starts with being aware of one's own. It is crucial to create a climate where people of different backgrounds feel comfortable expressing their differing opinions. In our learning and development programs and at the FMO Academy, we offer training to raise awareness about different cultures and dealing with cultural diversity.

Compliance

FMO acknowledges the importance of having sound and controlled operations which also includes KYC. FMO's Know Your Customer (KYC) procedure screens clients on compliance with anti-money laundering, terrorist financing and international sanctions laws and regulations. In 2018, timely conducting of periodic KYC reviews was a specific area of focus for FMO. As a result, we managed to timely complete the periodic reviews that were due in 2018. In 2018 we implemented new requirements based on the European Fourth Anti-Money Laundering Directive. In August 2018, DNB conducted an on-site inspection on the systemic integrity risk analysis (SIRA) and KYC procedure. FMO has started the necessary enhancements of the KYC procedures and increasing the effectiveness of controls based on DNB findings. During 2019, FMO will continue to strengthen its KYC procedure. Follow up is closely monitored by the Management Board and the Compliance Committee.

No significant integrity incidents related to FMO employees have been reported and there were no incidents at existing clients outside FMO's risk appetite.

In 2016, FMO began to prepare for the 2018 roll out of the General Data Protection Act (GDPR) with improved policies, procedures and controls. A number of GDPR IT solutions was implemented and the project was completed on time. No data leaks that required reporting to the Data Protection Authority occurred over the course of the year.

Higher productivity

In 2018, FMO continued to build a robust, effective and efficient organisation that frees up employees to add more value to clients. We delivered against our plan in 2018 but at a slower pace than anticipated because the scope of our ambition requires more time and resources than anticipated. Specifically, we made progress in four domains, by combining investments in IT capabilities with redesigned processes and new tools.

First, we implemented the first phase of an HR programme that will bring our culture more in line with our strategy. We defined new team roles for our investment teams for greater effectiveness, conducted an engagement survey, rolled out a new leadership development programme and ran an open feedback culture pilot as part of efforts to boost our performance management.

Second, we strengthened our information management by setting up the infrastructure for our new information management platform, rolling out data governance and quality processes and releasing a portfolio dashboard for all of our debt, guarantee and equity products. This will help us better analyse, report, forecast and steer on impact.

Third, as part of efforts to optimise key investment and portfolio management processes through the Business Process Optimization project, we launched a new system to support the commercial processes for debt products. The first release enables us to make changes to terms and conditions of a contract over the lifetime of an investment a lot faster.

And finally, we developed a programme that among others will break down silos and increase efficiency, effectiveness and control. We will do this in four areas, namely strengthening our culture, stakeholder engagement, improve and professionalise how we work together internally and running the business. These plans will be implemented in 2019.

Financial performance

IFRS 9

Our financial performance as per 2018 is not fully comparable with previous years due to the implementation of IFRS 9 - a new reporting standard for financial instruments. IFRS 9 impacts the results from the private equity portfolio as it requires fair value changes (including foreign exchange results) to be recorded in the profit and loss account. Previously, such changes were recognised in the available for sale reserve and exit results were recorded in the profit and loss account.

Most of our private equity investments are denominated in foreign currencies (mainly US dollars), while our financial results are reported in euros. Therefore, fluctuations in the EUR-USD exchange rate may have a sizeable positive or negative impact on our reported financial results. Taking into account that our private equity portfolio is central to our business, and that hedging the private equity investments is less effective because of the uncertainty in the size and the timing of the cash flows for these investments, we have decided to accept the higher reported earnings volatility.

For 2018 the exchange rate results on our private equity results amounted to a gain of €44 million. When excluding these results, the underlying net profit is €108 million and return on shareholders' equity amounts to 3.7%.

Profit & loss account

Our operating income in 2018 amounted to €286 million, which is below the target of €370 million. The performance is mainly explained by lower results from equity investments and lower results from financial transactions.

Results from equity amounted to €41 million, consisting of €44 million foreign exchange gains, €1 million capital gains and a net loss of €4 million on exits. Results from equity investments were mainly below budget due to lower capital gains related to a loss on several investments in a fund manager with multiple funds under management.

Net profit in 2018 amounted to €151 million, down from €255 million in 2017. The difference is mainly explained by the same effects as for the operating income. Net profit was positively influenced by a limited level of impairments (2018: €12 million vs 2017: €62 million). The return on shareholders' equity amounts to 5.2% (2017: 9.1%).

Operating expenses amounted to €107 million, an increase of €8 million compared to 2017, but below budget for 2018. The increase is to a large extent explained by the autonomous increase in staff cost, higher regulatory expenses, and additional staff and investments to support the execution of our 2025 strategy.

In € million unless stated otherwise

Financial indicators	Performance metric	2018	2017
Profit & Loss account	Net interest income	201	200
	Results from equity investments	41	155
	Dividend income	28	37
	Remuneration for services rendered	29	29
	Operating income	286	444
	Operating expenses	-107	-99
	Impairments	-12	-62
	Net profit	151	255
	Underlying net profit	108	n/a
Balance sheet	Net loans	4.8	4.2
	Equity investment portfolio (incl. associates)	1.8	1.7
	Total assets	8.5	8.3
	Shareholders' equity	3.0	2.8
	Debentures & notes	5.1	5.1
Ratios at end of period (%)	Non Performing Loans (NPL)	8.1%	5.6%
	Return on average shareholders' equity	5.2%	9.1%
	Common Equity Tier 1 (CET 1)	24.6%	24.6%

Balance sheet

FMO's total assets amounted to €8.5 billion per December 2018, up from €8.3 billion in 2017. The increase mainly follows from the development of the loan and equity portfolio, which increased from €5.9 billion to €6.6 billion. Shareholders' equity increased by €154 million to €3.0 billion, mainly due to the inclusion of the net profit of 2018.

Other financial ratios

Non-performing loans (NPL) increased to 8.1% (year-end 2017: 5.6%) due to a number of factors including additional NPLs, relatively fewer write-offs, and an adjustment of the non-performing definition in preparation for the EBA Guideline on Management of Non-Performing and Forborne Exposures. Over half (53%) of total NPLs remain concentrated in the Infrastructure, Manufacturing and Services sectors, for which activities were terminated during 2017 following a strategic reorientation. The NPL level also reflects to some extent the long recovery period inherent to our markets.

The Common Equity Tier 1 (CET-1) ratio remained stable at 24.6% as the inclusion of net profit of the first half of 2018 in eligible capital was offset by the increase in risk weighted assets caused due to the appreciation of the US dollar versus the euro and the general increase of the portfolio.

For more information on our financial performance and risk management please refer to our Annual Accounts.

Helping Khan Bank reduce inequality in rural Mongolia with mobile banking

Mongolia is one of the least densely populated countries in the world, with much of the population living in remote rural areas, where many follow a nomadic or herder lifestyle that has not changed for centuries.

The realities of life in Mongolia are harsh, with monthly temperature variations of 45ºC not uncommon and no city or town within a day’s travel for most people. Yet 80% of Mongolians have a bank account, a much higher rate than in countries such as Russia or Kazakhstan.

Digital banking, supported by a widespread mobile telephony network, serves as the backbone of retail banking in Mongolia. The leader in this sector is Khan Bank, which serves 2.4 million of country's 3.1 million inhabitants, having pioneered mobile banking in 2007 and embraced digital banking in 2013.

Reaching out to the rural unbanked

Khan Bank, which has been an FMO client since 2009, delivers banking services to 70% of Mongolian families. It is the country's largest commercial bank with more than 500 branches around the country, and accounts for 25% of sector assets. Khan Bank is also making considerable inroads into the SME and corporate banking segments.

Mongolia relies heavily on commodity exports, and its once fast-growing economy has experienced a slowdown as a result of the decline in commodity prices since 2015. However, providing finance to marginalised consumers and entrepreneurs is a critical element of the mass market banking function, and plays an important role in reducing inequality, one of FMO’s key priorities among the UN Sustainable Development Goals.

At the instigation of the IMF, Mongolia's central bank appointed an independent auditor to review the asset quality of the Mongolian banking sector. The review, which took place in 2017, caused unrest in the sector and reluctance from investors or financiers to support banks before the review ended. However, as FMO and Khan Bank have a longstanding partnership, and FMO was confident that the bank's review would be acceptable, we issued a letter of interest for a loan facility and started the approval and syndication process ahead of the finalization of the review.

With foreign investment in Mongolia shrinking as the mining sector has struggled, the role of Khan Bank in providing funding to the economy has become even more important. We arranged a $120 million loan to the bank, the largest in its history, to help it continue to serve customers in even the most remote parts of the country. The loan also signals FMO’s own commitment to the Mongolian market, and the transaction is expected to pave the way for further funding from other international financial institutions.

How does FMO’s support reduce inequality?

Khan Bank provides financial services to the rural poor, people that would otherwise lack access to banking services. In many cases this includes families involved in the production and sale of agricultural products in extremely remote parts of the country, living in marginal households.

Mongolia lacks large-scale corporate agricultural activity. Khan Bank works predominately with small or micro-enterprises, with 8% of its loan book devoted to agriculture lending or loans to herders. The majority of its activities (67%) involves retail lending to individuals. The bank does not currently track what portion of its retail lending to individuals meets FMO’s classification of microfinance (loans to businesses with an original amount of less than €10,000), but a significant amount of its retail lending is being used for business or other productive means, and thus could be classed as microfinance.

Outside the loan facility provided by FMO, we will also support further initiatives to strengthen Khan Bank's environmental and social management system as part of a financial sector-wide initiative to upgrade environmental and social standards led by the Mongolian Banking Association. The bank will continue to develop its ability to reach the country's most remote regions, and to upgrade its mobile banking and digital banking capabilities.

The syndicated loan from FMO is also important for the country on a wider level, by demonstrating the ongoing confidence of investors in Mongolia, its economy and society.

Partnership for primary care: revolutionizing the healthcare system in Africa

Primary healthcare in East Africa faces a challenge of early engagement. Traditionally, people have tended to defer seeking treatment because of the cost involved – no universal primary healthcare is provided by governments, which instead are seeking to persuade citizens to pay for national health insurance.

This diffidence about seeking treatment means that clinics and healthcare professionals tend not to see cases until they have reached a serious stage. Both the expense and the risk to the patient become magnified in the process.

According to the World Health Organization, the strengthening of primary healthcare is the most efficient and cost-effective means to achieve long-term beneficial health impacts.

Healthcare for the most vulnerable in Kenya.

In Kenya the government delegates the provision of primary healthcare to local county authorities. It is here that the Netherlands business team of FMO has become involved in a public-private partnership project with health organization Amref Health Africa, headquartered in Nairobi, and Royal Philips, involving various kinds of support for three clinics in Makueni County.

The project is initially designed to improve access to healthcare for 20,000 people in the county, but in December 2018 a memorandum of understanding was signed by Amref and FMO envisages preparing to follow the feasibility stage with a scale-up that will widen the scope of the initiative to as many as 1 million people and explores new opportunities for collaboration. Amref combines knowledge of the market and healthcare sector with 60 years on the ground experience in African. FMO in turn, brings extensive expertise in financial development that is crucial for running more financially sustainable programmes.

FMO is providing funding through the Development Accelerator facility, as well as legal and business expertise, and is working closely with the regional government, which is responsible for health policy, regulation and quality management at the clinics. Amref, as the largest African health organization, trains health workers, manages facilities and establishes community health units to improve prevention within communities and provide efficient referral. Philips is supplying medical equipment and health systems infrastructure specially designed for use in the demanding environment of rural Kenya.

The $1.3 million project was launched in July 2018 and will run until August 2019. If it is successful, the next phase will see the project rolled out nationwide to around 200 community health units, 200 dispensaries and 240 health centres, some of them already in place but in need of upgrading, while others need to be set up.

The trial is important because it involves a non-NGO model of sustainable finance designed to help the health system support itself and provide much-needed primary healthcare to Kenyans at an affordable price.

Targeting universal healthcare goals

The trial is generating considerable interest among healthcare policymakers in Kenya and other countries in East Africa where Amref also operates. It is part of a much wider strategic initiative to help African countries achieve their universal healthcare goals.

Within Kenya, despite the national government's efforts to date, the most vulnerable have yet to benefit fully from the healthcare insurance system. The model adopted by Amref, FMO and Philips in Makueni County is designed to enable this segment of society to benefit from direct healthcare at a price people can afford.

“If we are able to keep people healthy at home, the overall cost to the system will be less,” says Patricia Vermeulen, CEO of Amref in the Netherlands. “If we want this model to be financially sustainable, people need to be insured. To ensure access to care for everyone, the people who cannot afford the insurance will be subsidised by the Makueni government.”

The critical part of the project is ensuring that affordable healthcare is delivered not just to citizens who could not previously pay for it without incurring considerable debt, but also to the most vulnerable. This means innovation such as additional provision for maternity healthcare.

“It was important to develop a model that would build on the existing infrastructure, the clinics and personnel already there,” Vermeulen adds. “Delivering high quality primary care is and will remain a responsibility of the government. This model gives them the opportunity to outsource the execution. By combining the strengths of the public and private sectors, we can improve quality and efficiency.”

Learning from success in healthcare funding

Part of the funding will go toward improving the training of medical personnel and modernising the facilities available in the clinics. FMO is also working closely with all the parties involved to offer vital consulting expertise.

The partnership represents a new venture into healthcare for FMO, one that will help the organisation to develop a more informed strategy for the deployment of capital in frontier markets.

In 2019 climate change and inequality will remain the two most pressing challenges in the world. In fact, even less time will remain before a point of no return is reached and climate change will lead to potentially permanent and disastrous consequences.

That is why in 2019 we will build on the extensive work we did in 2018 to ensure we can deliver more impact on SDGs 8, 10 and 13, deepen relations with stakeholders and increase our productivity. Below are some of the key goals we will pursue.

2019 Objectives and targets

Higher impact portfolio	Total investment volume	2,905
	of which	
	For FMO's balance sheet	1,750
	Government funds	195
	Catalysed funds	960
	Green (% of total)	32%
	Reducing inequalities (% of total)	27%
	ESG performance (% of risks managed)	90%
Deeper relationships	Catalysed funds	960
	Client satisfaction (NPS score)	70
	Dutch business investments	100
	Employee engagement	8
Higher productivity	Operating income	370
	Realized delivery on 2019 project portfolio (%)	85%

Higher impact portfolio

Our economic outlook for 2019 is positive overall with economic growth in developing countries and emerging markets expected to be 4-5%[2] on average. The global risk sentiment has slightly deteriorated mainly driven by the escalating trade tensions between the United States and China. Furthermore, a potential 'no-deal' withdrawal of the United Kingdom from the European Union (Brexit) and a greater than envisaged slowdown in China can further worsen the outlook.

Looking at FMO's key countries, India's economy is set to improve benefiting from lower oil prices and a slower than anticipated pace of monetary tightening. These same lower oil prices will have a negative effect on Nigeria, although the overall prospect for Sub-Sahara Africa is positive compared to 2018. In Turkey the contraction of the economy is projected to be deeper than anticipated following policy tightening and adjustment to more restrictive external financing conditions. We will closely monitor these developments. The wide diversity of our portfolio will remain an important risk mitigant.

We are positive that in this environment we will be able to attract sufficient funding and aim to invest a total of €2.9 billion. Some 32% of new commitments for FMO's own book and government funds will be invested in green transactions and another 27% in investments that contribute to reducing inequalities. We also expect to accelerate our growth in the European Neighbourhood, Africa and Asia. Finally, we will continue our efforts to develop together with several other parties an Africa strategy for the Dutch private sector.

To ensure our investments generate the impact we aspire to, we will continue to encourage our clients to increase their ESG performance. For 2019 we aim to manage 90% of the high-risk items fully compliant with our standards or under active management on a pathway to compliance for clients contracted in 2017 and 2018 where FMO was in the lead.

During 2019 we will work on several new products and segments to build a higher impact portfolio. Through our involvement with NASIRA we will support women and refugees and through our Private Equity Department-led venture capital programme we will support innovation in FMO's focus markets. In addition, we will build new catalysing vehicles to increase the impact of FMO's own investments.

2 https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019

Deeper relationships

In 2019 we will further improve our services to our clients and strengthen relationships with partners by implementing a stakeholder engagement strategy. This will initially focus on creating communities around climate and reduced inequalities, impact reporting standards and initiatives inspired by key stakeholders. We will also formalise how we measure and monitor the quality of stakeholder relationships.

Higher productivity

We will increase our productivity through projects in three areas: implementation of our Strategy 2025, regulatory and operations, and foundation for the future (new propositions, segments for future growth and digital transformation, including our IT security).

Our 2019 plans aim for an operating income of €370 million and we have set aside additional budget for staff and projects to accommodate our ambitions.

One of the key operational challenges in 2019 will be to recruit and effectively onboard skilled staff. Our HR Department has capacity and capabilities in place to make this happen. Another challenge will be to execute our ambitious project portfolio. To enable successful project delivery, we will implement an enhanced project management and governance framework.

The various Brexit scenarios have been on our radar in 2018 and will continue to be in 2019 as the Brexit date approaches. An internal working group has assessed that the expected impact of a hard Brexit on the financial results of FMO is not significant. Certain products, transactions and processes need to be adjusted to become Brexit-proof, but these are expected to be implemented in time or relatively unimportant to the core processes such that they can be sorted post Brexit.

IN CONTROL STATEMENT

FMO has internal risk management and control systems that enable us to take risks and control them and that are based on 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:

As Management Board of FMO, we are accountable for internal risk management and control systems within FMO.

Based upon our assessment of the internal risk management and control systems of FMO and barring unforeseen adverse external and internal conditions, we are of the opinion that:

1. The annual report provides sufficient insights into failings in the effectiveness of the internal risk management and control systems;
2. The afore mentioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
3. 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
4. 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.

These statements are based on our knowledge and belief that:

- FMO has a proper system of internal risk management and control relating to strategic, operational, compliance and reporting risk;
- FMO has identified key risks and material control measures and evaluated the operating effectiveness of these material control measures;
- We have provided sufficient insights into failings in the effectiveness of the internal risk management and control systems, as well as the appropriate corrective actions, and we are committed to implement such corrective actions.

Reference is also made to the Risk management framework section in the Corporate Governance paragraph and the Risk Management section for an explanation on FMO's risk management framework, which is organized in adherence to the three lines of defence principle.

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:

- Current and upcoming regulations put pressure on FMO and require significant attention and effort from its resources. New and changed regulations are being monitored by the Financial Regulation Committee.
- To further improve the operational effectiveness and efficiency of FMO and at the same time deliver on the strategic objectives, FMO has identified several projects and changes. In order to mitigate the resulting execution risk, a new governance framework on managing the project portfolio has been implemented by the Management Board.
- 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 Management Program has been put in place to further mitigate this risk.
- FMO is in the process of further strengthening its process management capability and internal control framework for front-to-end processes. Establishment of a Business Process Management function and an increase of the level of maturity of internal controls is put on the 2019 agenda.
- FMO is in the process of digitalizing and automating, which may involve the use of cloud solutions and portals. These changes to our ICT systems and information integration will require increases in the level of security and monitoring.
- A Financial Economic Crime enhancement plan has been initiated to further improve our control around Client Due Diligence.

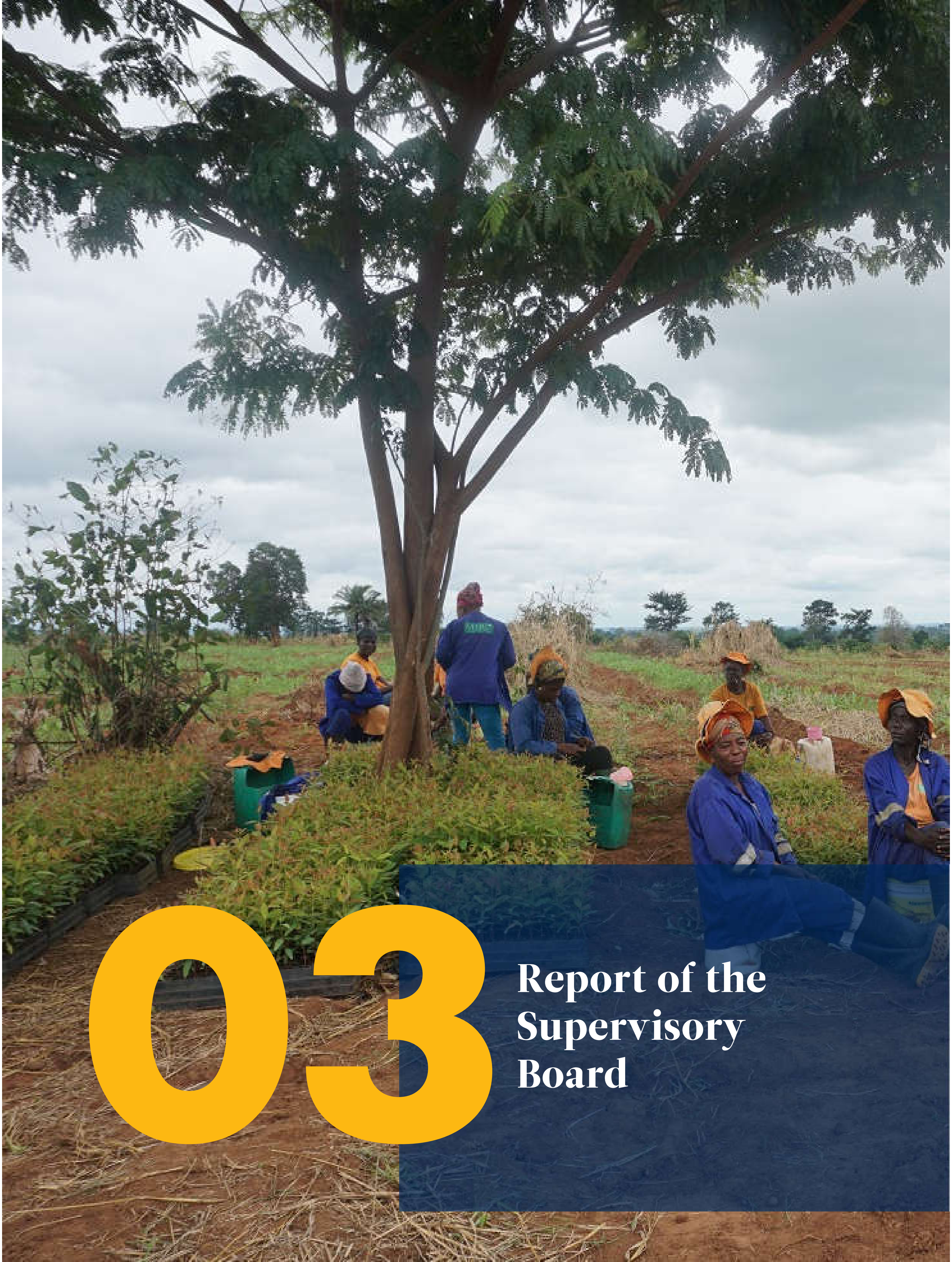
Responsibility Statement

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 2018 financial year of FMO and its consolidated companies; and
- The annual report describes the material risks that FMO faces.

The Hague, March 14, 2019



03 Report of the Supervisory Board

The Supervisory Board looks back on a dynamic 2018 marked by a newly energised leadership team, good impact and financial performance, increased organisational effectiveness and the adaptation to a more demanding external environment.

The Supervisory Board is pleased with the organisation's performance in 2018. While FMO managed to achieve most of its overall impact and financial goals, we did notice fluctuations across the business. FMO outperformed its targets on Energy, Agriculture, Food & Water and Financial Institutions, but underperformed on Private Equity and catalysing. We do appreciate that Private Equity made its intended shift towards more direct investments and that our catalysing efforts attracted significant sums of money from pension funds and insurance companies.

Main points of attention

FMO experienced changes at the top. In 2017, Jurgen Rigterink became FMO's new CEO and in October 2017 Fatoumata Bouaré joined FMO as CRFO. A few months into his new role, however, Mr. Rigterink announced he was to leave FMO by the end of March 2018. The Supervisory Board would like to acknowledge CIO Linda Broekhuizen for the excellent way in which she took the helm and kept the ship steady while the Supervisory Board began the search for a new CEO.

We felt that FMO was in need of a CEO capable of developing the internal organisation and preparing it for an increasingly challenging environment. Out of more than 50 candidates we chose Peter van Mierlo, who in spite of not having a background in development finance, brought a wealth of experience with organisational change. FMO welcomed Mr. van Mierlo in June of 2018 and the Supervisory Board is pleased to see the energy and complementarity displayed by the now complete Management Board.

This was evident in the way the Management Board accelerated the implementation of the internal change programme initiated to improve FMO's ability to serve clients efficiently and effectively. Internal change is also needed in light of a rapidly evolving environment and changing expectations from our stakeholders.

This aligns with the publication in 2018 of the Dutch government's inspiring new vision on sustainable development. The June visit of Mrs. Sigrid Kaag, Dutch Minister of Foreign Trade and Development Cooperation, to FMO's offices was symbolic of the closer relationship we are developing with the Dutch government and the key role the Dutch government sees for FMO in its own international agenda. An example is the call made on FMO to play a role in the development of Invest-NL, a €2.5 billion fund designated for Dutch businesses seeking to invest in sustainable development projects in the Netherlands and elsewhere in the world. FMO was called to play a key role in organizing the activities of Invest-NL that will support Dutch companies to invest in emerging and developing countries.

FMO is actively engaged in strengthening the cooperation between the European development finance institutions through EDFI. In a world in which the US-based IFC has considerable clout and a growing volume of Chinese investments is entering Africa, it is important that European DFIs join forces.

Regulatory developments

This year, 2018, is the first year for FMO to report on the basis of IFRS 9. The new accounting standards and the way it handles private equity investment implies FMO's annual profit and loss accounts will fluctuate far more strongly. This will require an even more transparent way of reporting and communicating with our stakeholders.

The Supervisory Board has closely monitored the proposed changes to the CRR ("CRR-2"). An issue of concern to us was the original requirement that European banks should have capital reserves equalling their investments in private equity funds investing in developing countries. This would raise unreasonable barriers to much-needed direct investments in developing countries, which is why we welcome the proposed adjustment to exempt multi- and bilateral development banks from this requirement in the final CRR-2 texts.

Prospect for 2019

Looking ahead to 2019, the Supervisory Board expects the external environment to remain turbulent but FMO to become stronger on the back of internal improvements. The Supervisory Board also believes that 2019 will present considerable opportunities for having a positive impact on the world. The liquidity in the markets will continue to be available but there will be a lack of high-quality investment opportunities.

This means FMO will need to take an even more pro-active role in the creation of bankable projects, for example by shaping public-private partnerships in which public and private money blend. At the same time, FMO's stakeholders will more critically evaluate its performance and hold FMO to a higher standard. This means FMO needs to responsibly grow its staff count and create a more robust organisation by continuing to invest in areas like IT systems, efficient processes and client attention.

The Supervisory Board will closely monitor execution of the 2025 strategy, with specific attention for the work to make FMO's organisation more effective and efficient, and for implementation of the values. Furthermore, we will monitor the actions FMO and RVO will undertake to set up the new company to support Dutch companies.

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.

Members

At year-end 2018, the Supervisory Board consisted of three female and three male members. The Management Board consisted of two female and one male member. FMO aims to have a balanced composition of the different boards in terms of gender, experience, age, professional background and nationality. Further personal details on the members of the Supervisory Board can be found in the section Members of the Supervisory Board.

	Supervisory Board	Audit & Risk Committee	Selection, Appointment & Remuneration Committee
P. Vellinga	•		•
A.E.J.M. Schaapveld	•	•	
T. Menssen	•	•	
D.J. van den Berg	•		•
J.V. Timmermans	•	•	
F. Karimi	•		•

Permanent education

Members of the Supervisory Board follow a formal program of lifelong learning, as also required by the Dutch Banking Code. In 2018, the members of the Supervisory Board followed several lifelong learning sessions, among others on the global climate commitment and FMO's role, an Africa strategy for the Dutch private sector, ESG tracking and on the risks and opportunities of mobilisation of private capital by development finance institutions.

Evaluation

During the year several meetings between Supervisory Board and Management Board members have taken place to discuss the changes in the Management Board composition and to monitor its performance. The Management Board prepared a self-assessment and a team assessment of its functioning in 2018. The Supervisory Board evaluated the individual Management Board members by means of separate interviews conducted by two SB members. In those meetings, these assessments and amongst others the 2018 and 2019 objectives and targets were discussed, as well as the cooperation in the new MB setting. The conclusions will be implemented in the 2019 team and personal goals. The Supervisory Board discussed the outcome in a conclusive session without the Management Board present.

The Supervisory Board evaluated its own functioning and the functioning of its committees and individual members over 2018 with the help of a specialized external evaluator. The Banking Code requires an external evaluation once in every three years. The evaluation included an online questionnaire and separate interviews with all members of the Supervisory Board and the Management Board as well as the Corporate Secretary. Amongst others, the culture, team dynamics, cooperation and value creation have been part of the evaluation. It was found that the functioning was according to what can be expected. The SB discussed the preliminary outcome in a separate session and is in the process of further analysing the results. The conclusions will be adequately dealt with.

Appointments and reappointments

We were honoured that on October 31 Farah Karimi decided to join the Supervisory Board. Mrs. Karimi, for 10 years the Executive Director and Chair of the Executive Board of Oxfam Novib, brings in-depth knowledge in the area of human rights to the Supervisory Board. This will allow us to more effectively support the Management Board and the rest of FMO as they invest in projects where human rights can clash with impact goals, for example with land rights in the context of agricultural or energy projects.

Meetings of the Supervisory Board

The Supervisory Board met 6 times in 2018. Please see the schedule below for a full overview of meetings and attendance. To keep a finger on the organisation's pulse the Supervisory Board began to have structural bi-annual conversations with the Works Council and every Supervisory Board Member spoke to two of FMO's Directors during the year.

In 2018, the Supervisory Board approved the four-year plan for 2019-2022, after thorough consideration in an internal meeting and in combined strategy meetings with the Management Board. The four-year plan for 2019-2022 continues in the direction which was set with the Strategy 2025 and the focus on higher impact, deeper relationships and higher productivity. The initiatives, ways of measuring progress and the financials were discussed, as well as the vulnerabilities and how to manage the latter. The Supervisory Board will continue to monitor the progress of the implementation of the strategy in 2019, amongst others by monitoring progress on KPIs, targets and four pathways to strengthen FMO's culture, stakeholder engagement, improve and professionalize and running the business.

	Supervisory Board meeting	Audit and Risk Committee	Selection, Appointment and Remuneration Committee	Lifelong Learning
P. Vellinga	6 of 6	1 of 1*	2 of 2	4 of 4
A.E.J.M. Schaapveld	6 of 6	3 of 3	-	4 of 4
T. Menssen	2 of 6	2 of 3	-	2 of 4
D.J. van den Berg	5 of 6	-	2 of 2	3 of 4
J.V. Timmermans	4 of 6	2 of 3	-	3 of 4
F. Karimi**	1 of 1	-	1 of 1	2 of 2

* As substitute of J.V. Timmermans

** As of 31-10-2018

Meetings of the committees of the Supervisory Board

The Audit and Risk Committee (ARC) held three meetings in 2018. These meetings were attended by the ARC members (please refer to table SB attendance), the CRFO, Director Finance, Director Risk, Director Internal Audit and the external auditor. Regular topics on the agenda have been the financial statements, annual report, interim report, ICAAP, ILAAP, internal and external audit findings, and the business plan for 2019. Key audit matters were discussed with the external auditor: IFRS 9 adoption and impairment of loans to the private sector; valuation of equity investments; the reliability and continuity of IT systems; and measurement of impact and footprint data, methodology and reporting. In addition, the ARC has discussed the risk appetite framework, the on-site inspection of the Credit Risk Model by the Dutch Central Bank and the annual assessment of the Internal Audit function. Also, the new Private Investments Policy was assessed, as well as the four-year plan for 2019-2022.

The Selection, Appointment and Remuneration Committee (SARC) held two meetings in 2018. These meetings were attended by the SARC members (please refer to table SB attendance) and Director Human Resources. The SARC has discussed the retirement schedule of the Supervisory Board and the reward of senior management positions in Risk and Compliance. Moreover, the updated MB Remuneration Policy has been discussed and will be proposed to the Annual General Meeting.

Independence, conflicts of interest and governance

The Supervisory Board is of the opinion that all of its members are independent, as meant by Best Practice Provisions 2.1.7 up to and including 2.1.9 of the Corporate Governance Code. No direct, indirect or formal conflicts of interest were identified in 2018. 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.

Culture and management

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.

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.

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 2018 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 €147 million (2017: €249 million) to the contractual reserve. The remaining amount of €3.6 million (2017: €5.6 million) is the distributable component of profits. We recommend that the AGM adopt our proposal to pay a cash dividend of €8.92 (2017: €13.89) 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.

Members of the Supervisory Board

Front from left

T. (Thessa) Menssen	**P. (Pier) Vellinga, Chairman**	**F. (Farah) Karimi**
Female, 04-05-1967, Dutch	Male, 17-04-1950, Dutch	Female, 15-11-1960, Dutch
Appointment in current position: 2016-2020	Appointment in current position: 2008-2020	Appointment in current position: 2018-2022
Other positions: Member of the Supervisory Board of Post NL, member of the Supervisory Board of the Scheepvaartmusem (National Maritime Museum), member of the Supervisory Board of the Kröller Müller museum	Other positions: Director Climate and Water at the Wadden Academy, Chairman of the Board of URGENDA, the Netherlands platform for the promotion of sustainability in business practices, Member of the Board of the Climate Adaption Services Foundation	Other positions: Member of the Supervisory Board of University NHL Stenden, member of Advisory Board of NWO, the Netherlands Organisation for Scientific Research

Back from left

J.V. (Koos) Timmermans	**D.J. (Dirk Jan) van den Berg**	**A.E.J.M. (Alexandra) Schaapveld**
Male, 12-03-1960, Dutch	Male, 18-12-1953, Dutch	Female, 05-09-1958, Dutch
Appointment in current position: 2017-2021	Appointment in current position: 2016-2020	Appointment in current position: 2012-2020
Principal position: CFO of ING Group until February 2019 Other positions: Member of the Supervisory Board of the Amsterdam Institute of Finance, member of the Supervisory Board of Stadsherstel	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	Other positions: Non-Executive Director at Société Générale S.A., France, Non-Executive Director of Bumi Armada Berhad, Malaysia, Supervisory Board Member Vallourec S.A., France

Good corporate governance at FMO is crucial for two reasons. The first is that as a public-private development bank, our own governance, structure and reporting lines must be both sound and transparent. The second is that in order to carry out our mission – to empower entrepreneurs to build a better world - 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. FMO's bylaws were updated in 2013 and we expect several of our bylaws will be updated in 2019.

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. 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.

FMO 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 currently has two committees: the Audit and Risk Committee and the Selection, Appointment and Remuneration Committee, which advise and prepare decision-making.

In December 2018, the Supervisory Board decided to establish a third Supervisory Board Committee: the Impact Committee. The reason is that the Supervisory Board would like to dedicate more time to maximizing development impact. The Committee will deal with subjects such as ESG (including human rights), impact strategy, impact measurement, (NGO) stakeholders and communication, audit, reporting and international developments regarding impact.

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.

Organizational chart (As of February 2019)

Investment	Corporate	Risk Management & Finance
Linda Broekhuizen Chief Investment Officer	**Peter van Mierlo** Chief Executive Officer	**Fatoumata Bouaré** Chief Risk & Finance Officer
Agribusiness, Food & Water **Pieternel Boogaard** Director	Corporate Secretary **Catharina Oosterbaan**	Compliance **Michelle Rocker** Manager
Energy **Frederik van Pallandt** Director	Management Board Secretariat **Anke Teirlinck**	Project & Process Management **David Wyatt (a.i.)** Manager
Financial Institutions **Huib-Jan de Ruijter** Director	Corporate Communications **Anneloes Roeleveld** Manager	Credit, Legal & Special Operations **Huub Cornelissen** Director
Private Equity **Jaap Reinking** Director	Strategy & Corporate Affairs **Jorim Schraven** Director	Finance, Impact & Data **Paul Buijze** Director
Partnerships for Impact **Idsert Boersma** Director	Internal Audit **Friso Schellekens** Director	Risk **Marjolein Landheer** Director
FMO Investment Management **Yvonne Bakkum** Managing Director	Human Resources **Danny Klappe** Director	ICT **Femke de Jong** Director
NL Business / NedLinx **Janet Nieboer** Director		Treasury **Matthijs Pinxteren** Director
		Operations **vacancy** Director

Risk management framework

FMO uses a comprehensive risk management framework that reflects its banking license, state guarantee, and mandate to do business in high-risk countries. The Management Board keeps regular oversight of risk management processes, and risk-based authorities delegated to risk departments. The risk-based roles and responsibilities are organized in adherence to the “three lines of defence” principle, with the role of the first line of defence (e.g. Investment departments) being balanced by the second line of defence (Risk Management), and the third line (Internal Audit) to perform independent assessments as to whether processes are sufficiently controlled.

FMO has a Risk Appetite Framework in place, which is updated annually and approved by the Management Board and the Supervisory Board. Adherence to this framework and existing risk limits is continuously managed by dedicated committees.

FMO also applies a conservative capital management framework. The only risks that FMO actively pursues are credit risk and equity risk resulting from loans to and investments in private institutions in emerging markets. Other risks cannot always be avoided, but FMO mitigates these risks as much as possible. FMO’s largest investment and ESG risks are embedded in its emerging market debt and equity portfolios. To allow for this, FMO ensures diversification of investment risk in its portfolios through risk limits per country, region, sector, single and group exposures.

In addition, FMO has developed a set of investment criteria that set minimum requirements for acceptance of investment and ESG risks. These requirements are guided by various standards, among them are 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 for a strict monitoring scheme and restructuring possibilities.

Finally, FMO has a compliance framework to ensure compliance with laws and regulations on integrity as well as with FMO's ethical standards. This compliance framework entails identifying integrity risks, designing policies, monitoring, training and providing ad-hoc advice. FMO has also designed Compliance Risk Indicators that are reported to, and steered on, by the management.

Aligned remuneration policies

Remuneration policies are fully aligned with the principle of attaching equal importance to investment and risk functions, by ensuring similar salary scales for both functions and avoiding bonus structures that incentivise excessive risk taking. FMO discontinued variable remuneration for members of the Management Board and Directors (as well as for staff whose professional activities have a material impact on FMO's risk profile, so called Identified Staff) in 2012.

In the 2018 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 (including the other Management Board members) in December 2018 was 3.5 (2017: 3.5).

Independent complaints mechanism

FMO has an Independent Complaints Mechanism together with the Deutsche Investitions- und Entwicklungsgesellschaft (DEG). This allows affected parties to raise their complaints with an independent expert panel.

The independent expert panel 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. For more information, please see the FMO website.

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.

The Dutch Corporate Governance Code ('the Code') only applies to organisations 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 nevertheless. 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.

FMO promotes diversity at all levels, including the Management Board and Supervisory Board. 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 good solutions, while considering the members' different perspectives, backgrounds and experiences. As of November 2018, the Supervisory Board consists of 50% men and 50% women. In 2018, the Management Board 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 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 Supervisory Board Standing Rules, which deals with reappointments and the duration thereof, will be amended in 2019. 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 November 2018, the Supervisory Board came to full strength and now consists of six members again. Succession is regularly discussed, among others based on the Supervisory Board Profile. A more concise plan will be discussed in 2019.

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 2019.

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 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 4.2.3: this provision relates to analysts' meetings and presentations to institutional investors. This provision is of no practical significance to FMO and therefore does 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, because it 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 it 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 BV

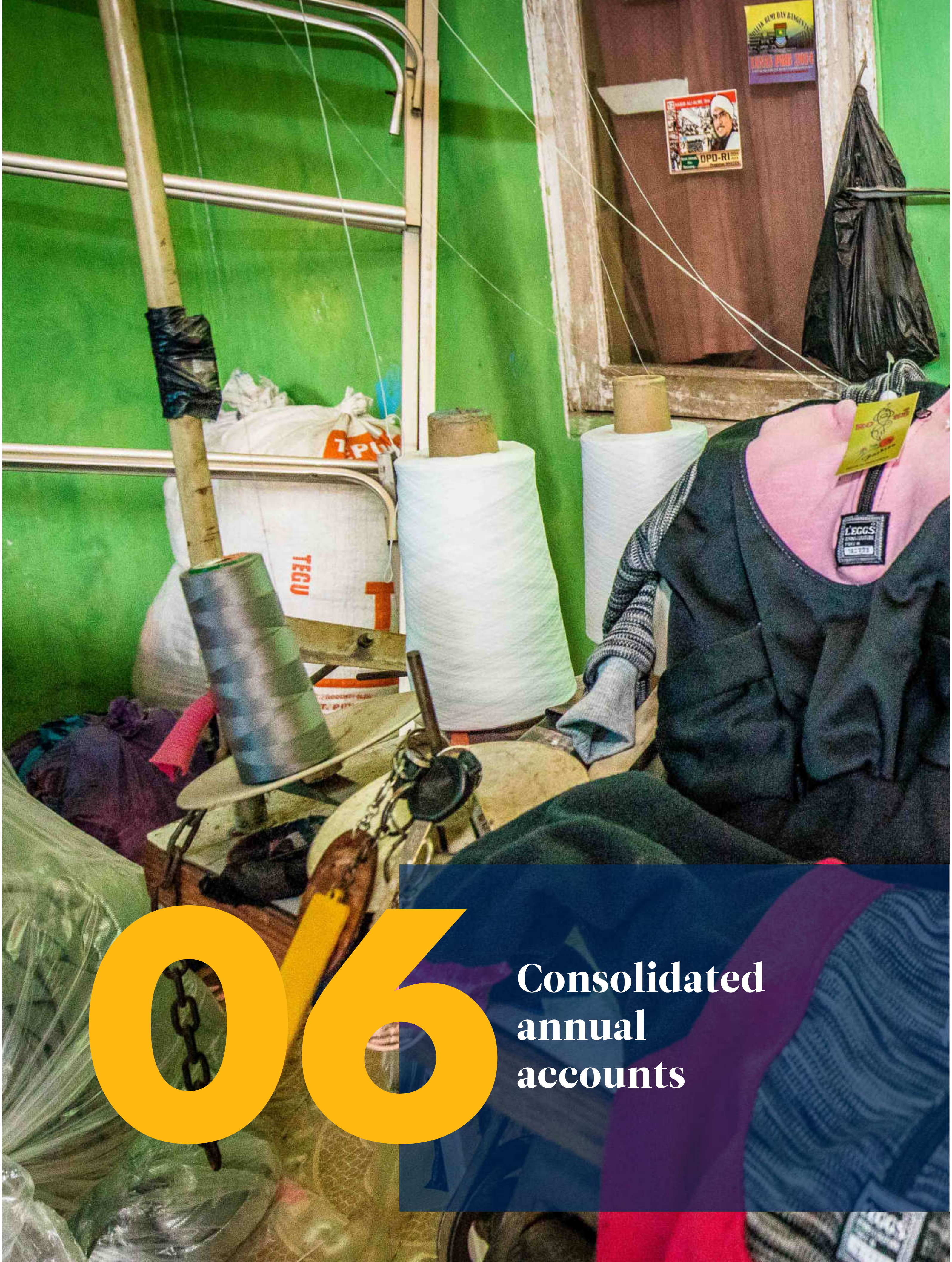
FMO Investment Management B.V. (FMO IM) is a 100% subsidiary of FMO. Its purpose is to build and grow investment management services for professional investors. This is part of FMO's strategic ambition to catalyse commercial investors to emerging markets, thereby increasing its overall impact. FMO IM aims to scale up impact investing by providing investors access to FMO's deal flow in sustainable emerging markets.

FMO IM has a license as an investment firm and is authorised to execute portfolio management, to receive and transmit orders, and to provide investment advice. 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, advises on conflicts of interest between FMO IM and FMO. Two of the three members of this council are independent.

NedLinx BV

NedLinx B.V. is a 100% owned subsidiary of FMO. It was established on October 1, 2017. Activities which previously fell under the responsibility of the NL Business department of FMO are considered to being transferred to NedLinx B.V. This is subject to the developments regarding the intention to set up a new organisation by the Dutch State and FMO, to support Dutch entrepreneurs with international financing and project development solutions. Please see 'Our performance' for further context.

06 Consolidated annual accounts



CONSOLIDATED ANNUAL ACCOUNTS

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

(before profit appropriation)	Notes	Page number	IFRS 9 2018[1]	IAS 39 2017[1]
Assets				
Banks	(1)	96	54,642	71,763
Short-term deposits	(2)	96		
-of which: Amortized cost			391,635	-
-of which: Fair value through profit or loss			756,216	1,544,089
Interest-bearing securities	(3)	96		
-of which: Available for sale			-	364,905
-of which: Amortized cost			402,380	-
Derivative financial instruments	(4)	97	247,823	282,507
Loans to the private sector	(5), (8)	99, 102		
-of which: Amortized cost			4,085,022	4,200,948
-of which: Fair value through profit or loss			685,799	-
Equity investments	(6)	100		
-of which: Available for sale			-	1,502,833
-of which: Fair value through OCI			77,553	-
-of which: Fair value through profit or loss			1,504,427	-
Investments in associates	(7)	101	215,539	207,482
Property, plant and equipment	(9)	104	15,182	12,866
Current tax receivables	(28)	113	24,448	7,458
Deferred income tax assets	(28)	113	8,357	10,587
Current accounts with State funds and other programs	(10)	104	494	274
Other receivables	(11)	105	20,597	117,217
Total assets			**8,490,114**	**8,322,929**
Liabilities				
Short-term credits	(12)	105	76,051	125,935
Derivative financial instruments	(4)	97	217,174	173,701
Debentures and notes	(13)	105	5,139,881	5,123,146
Current accounts with State funds and other programs	(14)	106	4,173	182
Wage tax liabilities			262	117
Deferred income tax liabilities	(28)	113	2,801	9,682
Other liabilities	(15)	106	1,331	2,143
Accrued liabilities	(16)	106	10,086	8,586
Provisions	(17)	106	54,547	49,484
Total liabilities			**5,506,306**	**5,492,976**
Shareholders' equity				
Share capital			9,076	9,076
Share premium reserve			29,272	29,272
Contractual reserve			2,261,694	1,726,404
Development fund			657,981	657,981
Available for sale reserve			-	400,687
Fair value reserve			17,773	-
Actuarial result pensions			-21,123	-21,369
Translation reserve			-6,758	-16,696
Other reserves			32,162	31,971
Undistributed profit			3,570	5,556
Shareholders' equity (parent)			**2,983,647**	**2,822,882**
Non-controlling interests			161	7,071
Total shareholders' equity	**(18)**	**108**	**2,983,808**	**2,829,953**
Total liabilities and shareholders' equity			**8,490,114**	**8,322,929**
Contingent assets and liabilities:				
- Effective guarantees issued	(29)	115	75,066	68,129
- Effective guarantees received	(29)	115	-199,027	-175,042
Irrevocable facilities	(29)	115	1,809,189	1,785,159

1 In 2018 and 2017 the accrued income and part of accrued liabilities are not presented separately but included as part of the carrying value of the relevant financial asset.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2018

(before profit appropriation)	Notes	Page number	IFRS 9 2018	IAS 39 2017
Income				
Interest income from financial instruments measured at AC[1]			286,881	294,038
Interest income from financial instruments measured at FVPL[1,2]			37,996	-9,416
Interest expenses from financial instruments measured at AC[1]			-100,231	-82,352
Interest expenses from financial instruments measured at FVPL[1]			-23,742	-2,387
Net interest income	**(19)**	**111**	**200,904**	**199,883**
Fee and commission income			5,708	6,723
Fee and commission expense			-844	-712
Net fee and commission income	**(20)**	**111**	**4,864**	**6,011**
Dividend income	(21)	111	28,287	36,592
Results from equity investments and associates	(22)	112	40,947	154,571
Results from financial transactions	(23)	112	-22,239	16,103
Remuneration for services rendered	(24)	112	29,094	29,372
Other operating income	(25)	113	4,202	1,348
Total other income			**80,291**	**237,986**
Total income			**286,059**	**443,880**
Operating expenses				
Staff costs	(26)	113	-79,291	-71,559
Other administrative expenses	(27)	113	-23,628	-23,909
Depreciation and impairment of fixed assets	(9)	104	-3,769	-3,154
Other operating expenses			-67	-48
Total operating expenses			**-106,755**	**-98,670**
Impairments on				
Interest-bearing securities			-18	-
Loans[3]	(8)	102	-16,186	-18,110
Loan commitments	(29)	115	4,265	-
Equity investments and associates	(6), (7)	100, 101	-	-46,919
Guarantees issued[3]	(29)	115	308	3,042
Total impairments			**-11,631**	**-61,987**
Results on associates				
Share in the result of associates	(7)	101	-1,802	9,293
Total result on associates			**-1,802**	**9,293**
Profit before taxation			**165,871**	**292,516**
Income tax	(28)	113	-14,738	-37,281
Net profit			**151,133**	**255,235**
Net profit attributable to				
Owners of the parent company			150,821	254,117
Non controlling interest			312	1,118
Net profit			**151,133**	**255,235**

1 In accordance with updated IAS 1.82(a), effective from 2018, interest revenue calculated using the effective interest method (applicable for financial instruments measured at AC) has been presented separately. Comparative figures have been changed accordingly. The interest income as per December 2017 from interest-bearing securities that were classified as AFS under IAS 39 has been presented under 'interest income from financial instruments measured at AC'.

2 Amount is related to interest from those derivative financial instruments that are associated with the 'loans to the private sector' and is therefore considered as 'interest income'.

3 2017 amount is related to the IBNR on loans and guarantees issued and specific provisions on these loans and guarantees.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(before profit appropriation)	Notes	Page number	IFRS 9 2018	IAS 39 2017
Net profit			**151,133**	**255,235**
Other comprehensive income				
Share of other comprehensive income of associates due to exchange differences			9,938	-25,917
Available for sale financial assets			-	-174,394
Income tax effect			-	4,006
Items to be reclassified to profit and loss	**(30)**	**120**	**9,938**	**-196,305**
Fair value reserve of equity instruments at FVOCI			-245	-
Actuarial gains/losses on defined benefit plans			1,923	1,610
Income tax effect			-1,733	-403
Items not reclassified to profit and loss	**(30)**	**120**	**-55**	**1,207**
Total other comprehensive income, net of tax			**9,883**	**-195,098**
Total comprehensive income			**161,016**	**60,137**
Total comprehensive income attributable to:				
Owners of the parent company			160,704	59,019
Non-controlling interests			312	1,118
Total comprehensive income			**161,016**	**60,137**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2018

	Share capital	Share premium reserve	Contractual reserve	Development fund	Available for sale reserve	Fair value reserve	Actuarial result pensions	Translation reserve	Other reserves	Undistributed profit	Non-controlling interests	Total
IAS 39 Balance at January 1, 2017	9,076	29,272	1,477,843	657,981	571,075	-	-22,577	9,221	31,971	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**	**-**	**1,208**	**-25,917**	**-**	**-**	**1,150**	**-193,947**
Changes in subsidiary Equis DFI Feeder LP [2]	-	-	-	-	-	-	-	-	-	-	1,812	1,812
Net profit	-	-	248,561	-	-	-	-	-	-	5,556	1,118	255,235
Dividend declared	-	-	-	-	-	-	-	-	-	-6,682	-	-6,682
IAS 39 Balance at December 31, 2017	**9,076**	**29,272**	**1,726,404**	**657,981**	**400,687**	**-**	**-21,369**	**-16,696**	**31,971**	**5,556**	**7,071**	**2,829,953**
Adjustments from adoption of IFRS 9 (net of tax)	-	-	388,039	-	-400,687	18,074	-	-	191	8,483	-	14,100
Restated balance at January 1, 2018	**9,076**	**29,272**	**2,114,443**	**657,981**	**-**	**18,074**	**-21,369**	**-16,696**	**32,162**	**14,039**	**7,071**	**2,844,053**
Exchange differences on translating associates and subsidiaries	-	-	-	-	-	-	-	9,938	-	-	-	9,938
Fair value reserve of equity instruments at FVOCI	-	-	-	-	-	-245	-	-	-	-	-	-245
Actuarial gains/losses on defined benefit plans	-	-	-	-	-	-	1,923	-	-	-	-	1,923
Income tax effect other comprehensive income	-	-	-	-	-	-56	-1,677	-	-	-	-	-1,733
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**-**	**-301**	**246**	**9,938**	**-**	**-**	**-**	**9,883**
Changes in subsidiary Equis DFI Feeder LP [2]	-	-	-	-	-	-	-	-	-	-	-7,222	-7,222
Net profit [1]	-	-	147,251	-	-	-	-	-	-	3,570	312	151,133
Dividend declared	-	-	-	-	-	-	-	-	-	-14,039	-	-14,039
Balance at December 31, 2018	**9,076**	**29,272**	**2,261,694**	**657,981**	**-**	**17,773**	**-21,123**	**-6,758**	**32,162**	**3,570**	**161**	**2,983,808**

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 2018

	Notes	Page number	IFRS 9 2018	IAS 39 2017
Operational activities				
Net profit			151,133	255,235
Adjusted for non-cash items:				
- Result of associates			1,802	-9,293
- Unrealised (gains) losses arising from changes in fair value			24,149	-186,091
- Unrealised (gains) losses arising from changes in foreign exchange rates			18,924	108,209
- Unrealized (gains) losses arising from other changes			11,463	8,374
- Impairments			11,631	65,342
- Depreciation and impairment of PP&E assets			3,769	3,154
- Income tax expense			14,738	37,281
Changes in:				
- Income taxes paid			-62,909	-61,545
- In loans			-437,930	-117,213
- Equity investments and associates			-126,855	-107,377
- Other assets and liabilities [1)]			121,376	-123,792
- Short-term deposits [1)]			-261,630	414,451
- Short-term credits [1)]			-50,377	105,058
Net cash flow from operational activities	(31)	**121**	**-580,716**	**391,793**
Investment activities				
Purchase of interest-bearing securities			-54,826	-142,692
Redemption/sale of interest-bearing securities			18,976	344,078
Investments in PP&E assets			-6,714	-6,852
Divestments of PP&E assets			629	-
Net cash flow from investment activities	(32)	**121**	**-41,935**	**194,534**
Financing activities				
Proceeds from issuance of debt securities, debentures and notes	(13)	105	984,758	1,229,760
Redemption of debt securities, debentures and notes	(13)	105	-1,006,646	-983,643
Dividend paid			-14,039	-6,682
Net cash flow from financing activities	(33)	**121**	**-35,927**	**239,435**
Net cash flow			**-658,578**	**825,762**
Cash and cash equivalents				
Net foreign exchange difference			-16,411	-96,211
Banks and short-term deposits at January 1			1,579,598	833,636
Banks and short-term deposits at December 31	(34)	121	904,609	1,563,187
Total cash flow			**-658,578**	**825,762**
Operational cash flows from interest and dividends				
Interest received			317,235	291,953
Interest paid			-129,493	-97,793
Dividend received			26,172	36,592

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

ACCOUNTING POLICIES

CORPORATE INFORMATION

The 2018 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 14, 2019 and will be submitted for adoption in the General Meeting of Shareholders on May 24, 2019.

FMO was incorporated in 1970 as a public limited company with 51% of shares held by the Dutch State and 49% held by commercial banks, state unions and other members of the private sector. The company 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. (FMO IM), 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 2.17% (2017: 2.26%). 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, results and 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.

In 2016 the EDFI Management Company (of which FMO is one of the shareholders together with the other EDFIs) has been established in Brussels to manage EC funding for the Electri-FI global facility. In 2018 the Agri-FI investment facility as well as the Electri-FI Country Windows investment facility have been added. FMO, as accredited entity for the EC, acts as delegatee (contractee) for the EC and has sub-delegated all operational activities related to Electri-FI/Agri-FI and Electri-FI Country Windows to the EDFIMC. In the course of 2019 EDFIMC expects to obtain its own EC-accreditation and take over FMO's contractee-role.

FMO has received funds from the EU, USAID and the Dutch Government with the purpose to invest directly in Climate Investor One, a facility raised by FMO and managed by Climate Fund Managers (CFM). Climate Investor One (CIO) is a blended finance, capital-recycling facility mandated with delivering renewable energy infrastructure projects in emerging markets through its contribution to each phase of a projects lifecycle. Climate Investor One will create sustainable positive impact on the environment and communities of developing countries.

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 December 31, 2018. These annual accounts are based on the ‘going concern’ principle.

The consolidated annual accounts are measured at historical cost except for:

- Equity investments, money market funds, commercial paper and all derivative instruments that are measured at fair value;
- A part of the loans to the private sector which is measured at fair value as of January 1, 2018;
- 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 private equity investments are recognized when funds are transferred to the customers’ account. Other financial assets and liabilities are recognized on the same day that FMO becomes a party to the contractual terms and conditions of the financial instrument.

Reclassification

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Adoption of new standards, interpretations and amendments

Adopted

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

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 January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

FMO has applied IFRS 9 as issued in July 2014 and endorsed by the EU in November 2016. For FMO the effective date of application is from January 1, 2018.

Comparative periods have not been restated. The IFRS 9 standard covers concepts and methods, which are significantly different from accounting standards applied before January 1, 2018. Therefore, it is highly complex to apply the IFRS 9 standard on retrospective basis for 2017. The information presented in for 2017 does not reflect the requirements of IFRS 9 and is therefore not comparable to the information presented for 2018 under IFRS 9. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in Other reserves and further distributed to Contractual reserve and Undistributed profit as at January 1, 2018.

Changes to classification and measurement

From a classification and measurement perspective, the new IFRS 9 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. 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. The IAS 39 measurement categories are replaced by: Fair Value through Profit or Loss (FVPL), Fair Value through Other Comprehensive Income (FVOCI) and amortized cost (AC).

The following table and the accompanying notes set out the impact on financial assets and liabilities on adopting IFRS 9. Furthermore reference is made to the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of FMO’s financial assets and liabilities.

ansition table Financial Assets

January 1, 2018	Ref	IAS 39 December 31, 2017 Measurement Category	Carrying amount	Reclassification To FVPL	To AC	To FVOCI	Other	Remeasurement C&M	ECL	Other	IFRS 9 January 1, 2018 Carrying amount	Measureme Catego
ancial assets												
nks	e	L&R	71,763	-	-	-	-	-	-1	-	71,762	AC
ort-term deposits		FVPL	1,544,089	-781,022	-763,067	-	-	-	-	-	-	
which: Amortized cost	g		-	-	763,067	-	-	-	-	-	763,067	AC
which: Fair value through profit or loss			-	781,022	-	-	-	-	-	-	781,022	FVPL
erest-bearing securities	a,e	AFS	364,905	-		-	-	-3,563	-44	-	361,298	AC
rivative financial instruments	b	FVPL	282,507	-	-	-	-3,176	-	-	-	279,331	FVPL
ans to the private sector		L&R	4,200,948	-585,847	-3,615,101	-	-	-	-	-	-	
which: Amortized cost	e,f		-	-	3,615,101	-	-	-	4,944	6,370	3,626,415	AC
which: Fair value through profit or loss	b,c,f		-	585,847	-	-	2,746	17,573	-	2,216	608,382	FVPL
uity investments		AFS	1,502,833	-1,425,035	-	-77,798	-	-	-	-	-	
which: Fair value through profit or loss	b,d		-	1,425,035	-	-	430	-	-	-	1,425,465	FVPL
which: Fair value through OCI	d		-	-	-	77,798	-	-	-	-	77,798	FVOCI
her receivables	c	L&R	117,217	-	-	-	-	75	-	-	117,292	AC
tal Financial assets			**8,084,262**	**-**	**-**	**-**	**-**	**14,085**	**4,899**	**8,586**	**8,111,832**	

As of January 1, 2018, FMO has classified the interest-bearing securities which had previously been classified as AFS at AC. These instruments pass the SPPI test and are held for liquidity purposes with no intention to routinely sell. The fair value of these instruments that FMO still held at December 31, 2017 was €364,905. The reclassification from AFS to AC has resulted in a measurement change of €3,563 which is equal to the cumulative fair value changes. This has been released against the carrying value which also resulted in a release of the AFS reserve.

Certain loans and equity investments have embedded derivatives that were separated under IAS 39. As a result of IFRS 9, the loans and equity investments, together with the embedded derivatives which were previously separated, have been reclassified as FVPL at January 1, 2018. The total amount of derivative financial assets that have been reclassified to loans and to equity investments is €3,176 of which €2,746 has been reclassified to the loan portfolio and €430 has been reclassified to equity.

A significant part (€3,615,101) of the Loans to the private sector and Loans guaranteed by the State that was classified as loans and receivables and measured at AC under IAS 39 will also be measured at AC under IFRS 9. The remaining part with a carrying amoun €585,847 does not fully reflect payments of principal and interest and is measured at FVPL under IFRS 9, resulting in a remeasurement of €17,648 which includes an amount of €75 related to other receivables.

As of January 1, 2018, FMO has chosen to classify a part of the equity investments (€1,425,035) that was classified as AFS under IAS 39 as FVPL under IFRS The AFS reserve of these investments (€379,944 net of tax) has been transferred to other reserves as per Janu 1, 2018. However, some of the equity investments with a carrying amount of €77,798 at January 1, 2018 are held for long-term strategic purposes and are designated as at FVOCI. The AFS reserve of these strategic investments (€18,074) has been transferred to a fa value reserve.

The IFRS 9 impairment requirements have resulted in an ECL remeasurement of €4,899 on financial assets, mainly related to loans to the private sector at AC and €8,778 on financial liabilities related to loan commitments and financial guarantees. For more details, se the impairment section.

The IFRS 9 impairment requirements related to the calculation of interest income on a net-basis for loans in Stage 3 has resulted in a remeasurement of the accrued interest of these loans of €8,586.

Based on business model & SPPI test FMO has decided to value these instruments on AC.

ansition table Financial Liabilities

		IAS 39			IFRS 9	
		December 31, 2017		Remeasurement	January 1, 2018	
January 1, 2018	Ref	Measurement Category	Carrying amount	ECL	Carrying amount	Measureme Category
ancial Liabilities						
ort-term credits		AC	125,935	-	125,935	AC
rivative financial instruments		FVPL	173,701	-	173,701	FVPL
bentures and notes		AC	5,123,146	-	5,123,146	AC
rrent accounts with State funds and other programs		AC	182	-	182	AC
rrent accounts tax liabilities		AC	117	-	117	AC
her liabilities		AC	2,143	-	2,143	AC
crued liabilities		AC	8,586	-	8,586	AC
ovisions	e	AC	49,484	8,778	58,262	AC
tal Financial liabilities			**5,483,294**	**8,778**	**5,492,072**	

The following table summarizes the impact of the adoption of IFRS 9 on the opening balance of FMO's equity at January 1, 2018.

At January 1, 2018	Notes	Reserves
Available for sale reserve		
IAS 39 Closing Balance December 31, 2017		400,687
Reclass interest-bearing securities from AFS to AC	a	-3,566
Reclass Equity investments from AFS to FVPL	b	-385,984
Reclass Equity investments from AFS to FVOCI	c	-20,819
Deferred tax impact	a,b,c	9,682
IFRS 9 Opening Balance January 1, 2018		**-**
Fair Value reserve		
IAS 39 Closing Balance December 31, 2017		-
Reclass Equity investments from AFS to FVOCI	c	20,819
Deferred tax impact	c	-2,745
IFRS 9 Opening Balance January 1, 2018		**18,074**
Other reserves		
IAS 39 Closing Balance December 31, 2017		31,971
Reclassification adjustments to adopting IFRS 9:		
-Remeasurement of reclassifying financial assets at AC to FVPL	d	17,648
-Reclass interest-bearing securities from AFS to FVPL		3
-Reclass Equity investments from AFS to FVPL	b	379,944
-Reclass Equity investments from AFS to FVOCI		-
-Recognition of ECL	d	-3,879
-Correction on accrued income	d	8,586
Deferred tax impact	d	-5,589
-Reclass to Contractual reserve		-388,039
-Reclass to Undistributed profit		-8,483
IFRS 9 Opening Balance January 1, 2018		**32,162**
Contractual reserve		
IAS 39 Closing Balance December 31, 2017		1,726,404
Reclass from Other reserves		388,039
IFRS 9 Opening Balance January 1, 2018		**2,114,443**
Undistributed profit		
IAS 39 Closing Balance December 31, 2017		5,556
Reclass from Other reserves		8,483
IFRS 9 Opening Balance January 1, 2018		**14,039**
Total change in equity (net of tax) due to adopting IFRS 9		**14,100**

a The reclassification of interest-bearing securities from AFS to AC has resulted in a release of the AFS reserve of €3,566 with a deferred tax impact of €897.

b The AFS reserve of €385,984 with a deferred tax impact of €6,040 related to the equity investments that were reclassified from AFS to FVPL, has been transferred to the Other reserves, Contractual reserve and Undistributed profit as per January 1, 2018.

c The AFS reserve of €20,819 with a deferred tax impact of €2,745 has been transferred to the fair value reserve.

d The changes related to the reclassification of financial assets from AC to FVPL, the recognition of the ECL and the correction of the accrued income were recorded in Other reserves, Contractual reserve and Undistributed profit which had a deferred tax impact of €5,589.

Changes to the impairment calculation

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. IFRS 9 requires to record an allowance for ECLs for loans and other debt instruments not held at FVPL, together with off balance items such as loan commitments and financial guarantee contracts.

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and under IAS 37 to the ECL allowances under IFRS 9.

IFRS 9 Loan loss provision allowances as at January 1, 2018	Loss allowance under IAS 39/IAS 37 December 31, 2017	Changes due to reclassification	Remeasurement	ECL under IFRS 9 January 1, 2018
Banks	-	-	1	1
Interest-bearing securities	-	-	44	44
Loans to the private sector	204,473	-48,746	-4,944	150,783
Total on-balance sheet items impacted by ECL	**204,473**	**-48,746**	**-4,899**	**150,828**
Financial guarantees issued	2,896	-	276	3,172
Loan commitments	-	-	8,502	8,502
Total off-balance sheet items impacted by ECL	**2,896**	**-**	**8,778**	**11,674**
Total	**207,369**	**-48,746**	**3,879**	**162,502**

All interest-bearing securities (credit quality of AA+ or higher) and banks (credit quality of BBB- or higher) are classified as Stage 1. An amount of €45 is calculated for the ECL of both asset classes as per January 1, 2018.

The following table shows the credit quality and the exposure to credit risk of the loans to the private sector at AC at January 1, 2018.

IFRS 9 Loans to the private sector at AC at January 1, 2018	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	139,509	15,256	-	154,765
F11-F13 (BB-,BB,BB+)	1,363,404	97,544	-	1,460,948
F14-F16 (B-,B,B+)	1,552,288	209,655	-	1,761,943
F17 and lower (CCC+ and lower)	96,086	147,336	201,440	444,862
Sub-total	**3,151,287**	**469,791**	**201,440**	**3,822,518**
Less: amortizable fees	-38,545	-4,904	-1,871	-45,320
Less: ECL allowance	-29,820	-18,910	-102,053	-150,783
Carrying value	**3,082,922**	**445,977**	**97,516**	**3,626,415**

The following table shows the credit quality and the exposure to credit risk of the loan commitments at January 1, 2018.

IFRS 9 Loans commitments at January 1, 2018	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	9,131	-	-	9,131
F11-F13 (BB-,BB,BB+)	233,092	-	-	233,092
F14-F16 (B-,B,B+)	549,629	26,246	-	575,875
F17 and lower (CCC+ and lower)	63,768	12,648	547	76,963
Total nominal amount	**855,620**	**38,894**	**547**	**895,061**
ECL allowance	-6,746	-1,756	-	-8,502
Total	**848,874**	**37,138**	**547**	**886,559**

The following table shows the credit quality and the exposure to credit risk of the financial guarantees at January 1, 2018.

IFRS 9 Financial guarantees at January 1, 2018	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	28,283	832	-	29,115
F11-F13 (BB-,BB,BB+)	51,242	30,288	-	81,530
F14-F16 (B-,B,B+)	32,724	36,069	-	68,793
F17 and lower (CCC+ and lower)	14,557	-	4,652	19,209
Sub-total	**126,806**	**67,189**	**4,652**	**198,647**
ECL allowance	-581	-265	-2,326	-3,172
Total	**126,225**	**66,924**	**2,326**	**195,475**

Changes related to hedge accounting

With respect to hedge accounting FMO has elected to adopt the new general hedge accounting model in IFRS 9. This requires FMO to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. FMO only applies micro fair value hedge accounting on the funding portfolio. The impact of hedge accounting under IFRS 9 is therefore insignificant for FMO compared to IAS 39.

Other standards adopted in 2018

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 January 1, 2018. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognizing revenue as and when the agreed performance obligations are satisfied. This standard has superseded all previous revenue recognition requirements under IFRS. This standard has been adopted by FMO using the modified retrospective method, if applicable, and has no significant financial impact on Net Result and/or shareholders Equity. For the adoption of IFRS 15, FMO did not apply any of the available optional practical expedients. Remuneration for services rendered are further disclosed in the section 'Segment Information'.

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 cashsettle 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 cashsettled to equity-settled. The amendments do not have impact on FMO.

Amendments to IAS 40 Investments property – Transfers of investment property

These amendments provide guidance 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 January 1, 2018 and has 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 no 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 established 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 January 1, 2018. The interpretation has a minor impact on FMO.

Issued but not yet adopted standards

The standards issued and endorsed by the European Union, effective for annual periods beginning after January 1, 2019, which have not yet been applied by FMO in preparing these consolidated annual accounts, are listed below.

Amendments to IAS 1 and IAS 8

The IASB has issued amendments of IAS 1 and IAS 8 to clarify the definition of material, specifically explaining obscuring, reasonable influence and primary users. The effective date for these amendments is for annual reporting periods beginning on January 1, 2020. FMO has adopted IFRS 9 Financial instruments in 2018 and has used various material estimates for that matter based on the current definition of material. In 2019 FMO will assess and incorporate the amendments to material into the valuation of all financial instruments. The amendment is not expected to have impact on FMO.

IFRS 16 Leases

The new standard IFRS 16 'Leases' was issued in January 2016 by the IASB and requires lessees to recognize 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 January 1, 2019. The impact of this standard is limited to the building and cars we are renting/leasing. On the adoption as per January 1, 2019, the impact of these changes on equity is between approximately 0 and 2 million.

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 losses, 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 January 1, 2019. The interpretation has no impact on FMO.

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 AC (or, depending on the business model, at FVOCI) 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 January 1, 2019 and does not have impact for FMO.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9 is applicable 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 January 1, 2019. These amendments will have minor impact on FMO.

Amendments to IAS 19 – Plan amendment, Curtailment or Settlement

In case of plan amendment, curtailment or settlement, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for remeasurement. Also these amendments include clarification of the effect of plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. This IAS 19 amendment will have a minor impact when a plan amendment occurs.

Annual Improvements 2015-2017 Cycle

Amendments regarding (1) IFRS 3/ IFRS 11 with respect to obtaining control over a joint operation business, (2) IAS 12 Income taxes connected to income tax consequences of dividends when a liability to par the dividend is recognized and (3) IAS 23 Borrowing costs that clarifies any specific borrowing that remains outstanding after related asset (ready for use or sale) will become part of the general borrowing of that entity. These amendments mainly comprise additional guidance and clarification and will have no 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's Annual Accounts 2018, are listed below.

Amendments to References to the Conceptual Framework in IFRS Standards

On March 28, 2018 IASB presented the revised Conceptual Framework for Financial Reporting. The Conceptual Framework is not a standard itself but can be used as general guidance for transactions / events where specific IFRS standards are not available. Main improvements in the revised Conceptual Framework contains the introduction of concepts for measurement and presentation & disclosures, guidance for derecognition of assets and liabilities. In addition definitions of an asset & liability and criteria for recognition have been updated. These amendments will have minor impact on FMO.

Amendments to IFRS 3 Business Combinations

On October 22, 2018 The IASB has issued narrow-scope amendments to IFRS 3 Business Combinations to improve the definition of a business. The amendments will help companies determine whether an acquisition made is a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the first annual reporting period beginning 2020. This amendment will have impact on future business acquisitions from FMO.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 and is to ensure that an entity provides relevant information that faithfully represents such 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 cash flow. The standard is expected to be effective on or after January 1, 2021. This standard does not have impact on FMO.

Significant estimates, assumptions and judgements

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;
- The determination of the ECL allowance (applicable from January 1, 2018);
- The determination of the counterparty-specific and group-specific value adjustments (applicable before January 1, 2018);
- The pension liabilities and determination of tax (applicable from January 1, 2018 and before).

Information about judgements made in applying accounting policies are related to the following:

- Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payments of principal and interest (applicable from January 1, 2018);
- The inputs and calibration of the ECL model which include the various formulas and the choice of inputs, aging criteria and forward-looking information (applicable from January 1, 2018);
- 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 (applicable before January 1, 2018).

Financial assets – Classification

Policy applicable from January 1, 2018

On initial recognition, a financial asset is classified as measured at AC, FVOCI or FVPL.

A financial asset is measured at AC if it meets both of the following conditions and is not designated as at FVPL:

- 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 debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

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.

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

Transaction costs related to financial assets, not measured at FVPL, are directly added to its fair value for initial recognition and therefore attributed directly to its acquisition.

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.

Financial assets whose performance is based on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Contractual cash flow assessment

For the purpose of the contractual cash flow assessment, related to solely payments of principal and interest (SPPI), '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 cash flows;
- 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.

Reclassification

Financial assets can be only reclassified after initial recognition in very infrequent instances. This happens if the business model for managing financial assets has changed and this change is significant to FMO operations.

Policy applicable before January 1, 2018
FMO classified its financial assets into one of the following categories:

- Loans and receivables;
- Available for sale; and
- At FVPL, and within this category as:
    - Held for trading; or
    - Designated as at FVPL.

FMO had no financial assets that were classified as held to maturity as allowed under IAS 39.

Financial assets – Impairment

Policy applicable from January 1, 2018
FMO estimates an allowance for expected credit losses for the following financial assets:

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

No impairment loss is recognized on equity investments. Specific provisions on loans guaranteed by the State are accounted for by FMO but can be eligible for reimbursement.

Impairment stages loans to the private sector

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 a 12-month expected credit loss;
- 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 –Credit-impaired loans: a lifetime expected credit loss is recognized for these loans. In addition, in Stage 3, interest income is accrued on the AC of the loan net of allowances.

ECL measurement

FMO's ECL model is primarily an expert based model and this model is frequently benchmarked with other external sources if possible.

ECL measurement Stage 1 and Stage 2

IFRS 9 ECL allowance reflects unbiased, probability-weighted estimates based on loss expectations resulting from default events over either a maximum 12-month period from the reporting date or the remaining life of a financial instrument. The method used to calculate the ECL allowances for Stage 1 and Stage 2 assets are based on the following parameters:

- PD: the Probability of Default is an estimate of the likelihood of default over a given time horizon. FMO's uses an scorecard model based on quantitative and qualitative indicators to assess current and future clients and determine PDs. The output of the scorecard model is mapped to the Moody's PD master scale based on idealized default rates. For IFRS 9 a point in time adjustment is made to these PDs using a z-factor approach to account for the business cycle;
- EAD: the Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, scheduled by contract or otherwise, expected drawdowns and accrued interest from missed payments;
- LGD: the Loss Given Default is an estimate of FMO's loss arising in the case of a default at a given time. It is based on the difference between the contractual cash flows due and any future cashflows or collateral that the FMO would expect to receive;
- Z-factor: the z-factor is a correction factor to adjust the client PDs for current and expected future conditions. The z-factor adjusts the current PD and PD two years into the future. GDP growth rates per country from the IMF, both current and forecasted, are used as the macro-economic driver to determine where each country is in the business cycle. Client PDs are subsequently adjusted upward or downward based on the country where they are operating.

Macro economic scenarios in PD estimates

In addition to the country-specific z-factor adjustments to PD, FMO applies probability-weighed scenarios to calculate final PD estimates in the ECL model. The scenarios are applied globally, and are based on the vulnerability of emerging markets to prolonged economic downturn. The scenarios and their impact are based on IMF data and research along with historical default data in emerging markets.

The three scenarios applied are:

- Positive scenario: Reduced vulnerability to an emerging market economic downturn;
- Base scenario: Vulnerability and accompanying losses based on FMO's best estimate from risk models;

- Downturn scenario: Elevated vulnerability to an emerging market economic downturn.

Management overlay

In determining the final ECL, FMO management has evaluated a range of possible outcomes, taking into account past events, current conditions and the economic outlook. The quantified outcome of the ECL model serves as a key starting point. Additional considerations are being assessed through the application of management overlay. This incorporates considerations such as (1) individual loss assessments and (2) observed data & model limitations.

ECL measurement Stage 3

The calculation of the expected loss for Stage 3 is different from the approach for Stage 1 and 2 loans. Reason for this is that loan-specific impairments provide a better estimate for Stage 3 loans in FMO's diversified loan portfolio. To determine the specific impairment, the following steps are taken:

- Calculate probability weighted expected loss based on multiple scenarios including return to performing (and projected cash flows), restructuring, and write-off or sale;
- Apply the impairment matrix (based on LGD, arrears and client rating);
- Take expected cash flows from collateral and "firm offers" into account. The cashflows from collateral and "firm offers" serve as a cap for the provision (or a floor for the value of the loan).

Based on these inputs the IRC decides on the specific impairment.

Staging criteria and triggers

Financial instruments classified as low credit risk

FMO considers all financial instruments with an investment grade rating (BBB- or better on the S&P scale or F10 or better on FMO's internal scale) to be classified as low credit risk. For these instruments, the low credit risk exemption is applied and irrespective of the change of credit risk (as long as it remains investment grade) a lifetime expected credit loss will not be recognized. This exemption lowers the monitoring requirements and reduces operational costs.

No material significant increase in credit risk since origination (Stage 1)

All loans which have not had a significant increase in credit risk since contract origination are allocated to Stage 1 with an ECL allowance recognized equal to the expected credit loss over the next 12 months.

Significant increase in credit risk (Stage 2)

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 recognized 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 (see diagram below) compared to the internal rating at origination;
- The fact that the financial asset is 30 days past due;
- The application of forbearance.

Credit-impaired financial assets (Stage 3)

A financial asset is transferred to Stage 3 when FMO's IRC has decided that credit risk deterioration has occurred and decides to apply a specific impairment. The triggers for deciding on specific impairments include among others bankruptcy, distressed restructuring, days of past due or central bank intervention.

Definition of default

A financial asset is considered as default when:

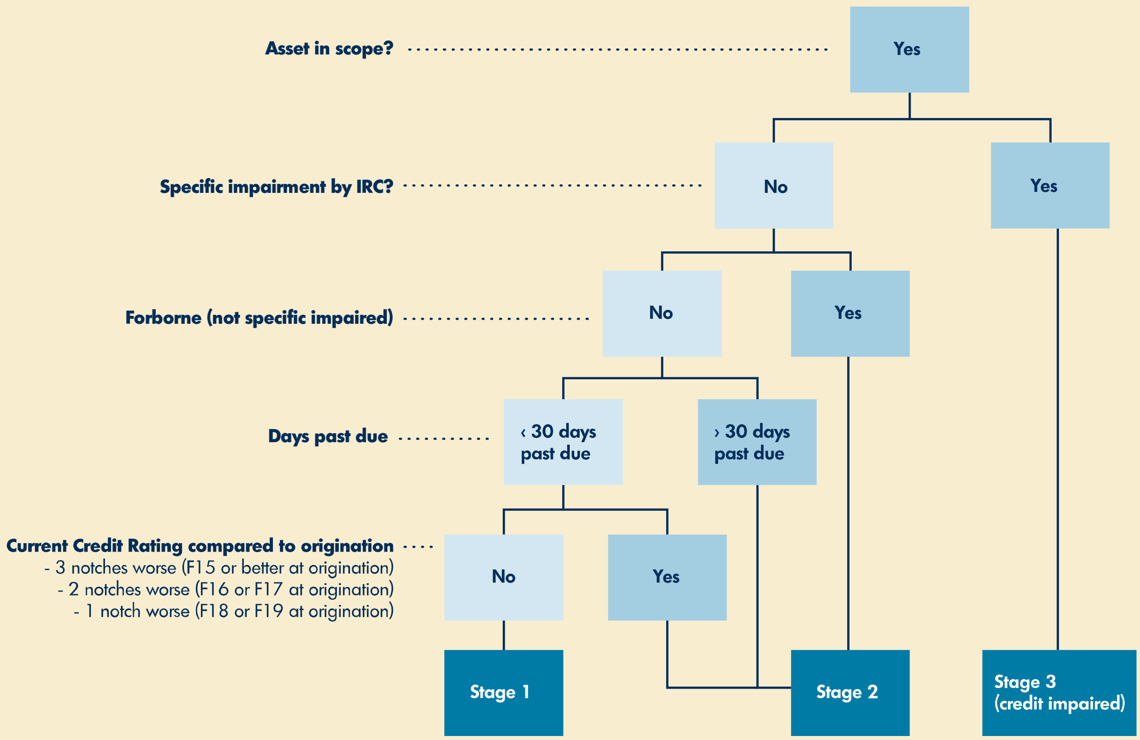
- The client is past due more than 90 days;
- When FMO judges that the client is unlikely to pay its credit obligation to FMO and the IRC decides on a specific impairment (Stage 3 transfer).

FMO has opted not to align the definition of default to Stage 3 as there are cases of clients being more than 90 days past due, where the IRC judges that the client will likely pay and therefore do not require a specific impairment

Written-off financial assets

A write-off is made when all claim is deemed uncollectible, when FMO has no reasonable prospects of recovery after among others enforcement of collateral or legal enforcement with means of lawsuits. Furthermore, a write-off is performed when the loan is being forgiven by FMO. Write-offs are charged against previously booked impairments. If no Stage 3 impairment is recorded, the write-off is included directly in the profit and loss account under 'Impairments'.

The following diagram provides a high level overview of the IFRS 9 impairment approach at FMO.



Value adjustments on loans

Policy applicable before January 1, 2018

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.

Modification of financial assets

Policy applicable before and from January 1, 2018

The contractual terms of a loan may be modified which may include extending the maturity, changing interest margin and changing the timing of interest payments. If the terms of financial assets are modified, FMO evaluates whether the cash flows of the modified assets are different. If the cash flows are substantially different, having a net present value of more than 10 percent from the original contract, then the contractual rights to cash flows from the original financial assets are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized. If the cash flows of the modified financial asset carried at AC are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, FMO recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss. If such a modification is carried out because of financial difficulties of the borrower amongst others delay in contractual payments, central bank intervention or bankruptcy prospects, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Impairments of equity investments

Policy applicable before January 1, 2018

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.

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.

Amortized cost and gross carrying amount

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or value adjustment before January 1, 2018).

The *gross carrying amount* of a financial assets is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

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.

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

Segment reporting

The operating segments are reported in a manner consistent with internal reporting to FMO's chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board. As of January 2018 FMO has decided to present its operating segments based on servicing unit instead of strategic sector to be more aligned with internal reporting towards the Management Board. The comparative figures have been adjusted accordingly. Reference is made to the section 'Segment Information' for more details on 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, exchange differences are recorded directly in shareholders' equity.

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.

Embedded derivatives

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.

Policy applicable from January 1, 2018

Derivatives embedded in host contracts, where the host is a financial asset in the scope of IFRS 9, are not separated. Instead, the whole hybrid financial instrument as a whole is assessed for classification as set out in the section 'Financial assets-Classification'.

Policy applicable before January 1, 2018

Embedded 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 prospective micro 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. FMO only applies micro fair value hedge accounting on the funding portfolio. Changes in the fair value of these derivatives are recorded in the profit and loss account under results of financial transactions. 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 amortized and included in net profit and loss over the remaining term of the original hedge. If the hedge item is derecognized, e.g. sold or repaid, the unamortized fair value adjustment is recognized immediately in profit and loss.

Definition Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the statement of profit or loss, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest-bearing instruments, amortized through the statement of profit or loss over the remaining term of the original hedge or recognized directly when the hedged item is recognized. For non-interest-bearing instruments, the cumulative adjustment of the hedged item is recognized in the statement of profit or loss only when the hedged item is recognized.

Derivatives

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss, and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. An assessment is carried out when FMO first becomes party to the contract. A reassessment is carried out only when there is a change in the terms of the contract that significantly modifies the expected cash flows.

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as hedges of the fair value of recognized assets or liabilities or firm commitments. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. At the inception of the transaction FMO documents the relationship between hedging instruments and hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The Bank also documents its assessment, at hedge inception, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

Policy applicable before January 1, 2018

In order to qualify for hedge accounting, a hedge relationship shall be highly effective on a prospective basis. A hedge is considered effective if the changes in fair value attributable to the hedged risk are expected to be offset by the hedging instrument in a range of 80% to 125%. It is also necessary to assess, retrospectively, whether the hedge was highly effective over the previous reporting period.

FMO discontinues hedge accounting when it is determined that:

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

Policy applicable from January 1, 2018

FMO only applies micro-hedging strategies, hence at hedge inception the prospective test is conducted.

A hedging relationship qualifies for hedge accounting, if it meets all of the below effective requirements:

- There is an economic relationship between the hedged item and the hedging instrument, Economic relationship means that the hedging instrument and the hedged item must be expected to move in opposite directions as a result of a change in the hedged risk;
- The effect of credit risk does not dominate the value changes that result from that economic relationship. In other words, credit risk that can arise on both the hedging instrument and the hedged item in the form of counterparty's credit risk or the entity's own credit risk does not have a very significant effect on the fair value of the hedged item or the hedging instrument;
- The hedge ratio defined as the ratio between the amount of hedged item and the amount of hedging instrument shall not reflect an imbalance that would create hedge ineffectiveness. For a perfectly match of the underlying of the hedging instrument with the designated hedged risk, the hedge ratio would be 1:1 or less. The level of the hedge will be discussed by Treasury and Risk Management.

Hedge accounting shall be discontinued if the qualification criteria are not met. The scenarios are as follows:

Scenario	Discontinuation
The risk management objective has changed	Full or partial
There is no longer an economic relationship between the hedged item and the hedging instrument	Full
The effect of credit risk dominates the value changes of the hedging relationship	Full
As part of rebalancing, the volume of the hedged item or the hedging instrument is reduced	Partial
The hedging instrument expires	Full
The hedging instrument is (in full or in part) sold, terminated or exercised	Full or partial
The hedged item (or part of it) no longer exists or is no longer expected to occur	Full or partial

Further reference is made to sections 'Derivative instruments' in Note 4.

Rebalancing

Rebalancing is applicable when there is basis risk between the hedged item and the hedging instrument. Rebalancing only affects the expected relative sensitivity between the hedged item and the hedging instrument going forward, as ineffectiveness from past changes in the sensitivity will have already been recognized in profit or loss. FMO will rebalance a hedging relationship if that relationship still has an unchanged risk management objective but no longer meets the hedge effectiveness requirements regarding the hedge ratio.

For more details on hedge accounting we refer to Note 4 Derivative financial instruments and hedge accounting.

Policy applicable before January 1, 2018

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.

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.

Policy applicable from January 1, 2018

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net AC of the financial asset. If the financial asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

Policy applicable before January 1, 2018

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 AC can be divided into three categories:

1. *Fees that are an integral part of the effective interest rate of a financial instrument (IFRS 9)*
   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 as interest-income;
2. *Fees earned when services are provided (IFRS 15)*
   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 (IFRS 15)*
   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.

Cash and cash equivalents

Cash and cash equivalents consist of banks and short-term deposits that usually mature in less than three months from the date of acquisition. Short-term deposits are all measured at AC with the exception of money market funds and commercial paper which are valued at FVPL. These financial instruments are very liquid with high credit rating and which are subject to an insignificant risk of changes in fair value. There is no restriction on these financial instruments and FMO has on demand full access to the carrying amounts. Unrealized gains or losses on the money market funds & commercial loan portfolio (including foreign exchange results) are reported in the results from financial transactions.

Loans to the private sector

Loans originated by FMO include:

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

Policy applicable from January 1, 2018

Loans to the private sector on the balance sheet of FMO include:

- Loans measured at AC which comply with the classification requirements for AC as indicated in the section 'Financial assets – classification'. These loans are initially measured at cost, which is the fair value of the consideration paid plus incremental direct transaction costs incurred. Subsequently, the loans are measured at AC using the effective interest rate method;
- Loans mandatorily measured at FVPL which do not comply with the classification requirements for AC as indicated in the section 'Financial assets – classification'. These are measured at fair value with changes recognized in profit and loss.

Policy applicable before January 1, 2018

Loans are recognized as assets when cash is advanced to borrowers. Loans are classified as Loans and receivables and initially measured at cost, which is the fair value of the consideration paid, net of transaction costs incurred. Subsequently, the loans are measured 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.

Interest-bearing securities

Policy applicable from January 1, 2018

Interest-bearing securities include bonds which are held for long-term liquidity purposes. These securities are measured at AC since they comply with the classification requirements for AC as indicated in the section 'Financial assets – classification'. The securities are initially measured at cost, which is the fair value of the consideration paid, net of transaction costs incurred. Subsequently, they are measured at AC using the effective interest rate method. For the interest-bearing securities an allowance for ECL is estimated. For more details we refer to the section 'Financial assets – Impairment'.

Policy applicable before January 1, 2018

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 AFS 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

Policy applicable from January 1, 2018

Equity investments on the balance sheet of FMO include investments in which FMO has no significant influence and are classified as:

- Equity investments are measured at FVPL. FMO has a long-term view on these equity investments, usually selling its stake within a period of 5 to 10 years. Therefore these investments are not held for trading and are measured at fair value with changes recognized in profit and loss;
- Equity investments designated as at FVOCI. The designation is made, since these are held for long-term strategic purposes. These investments are measured at fair value. Dividends are recognized as income in profit and loss unless the dividend clearly represents a recovery part of the cost of the investment. Other net gains and losses are recognized in the fair value reserve (OCI) and are never reclassified to profit and loss.

Policy applicable before January 1, 2018

Equity investments in which FMO has no significant influence are classified as AFS assets and are measured at fair value. Unrealized gains or losses are reported in the AFS 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 AFS investment, the accumulated unrealized gain or loss included in shareholders' equity is transferred to profit and loss.

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:

- FMO is not involved in the company's operational and/or strategic management by participation in its Management, Supervisory Board or Investment Committee; and
- There are no material transactions between FMO and the company; and
- 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 equipment

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

Debentures and notes measured 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 AC, 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 sections 'Derivative instruments' and 'Hedge accounting'.

Provisions

Provisions are recognized when:

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

A provision is made for the liability for retirement benefits, loan commitments, guarantees and severance arrangements. Further reference is made to section '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

Policy applicable from January 1, 2018

Issued financial guarantee contracts are measured at the higher of:

- The IFRS 9 ECL allowance (as of January 1, 2018) or the amount of the provision under the contract; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies as set out in sections 'Interest income' and 'Fee and commission income'. These fees are recognized as revenue on an accrual basis over the period commitment.

Provisions resulting from guarantees are included in 'Provisions'.

FMO applies the same methodology as loans to private sector for measurement of ECL allowance of guarantees. Refer to policies above.

Policy applicable before January 1, 2018

Issued financial guarantee contracts are measured at the higher of:

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

Provisions resulting from guarantees are included in 'Provisions'.

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. Starting from January 1, 2018 employees are entitled to retirement benefits based on the average salary, on attainment of the retirement age of 68 (2017: 67).

This scheme is funded through payments to an insurance company determined by periodic actuarial calculations. The principal actuarial assumptions are set out in Note 17. 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 profits is based on the applicable tax laws in each jurisdiction and recognized as an expense 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 equity investments accounted for at FVOCI.

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)

Policy applicable before January 1, 2018

The AFS reserve includes net revaluations of financial instruments classified as AFS that have not been reported through the profit and loss account.

Fair value reserve

Policy applicable from January 1, 2018

The fair value reserve includes gains and losses of equity investments designated as at FVOCI. Gains and losses on such equity investments are never reclassified to profit or loss. Cumulative gains and losses recognized in this reserve are transferred to Other reserves on disposal of an investment.

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.

Actuarial result pensions

The unrealized actuarial gains and losses related to the defined benefit plans are included in the Actuarial result pensions. The movements in this reserve are not reclassified to the profit and loss account.

Other reserves

The other reserves include the cumulative distributable net profits. 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 2017 and 2018 was related to the investment in Equis DFI Feeder L.P. held by other investors.

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

NOTES TO THE CONSOLIDATED BALANCE SHEET: ASSETS

1. Banks

	2018	2017
Banks	54,642	71,763
Balance at December 31	**54,642**	**71,763**

The cash on bank accounts can be freely disposed of.

2. Short-term deposits

	2018	2017
Collateral delivered (related to derivative financial instruments)	66,531	52,666
Commercial paper	590,350	606,335
Money market funds	165,866	174,687
Dutch central bank	324,615	689,991
Mandatory reserve deposit with Dutch central bank	489	410
Call Deposits	-	20,000
Balance at December 31	**1,147,851**	**1,544,089**

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

Fair value gain on money market funds and commercial paper portfolio recorded in the profit and loss amounts to €93 (2017: €45 loss). The amount attributable to change in credit risk is fairly limited.

3. Interest-bearing securities

This portfolio contains marketable bonds with fixed interest rates.

	IFRS 9 2018	IAS 39 2017
Bonds (listed)	402,380	364,905
Balance at December 31	**402,380**	**364,905**

As per January 1, 2018 all interest-bearing securities are classified as AC (before January 1, 2018 as AFS). The movements can be summarized as follows:

	IFRS 9 2018	IAS 39 2017
Balance at January 1	361,298	579,028
Amortization premiums/discounts	-802	7,059
Purchases	54,826	142,692
Sale and redemption	-18,976	-344,078
Revaluation	-18	-8,049
Changes in accrued income	95	-1,922
Exchange rate differences	5,957	-9,825
Balance at December 31	**402,380**	**364,905**

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 2018.

4. Derivative financial instruments and hedge accounting

Use of derivatives and hedge accounting

Derivatives are held for both hedge accounting and non-hedge accounting purposes. FMO uses derivatives for economic hedging purposes in the management of its asset and liability portfolios and structural positions. The objective of economic hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The objective of FMO hedging activities is to optimize the overall cost to the bank of accessing debt capital markets and to mitigate the market risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS hedge accounting rules. Derivatives that qualify for hedge accounting under IFRS are classified and accounted for in accordance with the nature of the instrument hedged and the type of IFRS hedge model that is applicable. FMO conducts fair value hedge accounting which is described below. To qualify for hedge accounting under IFRS, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the statement of profit or loss and recorded under the line results from financial transactions. If hedge accounting is applied under IFRS, it is possible that during the hedge a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the statement of profit or loss may be higher than would be expected from an economic point of view. With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; how-ever they do not represent amounts at risk.

Micro fair value hedge accounting

FMO only applies prospective micro-hedging strategies, hence at hedge inception the prospective test is conducted. FMO's micro fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. Gains and losses on derivatives designated under fair value hedge accounting and hedged items are recognized in the statement of profit or loss.

For the year ended December 31, 2018, FMO recognized hedge ineffectiveness of a net profit of €4.1 million on the micro fair value hedges (2017: €4.6 million net loss). The profit on the hedging instruments amounts to €10.2 million (2017: €9.2 million loss). The loss on hedged items attributable to the hedged risk amounts to €6.1 million (2017: €4.6 million profit). The result is mainly attributed to widening of spreads between 3-month reference rates and Overnight-Index-Swap rates (OIS). The reported hedge ineffectiveness did not imply FMO to classify the existing hedge relations as broken.

The amounts relating to derivatives designated as fair value hedging instruments and hedge ineffectiveness were as follows:

		Carrying amount				
IFRS 9 December 31, 2018	**Notional amount**	**Assets**	**Liabilities**	**Change in fair value used for calculating hedge ineffectiveness**	**Ineffectiveness recorded in profit or loss**	**Line item in P&L that includes hedge ineffectiveness**
Interest rate swaps	2,633,664	75,221	6,965	10,210	4,057	Results from financial transactions

At December 31, 2018, FMO held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk.

Hedge of debentures and notes

	Maturity				
Risk category (interest rate)	**Less than 1 month**	**1-3 months**	**3 months - 1 year**	**1-5 years**	**more than 5 years**
Nominal amount (in millions of euro)	-	5.0	136.0	1,961.0	560.0
Average fixed interest rate	-	1.8	2.8	1.7	3.7

The amounts relating to items designated as hedged items were as follows:

IFRS 9 December 31, 2018	Carrying amount	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item			
Balance sheet line item	**Liabilities**	**Assets**	**Liabilities**	**Change in fair value used for calculating hedge ineffectiveness**	**Accumulated amount remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses**
Debentures and notes	2,687,933	-	3	-6,153	-

The comparative figures under IAS 39 for derivatives have been included in the following table.

IAS 39 December 31, 2017	Notional amounts	Fair value assets	Fair value liabilities
Derivatives designated as fair value hedges:			
· Interest rate swaps	2,480,693	60,492	-12,455
Total derivatives designated as fair value hedges	2,480,693	60,492	-12,455
Total derivative financial instruments assets (/liabilities)	**7,150,482**	**282,507**	**-173,701**

Derivatives other than hedging instruments

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.

IFRS 9 December 31, 2018	Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedging instruments:			
· Currency swaps	44,638	-166	1,794
· Interest rate swaps	700,112	12,261	6,122
· Cross-currency interest rate swaps	3,353,655	155,883	202,293
Subtotal	**4,098,405**	**167,978**	**210,209**
Derivatives related to asset portfolio	-	4,624	-
Total derivative assets (/liabilities) other than hedging instruments	**4,098,405**	**172,602**	**210,209**

Total of 'derivatives other than hedging instruments' and 'derivatives designated as fair value' amounts to EUR 247,823 for assets and 217,174 for liabilities.

The comparative figures under IAS 39 for derivatives have been included in the following table.

IAS 39 December 31, 2017	Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedging instruments:			
· Currency swaps	61,214	134	-362
· Interest rate swaps	1,429,829	32,282	-6,662
· Cross-currency interest rate swaps	3,178,746	185,689	-154,222
Subtotal	**4,669,789**	**218,105**	**-161,246**
Embedded derivatives related to asset portfolio	-	3,910	-
Total derivative assets (/liabilities) other than hedging instruments	**4,669,789**	**222,015**	**-161,246**

5. Loans to the private sector

These loans to the private sector comprise of:

- Loans to the private sector in developing countries are for the account and risk of FMO;
- Loans in developing countries which are individually guaranteed by the Dutch State for 80% to 95% or other financial guarantors. Any losses will be compensated by the guarantors up to the guaranteed amount. Refer to our Credit Risk Management Chapter for details of these guarantees received.

The movements of these loans can be summarized as follows:

	Loans measured at AC	**Loans measured at FVPL**	**IFRS 9 Total 2018**	**IAS 39 Total 2017**
Balance at January 1	3,777,197	608,382	4,385,579	4,898,295
Disbursements	1,285,450	88,113	1,373,563	1,147,041
Reclassification Loans versus Equity	-	-4,814	-4,814	-4,800
Repayments	-854,289	-81,345	-935,634	-1,029,827
Write-offs	-18,308	-	-18,308	-90,049
Derecognized and/or restructured loans	-56,520	56,520	-	-
Changes in amortizable fees	-2,762	105	-2,657	3,029
Changes in fair value	-	-9,828	-9,828	-47
Changes in accrued income	5,840	4,935	10,775	-3,999
Exchange rate differences	103,918	23,731	127,649	-514,222
Balance at December 31	**4,240,526**	**685,799**	**4,926,325**	**4,405,421**
Impairment	-155,504	-	-155,504	-204,473
Net balance at December 31	**4,085,022**	**685,799**	**4,770,821**	**4,200,948**

The contractual amount of assets that were written off during the period are still subject to enforcement activity.

The following table summarizes the loans segmented by sector.

	IFRS 9 2018	**IAS 39 2017**
Financial Institutions	2,013,628	1,773,304
Energy	1,453,960	1,160,753
Agribusiness	572,404	536,447
Multi-Sector Fund Investments	62,250	57,332
Infrastructure, Manufacturing and Services	668,579	673,112
Net balance at December 31	**4,770,821**	**4,200,948**

	IFRS 9 2018	**IAS 39 2017**
Gross amount of loans to companies in which FMO has equity investments	91,993	84,361
Gross amount of subordinated loans	300,356	315,321
Gross amount of non-performing loans (EBA definition)	416,836	306,084
Gross amount of loans covered by guarantees received	520,279	491,119

For definition and more details on non-performing loans, we refer to section 'Credit Risk' within the Risk Management paragraph.

The movements in the gross carrying amounts for the loans to the private sector at AC are as follows:

IFRS 9 Changes in loans to the private sector at AC in 2018	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure as at January 1, 2018	3,112,742	464,729	199,726	3,777,197
New exposures	1,217,916	55,136	12,398	1,285,450
Exposure derecognised or matured/lapsed (excluding write offs)	-706,066	-115,451	-32,772	-854,289
Transfers to Stage 1	102,937	-102,937	-	-
Transfers to Stage 2	-209,885	220,871	-10,986	-
Transfers to Stage 3	-58,237	-84,449	142,686	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-18,308	-18,308
Changes in amortizable fees	-3,528	730	36	-2,762
Changes in accrued income	2,464	-4,588	7,964	5,840
Derecognized and/or restructured loans	-26,161	-	-30,359	-56,520
Foreign exchange adjustments	86,975	8,634	8,309	103,918
At December 31, 2018	**3,519,157**	**442,675**	**278,694**	**4,240,526**

6. Equity investments

These equity investments in developing countries are for FMO's account and risk. The movements in fair value of the equity investments are summarized in the following table. Equity investments of FMO are measured at FVPL or measured at FVOCI.

	Equity measured at FVOCI	Equity measured at FVPL	IFRS 9 Total 2018	IAS 39 Total 2017
Net balance at January 1	77,798	1,425,465	1,503,263	1,712,112
Purchases and contributions	-	296,090	296,090	192,326
Reclassification from loans	-	4,814	4,814	7,875
Return of Capital	-	-167,300	-167,300	-195,730
Impairments	-	-	-	-46,919
Write-offs	-	-4,268	-4,268	-
Changes in fair value	-245	-50,374	-50,619	-166,831
Net balance at December 31	**77,553**	**1,504,427**	**1,581,980**	**1,502,833**

The following table summarizes the equity investments segmented by sector:

	IFRS 9 2018	IAS 39 2017
Financial Institutions	378,075	353,528
Energy	216,357	206,820
Agribusiness	127,913	115,400
Multi-Sector Fund Investments	617,725	609,379
Infrastructure, Manufacturing and Services	241,910	217,706
Net balance at December 31	**1,581,980**	**1,502,833**

At January 1, 2018 FMO has designated 3 investments as shown in the following table as equity investments at FVOCI. In 2017 these equity investments were classified as AFS. The FVOCI designation was made because the investments are expected to be held for long-term strategic purposes.

IFRS 9	Fair value at December 31, 2018	Dividend income recognized during 2018
TCX Investment Company	23,451	-
The Currency Exchange Fund N.V.	43,551	-
Seed Capital	10,551	-
Balance at December 31	**77,553**	**-**

None of these strategic investments were disposed of during 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

7. Investments in associates

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

	2018	2017
Net balance at January 1	207,482	116,060
Purchases and contributions	3,251	110,781
Reclassification to/ from loans	-	-2,735
Sales	-3,330	-
Share in net results	-1,802	9,293
Exchange rate differences	9,938	-25,917
Net balance at December 31	**215,539**	**207,482**

All investments in associates from FMO are 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 is set up 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 distribution of assets to Arise B.V. with an underlying value of USD 3,7 million. As of 31 December 2018 our outstanding commitment towards Arise B.V. amounts to USD 46,8 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.

	2018	2017
Financial Institutions	191,862	181,405
Energy	14,499	11,804
Infrastructure, Manufacturing and Services	1,528	1,397
Multi-Sector Fund Investments	7,650	12,876
Net balance at December 31	**215,539**	**207,482**

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	181,039	35,307
Total liabilities	4,727	10,224
Total income	221	-445
Total profit/loss	51	-1,853

8. Impairment

All interest-bearing securities (credit quality of AA+ or higher) and banks (credit quality of BBB- or higher) are classified as Stage 1. An amount of €64 is calculated for the ECL of both asset classes as per December 31, 2018.

Below follows the movement in ECL for AC loans:

IFRS 9 Changes in ECL for loans to the private sector in 2018	Stage 1	Stage 2	Stage 3	Total
ECLs as at January 1, 2018	-29,821	-18,910	-102,052	-150,783
New exposures	-11,624	-3,669	-296	-15,589
Exposures derecognised or matured (excluding write-offs)	5,954	2,264	9,566	17,784
Transfers to Stage 1	-4,921	4,921	-	-
Transfers to Stage 2	2,071	-5,107	3,036	-
Transfers to Stage 3	1,931	4,523	-6,454	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount	-	-	-	-
Changes to risk profile	5,824	-72	-33,047	-27,295
Changes due to modifications not resulting in derecognition	695	-	5,547	6,242
Amounts written off	-	-	18,308	18,308
Foreign exchange adjustments	-691	-715	-2,765	-4,171
At December 31, 2018	**-30,582**	**-16,765**	**-108,157**	**-155,504**

Below follows the value adjustments during 2017 for AC loans:

IAS 39 Movement in impairments on FMO's portfolio in the consolidated balance sheet

	Guarantees	Loans	Total
Balance at January 1, 2017	6,460	306,013	312,473
Additions	165	63,255	63,420
Reversals	-3,207	-45,463	-48,670
Exchange rate differences	-521	-29,283	-29,804
Write-offs	-	-90,049	-90,049
Balance at December 31, 2017	**2,897**	**204,473**	**207,370**

The impairments related to guarantees are included in provisions (see Note 17).

IAS 39 Movement in impairments on FMO's loan portfolio in the consolidated balance sheet

	Group-specific impairments	Counterparty-specific impairments	Total
Balance at January 1, 2017	103,297	202,716	306,013
Additions	-	63,255	63,255
Reversals	-30,596	-14,867	-45,463
Exchange rate differences	-9,416	-19,867	-29,283
Write-offs	-	-90,049	-90,049
Balance at December 31, 2017	**63,285**	**141,188**	**204,473**

IAS 39 Movement in impairments on FMO's guarantee portfolio in the consolidated balance sheet

	Group-specific impairments	Counterparty-specific impairments	Total
Balance at January 1, 2017	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**

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 11). In 2018 no amounts where claimed towards the guarantors which where recorded in the value adjustments (2017: nil).

Total impairments on loans in the consolidated profit and loss account

	IFRS 9 2018	IAS 39 2017
Additions and reversals loans FMO portfolio	-15,558	-18,428
Guaranteed part additions and reversals loans guaranteed by the State	-628	318
Balance at December 31	**-16,186**	**-18,110**

ECL assessment

The table show the values of the IMF GDP forecasts used in each of the economic scenarios for the ECL calculations for 2018 and 2019. The upside and downside scenario calculations are derived from the base case scenario, adjusted based on an indicator of public debt to GDP in emerging markets.

IMF GDP % Growth Forecasts	2018	2019
Turkey	3.5	0.4
India	7.3	7.4
Georgia	5.5	4.8
Argentina	-2.6	-1.6
Nigeria	1.9	2.3
Uganda	5.9	6.1
Bangladesh	7.3	7.1
Ghana	6.3	7.6
Armenia	6.0	4.8
Costa Rica	3.3	3.3

The following tables outline the impact of multiple scenarios on the ECL allowance as at January 1, 2018 and December 31, 2018:

January 1, 2018	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector	Guarantees	Bonds and Cash	Total
ECL Scenario:						
Upside	160,250	5%	7,854	156	2	8,012
Base case	162,502	50%	79,643	1,586	23	81,252
Downside	172,852	45%	76,233	1,523	27	77,783
Total			**163,730**	**3,265**	**52**	**167,047**

December 31, 2018	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector	Guarantees	Bonds and Cash	Total
ECL Scenario:						
Upside	154,984	5%	7,612	136	2	7,750
Base case	156,839	50%	77,004	1,393	22	78,419
Downside	170,877	45%	75,373	1,480	41	76,894
Total			**159,989**	**3,009**	**65**	**163,063**

We also refer to our accounting policy on macro-economic scenarios on PD estimates.

9. Property, plant and equipment

	Furniture	ICT equipment	Leasehold improvement	Total 2018	Total 2017
Historical cost price at January 1	10,117	20,133	269	30,519	23,667
Accumulated depreciation at January 1	-8,514	-9,030	-109	-17,653	-14,499
Balance at January 1	**1,603**	**11,103**	**160**	**12,866**	**9,168**
Investments	592	6,116	6	6,714	6,852
Depreciation	-572	-3,153	-44	-3,769	-3,154
Divestments historical cost price	-329	-3,320	-57	-3,706	-
Accumulated depreciation on divestments	266	2,759	52	3,077	-
Balance at December 31	**1,560**	**13,505**	**117**	**15,182**	**12,866**
Historical cost price at December 31	10,380	22,929	218	33,527	30,519
Accumulated depreciation at December 31	-8,820	-9,424	-101	-18,345	-17,653
Balance at December 31	**1,560**	**13,505**	**117**	**15,182**	**12,866**

Software related assets are included in the ICT equipments and amount to €11,3 million (2017: €8,2 million).

10. Current accounts with State funds and other programs (assets)

	2018	2017
Current account MASSIF	264	-
Current account EIB	230	231
Current account Infrastructure Development Fund	-	4
Current account Access to Energy Fund	-	39
Balance at December 31	**494**	**274**

11. Other receivables

	IFRS 9 2018	IAS 39 2017
Debtors related to equity investments	6,224	104,037
Taxes and social premiums	1,006	877
To be declared on State guaranteed loans	894	265
Amortized fee receivables	12,473	12,038
Balance at December 31	**20,597**	**117,217**

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

NOTES TO THE CONSOLIDATED BALANCE SHEET: LIABILITIES

12. Short-term credits

	2018	2017
Collateral received (related to derivative financial instruments)	76,051	125,935
Balance at December 31	**76,051**	**125,935**

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

13. 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. This note was issued on December 8, 2015 with a maturity of five years. The note is issued at 99.28% of the aggregated nominal amount at a fixed coupon rate of 1.5%. The note is non-convertible and can be called on first call date or the call date can be extended for another five years.

The movements can be summarized as follows:

	2018	2017
Balance at January 1	5,123,146	5,203,161
Amortization of premiums/discounts	6,208	10,197
Proceeds from issuance	984,758	1,229,760
Redemptions	-1,006,646	-983,643
Changes in fair value	6,099	-4,853
Changes in accrued expense	4,352	-326
Exchange rate differences	21,964	-331,150
Balance at December 31	**5,139,881**	**5,123,146**

Line item '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.

	2018	2017
Debentures and notes under hedge accounting	2,697,095	2,602,676
Debentures and notes valued at AC	2,442,786	2,520,470
Balance at December 31	**5,139,881**	**5,123,146**

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

	2018	2017
Debentures and notes under hedge accounting	2,605,045	2,460,448
Debentures and notes valued at AC	2,451,277	2,647,332
Balance at December 31	**5,056,322**	**5,107,780**

14. Current accounts with State funds and other programs (liability)

	2018	2017
Current account MASSIF	-	67
Current account PDF	-	115
Current account Infrastructure Development Fund	11	-
Current account Access to Energy Fund	89	-
Current account Development Accelarator	4,073	-
Balance at December 31	**4,173**	**182**

15. Other liabilities

	2018	2017
Amortized costs related to guarantees	322	212
Other liabilities	1,009	1,931
Balance at December 31	**1,331**	**2,143**

16. Accrued liabilities

	2018	2017
Other accrued liabilities	10,086	8,586
Balance at December 31	**10,086**	**8,586**

17. Provisions

The amounts recognized in the balance sheet are as follows.

	2018	2017
Pension schemes	45,876	46,313
Allowance for loan commitments	4,485	-
Liabilities for guarantees	3,009	2,896
Other provisions	1,177	275
Balance at December 31	**54,547**	**49,484**

The movements in allowance for loan commitments and liabilities for guarantees are set out in Note 29.

Pension schemes

FMO's pension schemes cover all its employees. The pension schemes are defined benefit plans and are mostly based on average-pay-schemes. FMO has a contract with a well established insurer, in which all nominal pension obligations are guaranteed. The net liability recognized in the statement of financial position in respect of these pension schemes is the fair value of the asset plan less the present value of the defined benefit obligation at the balance sheet date. This guaranteed contract arranged that all significant risks associated with investments lies with the insurer. These significant risks are amongst others credit risk, market risk and sufficient investment return to fund indexation of the defined benefit obligation.

Remaining risk for FMO is counterparty credit risk of the insurer and salary inflation for employees. All pension assets are managed by the insurance company and strict guidelines have been agreed with the asset manager. These assets are held independently of FMO's assets 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:

	2018	2017
Present value of funded defined benefit obligations	220,941	200,777
Fair value of plan assets	-175,065	-154,464
Liability in the balance sheet	**45,876**	**46,313**

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

	2018	2017
Present value at January 1	200,777	213,449
Service cost	11,333	10,679
Interest cost	4,017	4,070
Actuarial (gains)/losses due to changes in financial assumptions	-12,295	-4,426
Actuarial (gains)/losses due to changes in demographic assumptions	-2,914	-4,121
Actuarial (gains)/losses due to experience assumptions	22,993	-16,714
Benefits paid	-2,970	-2,160
Present value at December 31	**220,941**	**200,777**

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

	2018	2017
Fair value at January 1	-154,464	-168,053
Expected return on plan assets	-3,104	-3,079
Employer contribution	-9,616	-8,120
Plan participants' contributions	-1,143	-1,023
Actuarial (gains)/losses due to changes in financial assumptions	9,125	6,312
Actuarial (gains)/losses due to changes in demographic assumptions	3,592	-
Actuarial (gains)/losses due to experience assumptions	-22,425	17,339
Benefits paid	2,970	2,160
Fair value at December 31	**-175,065**	**-154,464**

The actuarial gain on the pension liability amounts to €1,923 (2017: €1,610 gain) and is mainly due the increase of the discount rate to 2.2% (2017: 2.0%).

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 based on accrued pension rights and actuarial rates.

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

	2018	2017
Balance at January 1	46,313	45,396
Annual expense	11,819	11,283
Contributions paid	-10,333	-8,756
Actuarial gains/losses	-1,923	-1,610
Balance at December 31	**45,876**	**46,313**

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

	2018	2017
Current service cost	12,049	14,652
Net interest cost	913	991
Past service cost	-	-3,337
Subtotal	**12,962**	**12,306**
Contribution by plan participants	-1,143	-1,023
Total annual expense	**11,819**	**11,283**

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:

	2018 (%)	2017 (%)
Discount rate	2.2	2.0
Expected pension indexation for active participants	1.7	1.8
Expected pension indexation for inactive participants	0.6	0.6
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	-25,332	28,773
Increase indexation for active participants	5,747	-4,430
Future salary growth	1,091	-1,050

Other provisions

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

	2018	2017
Balance at January 1	275	26
Addition	1,177	278
Release	-	-
Paid out	-275	-29
Balance at December 31	**1,177**	**275**

18. 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.

	2018	2017
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 (2017: €29,272).

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 section '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
IAS 39 Balance at January 1, 2017	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	-	46,919
Tax effect	1,991	2,015	4,006
IAS 39 Balance at December 31, 2017	**398,018**	**2,669**	**400,687**
Adjustment from adoption of IFRS 9 (net of tax)	-398,018	-2,669	-400,687
Restated balance at January 1, 2018	**-**	**-**	**-**
IFRS 9 Balance at December 31, 2018	**-**	**-**	**-**

Fair value reserve

	Total fair value reserve
IAS 39 Balance at December 31, 2017	-
Adjustment from adoption of IFRS 9 (net of tax)	18,074
IFRS 9 Restated balance at January 1, 2018	**18,074**
Total other comprehensive income (net of tax)	-301
IFRS 9 Balance at December 31, 2018	**17,773**

Actuarial result pensions

	Actuarial gains/losses on defined benefit plans
IAS 39 Balance at January 1, 2017	-22,577
Gains/losses during the period	1,208
IAS 39 Balance at December 31, 2017	**-21,369**
Gains/losses during the period	246
IFRS 9 Balance at December 31, 2018	**-21,123**

Translation reserve

	2018	2017
Balance at January 1	-16,696	9,221
Change	9,938	-25,917
Balance at December 31	**-6,758**	**-16,696**

Other reserves

	Retained earnings
IAS 39 Balance at January 1, 2017	31,971
Gains/losses during the period	-
IAS 39 Balance at December 31, 2017	**31,971**
Adjustment from adoption of IFRS 9 (net of tax)	191
IFRS 9 Restated balance at January 1, 2018	**32,162**
Dividend	-
IFRS 9 Balance at December 31, 2018	**32,162**

Non-controlling interests

Equis DFI Feeder L.P.	2018	2017
Balance at January 1	7,071	2,991
Fair value changes	-815	1,150
Changes in subsidiary	-6,407	1,812
Share in net profit	312	1,118
Balance at December 31	**161**	**7,071**

NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

19. Net interest income

Interest income

	IFRS 9 2018	IAS 39 2017
Interest on loans measured at AC	285,712	291,228
Interest on banks	-2,233	-1,457
Interest on interest-bearing securities	3,402	4,267
Total interest income from financial instruments measured at AC	**286,881**	**294,038**
Interest on loans measured at FVPL	45,252	-
Interest on short-term deposits	18,276	11,410
Interest on derivatives related to asset portfolio	-25,532	-20,826
Total interest income from financial instruments measured at FVPL	**37,996**	**-9,416**
Total interest income	**324,877**	**284,622**

Included in the interest on loans is €13,206 (2017: €9,112) related to Stage 3 loans (calculated on amount net of impairment) for which value adjustments have been recorded.

Interest expense

	IFRS 9 2018	IAS 39 2017
Interest on debentures and notes hedged	-37,890	-46,060
Interest on debentures and notes not hedged	-62,384	-36,216
Interest on short-term credits	43	-76
Total interest expense from financial instruments measured at AC	**-100,231**	**-82,352**
Interest on derivatives	-23,742	-2,387
Total interest expense from financial instruments measured at FVPL	**-23,742**	**-2,387**
Total interest expense	**-123,973**	**-84,739**

20. Net fee and commission income

	IFRS 9 2018	IAS 39 2017
Prepayment fees	1,288	1,824
Front-end fees for FVTP loans	1,173	-
Administration fees	2,058	2,231
Other fees (like arrangement, cancellation and waiver fees)	1,189	2,668
Total fee and commission income	**5,708**	**6,723**
Custodian fees and charges for the early repayment of debt securities	-844	-712
Total fee and commission expense	**-844**	**-712**
Net fee and commission income	**4,864**	**6,011**

21. Dividend income

	2018	2017
Dividend income direct investments	24,400	32,624
Dividend income fund investments	3,887	3,968
Total results from equity investments	**28,287**	**36,592**

22. Results from equity investments and associates

	IFRS 9 2018	IAS 39 2017
Results from equity investments:		
Unrealized results from changes in fair value	44,821	-
Results from sales, distributions and write-offs:		
-Realized results	91,215	153,720
-Release unrealized results	-95,195	-
Net results from sales, distributions and write-offs	-3,980	153,720
Total results from equity investments	**40,841**	**153,720**
Results from associates	106	851
Total results from equity investments and associates	**40,947**	**154,571**

As a result of IFRS 9, in 2018 all results from equity investments measured at FVPL have been recorded under the results from equity investments. The unrealized results consist of FX results (€44,195) and capital gain (€626). Upon exit of equity investments, the cumulative result over the lifetime of the investments (€91,215) is realized with a corresponding reversal of the cumulative unrealized result recorded prior to the exit (€95,195), resulting in a net loss of €3,980 for the financial year 2018.

In 2017 under IAS 39, only realized results were recorded in the profit and loss (€154,571) and all the unrealized results were recorded in the AFS reserve (see Note 18). In comparison, the reversal of the cumulative unrealized results in the AFS for 2017 was €151,091 at the time of the exits, resulting in a net gain of €2,629.

23. Results from financial transactions

	IFRS 9 2018	IAS 39 2017
Result on valuation of hedged items	-6,153	4,615
Result on valuation of hedging instruments	10,210	-9,234
Result on hedge accounting	**4,057**	**-4,619**
Result on sale and valuation of derivatives not under hedge accounting	-15,035	15,777
Result on sale and valuation of embedded derivatives related to asset portfolio	5,109	1,763
Result on sale and valuation of loans at FVPL	-16,477	-
Result on financial instruments mandatory at FVPL	**-26,403**	**17,540**
Result on sale of interest-bearing securities	-	2,414
Foreign exchange results	246	-1,574
Other	-139	2,342
Other results	**107**	**3,182**
Total results from financial transactions	**-22,239**	**16,103**

The 2018 results financial transactions are mainly driven by tightening of the EUR/USD cross currency basis spread, reducing the value of the hedges of FMO's liabilities. Additionally, interest rates in frontier and emerging market currencies have moved up, reducing the value of the hedges of FMO's local currency assets.

24. Remuneration for services rendered

	2018	2017
Funds and programs managed on behalf of the State:		
• MASSIF	10,895	12,410
• Infrastructure Development Fund	8,220	8,213
• Access to Energy Fund	2,165	1,836
• FOM OS	300	300
• Capacity Development Program	337	241
Syndication fees, remuneration from directorships and others	7,177	6,372
Total remuneration for services rendered	**29,094**	**29,372**

Remuneration for managing funds and programs is assessed for market conformity and expressed in gross amounts. Related management expenses are included in operating expenses.

25. Other operating income

	2018	2017
Other operating income	4,202	1,348
Total other operating income	**4,202**	**1,348**

Other operating income mainly consists of received payments on written-off loans.

26. Staff costs

The number of FTEs at December 31, 2018 amounted to 508 (2017: 467 FTEs). All FTE's are employed in the Netherlands except for 2 FTE's.

	2018	2017
Salaries	-44,123	-40,787
Social security costs	-6,148	-4,309
Pension costs	-11,819	-11,283
Temporaries	-5,763	-4,213
Travel and subsistence allowances	-4,811	-4,760
Other personnel expenses	-6,627	-6,207
Total staff costs	**-79,291**	**-71,559**

The increase in costs is to a large extent explained by the autonomous increase in staff cost, regulatory expenses and additional staff and investments to support the execution of the strategy of higher impact, deeper relationships and higher productivity.

27. Other administrative expenses

	2018	2017
Other administrative expenses	-23,628	-23,909
Total other administratieve expenses	**-23,628**	**-23,909**

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, 2018, the Supervisory Board consisted of six members (2017: six). The members of the Supervisory Board were paid a total remuneration of €125 (2017: €120).

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 (2017: Ernst & Young Accountants LLP) to the company and its subsidiaries.

Fee charged by auditors	2018	2017
Statutory audit of annual accounts	-587	-447
Other assurance services	-122	-269
Total	**-709**	**-716**

28. Income taxes

Income tax by type

	2018	2017
Current income taxes	-14,185	-37,653
Deferred income taxes	-553	372
Total income tax	**-14,738**	**-37,281**

The reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	2018	2017
Profit before taxation	165,871	292,516
Income taxes at statutory rate of 25% (2017: 25%)	-41,390	-73,129
Increase/decrease resulting from:		
• Settlement with local withholding taxes	3,785	4,274
• Non-taxable income (participation exemption facility)	18,874	31,181
• Tax adjustments to prior periods	4,664	-93
• Other	-671	486
Total income tax	**-14,738**	**-37,281**
Effective income tax rate	-8.9%	-12.7%

Current income tax

The company paid €42,810 (2017: €61,545) to tax authorities. The remaining current income tax receivable amounts to €24,448 (2017: €7,458). Per year end 2018 there were no unused tax losses and the unused tax credits amount to €0 (2017: €0).

Deferred tax

FMO's deferred income tax assets and liabilities are summarized as follows:

	2018	2017
Deferred tax assets		
Pension provision	2,911	3,464
Actuarial gains and losses on defined benefit plans	5,446	7,123
Total deferred tax assets	**8,357**	**10,587**
Deferred tax liabilities		
Fair value movements equity investments	-2,801	-8,785
Fair value measurement of interest-bearing securities	-	-897
Total deferred tax liabilities	**-2,801**	**-9,682**
Net balance at December 31	**5,556**	**905**

The Dutch government has announced a lower corporate tax rate which will be gradually implemented in the coming years. FMO has determined the timing of expected cash flow of underlying assets and liabilities and has changed the applicable tax rate accordingly.

OFF-BALANCE SHEET INFORMATION

29. Irrevocable and contingent liabilities

To meet the financial needs of borrowers, FMO enters into various irrevocable commitments (loan commitments, equity commitments and guarantee commitments) and contingent liabilities. These contingent liabilities consist of financial guarantees, which commit FMO to make payments on behalf of the borrowers in case the borrower fails to fulfill payment obligations. Though these obligations are not recognized on the balance sheet, they do obtain Credit Risk similar to loans to private sector. Therefore, provisions are calculated for financial guarantees and loan commitments according to IFRS 9 ECL measurement methodology.

Moreover, FMO receives guarantees from various guarantors, which participate in the risk FMO takes. For more details refer to section 'Credit Risk' within the Risk Management paragraph.

The outstanding amount for financial guarantees issued by FMO and amount of guarantees received by FMO is as follows:

	2018	2017
Contingent liabilities		
Effective guarantees issued	75,066	68,129
Less: provisions, amortized costs and obligations for guarantees (presented under other liabilities/provisions)	-3,331	-3,108
Total guarantees issued	**71,735**	**65,021**
Effective guarantees received	199,027	175,042
Total guarantees received	**199,027**	**175,042**

Nominal amounts for irrevocable facilities is as follows:

	2018	2017
Irrevocable facilities		
Contractual commitments for disbursements of:		
· Loans	830,686	956,791
· Grants	1,734	1,768
· Equity investments and associates	642,606	685,373
· Contractual commitments for financial guarantees given	334,163	141,227
Total irrevocable facilities	**1,809,189**	**1,785,159**

For 2018 total irrevocable facilities contain 84% USD, 14% EUR and 2% other currencies (2017: 85% USD, 12% EUR, 3% other).

The movement in exposure for the financial guarantees issued (including contractual commitments) is as follows:

IFRS 9 Changes in financial guarantees in 2018	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure as at January 1, 2018	126,806	67,189	4,652	198,647
New exposures	223,715	4,796	-	228,511
Exposures matured (excluding write offs)	-11,401	-6,305	-223	-17,929
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	2,028	-2,028	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At December 31, 2018	**339,120**	**67,708**	**2,401**	**409,229**

IFRS 9 Changes in ECL for financial guarantees in 2018	Stage 1	Stage 2	Stage 3	Total
ECLs as at January 1, 2018	-581	-265	-2,326	-3,172
New exposures	-888	-	-	-888
Exposures matured (excluding write-offs)	65	32	-	97
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-2,028	2,028	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount	-	-	-	-
Changes to risk profile	-100	1,947	-748	1,099
Foreign exchange adjustments	-7	17	-155	-145
At December 31, 2018	**-1,511**	**-297**	**-1,201**	**-3,009**

The movement in gross exposure for loan commitments is as follows:

IFRS 9 Changes in loans commitments in 2018	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure as at January 1, 2018	855,620	38,894	547	895,061
New exposures	369,733	44,607	550	414,890
Exposure derecognised or matured/lapsed (excluding write offs)	-571,714	-31,798	-547	-604,059
Transfers to Stage 1	17,720	-17,720	-	-
Transfers to Stage 2	-40,104	40,104	-	-
Transfers to Stage 3	-6,596	-4,528	11,124	-
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
At December 31, 2018	**624,659**	**69,559**	**11,674**	**705,892**

The movement in ECL for loan commitments is as follows:

IFRS 9 Changes in ECL for loans commitments in 2018	Stage 1	Stage 2	Stage 3	Total
ECLs as at January 1, 2018	-6,746	-1,756	-	-8,502
New exposures	-2,342	-332	-	-2,674
Exposures derecognised or matured (excluding write-offs)	5,262	842	-	6,104
Transfers to Stage 1	-872	872	-	-
Transfers to Stage 2	2	-2	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	-	-	-
Unwind of discount	-	-	-	-
Changes to risk profile	820	15	-	835
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-175	-73	-	-248
At December 31, 2018	**-4,051**	**-434**	**-**	**-4,485**

RELATED PARTY INFORMATION

FMO defines the Dutch State, its subsidiaries, associates, Government funds, 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 section '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 to the private sector'.

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* provides 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 2.17% (2017: 2.26%) stake in this fund. For 2018, FMO received a fixed remuneration of €10,895 (2017: €12,410). In 2018 one loan was transferred from MASSIF to FMO in accordance with the transfer policy which was agreed with the Government.

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 2018, FMO received a fixed remuneration of €8,220 (2017: €8,213) in accordance with the subsidy order.

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 In*vestor* One, an investment vehicle with three interlinked funds that takes projects through their whole lifecycle. For 2018, FMO received a fixed remuneration of €2,165 (2017: €1,836). In 2018 one loan and one investment were transferred from the Access to Energy Fund to FMO in accordance with the transfer policy which was agreed with the Government.

4. *FOM OS* The program finances private sector companies with a strong focus on food security and water. For 2018, FMO received a fixed remuneration of €300 (2017: €300). 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 Capacity Development Program invests in inclusive projects, focusing particularly on the themes of climate change and gender. For 2018, FMO received a fixed remuneration of €337 (2017: €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 2018, FMO received no remuneration except for staff compensation (2017: nil).

7. Development Accelerator The Development Accelerator is a facility which aims to develop initiatives in the private and public sector with a focus on climate, energy, water, and health. The ultimate objective is a financial solution for an impact project with Dutch interest at Financial Close. 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 2018 FMO received no remuneration (2017: nil).

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 10 and Note 14.

A part of our loan portfolio €29,857 (2017: €38,956) is disbursed under the program from the Dutch State and recognized in our consolidated balance sheet (under Loans to the private sector). 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 C 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 7 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 €282 per annum (2019). For the other members of the Management Board this cap amounts to €240 and €207 for the second echelon (Directors).

Due to agreements made before the introduction of the current maximum remuneration levels, the salary of one member of the Management Board is currently above the applicable maximum salary. In the future only structural salary adjustments as indicated by the CLA Banks, will be applicable.

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 (2018: €105) 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, 2018 the Management Board consisted of three statutory members (2017: three). The members of the Management Board have no options, shares or loans related to the company.

The total remuneration of the Management Board in 2018 amounts to €867 (2017: €957) and is specified as follows:

	Fixed remuneration	Pension 2)	Allowance for retirement 3)	Other 4)	Total 2018
Peter van Mierlo 1)	138	16	-	10	163
Linda Broekhuizen	247	26	32	21	325
Fatoumata Bouaré	234	27	-	17	277
Jürgen Rigterink	71	8	11	13	102
Total	**689**	**76**	**43**	**60**	**867**

	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	49	7	-	3	59
Nanno Kleiterp	25	5	6	156	192
Total	**588**	**82**	**81**	**206**	**957**

1 Peter van Mierlo started in the CEO role as per July 1, 2018.

2 Cost related to pension accrual up to salary of €105 (2018)

3 Personal pension allowance related to the pension base of the surplus salary above the maximum of the tax framework (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, survivors pension benefit and compensation of interest on mortgage (only applicable to employees qualifying and in service of FMO on December 31, 2016)

Except for pensions of €76 (2017: €82) all components above are short term employee benefits.

In accordance with the GRI Standards, the ratio between the total fixed remuneration of the highest-paid individual and the median of the rest is 0.29 (2017: 0.29). Or in other words the highest-paid individual received a total fixed remuneration of 3.5 times the amount paid to the Median of (the rest of) the total population (2017: 3.5 times).

The annual remuneration of the members of the Supervisory Board is as follows:

	Remuneration 2018	Committees 2018	Total 2018	Total 2017
Pier Vellinga 1)	28.2	3.1	31.3	24.8
Alexandra Schaapveld	18.8	3.1	21.9	22.5
Thessa Menssen	18.8	3.1	21.9	21.6
Dirk-Jan van den Berg	18.8	4.4	23.2	21.8
Koos Timmermans 3)	18.8	4.4	23.2	5.9
Farah Karimi 4)	3.2	0.5	3.7	-
Jean Frijns 2)	-	-	-	23.1
Total	**106.6**	**18.6**	**125.2**	**119.7**

1 Pier Vellinga became Chairman of the Supervisory Board as per 1 October 2017 and stepped down as Chairman of the SARC.

2 Jean Frijns stepped down as Chairman of the Supervisory Board as per 1 October 2017.

3 Koos Timmermans became member of the Supervisory Board and Chairman of the SARC as per 27 September 2017.

4 Farah Karimi became member of the Supervisory Board and the SARC as per 1 November 2018.

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 should be reported by the Bank.

NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

30. Other comprehensive income

Other comprehensive income		IFRS 9 2018		IAS 39 2017
Items to be reclassified to profit and loss				
Exchange differences on translating foreign operations		9,938		-25,917
Available for sale interest-bearing securities:				
· Unrealized results during the year	-		-5,639	
· Less: reclassification adjustments for results included in profit and loss	-		-2,414	
Total available for sale interest-bearing securities		**-**		**-8,053**
Available for sale equity investments:				
· Unrealized results during the year	-		81,977	
· Foreign exchange results	-		-143,873	
· Reclassification adjustments for results included in profit and loss	-		-104,445	
Total available for sale equity investments		**-**		**-166,341**
Income tax effect		-		4,006
Total to be reclassified to profit and loss		**9,938**		**-196,305**
Items not reclassified to profit and loss				
Fair value reserve of equity instruments at FVOCI:				
· Unrealized results during the year	-3,884		-	
· Foreign exchange results	3,639		-	
Total Fair value reserve of equity investments at FVOCI		**-245**		
Actuarial gains/losses on defined benefit plans		1,923		1,610
Income tax effect		-1,733		-403
Total not reclassified to profit and loss		**-55**		**1,207**
Total other comprehensive income at December 31		**9,883**		**-195,098**

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	9,938	-	9,938
Available for sale interest-bearing securities	-	-	-
Available for sale equity investments	-	-	-
Fair value reserve of equity instruments at FVOCI	-245	-56	-301
Actuarial gains/losses on defined benefit plans	1,923	-1,677	246
IFRS 9 Balance at December 31, 2018	**11,616**	**-1,733**	**9,883**

	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
IAS 39 Balance at December 31, 2017	**-198,701**	**3,603**	**-195,098**

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.

31. 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.

32. 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.

33. 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.

34. Banks and short term deposits

The balance as mentioned in the cash flow statement corresponds with the following items in the consolidated balance sheet:

Cash position maturity bucket < 3 months	**Dec 31, 2018**	**Dec 31, 2017**
Banks	54,642	71,763
Short term deposits	1,147,851	1,544,089
-Off which >3 months	-297,884	-52,665
Banks and short term deposits < 3 months	**904,609**	**1,563,187**

SEGMENT INFORMATION

SEGMENT REPORTING BY OPERATING SEGMENTS

The Management Board sets performance targets, approves and monitors the budgets prepared by the front office servicing units. These shall therefore perform in accordance with the strategy and targets. Since the Management Board steers the performance based on front office servicing unit, the presentation of operating segments has been changed as of 2018. The operating segments are presented per front office servicing unit instead of strategic sector. The comparative figures have been adjusted accordingly. The strategic sectors are the industry sectors in which FMO is active according to its strategic objectives. These have not changed and will be presented as such in FMO's Annual Report. In 2018 there were no transactions between the operating segments.

FMO presents the results of its operating segments using a financial performance measure called underlying profit. Underlying profit excludes the currency effects of the results from equity investments, since all fair value changes including currency effects are now recorded in the profit and loss account due to the adoption of IFRS 9. FMO therefore believes that the underlying profit is more relevant for understanding FMO's financial performance.

Underlying profit as presented below is an alternative performance measure and not a measure of financial performance under IFRS. A reconciliation of the underlying net profit to the net profit as reported under IFRS is made. For 2017 the currency results and the fair value movements of the equity investments were not recorded in the profit and loss account but in the AFS reserve. Therefore the underlying profit of 2017 is equal to the profit as recorded under IFRS.

IFRS 9 December 31, 2018	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Interest income	121,334	117,119	61,335	4,135	604	20,350	324,877
Interst expenses	-29,539	-31,116	-14,030	-30,896	-413	-17,979	-123,973
Net fee and commission income	1,133	1,836	2,611	-258	-	-458	4,864
Dividend income	-	-	-	28,287	-	-	28,287
Results from equity investments and associates	-	-	-	-3,202	-	-	-3,202
Results from financial transactions	-5,187	-9,445	-1,798	5,085	-	-10,894	-22,239
Remuneration for services rendered	6,268	6,435	2,638	8,584	5,096	73	29,094
Other operating income	-	483	3,130	-	-	589	4,202
Total underlying income	**94,009**	**85,312**	**53,886**	**11,735**	**5,287**	**-8,319**	**241,910**
Operating expenses	-26,687	-22,626	-18,895	-24,574	-7,989	-5,984	-106,755
Total operating expenses	**-26,687**	**-22,626**	**-18,895**	**-24,574**	**-7,989**	**-5,984**	**-106,755**
Impairments on loans and guarantees	-3,561	10,709	-17,603	-979	-27	-170	-11,631
Impairment on equity investments and associates	-	-	-	-	-	-	-
Total impairments	**-3,561**	**10,709**	**-17,603**	**-979**	**-27**	**-170**	**-11,631**
Profit before results from associates and taxation	63,761	73,395	17,388	-13,818	-2,729	-14,473	123,524
Share in results from associates	-	-	-	-1,802	-	-	-1,802
Taxation	-11,642	-13,401	-3,175	11,145	498	2,643	-13,932
Underlying net profit	**52,119**	**59,994**	**14,213**	**-4,475**	**-2,231**	**-11,830**	**107,790**
Currency effect equity investments	-	-	-	43,343	-	-	43,343
Net profit under IFRS	**52,119**	**59,994**	**14,213**	**38,868**	**-2,231**	**-11,830**	**151,133**

Segment assets IFRS 9 December 31, 2018	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Loans to the private sector	2,017,816	1,750,085	885,171	46,993	18,992	51,764	4,770,821
Equity investments and investments in associates	-	-	-	1,797,519	-	-	1,797,519
Other assets	590,375	512,042	258,985	539,670	5,557	15,145	1,921,774
Total assets	**2,608,191**	**2,262,127**	**1,144,156**	**2,384,182**	**24,549**	**66,909**	**8,490,114**
Contingent liabilities – Effective guarantees issued	72,327	-	993	-	-	1,746	75,066
Assets under management (loans and equity investments) managed for the risk of the state	169,445	224,586	116,836	379,183	-	19	890,069

IAS 39 December 31, 2017	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Interest income	110,999	104,887	50,074	3,036	695	14,931	284,622
Interst expenses	-22,834	-19,622	-8,246	-20,765	-295	-12,977	-84,739
Net fee and commission income	1,510	2,804	1,249	1,059	-	-611	6,011
Dividend income	-	-	-	36,592	-	-	36,592
Results from equity investments and associates	-	-	-	154,571	-	-	154,571
Results from financial transactions	-	164	-	1,599	-	14,340	16,103
Remuneration for services rendered	7,161	5,688	2,598	9,276	4,545	104	29,372
Other operating income	317	868	76	-21	-	108	1,348
Total underlying income	**97,153**	**94,789**	**45,751**	**185,347**	**4,945**	**15,895**	**443,880**
Operating expenses	-23,902	-23,684	-19,692	-20,473	-6,161	-4,758	-98,670
Total operating expenses	**-23,902**	**-23,684**	**-19,692**	**-20,473**	**-6,161**	**-4,758**	**-98,670**
Impairments on loans and guarantees	8,359	-4,978	-14,278	-4,242	85	-14	-15,068
Impairment on equity investments and associates	-	-	-	-46,771	-	-148	-46,919
Total impairments	**8,359**	**-4,978**	**-14,278**	**-51,013**	**85**	**-162**	**-61,987**
Profit before results from associates and taxation	81,610	66,127	11,781	113,861	-1,131	10,975	283,223
Share in results from associates	-	-	-	9,293	-	-	9,293
Taxation	-18,129	-14,690	-2,617	367	252	-2,464	-37,281
Underlying net profit	**63,481**	**51,437**	**9,164**	**123,521**	**-879**	**8,511**	**255,235**
Currency effect equity investments	-	-	-	-	-	-	-
Net profit under IFRS	**63,481**	**51,437**	**9,164**	**123,521**	**-879**	**8,511**	**255,235**

Segment assets IAS 39 December 31, 2017	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Loans to the private sector	1,919,140	1,289,125	853,379	99,625	39,679	-	4,200,948
Equity investments and investments in associates	-	-	-	1,710,315	-	-	1,710,315
Other assets	782,968	525,935	348,159	738,416	16,188	-	2,411,666
Total assets	**2,702,108**	**1,815,060**	**1,201,538**	**2,548,356**	**55,867**	**-**	**8,322,929**
Contingent liabilities – Effective guarantees issued	62,774	2,028	-	-	-	3,327	68,129
Assets under management (loans and equity investments) managed for the risk of the state	164,116	253,711	99,751	401,706	-	1,322	920,606

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.

December 31, 2018	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Income	74,368	90,962	27,928	14,414	78,387	286,059
Share in the results of associates	182	-3,852	-	1,868	-	-1,802
Total revenue	**74,550**	**87,110**	**27,928**	**16,282**	**78,387**	**284,257**

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**

DISAGGREGATION OF REVENUE

The following table sets out the disaggregation of the Remuneration for services rendered based on the primary geographical areas and strategic sector. The table also includes a reconciliation of the Remuneration of services rendered with FMO's operating segments.

	Operating segments						
December 31, 2018	**Financial Institutions**	**Energy**	**Agribusiness, Food & Water**	**Private Equity**	**Partnership for impact**	**Other**	**Total**
Primary geographical areas							
Africa	1,539	3,531	1,268	3,925	2,170	21	12,454
Asia	1,763	1,025	457	1,623	1,017	20	5,905
Latin America & Caribbean	1,782	1,190	340	996	768	14	5,090
Europe & Central Asia	548	235	384	664	515	12	2,358
Non-region specific	636	454	189	1,376	626	6	3,287
Total remuneration for services rendered	**6,268**	**6,435**	**2,638**	**8,584**	**5,096**	**73**	**29,094**

	Operating segments						
December 31, 2017	**Financial Institutions**	**Energy**	**Agribusiness, Food & Water**	**Private Equity**	**Partnership for impact**	**Other**	**Total**
Primary geographical areas							
Africa	2,877	3,531	1,436	4,364	2,143	29	14,380
Asia	1,463	812	461	1,903	961	25	5,625
Latin America & Caribbean	1,045	872	436	1,180	719	26	4,278
Europe & Central Asia	1,265	116	88	643	391	18	2,521
Non-region specific	511	357	177	1,186	331	6	2,568
Total remuneration for services rendered	**7,161**	**5,688**	**2,598**	**9,276**	**4,545**	**104**	**29,372**

INFORMATION ABOUT MAJOR CUSTOMERS

In 2018 FMO had no customers that individually contributed more than 10% to FMO's total revenues (2017: 1).

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 2.17% (2017: 2.26%). In section '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.

	2018 Gross exposure	**2017 Gross exposure**
Loans	490,081	487,893
Equity investments	399,988	432,713
Total	**890,069**	**920,606**

Loans managed for the risk of the State

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

	2018 Gross exposure	2017 Gross exposure
MASSIF	199,879	180,893
Infrastructure Development Fund	246,758	263,168
Access to Energy Fund	35,232	32,852
FOM OS	8,212	10,980
Total	**490,081**	**487,893**

Equity investments managed for the risk of the State

The equity investments have been made by the following funds.

	2018 Gross exposure	2017 Gross exposure
MASSIF	254,423	279,840
Infrastructure Development Fund	94,905	107,110
Access to Energy Fund	50,660	45,763
European Investment Bank	-	-
Total	**399,988**	**432,713**

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 under IFRS 9 and by balance sheet heading.

IFRS 9 December 31, 2018	FVPL - mandatory	FVPL- designated	Fair value hedging instruments	FVOCI- equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
Financial assets measured at fair value							
Short-term deposits	756,216	-	-	-	-	-	756,216
Derivative financial instruments	-	172,602	75,221	-	-	-	247,823
Loans to the private sector	685,799	-	-	-	-	-	685,799
Equity investments	1,504,427	-	-	77,553	-	-	1,581,980
Total	**2,946,442**	**172,602**	**75,221**	**77,553**	**-**	**-**	**3,271,818**
Financial assets not measured at fair value							
Banks	-	-	-	-	54,642	-	54,642
Short-term deposits	-	-	-	-	391,635	-	391,635
Interest-bearing securities	-	-	-	-	402,380	-	402,380
Loans to the private sector	-	-	-	-	4,085,022	-	4,085,022
Current accounts with state funds and other programs	-	-	-	-	494	-	494
Other receivables	-	-	-	-	20,597	-	20,597
Total	**-**	**-**	**-**	**-**	**4,954,770**	**-**	**4,954,770**
Financial liabilities measured at fair value							
Derivative financial instruments	-	210,209	6,965	-	-	-	217,174
Total	**-**	**210,209**	**6,965**	**-**	**-**	**-**	**217,174**
Financial liabilities not measured at fair value							
Short-term credits	-	-	-	-	76,051	-	76,051
Debentures and notes	-	-	-	-	2,442,786	2,697,095	5,139,881
Current accounts with state funds and other programs	-	-	-	-	4,173	-	4,173
Other liabilities	-	-	-	-	1,331	-	1,331
Accrued liabilities	-	-	-	-	10,086	-	10,086
Total	**-**	**-**	**-**	**-**	**2,534,427**	**2,697,095**	**5,231,522**

IAS 39 December 31, 2017	Held for trading	Designated as at FVPL	Loans and receivables and financial liabilities at AC	Available for sale	Financial liabilities used as hedged items	Fair value hedging instruments	Total
Financial assets measured at fair value							
Short-term deposits	-	1,544,089	-	-	-	-	1,544,089
Interest-bearing securities	-	-	-	364,905	-	-	364,905
Derivative financial instruments	222,015	-	-	-	-	60,492	282,507
Equity investments	-	-	-	1,502,833	-	-	1,502,833
Total	**222,015**	**1,544,089**	**-**	**1,867,738**	**-**	**60,492**	**3,694,334**
Financial assets not measured at fair value							
Banks	-	-	71,763	-	-	-	71,763
Interest-bearing securities	-	-	-	-	-	-	-
Loans to the private sector	-	-	4,200,948	-	-	-	4,200,948
Current accounts with state funds and other programs	-	-	274	-	-	-	274
Other receivables	-	-	117,217	-	-	-	117,217
Total	**-**	**-**	**4,390,202**	**-**	**-**	**-**	**4,390,202**
Financial liabilities measured at fair value							
Derivative financial instruments	161,246	-	-	-	-	12,455	173,701
Total	**161,246**	**-**	**-**	**-**	**-**	**12,455**	**173,701**
Financial liabilities not measured at fair value							
Short-term credits	-	-	125,935	-	-	-	125,935
Debentures and notes	-	-	2,602,676	-	2,520,470	-	5,123,146
Current accounts with state funds and other programs	-	-	182	-	-	-	182
Other liabilities	-	-	2,143	-	-	-	2,143
Accrued liabilities	-	-	8,586	-	-	-	8,586
Total	**-**	**-**	**2,739,522**	**-**	**2,520,470**	**-**	**5,259,992**

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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 analyze 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 reviewed and challenged by the 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 used that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Valuation techniques include:

1. Recent broker / price quotations;

2. Discounted cash flow models;
3. Option-pricing models.

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

Equity investments are measured at fair value when a quoted market price in an active market is available or when fair value can be estimated reliably by using a valuation technique. The main part of the fair value measurement related to equity investments (level 3) is based on net asset values of investment funds as reported by the fund manager and are based on advanced valuation methods and practices. When available, these fund managers value the underlying investments based on quoted prices, if not available multiples are applied as input for the valuation. For the valuation process of the equity investments we further refer to the accounting policies within these Annual Accounts as well as section 'Equity Risk', part of the Risk Management chapter. 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 all (derivative) financial instruments. Due to model imperfections, there are initial 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, 2018, the unamortized accrual amounts to €13,741 (2017: €18,479). An amount of €4,738 was recorded as a loss in the profit and loss (2017: Loss of €6,193).

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

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

Non fair value financial assets-liabilities	**2018**		**2017**	
At December 31	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Short term deposits at AC	391,635	391,635	-	-
Banks	54,642	54,642	71,763	71,763
Interest-bearing securities	402,380	406,561	-	-
Loans to the private sector at AC	4,085,022	4,167,007	4,200,948	4,277,039
Total non fair value financial assets	**4,542,044**	**4,628,210**	**4,272,711**	**4,348,802**
Short-term credits	76,051	76,051	125,935	125,935
Debentures and notes	5,139,881	5,128,431	5,123,146	5,134,565
Total non fair value financial liabilities	**5,215,932**	**5,204,482**	**5,249,081**	**5,260,500**

The valuation technique we use for the fair value determination of all (derivative) financial instruments 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 €75 million (2017: €51 million). The fair value calculation is mainly based on level 3 inputs.

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

IFRS 9 December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Short-term deposits mandatority at FVPL	756,216	-	-	756,216
Derivative financial instruments	-	243,199	4,624	247,823
Loans to the private sector mandatorily at FVPL	15,194	-	670,605	685,799
Equity investments	25,028	-	1,479,399	1,504,427
Financial assets at FVOCI				
Equity investments	-	-	77,553	77,553
Total financial assets at fair value	**796,438**	**243,199**	**2,232,181**	**3,271,818**
Financial liabilities at FVPL				
Derivative financial instruments	-	217,174	-	217,174
Total financial liabilities at fair value	**-**	**217,174**	**-**	**217,174**

IAS 39 December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Short-term deposits	174,687	1,369,402	-	1,544,089
Derivative financial instruments	-	278,597	3,910	282,507
Available for sale financial assets				
Equity investments	36,488	-	1,466,345	1,502,833
Interest-bearing securities	364,905	-	-	364,905
Total financial assets at fair value	**576,080**	**1,647,999**	**1,470,255**	**3,694,334**
Financial liabilities at FVPL				
Derivative financial instruments	-	173,701	-	173,701
Total financial liabilities at fair value	**-**	**173,701**	**-**	**173,701**

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	Loans to the private sector	Equity investments	Total
IAS 39 Balance at January 1, 2017	5,653	-	1,650,681	1,656,334
Total gains or losses				
• In profit and loss (changes in fair value and impairments)	-1,743	-	-46,919	-48,662
• In other comprehensive income (changes in AFS reserve)	-	-	-145,400	-145,400
Purchases	-	-	188,369	188,369
Sales	-	-	-180,386	-180,386
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
IAS 39 Balance at December 31, 2017 as previously reported	**3,910**	**-**	**1,466,345**	**1,470,255**
Adjustments from adoption of IFRS 9 (net of tax)	-3,176	590,405	430	587,659
IFRS 9 Restated balance at January 1, 2018	**734**	**590,405**	**1,466,775**	**2,057,914**
Total gains or losses				
• In profit and loss (changes in fair value)	3,890	-6,206	-36,280	-38,596
• In other comprehensive income (changes in fair value reserve)	-	-	-245	-245
Purchases/disbursements	-	88,113	283,387	371,500
Sales/repayments	-	-81,344	-152,417	-233,761
Write-offs	-	-	-	-
Accrued income	-	4,906	-	4,906
Exchange rate differences	-	23,025	-4,268	18,757
Derecognition and/or restructuring FVPL versus AC	-	56,520	-	56,520
Reclassification Loans versus Equity	-	-4,814	-	-4,814
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
IFRS 9 Balance at December 31, 2018	**4,624**	**670,605**	**1,556,952**	**2,232,181**

Valuation techniques and unobservable inputs used measuring fair value of loans to the private sector

Type of investment	Fair value at December 31, 2018	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Loans	113,800	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 €11 million.
			Based on client spread	A decrease/increase of the used spreads with 1% will result is a higher/lower fair value of € 5 million
	291,946	Compared to ECL level	Based on ECL measurement	An improvement / deterioration of the Client Rating with 1 notch will result 1% increase/ decrease
	62,006	Compared to credit impaired level	Based on specific credit impairments	An increase/decrease of the specific impairment with 10% will result a lower/higer value of €9 million
Debt Funds	202,853	Net Asset Value	n/a	n/a
Total	**670,605**			

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

Type of equity investment	IFRS 9 Fair value at December 31, 2018	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Private equity fund investments	859,964	Net Asset Value	n/a	n/a
Private equity direct investments	129,152	Recent transactions	Based on at arm's length recent transactions	n/a
	272,837	Book multiples	0.8 – 2.5	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of €27 million.
	190,095	Earning Multiples	Depends on several unobservable data such as EBITDA multiples (range 5 - 19)	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.
	27,156	Discounted Cash Flow (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 €3 million.
	41,059	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 €4 million.
	36,689	Firm offers	1.0 - 1.4	n/a
Total	**1,556,952**			

RISK MANAGEMENT

INTRODUCTION

This chapter provides an overview of FMO's risk governance and risk management approach. The sections describe the key risk domains that FMO faces in accordance with applicable disclosure requirements and developments throughout 2018. Together with the quantitative Pillar 3 disclosures - available on FMO's website - it constitutes FMO's Pillar 3 disclosure.

Risk governance

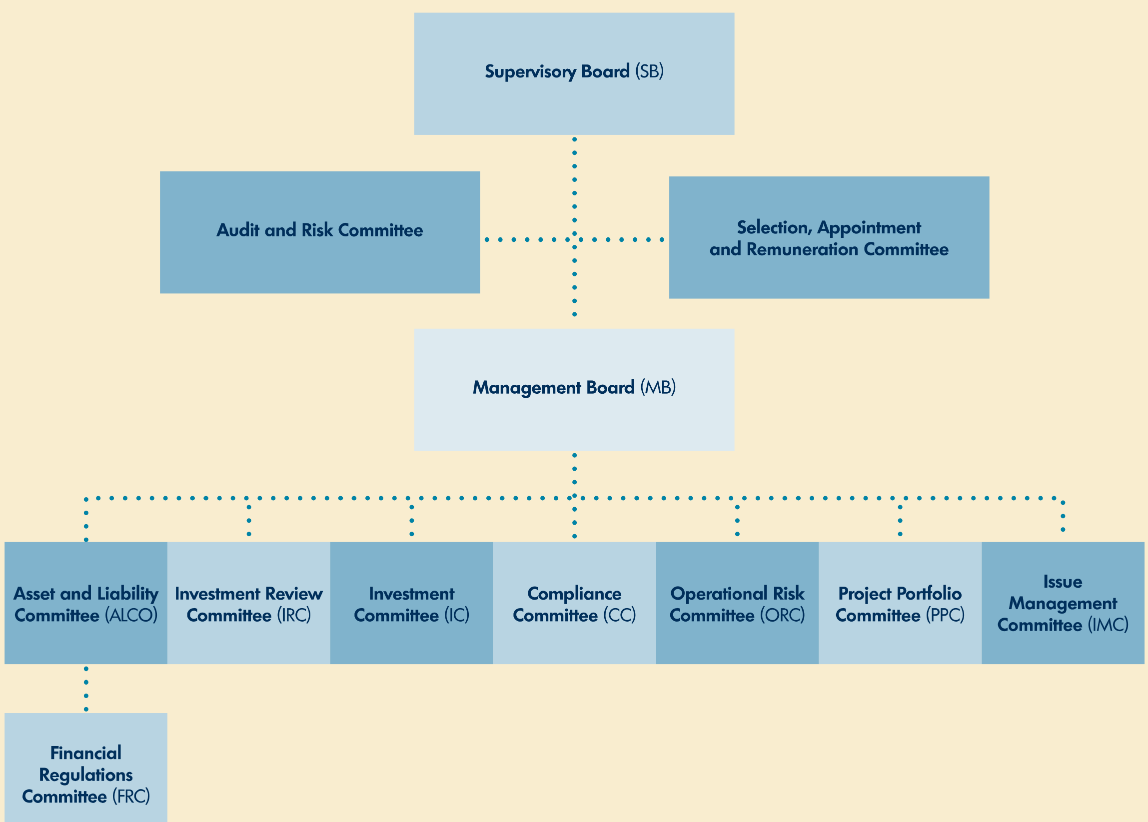
FMO has a comprehensive risk management framework in place reflecting its banking license, state guarantee and a mandate to do business in high-risk countries. The purpose of FMO’s risk management framework is to support the institution’s ambitions while safeguarding its long-term sustainability. Risk management practices are integrated across the institution, from day-to-day activities to strategic planning, to ensure both compliance with relevant regulations and adherence with internal risk appetite. A sound risk management framework is required to preserve the institution’s integrity, which is essential for delivering the mission. Hence, FMO aims to uphold its reputation and that of the banking sector. To accomplish this goal, employees are expected to fulfill their roles within the bank with integrity and care, and carefully consider the interests of all stakeholders.

The risk-based roles and responsibilities are organized in adherence to the “three lines of defense” principle, with the role of the first line of defense (e.g. Front Office) being balanced by the second line of defense (Risk Management), and the third line (Internal Audit) to perform independent assessments as to whether processes are sufficiently controlled. FMO has a two-tier board structure consisting of a Supervisory Board and a Management Board.

The Supervisory Board (SB) appoints the members of the Management Board and supervises its activities. The SB advises the Management Board and approves the annual budget, the strategic development and the risk appetite in which the Management Board operates. Each Supervisory Board member has specific expertise in FMO’s primary areas of operation. These members are appointed in the Annual Meeting of Shareholders.

The Management Board (MB) develops and implements FMO’s strategy and is responsible for the daily management of the bank. The MB is also responsible for ensuring compliance with relevant legislation and regulations. It comprises three statutory directors: the Chief Executive Officer (CEO), the Chief Investment Officer (CIO), and the Chief Risk and Finance Officer (CRFO).

The MB has established several committees that are responsible for decision-making on certain subjects and for advising the MB on risk related topics. The most relevant risk committees for 2018 are shown in the figure and described below.



The Asset and Liability Committee (ALCO). The ALCO assists the MB by evaluating, monitoring and steering the financial risk profile of FMO in accordance with the risk appetite as approved by the SB. The ALCO approves, monitors and evaluates policies, limits and procedures to manage the financial risk profile of FMO on a portfolio level, except for credit and equity risk related policies. The ALCO is responsible for overseeing FMO's capital and liquidity positions and defining possible interventions. The CRFO (Chair), Director Risk, Director Treasury, Director Credit, Legal & Special Operations (CLS) and two Directors from Front Office are voting members of the ALCO.

The Financial Regulation Committee (FRC). The FRC ensures that FMO adheres to existing financial and prudential regulation and assesses the impact of financial and prudential regulations on FMO's business strategy. The FRC for financial regulation is chaired by the Director Treasury, while the FRC for prudential regulation is chaired by the Director Risk. Members of the committees are senior representatives of Finance, Treasury and Risk & Compliance. In terms of governance, the FRC is a sub-committee of the ALCO.

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

The Investment Committee (IC). The IC is responsible for approving financing proposals and advising MB on transactions in terms of specific counterparty, product as well as country risk. The IC is chaired by the Director CLS and consists of senior representatives of Front Office and CRFO 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. Credit has also the authority to approve new transactions with small exposures.

The Investment Review Committee (IRC). The IRC is responsible for monitoring the portfolio asset quality and for reviewing financial exposures, which require specific attention, and decide on the following actions. If the IRC concludes that a client has difficulties in complying with the contractual obligations, it is transferred to the Special Operations department, which is responsible for the management of distressed assets. The IRC also decides on specific loan impairments, approves credit risk and concentration risk policies and is responsible for internal credit rating models. It is chaired by the CRFO.

The Compliance Committee (CC). The CC is delegated by the MB to take decisions on compliance related matters and compliance issues based on proposed solutions. The CC is chaired by the CRFO and meets at least four times per year. If it is required, the CC can escalate decisions to the MB. CC topics include compliance developments, compliance related projects, laws and regulations, compliance policies and procedures.

The Project Portfolio Committee (PPC). The PPC approves new cross-departmental projects and prioritizes running cross-departmental projects. As of 2019, this committee will no longer be active. Monitoring of and decisions on major projects will be the direct responsibility of the MB.

The Issue Management Committee (IMC). The IMC was officially established in 2018. It convenes on a regular basis and takes decisions on FMO's responses to issues and reputational risks. It is chaired by the CEO.

Our external auditor identified the below Key Audit Matters. These are addressed in the respective risk management paragraphs.

- IFRS 9 adoption and impairments of loans to the private sector
- Valuation of Equity investments
- Reliability and continuity of the information technology and systems
- Measurement of impact and footprint data, methodology and reporting

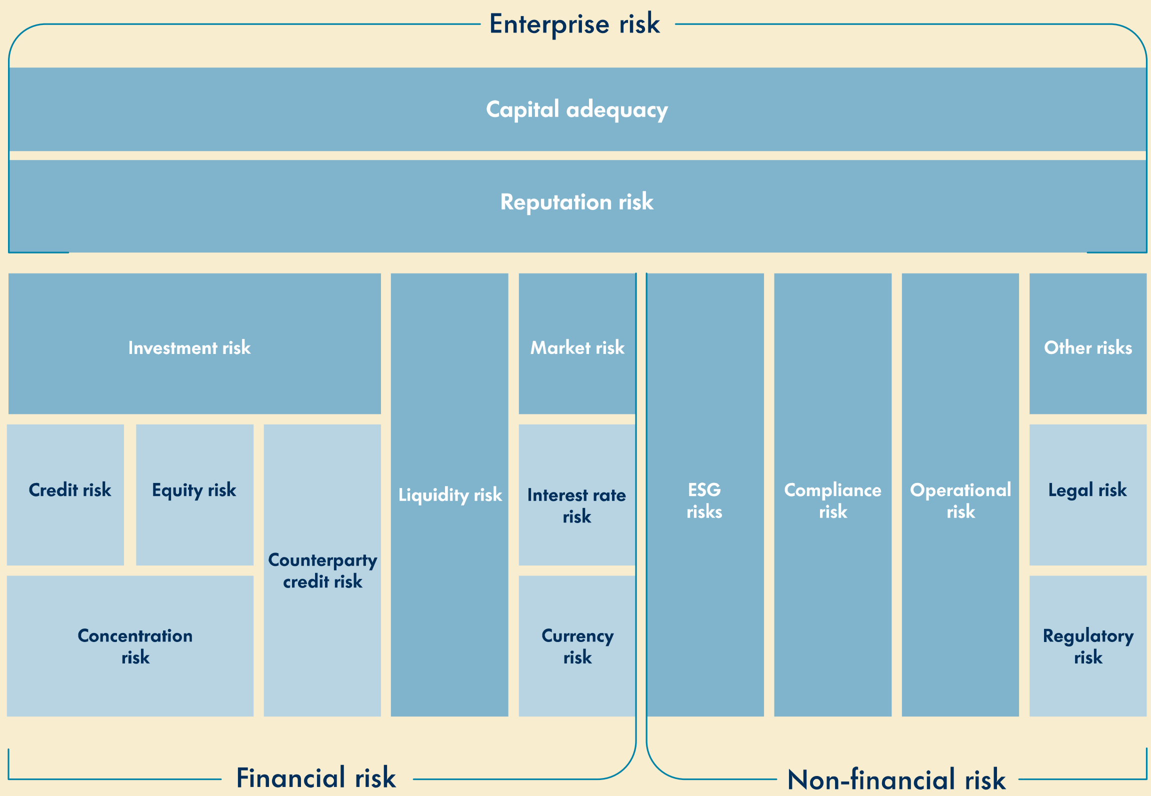
Risk appetite and taxonomy

The Risk Appetite Framework (RAF) sets out the overall approach, including policies, processes, controls, and systems through which risk appetite is established, communicated, and monitored. It includes a risk appetite statement, risk limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. FMO's risk appetite articulates the type and quantum of risk that the bank is able and willing to accept in pursuit of its strategy. FMO was established to take the risks that are required or necessary to make debt and equity investments in the private sector in emerging markets. Therefore, FMO needs a risk appetite that supports a stable organization that can continue realizing development impact in the long run.

The RAF is reviewed by the Management Board and approved by the Supervisory Board on an annual basis. If necessary, it can be revised on a semi-annual basis, particularly in case of material developments or a change in the strategic goals. The maintenance and update of this document is the responsibility of Risk Management.

The risk appetite is subsequently translated into different risk domains, setting out how much of that risk FMO is willing to take to maintain this risk appetite. The figure below shows the risk domains in line with FMO's risk taxonomy.

FMO's risk taxonomy



The only risks that FMO actively pursues are credit risk and equity risk resulting from loans to and investments in private institutions in emerging markets. Other risks cannot always be avoided, but FMO mitigates these risks as much as possible. The risk appetite, governance, and monitoring metrics for each risk domain are described in more detail in the sections below.

Developments
In 2019, FMO will extend its risk taxonomy and RAF to accommodate new risk types identified such as model risk, business model risk and impact risk. Regarding impact risk, the section below introduces FMO's current approach and limitations in reporting impact results as per 2018. For more details on the impact model and related limitations, please refer to the chapter "FMO impact model" of the Annual Report.

Impact reporting
FMO uses an impact model to measure its expected impact of investments in line with the SDGs. Under FMO's Corporate Strategy towards 2025, these goals match FMO's capabilities to foster economic growth, support decent jobs and combat climate change. They also align with FMO's ability to stimulate gender equality and inclusive development, and to reduce inequalities between countries by working in the Least Developed Countries. FMO reports on three SDGs across all our focus sectors: Decent work and Economic growth (SDG 8), Reduced inequalities (SDG 10) and Climate action (SDG 13).

As for any other model, there are limitations in the current practice of monitoring and reporting impact. For instance, FMO currently reports on ex-ante estimates while realized impact (ex-post) on the ground can differ from ex-ante expectations. Furthermore, despite progresses have been made to date towards a more universally shared method of reporting on impact, no unique market methodology and taxonomy in this field is present yet. Misrepresenting impact results may affect FMO's strategy, reputation, financial performance (such as the sustainable bond funding framework) and relations with relevant stakeholders.

In 2018, a dedicated department has been established to strengthen FMO's monitoring and reporting on impact contribution.

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.

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 ensure 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.

ENTERPRISE RISK

CAPITAL ADEQUACY

Definition

Capital is central to a bank's ability to absorb unexpected losses and to be able to continue its operations. Therefore, FMO aims to maintain a strong capital position that meets regulatory requirements and supports its high investment grade rating.

Risk appetite and governance

FMO seeks to maintain a strong capital position, by means of an integrated capital adequacy planning and control framework. Capital adequacy metrics are calculated by Risk Management and regularly reviewed by the ALCO and senior management.

FMO uses both external regulatory capital ratios and an internal economic capital ratio to express its capital position. The regulatory ratios are calculated based on the standardized approach of the CRR and take credit, market, operational and credit valuation adjustment risk into account. The internal ratio is based on an economic capital model in which the most important element is credit risk. Other risks in FMO's economic capital framework are operational, market, credit value adjustment, interest rate risk, reputation risk and the risks of conducting fund management activities under FMO Investment Management B.V (FIM).

FMO has a Capital Management Framework in place that brings together all elements to manage FMO's current and future capital position in line with the RAF. The Capital Management Framework provides FMO's management with views of the degree to which the strategy and capital position may be vulnerable to (unexpected) changes in conditions. These views may require a management intervention in order to cushion FMO against these unexpected events. Risk Management is responsible for flagging potential capital issues and proposing and quantifying possible interventions to ALCO.

Developments

FMO's Total Capital ratio decreased from 25.8% at year-end 2017 to 25.5% at year-end 2018, which is well above the SREP minimum. Given that FMO has no additional tier 1 and limited tier 2 capital, the Total Capital ratio is more restrictive than the CET-1 ratio. The Capital ratio decreased in 2018 primarily due to an increase in risk weighted assets caused by an appreciating dollar from 1.20 EUR/USD per yearend 2017 to 1.15 EUR/USD per yearend 2018 and the general increase in FMO's portfolio. The growth in FMO's eligible capital due to the addition of profit compensated the most of this, but not fully. Please see in the sections below more details on the methodology used for calculating the capital ratios.

Since January 2018, under IFRS 9, the effects of exchange rate movements are mostly recognized through the profit and loss account, rather than through other comprehensive income (OCI). Given FMO's open FX position in the private equity portfolio – which is in place to stabilize FMO's capital ratios – the underlying performance can be outweighed in years of large FX movements. Regarding regulatory changes that may likely affect FMO's capital calculation, please refer to the regulatory risk section.

Regulatory capital

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. Per December 31, 2018, FMO's available qualifying capital equals €2,877,206 (2017: €2,693,622) which makes FMO well prepared to mitigate for potential losses.

	December 31, 2018	December 31, 2017
IFRS shareholders' equity (parent)	2,983,647	2,822,882
Tier 2 capital	175,000	175,000
Regulatory adjustments:		
-Interim profit not included in CET 1 capital	-30,062	-101,977
-Other adjustments (deducted from CET 1)	-173,589	-153,619
-Other adjustments (deducted from Tier 2)	-77,790	-48,664
Total capital	**2,877,206**	**2,693,622**
Of which common equity Tier 1 capital	*2,779,996*	*2,567,286*
Risk weighted assets	**11,297,598**	**10,434,768**
Of which:		
-Credit and counterparty risk	*8,977,048*	*8,285,345*
-Foreign exchange	*1,723,354*	*1,594,669*
-Operational risk	*515,514*	*479,293*
-Credit valuation adjustment	*81,682*	*75,461*
Total capital ratio	25.5%	25.8%
Common equity Tier 1 ratio	24.6%	24.6%

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 correspond 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 it assesses the 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. For 2019, The Dutch Central Bank has set a prudential requirement for FMO in terms of total capital at 17.5% and CET1 of 14.0%. The total prudential requirement consists of the total SREP capital ratio (14.0% and 10.5% CET1), the combined buffer requirement (2.5% in 2019) and a Pillar 2 Guidance (1%).

- The combined buffer requirement applicable to FMO comprises of the capital conservation buffer and the institution specific countercyclical buffer (currently minimal). Both are formally applicable as of 1 January 2016. The buffers have been phased in over a period of four years, whereby the capital conservation buffer was 1.875% in 2018 and is 2.5% in 2019.
- The 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 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 regulatory 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 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 currency 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 a 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, interest rate risk in the banking book (IRRBB) and the risks of conducting fund management activities under FMO Investment Management B.V (FIM). 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 parameters for the EC for calculating credit risk capital requirements are the probability of default and loss given default calculated using FMO's internal credit risk rating. Please refer to the credit risk section for more information regarding the internal credit risk rating system.

	Dec 31, 2018	Dec 31, 2017
Pillar 1		
Credit risk emerging market portfolio (99.99% interval)	1,251,389	1,197,960
Credit risk treasury portfolio	16,703	24,987
Market risk	137,868	127,574
Operational risk	41,241	38,343
Credit valuation adjustment	6,535	6,037
Total pillar 1	**1,453,736**	**1,394,901**
Pillar 2		
Interest rate risk in the banking book	75,865	67,647
Reputation risk	71,870	68,020
Economic capital (pillar 1 & 2)	**1,601,471**	**1,530,568**
Available capital		
Total Capital	3,154,938	2,994,355
Surplus provisioning (capped at 0.6% RWA)[1]	42,113	104,618
Total available capital	**3,197,051**	**3,098,973**
EC - Risk weighted assets (internal model)	20,018,387	19,132,100
EC - Total capital ratio	**16.0%**	**16.2%**

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. FMO’s leverage ratio equals 31.1% (2017: 26.6%) which is far above the minimum requirement of 3% proposed by European authorities.

REPUTATION RISK

Definition
Reputation risk is the risk of damage to FMO’s reputation as a result of any event and could arise from other risks inherent in FMO’s activities.

Risk appetite and governance
It is the mandate of FMO to invest in developing and emerging markets, which exposes the institution to reputation risk. FMO has a moderate appetite for reputation risk, accepting that reputational impact of activities may incidentally lead to negative press coverage, NGO attention, undesirable client feedback, or isolated cases of financial losses, as long as these activities clearly contribute to FMO’s mission and its goals related to the SDGs. Outside of this, FMO has a limited appetite for additional reputation risk that, in extreme cases, may prompt key stakeholders to intervene in the decision-making or running of FMO’s daily business.

Reputation risk overarches the categories of financial and non-financial risks and is a secondary risk which manifests itself from one of the underlying risk types. Thus, reputation risk is also managed via the primary risks which could give arise to reputation risk issues.

Reputation risk is inevitable given the nature of FMO’s business and operations. FMO, however, actively mitigates the risk as much as possible through strict and clear policies, thorough upfront assessments, consultations with stakeholders, and when necessary, through legal agreements with clients. Regarding non-financial risks, FMO has the Sustainability Policy in place. Additionally, statements on human rights, land rights, and gender positions have been published. Furthermore, FMO manages issues from the perspective of learning lessons and prevention. An additional means to serve this purpose is the Independent Complaints Mechanism (ICM). The ICM ensures the right to be heard for complainants who feel affected by an FMO's financed operation. Therefore, the ICM provides a tool to seek alternative ways to resolve disputes between stakeholders and FMO's clients and, at the same time, strengthens the adherence to FMO's policies and procedures by providing a feed-back loop. Through transparency and a willingness to respond to challenges, FMO aims to remain accountable and to mitigate potential reputation risk.

Developments
In 2018, FMO officially established an issue management system, which was approved by the MB. Within this system, decision-making processes have been clarified to identify, measure, and address issues and crisis communications. The Issue Management Committee was also set up this year. This Committee convenes on a regular basis and takes decisions on FMO’s responses to issues and reputational risks.

FMO launched a storytelling campaign in 2018, in which FMO presents its missions and vision around the tagline ‘Doing makes the difference’. This campaign also contributes to explaining to external stakeholders the motivation of FMO’s mandate, why it is important, and how this mandate comes with challenges.

FINANCIAL RISK

INVESTMENT RISK

Investment risk is defined as the risk that actual investment returns will be lower than expected returns, and encompasses credit, equity, concentration and counterparty credit risks.

CREDIT RISK

Definition

Credit risk is defined as the risk that the bank will suffer an economic loss because a client fails to meet its obligations in accordance with agreed terms.

Risk appetite and governance

For FMO’s emerging markets loan portfolio, adverse changes in credit quality can occur due to specific client and product risk, or risks relating to the country in which the client conducts its business. The main source of credit risk arises from investments in emerging markets and off-balance instruments such as loan commitments and guarantees.

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 minimum standards for the required, among others, financial strength of FMO’s clients. This is further supported by credit risk models that are used for risk classification, the IFRS9 expected credit loss, and the determination of economic capital use per transaction. The lending process is based on formal and strict procedures. Funding decisions depend on both the amount of economic capital and the risk profile of the financing instrument. For credit monitoring, FMO’s clients are subject to annual reviews at a minimum. 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 actively manages workout and restructuring.

FMO has set internal appetite levels for non-performing loans and specific impairments on loans. If any of the metrics exceed the appetite levels, Credit will assess the underlying movements and analyze trends per sector, geography and any other parameter. Credit will also consider market developments and peer group benchmarks. Based on its analysis, Credit will propose mitigating measures to the IRC. If any of the indicators deteriorate further, Risk Management will be involved to assess to what extent the trend is threatening FMO’s capital and liquidity ratios and Risk Management may impose remedy measures.

Developments

In 2018 FMO began applying the IFRS9 accounting standard. As a result, impairments were determined by an expected credit loss (ECL) model, based on (among other parameters) probability of default (PDs) and loss given default (LGDs) from FMO’s credit models, with adjustments to make the estimations point in time rather than through the cycle. More on IFRS9 implementation can be found under section 'Significant accounting policies'.

Exposures and credit scoring

The following table shows FMO's total gross exposure to credit risk per year-end. The exposures, including derivatives, are shown gross, before impairments and the effect of mitigation through the use of third-party guarantees, master netting, and collateral agreements. Regarding derivative financial instruments, only the ones with positive market values are presented. The maximum exposure to credit risk increased during the year to €8,164,737 as of year-end 2018 (2017: €8,021,064). The decrease in short term deposits at the Dutch Central Bank was compensated by an increase in FMO’s credit exposure from loans to the private sector in emerging markets, which moved from €4,454,439 to €5,016,495.

Maximum exposure to credit risk, including derivatives	IFRS 9 2018	IAS 39 2017
On-balance		
Banks	54,642	71,763
Short-term deposits		
-of which: Amortized cost	66,531	-
-of which: Fair value through profit or loss	756,216	853,688
Interest-bearing securities	402,380	364,905
Short-term deposits – Dutch central bank	325,104	690,401
Derivative financial instruments	247,823	282,507
Loans to the private sector		
-of which: Amortized cost	4,288,609	4,454,349
-of which: Fair value through profit or loss	727,886	-
Deferred income tax assets	8,357	10,587
Current tax receivables	24,448	7,458
Current accounts with State funds and other programs	494	274
Other receivables	20,597	117,217
Total on-balance	**6,923,087**	**6,853,149**
Off-balance		
Contingent liabilities (guarantees issued)	75,066	68,129
Irrevocable facilities	1,166,583	1,099,786
Total off-balance	**1,241,649**	**1,167,915**
Total credit risk exposure	**8,164,736**	**8,021,064**

In measuring the credit risk of the emerging market portfolio at client level, the main parameters are the credit quality of the counterparties and the expected recovery ratio in case of defaults. Credit quality is measured by scoring clients on various indicators of financial and company strength. FMO has a Client Risk Rating (CRR) methodology which was developed in 2012 together with Moody’s. The model follows EBA guidelines regarding the appropriate treatment of a Low Default Portfolio and uses an alternative to statistical validation to perform the risk assessment of the models when there is limited or no default data.

The CRR models are based on quantitative and qualitative factors and different based on the client type. The models for Banks and Non-Banking Financial Institutions (NBFIs) use factors including the financial strength of the client, management, franchise value, and the market and regulatory environment. The model for corporates uses factors including financial ratios, governance, and strategy. The Project Finance model uses factors focusing on the transaction characteristics, market conditions, political and legal environment, and financial strength of the borrower.

The models are reviewed periodically, with the last reviews taking place in 2017 and 2018. Based on these scores, FMO assigns ratings to each client on an internal scale from F1 (lowest risk) to F20 (default) representing the Probability of Default. This rating system is equivalent to the credit quality rating scale applied by Moody's and S&P. Likewise, the recovery ratio and the Loss Given Default are assigned by scoring various dimensions of the product specific risk. The probability of default and loss given default scores are also used as parameters in the IFRS9 expected credit loss model. Please refer to the section 'Significant accounting policies', for further details on the IFRS9 calculation methodology.

The total maximum exposure to credit risk of the gross loan portfolio increased to €5,016,495 per year-end 2018 (2017: €4,454,349). The majority of our gross loan portfolio (89%) remains in the F11 to F16 ratings categories. Overall the credit quality of FMO’s loan portfolio improved in 2018, with the proportion of the portfolio rated F17 or worse dropping from 12% to 8%, and the portion of the portfolio rated F13 or better increasing from 42% to 49%. This was due both to improved economic conditions, including country rating improvements, and a revision to the project finance model.

Credit quality analysis

IFRS 9 Loans to the private sector at December 31, 2018 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Fair value	Total	%
F1-F10 (BBB- and higher)	117,087	12,271	-	895	130,253	2.6
F11-F13 (BB-,BB,BB+)	1,844,692	111,888	-	360,429	2,317,009	46.2
F14-F16 (B-,B,B+)	1,582,796	235,828	93,830	259,965	2,172,419	43.3
F17 and lower (CCC+ and lower)	16,654	86,442	187,121	106,597	396,814	7.9
Sub-total	**3,561,229**	**446,429**	**280,951**	**727,886**	**5,016,495**	**100.0**
Less: amortizable fees	-42,073	-3,754	-2,256	1,117	-46,966	
Less: ECL allowance	-30,580	-16,767	-108,157	-	-155,504	
Less: FV adjustments	-	-	-	-43,204	-43,204	
Carrying value	**3,488,576**	**425,908**	**170,538**	**685,799**	**4,770,821**	

Gross exposure distributed by internal ratings

IAS 39 at December 31, 2017 Indicative counterparty credit rating scale of S&P	Loans neither past due nor impaired	Loans past due not impaired	Loans counterparty impairments	2017	%
F1 – F10 (BBB- and higher)	163,778	-	-	163,778	3.7
F11 – F13 (BB-, BB, BB+)	1,722,824	-	-	1,722,824	38.7
F14 – F16 (B-, B, B+)	1,995,396	31,865	-	2,027,261	45.5
F17 and lower (CCC+ and lower ratings)	263,145	16,524	260,817	540,486	12.1
Total	**4,145,143**	**48,389**	**260,817**	**4,454,349**	**100.0**

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 if a customer cannot meet its obligations to third parties, carry similar credit risks as loans. Most 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 direct uncollateralized borrowing. The following table shows the credit quality and the exposure to credit risk of the financial guarantees for the period.

IFRS 9 Financial guarantees at December 31, 2018 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Total	2017
F1-F10 (BBB- and higher)	27,935	873	-	28,808	29,115
F11-F13 (BB-,BB,BB+)	137,080	29,130	-	166,210	81,530
F14-F16 (B-,B,B+)	161,010	37,705	-	198,715	68,793
F17 and lower (CCC+ and lower)	13,095	-	2,401	15,496	19,209
Sub-total	**339,120**	**67,708**	**2,401**	**409,229**	**198,647**
ECL allowance (group impairments under IAS 39, for 2017)	-1,511	-297	-1,201	-3,009	-3,172
Total	**337,609**	**67,411**	**1,200**	**406,220**	**195,475**

Additionally, irrevocable facilities represent commitments to extend finance to clients and consist of contracts signed but not disbursed yet which are usually not immediately and fully drawn.

The following table shows the credit quality and the exposure to credit risk of the loan commitments which are part of the irrevocable facilities for the period.

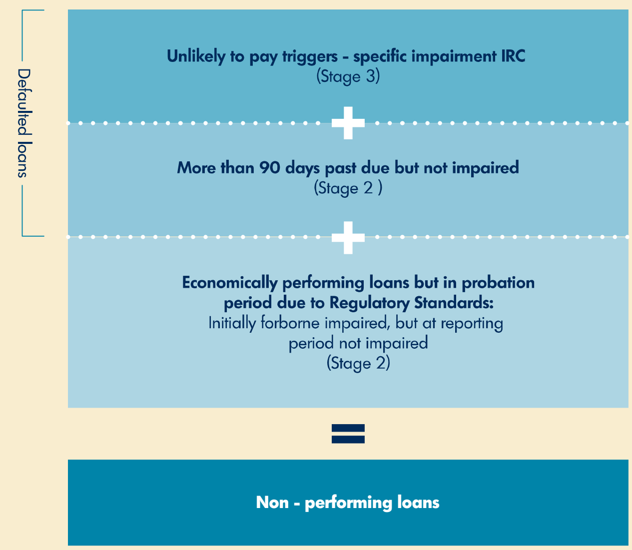
IFRS 9 Loans commitments at December 31, 2018 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Other 1)	Total	2017
F1-F10 (BBB- and higher)	-	-	-	-	-	9,131
F11-F13 (BB-,BB,BB+)	286,663	-	-	70,143	356,806	233,092
F14-F16 (B-,B,B+)	360,179	14,109	7,519	32,071	413,878	575,875
F17 and lower (CCC+ and lower)	21,465	11,801	4,156	22,580	60,002	76,963
Total nominal amount	**668,307**	**25,910**	**11,675**	**124,794**	**830,686**	**895,061**
ECL allowance	-4,050	-435	-	-	-4,485	-
Total	**664,257**	**25,475**	**11,675**	**124,794**	**826,201**	**895,061**

1 Loan commitments for which no ECL is calculated (Fair Value loans or expired availability date).

Non-Performing Loans

Non-Performing Loans (NPL) are defined as loans with a counterparty-specific impairments (Stage 3) and/or loans with interest, principal, or fee payments that are past due 90 days or more (Stage 2 or Stage 3), or clients that FMO judges to be “unlikely to pay”. Unlikely to pay indicators include, among others, distressed restructuring, bankruptcy, or central bank intervention. Non-performing status is determined at the client level. Therefore, if one facility to a client is non-performing, all facilities to the client are deemed non-performing (Stage 2). Forborne non-performing clients, as defined in the section 'Modified financial assets', have an additional one-year probation period before returning to performing status (Stage 2). FMO’s NPL ratio increased from 5.6% to 8.1% as a result of several factors, including new NPLs, relatively fewer write-offs, and an adjustment of the non-performing definition. In preparation for the implementation of the EBA Guideline on Management of Non-Performing and Forborne Exposures in 2019, FMO aligned the non-performing loan definition with the definition used for regulatory reporting. This was implemented in Q2 2018, which resulted in an increase in the NPL ratio (ceteris paribus) from 4.8% to 6.3%, primarily due to the application of probation periods and no longer reducing NPL exposures based on guarantees received.

The following figure summarizes the criteria used to identify a loan as non performing:



New NPLs in 2018 cannot be attributed to a specific factor or country, and the vintage years range from 2012 to 2016. Overall NPLs remain concentrated in the Industry, Manufacturing and Services (IMS) sector (53% of NPLs) and while India (25% of NPLs) remains the country with the most NPLs, the concentration in India remaines high and it has slightly decreased since 2017 when it was 27% of NPLs. No other country represents more than 10% of NPLs. Activities in the IMS sector were terminated during 2017 following a strategic reorientation. The NPL ratio for current focus sectors is 4.5%. This NPL level partially reflects long recovery periods, which are inherent in FMO’s markets.

Among the NPLs, the loans with interest and/or principal payments that are past due more than 90 days amount to 4.1% (2017: 4.8%) of the gross loan portfolio. Past due information related to FMO’s portfolio loans and receivables are presented in the table below. This categorization does not apply to financial assets other than loans, including interest-bearing securities and short-term deposits.

IFRS 9 Loans past due and impairments 2018	Stage 1	Stage 2	Stage 3	Fair Value	Total
Loans not past due	3,561,229	430,595	103,306	662,310	4,757,440
Loans past due:					
-Past due up to 30 days	-	-	8,112	-	8,112
-Past due 30-60 days	-	-	-	-	-
-Past due 60-90 days	-	-	43,388	-	43,388
-Past due more than 90 days	-	15,834	126,145	65,576	207,555
Subtotal	**3,561,229**	**446,429**	**280,951**	**727,886**	**5,016,495**
Less: amortizable fees	-42,073	-3,754	-2,256	1,117	-46,966
Less: ECL allowance	-30,580	-16,767	-108,157	-	-155,504
Less: FV adjustments	-	-	-	-43,204	-43,204
Carrying value	**3,488,576**	**425,908**	**170,538**	**685,799**	**4,770,821**

IAS 39 Loans past due and impairments 2017	Loans not impaired	Loans impaired	Gross exposure	Counterparty specific impairments	Total
Loans not past due	4,145,143	29,368	4,174,511	-13,703	4,160,808
Loans past due:					
-Past due up to 30 days	24,522	7,634	32,156	-5,726	26,430
-Past due 30-60 days	18,869	-	18,869	-	18,869
-Past due 60-90 days	-	-	-	-	-
-Past due more than 90 days	4,998	223,815	228,813	-121,758	107,055
Subtotal	**4,193,532**	**260,817**	**4,454,349**	**-141,187**	**4,313,162**
Less: amortizable fees	-46,914	-2,015	-48,929	-	-48,929
Less: group-specific impairments	-63,285	-	-63,285	-	-63,285
Carrying value	**4,083,333**	**258,802**	**4,342,135**	**-141,187**	**4,200,948**

Stage 3 loans are impaired loans with a specific charge off set by the Investment Review Committee (IRC). Not all non-performing loans are in Stage 3. If the IRC judges that the client is likely to pay they may remain in Stage 2 with a lifetime expected credit loss booked as the impairment charge. At end of year 2018, €15.8 mln of exposure was 90 days past due but remaining in Stage 2. As with non-performing loans, impairments are concentrated in the IMS sector. Geographically there is an elevated level of impairments in Latin America, due to a large impairment for an Agribusiness client in Argentina.

Stage 3 (credit impaired) ECL distributed by regions and sectors (IFRS 9)

IFRS 9 December 31, 2018	Financial Institutions	Energy	Agribusiness	Multi-sector Funds Investment	Infrastructure, Manufacturing, Services	Total
Africa	-	10,055	-	-	9,259	19,314
Asia	-	8,644	-	-	16,732	25,376
Latin America & the Caribbean	1,961	-	18,449	-	23,704	44,114
Europe & Central Asia	1,349	3,658	2,718	-	11,628	19,353
Non-region specific	-	-	-	-	-	-
Total	**3,310**	**22,357**	**21,167**	**-**	**61,323**	**108,157**

Counterparty specific impairments distributed by regions and sectors (IAS 39)

IAS 39 December 31, 2017	Financial Institutions	Energy	Agribusiness	Multi-sector Funds Investment	Infrastructure, Manufacturing, Services	Total
Africa	15,198	-	-	-	8,686	23,884
Asia	-	13,558	-	-	59,004	72,562
Latin America & the Caribbean	1,609	5,829	-	-	22,203	29,641
Europe & Central Asia	422	8,433	3,575	-	2,670	15,100
Non-region specific	-	-	-	-	-	-
Total	**17,229**	**27,820**	**3,575**	**-**	**92,563**	**141,187**

Modified financial assets

When the terms and conditions of a loan have been modified significantly, leading to changes in cashflows, 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.

Furthermore, when the terms and conditions are modified due to financial difficulties amongst others delay in payments, central bank intervention or prospects of bankruptcy, these loans are qualified as forborne. Forbearance must include concessions to the borrower, such as release of securities, changes in covenants that implies giving away payment rights. Forborne loans are assessed to determine if they qualify for de-recognition and if that is the case, they are recognized as a new loan with valuation differences through profit and loss. The watch-list process and the Credit department review modified loans periodically. When a loan is deemed no longer collectible, it is written off against the related loss allowance. In 2018, FMO's (partial) write-offs equaled to €18,3 mln due to 7 loans (2017: 9) corresponding to 0.4% (2017: 2.0%) of FMO's portfolio.

The following table provides a summary of FMO's forborne assets, both classified as performing and not, as of December 31, 2018.

IFRS 9	Performing	*of which: performing but past due > 30 days and <=90 days*	*of which: performing forborne*	Non Performing	*of which: non performing forborne*	*of which: impaired*	Sub Total	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	Carrying value
Loans to the private sector (Amortised Cost)	3,993,615	-	106,460	294,995	117,879	280,951	4,288,610	-48,083	-155,505	-	4,085,022
Loans to the private sector (Fair value)	606,045	-	30,743	121,841	94,598	-	727,886	1,117	-	-43,204	685,799
Total	**4,599,660**	**-**	**137,203**	**416,836**	**212,477**	**280,951**	**5,016,496**	**-46,966**	**-155,505**	**-43,204**	**4,770,821**

The following table shows the movement of gross carrying amount and ECL impact of previously forborne financial assets, which were restored from the forborne status during 2018.

	Post forborne December 31, 2018		Forborne January 1, 2018	
IFRS 9 December 31, 2018	**Gross outstanding amount**	**Corresponding ECL**	**Gross outstanding amount**	**Corresponding ECL**
Restored loans since forbearance and now in Stage 1	9,239	229	9,260	290
Loans that reverted to Stage 2/3 once restored	46,737	9,029	46,586	215

For loans restored from forborne status which were transferred to Stage 1, the ECL decreased slightly from €290 to €229. For loans restored from forborne status which entered into Stage 2/3, the ECL increased to €9,260 due to one loan which was judged as impaired despite it exited from the forbearance status.

The table below includes Stage 2 and Stage 3 assets for which terms and conditions were modified during 2018 with the related net modification profit. €3,729 profit is related to not derecognized loans and €1,595 loss is related to derecognized loans.

	IFRS 9 2018
Amortised costs of financial assets modified during the period	121,714
Net modification result	2,134

Credit mitigation

As per December 31, 2018, the total carrying value of the FMO's loan portfolio is €5,016,496, of which €520,279 is guaranteed by either the Dutch government or highly rated guarantors, of which the following table shows a breakdown of guarantee amounts received and carrying values of guaranteed loans per credit ranking of the guarantors.

Guarantor credit ranking based on rating scale S&P	Amount of guarantees received	Guaranteed loans - carrying value
Dutch State	25,244	30,094
AA- and higher ratings	40,523	54,198
A+ to A-	133,139	374,881
BBB+ to B-	25,365	61,106
CCC+ and lower ratings	-	-
Total	**224,271**	**520,279**

FMO also obtained security used to mitigate credit risk for part of the loan portfolio. This security mainly consists of real estate, business assets, bank account shares or financial instruments. Due to the nature of the markets in which FMO operates, it has proven difficult to assign reliable fair values to the security for those loans due to limited liquidity. Furthermore, the complexity of some jurisdictions in which FMO operates may make the enforcement of the security challenging. It is also worth mentioning that FMO, as a development bank, aims to work with clients through financial difficulties focusing on their long-term recovery rather than seeking immediate foreclose. Therefore, the security is an effective tool at enhancing the negotiation power of FMO when restructuring the terms of the loans and, only as a last resort, enforcing it to procure recovery.

EQUITY RISK

Definition

Equity risk is the risk that the fair value of an equity investment decreases. It also includes exit risk, which is the risk that FMO's stake cannot be sold for a reasonable price and in a sufficiently liquid market.

Risk appetite and governance

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 realize exits. The equity portfolio consists of both direct or co-direct investments, primarily in the financial institutions and Energy sectors, and indirect investments in private equity funds. The two types of investments require different risk assessments and selection criteria. The Private Equity department is responsible for assessing opportunities and performing extensive due diligence before investment decisions are made. Equity investments are approved by the Investment Committee in terms of specific obligor as well as country risk. The Investment Review Committee assesses the valuation of equity investments on a quarterly or semiannual basis. Diversification across geographical area, sector and equity type across the total portfolio is evaluated before new investments are made. 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 the co-investing partners.

Developments

The private equity portfolio in EUR terms benefited from a stronger USD but the underlying valuations were under pressure from local currency depreciation against the USD (such as TRY, ARS, ZAR etc.). Regarding global market conditions, 2018 was characterized by two main economic crises relevant to FMO in Turkey and Argentina. Impacts in Argentina have been limited since FMO's equity portfolio is limited to two co-investments and minor indirect exposures through some of funds. Moreover, the agricultural sector in Argentina is denominated in USD or is USD-linked, which might create arbitrage opportunities in case of devaluation of Argentine peso. As such, FMO continues to invest in Argentina and made two new commitments in December 2018. Regarding Turkey, at the end of 2018, FMO's equity portfolio consisted of seven investees in which two co-investments and five funds with a total exposure of 86mln EUR and committed amount of 106mln EUR. A value loss was recorded for this year primarily driven by the acute and sharp depreciation of the TRY. However, early signs of value recovery can be seen on the back of TRY recovery. FMO will continue monitoring challenging situations across the globe on a quarterly basis as part of the fair value process and during the annual reviews of investees.

FMO continued to add value to private equity investees during 2018 through corporate governance, environmental and social impacts. In line with the strategy, FMO continued to focus on portfolio management, exits and building up a direct portfolio:

- Portfolio management/exits: during 2018 there were a number of significant exits as well as good cash collection from fund investments (particularly tail-end funds with vintages 2007-2009);
- Direct investments: 2018 was a transition year in which time was invested in building relationships, market presence and market strategies. Overall, the level of new investments was lower than budgeted for because prices, especially in the renewable energy sector, were high. Also, it was actively decided not to invest in cases where the potential return was too challenging. Furthermore, the portfolio management activities and exits – of which some also did not materialize - were also time consuming. Despite of that, more than 60% of the new investments in 2018 were direct and/or co-investments. The efforts of 2018 are also expected to result in a further increase in the level of direct investments in 2019;
- Other initiatives which resulted in 2018 being a transition year: FMO prepared to become more active as a venture capital investor. Venture capital is a new asset class requiring different skills, procedures and market approach so time was invested in developing these during 2018. The strategic rationale for the venture capital program is linked to the high potential of development impact in the asset class (e.g. reducing inequalities by using technologies), strategic relevance for FMO's 2025 strategy and the return potential.

Exposures

The total outstanding equity portfolio at December 31, 2018, amounts to €1,797,519 (2017: €1,710,315) of which €897,436 (2017: €854,747) is invested in investment funds.

Equity portfolio including Associates distributed by region and sector

December 31, 2018	Financial Institutions		Energy		Agribusiness		Multi-Sector Fund Investments		Infrastructure, Manufacturing, Services		Total	
	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds
Africa	272,447	20,778	68,874	12,643	30,557	13,312	-	256,229	115,079	-	486,957	302,962
Asia	102,673	21,222	14,477	81,399	24,762	12,198	-	221,708	24,180	-	166,092	336,527
Latin America & the Caribbean	70,354	-	1,121	21,660	17,398	14,502	-	68,869	23,665	-	112,538	105,031
Europe & Central Asia	971	6,862	-	10,866	2,076	13,108	-	64,998	37,124	-	40,171	95,834
Non-region specific	36,275	38,354	14,499	5,317	-	-	-	13,411	43,551	-	94,325	57,082
Total	**482,720**	**87,216**	**98,971**	**131,885**	**74,793**	**53,120**	**-**	**625,215**	**243,599**	**-**	**900,083**	**897,436**

December 31, 2017	Financial Institutions		Energy		Agribusiness		Multi-Sector Fund Investments		Infrastructure, Manufacturing, Services		Total	
	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds
Africa	257,831	11,756	60,827	3,693	26,768	12,580	-	223,106	95,647	-	441,073	251,135
Asia	103,414	20,491	21,670	85,506	26,957	14,302	-	211,280	30,183	-	182,224	331,579
Latin America & the Caribbean	60,309	-	8,752	15,302	10,882	20,459	-	99,873	39,499	-	119,442	135,634
Europe & Central Asia	6,589	9,301	-	10,194	3,372	-	-	74,126	10,133	-	20,094	93,621
Non-region specific	37,205	28,038	11,810	871	79	-	-	13,869	43,642	-	92,736	42,778
Total	**465,348**	**69,586**	**103,059**	**115,566**	**68,058**	**47,341**	**-**	**622,254**	**219,104**	**-**	**855,569**	**854,747**

CONCENTRATION RISK

Definition

Concentration risk is the risk that FMO's exposures are too concentrated within or across different risk categories. Concentration risk may trigger losses large enough to threaten the institution's health or ability to maintain its core operations or lead to material change in an institution's risk profile.

Risk appetite and governance

Strong diversification within FMO's emerging market portfolio is ensured through stringent limits on individual counterparties (single and group risk limits), sectors, countries and regions. These limits are monitored by Risk Management, reviewed regularly and approved by the IRC. Diversification across countries, sector and individual counterparties is a key strategy to safeguard the credit quality of the portfolio.

Developments

Overall economic conditions in emerging markets remained favorable in 2018, with economic growth continuing in most markets. However, concerns did emerge, particularly towards the end of the year, including a strengthening US Dollar vis-à-vis emerging market currencies, interest rate hikes by the Federal Reserve, the increasing threat of a trade war between the US and China or other countries, and slower growth in several key emerging markets.

2018 did witness two economic crises relevant to FMO in Turkey and Argentina. These were closely monitored by Front Office, Credit, and the IRC. Regarding the loan portfolio, at the end of 2018, FMO had 18 clients in Turkey with a total loan exposure of €367 million. The Turkish Lira has shown accelerated depreciation in the first half of August and caused upset in international markets. Consequently, Turkey's country rating was downgraded to F14 (2017: F12). In Argentina, FMO had 11 clients at the end of 2018 for a total loan exposure of €157 million where the country rating has been stable over the course of 2018 at F15. Overall FMO's portfolio in both countries remained healthy, with only one non-performing loan in each country, both due to client-specific circumstances unrelated to the current economic crises. This performance can be attributed to the fact that before the crises FMO's financial sector clients had strong financials, while energy and agricultural clients in many cases have a natural hedge in place, either via export revenues, or via government guaranteed US dollar incomes (through power purchasing agreements, for example). Also, the developments in Ukraine were followed closely given the ongoing conflict with the Russian Federation. Moody's reacted positively to the release of new IMF credit, which resulted in an upgrade of Ukraine's country rating to F17 (2017: F18). FMO had 9 clients in Ukraine with a total exposure of €68 million in the loan portfolio at the end of 2018. Regarding developments on equity investments, please refer to the equity risk section.

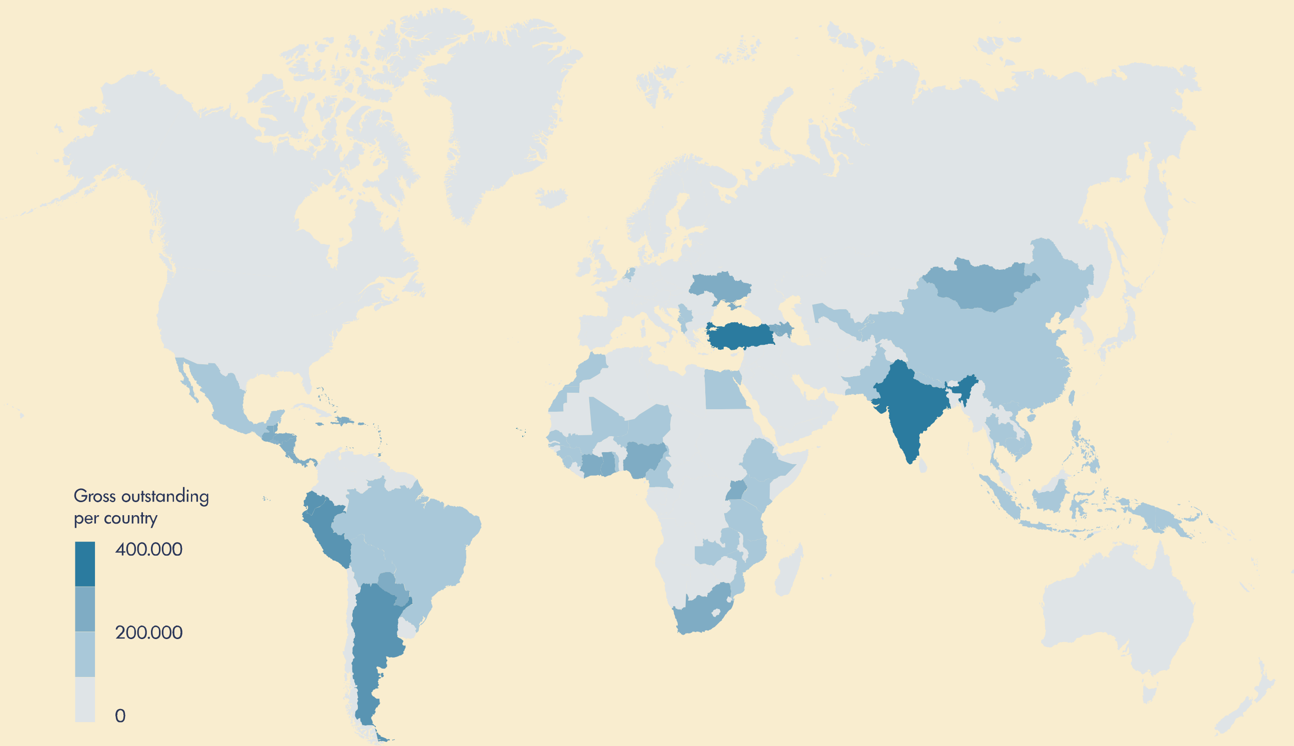
Country, regional and sector exposures

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 defaults and political risk events.

To ensure diversification within FMO's emerging market portfolio across regions, a country limit framework is in place to minimize concentration risk from the perspective of the portfolio as a whole. Country limits range from 8% to 22% of FMO's capital, depending on the country rating, where FMO sets higher limits in less risky countries. The assessment of the country rating (F-rating scoring in line with internal credit risk rating) is based on a benchmark of external rating agencies and other external information.

In determining the limit usage within a country for loans, the committed portfolio amount as well as underlying transaction specific elements - which may lead to effective reduction of country risk - are considered. The figure below provides an overview of the diversification over the countries of FMO's gross outstanding in the loan portfolio.

Gross outstanding in the loan portfolio



In general, the loan portfolio remains well diversified across different countries. The single largest country exposure is under 10% of the total loan book. The three largest country exposures in the loan book at the end of 2018 were Turkey, India and Georgia, together 21% of the total exposure. Following the rating downgrades of S&P, Moody's and Fitch, Turkey has now an internal rating of F14 (2017: F12). The ratings of Georgia and India did not change throughout the year. The loan portfolio in Georgia increased with €100 million due to new transactions in the financial sector clients. Other noteworthy changes in country ratings are the downgrades of Costa Rica to F14 (2017: F13) and Nicaragua to F16 (2017: F15) and the upgrade of Mongolia to F16 (2017: F17).

Overview country ratings loan book based on rating scale S&P

Indicative external rating equivalent	2018 (%)	2017 (%)
F9 and higher (BBB and higher ratings)	5.3	6.5
F10 (BBB-)	7.6	8.3
F11 (BB+)	-	-
F12 (BB)	3.5	11.7
F13 (BB-)	13.8	14.7
F14 (B+)	29.9	21.9
F15 (B)	14.8	14.2
F16 (B-)	17.0	11.3
F17 and lower (CCC+ and lower ratings)	8.1	11.4
Total	**100.0**	**100.0**

On top of country risk limits, FMO has in place additional limits to ensure adequate diversification across sectors and egions. Below an overview of the gross exposure of loans distributed by region and sector is given. For equity exposures, please refer to the equity risk section.

Gross exposure of loans distributed by region and sector

	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
December 31, 2018						
Africa	362,631	550,786	79,364	26,189	234,851	1,253,821
Asia	438,442	366,025	43,038	-	218,354	1,065,859
Latin America & the Caribbean	542,839	444,813	208,260	-	134,683	1,330,595
Europe & Central Asia	616,430	146,243	197,183	36,398	136,580	1,132,834
Non-region specific	89,337	19,698	75,061	-	49,291	233,387
Total	**2,049,679**	**1,527,565**	**602,906**	**62,587**	**773,759**	**5,016,496**
December 31, 2017						
Africa	301,241	425,956	56,173	24,144	206,917	1,014,431
Asia	394,356	321,242	40,242	-	236,564	992,404
Latin America & the Caribbean	603,762	354,006	198,282	-	146,797	1,302,847
Europe & Central Asia	467,506	107,477	168,696	34,312	152,829	930,820
Non-region specific	60,749	17,858	90,971	-	44,269	213,847
Total	**1,827,614**	**1,226,539**	**554,364**	**58,456**	**787,376**	**4,454,349**

Single and group risk exposures

Regarding single and group risk exposures, FMO has set stringent internal limits where the maximum loss possible for one single client or group is set as a percentage of FMO’s shareholders’ equity. At year-end, all exposures are well within these limits. These internal single and group risk limits are set to be more stringent than the regulatory limits such as the ones foreseen under CRR norm of 25% of eligible capital.

COUNTERPARTY CREDIT RISK

Definition

Counterparty credit risk in the treasury portfolio is the risk that FMO will suffer economic losses because a counterparty fails to fulfil its financial or other contractual obligations from open positions in the portfolio.

Risk appetite and governance

The main responsibility of FMO’s Treasury department is to fund the core business of FMO and to efficiently and effectively mitigate risks in line with the Treasury’s mandate. The main goal of the treasury portfolio is to maintain a liquidity buffer such that FMO can serve its liquidity needs in both on-going business and in stressed circumstances. FMO’s Treasury department is, therefore, a servicing unit. It does not have its own trading book or actively takes open positions in the pursuit of profits. FMO aims to balance between keeping losses within its limited risk tolerance and supporting FMO's business strategy, thereby minimizing credit risk and concentration risk in the treasury portfolio, derivative portfolio, and several bank accounts.

The Treasury department is responsible for day-to-day counterparty risk management. Risk Management is the 'second line of defense' and responsible for assessing, quantifying, and monitoring counterparty risk daily. Limit excesses and material findings are reported to the ALCO on a monthly basis, together with recommended mitigations and/or actions. The Risk Management department is also responsible for updating related policies and processes and for setting up limits, including minimum credit rating requirements, exposure limits, as well as transaction limits. The policies, processes, relevant parameters, and limits are reviewed and approved by the ALCO annually.

Developments

In preparation for the coming Brexit, FMO has established a working group to closely monitor all developments, assess potential impact, propose suitable mitigations, and act accordingly. An action plan (Brexit Action Plan) was proposed by the working group and reviewed by the ALCO. The plan is frequently revisited and adapted with new developments of the Brexit. This assures a smooth continuation of FMO's treasury activities, even in the worst case of a no deal Brexit, and makes sure that counterparty credit risk is efficiently managed. For more details on the Brexit, please refer to section 'Legal Risk'.

Exposures

Counterparty risk exposures in FMO's treasury portfolios originate from short-term investments (deposits, investment in money market funds, CPs, and collaterals related to transacted derivatives), interest-bearing securities (bonds), and transacted derivatives for hedging purpose. The tables below show outstanding positions as of 31st December.

Overview interest-bearing securities based on rating scale S&P

At December 31	IFRS 9 2018	IAS 39 2017
AAA	246,336	209,203
AA- to AA+	156,044	155,702
Total	**402,380**	**364,905**

Geographical distribution interest-bearing securities

At December 31	2018 (%)	2017 (%)
Finland	3	17
France	5	6
Germany	32	40
Netherlands	43	25
Philippines	5	-
Sweden	8	8
Supra-nationals	4	4
Total	**100**	**100**

Overview short-term deposits

At December 31	S&P rating (short-term)	2018	2017
Dutch central bank		325,104	690,401
Financial institutions	A-1	635,925	653,111
	A-2	20,955	5,890
	A-3	-	-
	Unrated	-	-
Money market funds	A-1+	165,866	174,687
Municipality		-	20,000
Total		**1,147,850**	**1,544,089**

Supra-nationals are international organizations or unions in which member states transcend national boundaries pertaining to the wider grouping. As per year-end 2018, the largest exposure in this category is to the European Investment Bank (EIB).

FMO mitigates its counterparty credit risk through various means. Minimum requirements of credit quality are set for counterparties of treasury activities. Netting and collateral agreements are also utilized to reduce counterparty credit risk originating from derivative transactions. FMO has Credit Support Annexes (CSAs) with all derivative counterparties. Additionally, part of the derivative portfolio, particularly EUR and USD interest rate swaps, is cleared through central counterparties, as required by the European Market Infrastructure Regulations (EMIR).

Derivative financial instruments distributed by rating, based on rating scale S&P

	IFRS 9	2018	IAS 39	2017
	Net exposure	CSA (%)	Net exposure	CSA (%)
AA- to AA+	-	100	36,243	100
A to A+	79,845	100	105,272	100
BBB		100	-	100
Central cleared	12,427	-	2,311	-
Total	**92,272**	**100**	**143,826**	**100**

The exposure of derivative financial instruments is presented for only 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 shown in the table above does not equal the exposure presented in the other tables.

The disclosures as set out in the tables below include financial assets and financial 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 financial instruments, irrespective of whether they are offset in the consolidated balance sheet.

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

	(a)	(b)	(c)=(a)-(b)		(d)	(e)=(c)-(d)
				Related amounts not offset in the balance sheet		
IFRS 9 December 31, 2018	**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	247,823	-	247,823			
FINANCIAL LIABILITIES						
Derivatives	-217,174	-	-217,174			
Total	**30,649**	**-**	**30,649**	**-**	**9,519**	**21,130**

	(a)	(b)	(c)=(a)-(b)		(d)	(e)=(c)-(d)
				Related amounts not offset in the balance sheet		
IAS 39 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	282,507	-	282,507			
FINANCIAL LIABILITIES						
Derivatives	-173,701	-	-173,701			
Total	**108,806**	**-**	**108,806**	**-**	**73,401**	**35,405**

LIQUIDITY RISK

Definition

Liquidity risk is defined as the risk for FMO not being able to fulfil its financial obligations due to insufficient availability of liquid means.

Risk appetite and governance

FMO's risk appetite is to maintain adequate liquidity buffers to fulfil FMO's current and future financial obligations. The appetite follows a similar rationale as for capital and it is aimed to maintain enough liquidity to ensure FMO would never need to fall back on the guarantee provided by Dutch State to our investors. To realize this ambition, minimum liquidity requirements apply as prescribed by the regulator.

FMO's Liquidity Risk Policy Framework is built on four Pillars.

1. Minimum liquidity buffer under stress;
2. Maturity matched funding;
3. Diversified funding;
4. Meet regulatory requirements.

Based on these four pillars. FMO's risk appetite levels are defined for a 7-month minimum survival period under stress, a liquidity coverage ratio (LCR) to exceed 135%, a Net Stable Funding Ratio (NSFR) to exceed 105%, and restrictions on failed funding periods and cost of wholesale funding above peers. Additional thresholds such as matching funding and liquidity in specific currencies are also in place for managing and monitoring the risk profile of the bank. These monitoring metrics are delegated to Director Risk Management and Director Treasury and are subject to a formal sign-off procedure and reported to the ALCO. The ALCO is also responsible to approve the Liquidity Risk Policy Framework.

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 on weekly basis to ensure this conservative position is maintained. For the annual Internal Liquidity Adequacy Assessment Process (ILAAP), FMO performs additional stress tests including a severe stress scenario provided by DNB and includes 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 planning is accurate.

The Liquidity Contingency Plan sets out FMO's strategy for addressing liquidity needs in the case of a crisis, ensuring that various sources of emergency liquidity are available to meet all current and future financial obligations, whilst avoiding excessive funding costs, incurring unacceptable losses and significantly changing the business profile. The liquidity sources include a long-term bond portfolio and a portfolio of short-term instruments such as cash, Money Market Funds, Commercial Paper (CP) and Treasury Bills. The long-term bonds and CP can be used as collateral in repurchase agreements to obtain short-term cash from the Dutch Central Bank or from commercial parties.

Developments

FMO reviewed its 2019-2022 funding strategy to increase diversification across funding sources and instruments. Moreover, the Sustainability Bonds Framework has also been updated to include new categories for green and social projects and to allow FMO to issue Green Bonds, Social Bonds or Sustainability Bonds. As a result of this, on February 2019, FMO issued its inaugural green bond, a 5-year fixed rate USD500mln transaction, having previously pioneered the Sustainability Bond market with three EUR-denominated, and one SEK-denominated, sustainability bond issuances. The transaction was characterized by high quality and diverse orderbook supported by strong demand from green motivated investors. Bank treasuries took 51% of allocations, followed by central banks and official institutions (31%), asset managers (15%), insurance and pension funds (2%) and private banks (1%). The proceeds will be mainly allocated to Renewable and Energy Efficiency projects contracted in 2018. Additionally, over the course of 2018, FMO has increased financing through local currency-linked notes compared to previous years, which also supports FMO in its development mandate.

Regarding liquidity risk indicators, in 2018, FMO has incorporated in the LCR model all the latest regulatory updates, including the guidelines provided by DNB on article 23 of the LCR Delegated Act.

Liquidity position

Throughout the course of 2018 FMO's liquidity position has been comfortably within the corresponding appetite levels regarding both internal and regulatory metrics.

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

IFRS 9 December 31, 2018	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
Assets						
Banks	54,642	-	-	-	-	54,642
Short-term deposits						
-of which: Amortized cost	325,091	-	-	-	66,544	391,635
-of which: Fair value through profit or loss	528,153	231,340	-	-	-	759,493
Interest-bearing securities	19,544	35,695	211,528	135,500	-	402,267
Derivative financial instruments	27,722	21,488	133,611	31,016	-	213,837
Loans to the private sector						
-of which: Amortized cost	219,497	498,966	2,312,089	1,105,188	-	4,135,740
-of which: Fair value through profit or loss	29,374	34,302	350,922	267,479	-	682,077
Equity investments						
-of which: Fair value through OCI	-	-	-	-	77,553	77,553
-of which: Fair value through profit or loss	-	-	-	-	1,504,427	1,504,427
Investments in associates	-	-	-	-	215,539	215,539
Property, plant and equipment	-	-	-	-	15,182	15,182
Current tax receivables	24,448	-	-	-	-	24,448
Deferred income tax assets	-	-	-	-	8,357	8,357
Current accounts with State funds and other programs	-	-	-	-	494	494
Other receivables	20,597	-	-	-	-	20,597
Total assets	**1,249,068**	**821,791**	**3,008,150**	**1,539,183**	**1,888,096**	**8,506,288**
Liabilities and shareholders' equity						
Short-term credits	-	-	-	-	76,051	76,051
Derivative financial instruments	31,158	19,550	64,779	77,801	-	193,288
Debentures and notes	30,748	1,123,126	3,343,957	640,405	-	5,138,236
Current accounts with State funds and other programs	4,173	-	-	-	-	4,173
Wage tax liabilities	262	-	-	-	-	262
Deferred income tax liabilities	-	-	-	-	2,801	2,801
Other liabilities	1,331	-	-	-	-	1,331
Accrued liabilities	10,086	-	-	-	-	10,086
Provisions	-	-	-	-	54,547	54,547
Shareholders' equity	-	-	-	-	2,983,808	2,983,808
Total liabilities and shareholders' equity	**77,758**	**1,142,676**	**3,408,736**	**718,206**	**3,117,207**	**8,464,583**
Liquidity gap 2018	**1,171,310**	**-320,885**	**-400,586**	**820,977**	**-1,229,111**	**41,705**

Categorization of principal cash flows per maturity bucket

IAS 39 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	-	-	-	-	-	1,544,969
Interest-bearing securities	1,989	19,000	228,717	110,500	-	360,206
Derivative financial instruments	29,659	11,818	128,993	74,762	-	245,232
Loans to the private sector						
-of which: Amortized cost	220,578	504,924	2,137,821	952,223	-	3,815,546
Equity investments						
-of which: Available for sale	-	-	-	-	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 tax receivables	-	-	-	-	7,458	7,458
Current accounts with State funds and other programs	-	-	-	-	274	274
Other receivables	117,217	-	-	-	-	117,217
Total assets	**441,206**	**535,742**	**2,495,531**	**1,137,485**	**1,741,500**	**7,896,433**
Liabilities and shareholders' equity						
Banks	-	-	-	-	-	-
Short-term credits	-	-	-	-	125,935	125,935
Derivative financial instruments	25,727	67,519	18,684	33,999	-	145,929
Debentures and notes	472,135	558,734	2,900,788	1,197,980	-	5,129,637
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	2,143	-	-	-	-	2,143
Accrued liabilities	8,586	-	-	-	-	8,586
Provisions	-	-	-	-	49,484	49,484
Shareholders' equity	-	-	-	-	2,829,953	2,829,953
Total liabilities and shareholders' equity	**508,890**	**626,253**	**2,919,472**	**1,231,979**	**3,015,054**	**8,301,648**
Liquidity gap 2017	**-67,684**	**-90,511**	**-423,941**	**-94,494**	**-1,273,554**	**-405,215**

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

December 31, 2018	< 3 months	3-12 months	1-5 years	>5 years	Total
Contingent liabilities	-	10,161	45,044	19,861	75,066
Irrevocable facilities	81,988	669,092	674,525	383,584	1,809,189
Total off-balance[1)]	**81,988**	**679,253**	**719,569**	**403,445**	**1,884,255**

December 31, 2017	< 3 months	3-12 months	1-5 years	>5 years	Total
Contingent liabilities	-	4,548	40,992	22,589	68,129
Irrevocable facilities	67,841	442,927	724,143	550,248	1,785,159
Total off-balance[1]	**67,841**	**447,475**	**765,135**	**572,837**	**1,853,288**

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

FMO complies with DNB's Pillar 2 liquidity requirements methodology for Less Significant Institutions (LSIs) which have been applied from the supervisory review and evaluation process (SREP). 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% and, until 2018, a specific Liquidity Coverage Ratio (LCR) requirement of 125% (100% since 2019). FMO's internal liquidity appetite levels include a safety cushion over and above these minimum requirements as described in the section above. Following the risk appetite, FMO's liquidity position has been well above regulatory requirements and internal appetite levels throughout 2018. Per reporting date, FMO has a survival period of 9 months (2017: over 12 months), an LCR of 965% (2017: 542%) and a NSFR of 112% (2017: 128%).

FMO's major liquidity exposures are in EUR and USD currencies. However, some transactions are denominated – and may be settled - in local currencies. These exposures are specifically hedged using financial instruments to minimize liquidity and settlement risks.

Funding and sustainability bonds

Treasury aims to ensure good market access by diversifying FMO's funding sources. The result of this is a balanced funding mix in terms of geography, instrument and maturity.

Eurodollar (i.e. USD investors outside the United States) constitute key markets for FMO. Treasury has identified USD and EUR as strategic funding markets. Other markets to attract funding include Australia, Sweden and local frontier currencies. Typical investors in FMO paper, either through public or private issues, are hold to maturity investors. A final important factor to note about FMO funding, except for our Tier II issuance, is that it is plain vanilla; it is all senior unsecured funding. The liquidity profile of our funding notes is therefore very straightforward.

Sustainability bonds are also an important part of FMO's funding strategy, that accounts for a 24% of the total capital market issuances as of December 2018. In January 2018, FMO has increased the outstanding SEK Sustainability Bond maturing by 29-Nov-23 with SEK 1.0 billion (USD 125 million) to SEK 2.7 billion. Moreover, the inaugural EUR 500 million Sustainability Bond launched in November 2013 matured this year. Finally, as per December 2018, FMO's Sustainability Bonds Framework has been updated as described in the developments section.

MARKET RISK

Market Risk is the risk that the value and/or the earnings of the bank decline because of unfavorable market movements. At FMO, it encompasses interest rate risk and currency risk.

INTEREST RATE RISK IN THE BANKING BOOK

Definition

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

Risk appetite and governance

FMO has no trading book and all assets (loans and investments) are part of the banking book. FMO's policy is to match assets and liabilities within set boundaries. As the loan portfolio is more granular, loans are pre-funded and new funding is obtained periodically and matched to the asset portfolio in terms of expected maturity and interest rate sensitivity. Interest rate risk arises from the residual tenor mismatch, mismatch in fixed rate assets funded by floating rate liabilities, and differences in reference rates or currencies resulting in basis risk. FMO has little optionality in its portfolio and has no material exposure to rates-driven prepayment risk. The volatility of the market value of assets and liabilities over the holding period due to interest rate movements is of lesser concern as these are held until maturity.

Interest rate risk management falls under the responsibility of the ALCO. The day-to-day management of interest rate risk, particularly quantification and monitoring, is delegated to Risk Management. Treasury department acts as the first line of defense and is responsible for daily transacting activities. Interest rate risk is monitored using earnings-based metrics and value-based metrics.

Earnings-based methods capture short-term effects of interest rate re-fixing or re-pricing that may impact net interest incomes. The metrics below are used for this purpose.

- The interest rate gap provides a static overview of the full balance sheet's repricing and refinancing characteristics. The gap is monitored over different time buckets where limits are in place both per bucket and on cumulative level, for all currencies (aggregate and currency-by-currency).
- Earnings-at-Risk (EaR) provides a dynamic projection of net interest income sensitivity to yield curve shocks. FMO monitors EaR on a 2-year forward looking basis and applies different scenarios simultaneously that allow for identification of basis risk as well.

Economic value methods capture changes in net present values of assets, liabilities and off-balance sheet items to changes in yield curves. Value-based metrics measure long-term effects of interest rate changes over the full tenor of the balance sheet. The following economic value metrics are calculated:

- Basis Point Value (BPV) provides the change in market value of assets, liabilities and interest-rate risk sensitive off-balance items for a one basis point change in yield curves. Limits are in place for the whole balance sheet, and for main currencies (EUR and USD) separately.
- Equity Value at Risk (EVaR) provides changes in the economic value of the shareholder's equity given certain shifts in yield curves. The impacts of both a 200 basis-points parallel shift and a 200 basis-points gradual shift are reported.

The interest rate gap and BPV exposure are monitored on weekly basis against limits set by the ALCO. Limits are defined dynamically to accommodate a 200 basis-points shock within 5% of shareholder's equity. The EVaR limit is defined in the Risk Appetite Framework and set at 5% of shareholder's equity. The EaR is used for monitoring purposes only and thresholds are defined based on 5% of projected net interest income.

Developments
In 2018 FMO introduced limits to the interest rate gap to better manage repricing and refinancing risk. The limits are set both per time bucket and on cumulative levels.

Also, in 2018, FMO has incorporated in its models for calculating interest rate risk metrics all the required changes as specified in the Guidelines on the management arising from non-trading book activities published on July 19th 2018 by the European Banking Authority (EBA).

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

Interest re-pricing characteristics

IFRS 9 December 31, 2018	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
Assets						
Banks	54,642	-	-	-	-	54,642
Short-term deposits						
-of which: Amortized cost	391,635	-	-	-	-	391,635
-of which: Fair value through profit or loss	756,216	-	-	-	-	756,216
Interest-bearing securities	17,460	35,695	211,528	135,500	2,197	402,380
Derivative financial instruments[1]	-615,701	-1,431,140	1,725,010	545,591	24,063	247,823
Loans to the private sector						
-of which: Amortized cost	1,653,597	1,325,039	684,131	363,217	59,038	4,085,022
-of which: Fair value through profit or loss	272,739	218,547	112,838	59,908	21,767	685,799
Equity investments						
-of which: Fair value through OCI	-	-	-	-	77,553	77,553
-of which: Fair value through profit or loss	-	-	-	-	1,504,427	1,504,427
Investment in associates	-	-	-	-	215,539	215,539
Property, plant and equipment	-	-	-	-	15,182	15,182
Deferred income tax assets	-	-	-	-	8,357	8,357
Current tax receivables	-	-	-	-	24,448	24,448
Current accounts with State funds and other programs	-	-	-	-	494	494
Other receivables	-	-	-	-	20,597	20,597
Total assets	**2,530,588**	**148,141**	**2,733,507**	**1,104,216**	**1,973,662**	**8,490,114**
Liabilities and shareholders' equity						
Short-term credits	76,051	-	-	-	-	76,051
Derivative financial instruments[1]	255,039	243,092	-313,859	2,732	30,170	217,174
Debentures and notes	1,940,285	245,975	2,286,840	640,572	26,209	5,139,881
Current accounts with State funds and other programs	-	-	-	-	4,173	4,173
Wage tax liabilities	-	-	-	-	262	262
Deferred income tax liabilities	-	-	-	-	2,801	2,801
Other liabilities	-	-	-	-	1,331	1,331
Accrued liabilities	-	-	-	-	10,086	10,086
Provisions	-	-	-	-	54,547	54,547
Shareholders' equity	-	-	-	-	2,983,808	2,983,808
Total liabilities and shareholders' equity	**2,271,375**	**489,067**	**1,972,981**	**643,304**	**3,113,387**	**8,490,114**
Interest sensitivity gap 2018	**259,213**	**-340,926**	**760,526**	**460,912**	**-1,139,725**	

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

IAS 39 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	1,544,089	-	-	-	-	1,544,089
Interest-bearing securities	12,481	19,125	219,418	111,892	1,989	364,905
Derivative financial instruments[1]	-261,685	386,815	60,672	73,600	23,105	282,507
Loans to the private sector						
-of which: Amortized cost	1,858,749	1,146,116	472,023	662,493	61,567	4,200,948
Equity investments						
-of which: Available for sale	-	-	-	-	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 tax receivables	-	-	-	-	7,458	7,458
Current accounts with State funds and other programs	-	-	-	-	274	274
Other receivables	-	-	-	-	117,217	117,217
Total assets	**3,225,397**	**1,552,056**	**752,113**	**847,985**	**1,945,378**	**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	26,277	173,701
Debentures and notes	1,806,668	575,511	1,526,742	1,192,367	21,858	5,123,146
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	-	-	-	-	2,143	2,143
Accrued liabilities	-	-	-	-	8,586	8,586
Provisions	-	-	-	-	49,484	49,484
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	**1,464,068**	**689,525**	**-803,452**	**-347,237**	**-1,002,904**	

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

CURRENCY RISK

Definition

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 also reviews currency risk in terms of impact on the capital ratios.

Risk appetite and governance

FMO offers loans and attracts funding in a wide range of currencies. This is done to provide financing in the currency best fitting FMO's clients and to reduce currency risks on their side. To ensure proper diversification, FMO attracts funding in different currencies, both on-shore and off-shore, including emerging market and frontier market currencies which contribute to FMO's goal to develop local currency markets.

FMO has limited appetite for currency risk. Exposures are hedged through matching currency characteristics of assets with liabilities, or through derivative transactions such as cross-currency swaps and FX forwards conducted with either commercial parties or with The Currency Exchange Fund (TCX Fund N.V.). Most currency exposures are hedged to US dollars on a micro-hedge basis, whereby the US dollar position is managed on a portfolio basis accordingly. FMO does not take any active positions in any currency for purpose of making a profit. Each individual currency is managed within a strict position limit and an overall appetite level is set at 1% of shareholder's equity for the total open position across all currencies. Both the individual and overall open positions are monitored by Risk Management on a daily basis. Additionally, FMO maintains a deliberately unhedged foreign currency position for the purpose of structural hedge which is reported by Risk Management to the ALCO monthly. Please refer to structural hedge sub-section for further details.

Developments
No material developments materialized in 2018.

Exposures
The table below illustrates that the currency risk sensitivity gap per December 2018 is almost completely part of FMO's equity investments and investments in associates.

Currency risk exposure (at carrying values)

IFRS 9 December 31, 2018	EUR	USD	SEK	INR	Other	Total
Assets						
Banks	32,980	15,384	2	4,232	2,044	54,642
Short-term deposits						
-of which: Amortized cost	391,661	-26	-	-	-	391,635
-of which: Fair value through profit or loss	-	756,216	-	-	-	756,216
Interest-bearing securities	275,165	127,215	-	-	-	402,380
Derivative financial instruments[1]	1,436,244	-1,279,012	323,390	-135,486	-97,313	247,823
Loans to the private sector						
-of which: Amortized cost	447,947	3,090,290	-	183,630	363,155	4,085,022
-of which: Fair value through profit or loss	109,512	514,093	-	60,041	2,153	685,799
Equity investments						
-of which: Fair value through OCI	10,551	67,002	-	-	-	77,553
-of which: Fair value through profit or loss	285,137	1,062,602	-	25,170	131,518	1,504,427
Investments in associates	1,529	214,010	-	-	-	215,539
Property, plant and equipment	15,182	-	-	-	-	15,182
Deferred income tax assets	8,357	-	-	-	-	8,357
Current tax receivables	24,448	-	-	-	-	24,448
Current accounts with State funds and other programs	494	-	-	-	-	494
Other receivables	8,792	11,425	-	2	378	20,597
Total assets	**3,047,999**	**4,579,199**	**323,392**	**137,589**	**401,935**	**8,490,114**
Liabilities and shareholders' equity						
Short-term credits	71,373	4,678	-	-	-	76,051
Derivative financial instruments[1]	-417,605	1,251,058	-113,765	127,429	-629,943	217,174
Debentures and notes	1,802,944	1,983,374	433,563	-	920,000	5,139,881
Current accounts with State funds and other programs	4,173	-	-	-	-	4,173
Wage tax liabilities	407	-	-	-	-145	262
Deferred income tax liabilities	2,801	-	-	-	-	2,801
Other liabilities	253	1,034	-	-	44	1,331
Accrued liabilities	19,148	-7,865	-	191	-1,388	10,086
Provisions	47,853	5,488	-	5	1,201	54,547
Shareholders' equity	2,983,808	-	-	-	-	2,983,808
Total liabilities and shareholders' equity	**4,515,155**	**3,237,767**	**319,798**	**127,625**	**289,769**	**8,490,114**
Currency gap 2018		**1,341,432**	**3,594**	**9,964**	**112,166**	
Currency gap 2018 excluding equity investments and investments in associates		**-2,182**	**3,594**	**-15,206**	**-19,352**	

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

IAS 39 December 31, 2017	EUR	USD	ZAR	INR	Other	Total
Assets						
Banks	35,534	26,691	910	8,223	405	71,763
Short-term deposits	763,092	780,997	-	-	-	1,544,089
Interest-bearing securities	244,574	120,331	-	-	-	364,905
Derivative financial instruments[1]	1,444,317	-1,330,343	26,806	-77,643	219,370	282,507
Loans to the private sector						
-of which: Amortized cost	527,208	3,227,176	54,930	178,364	213,270	4,200,948
Equity investments						
-of which: Available for sale	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 tax receivables	7,458	-	-	-	-	7,458
Current accounts with State funds and other programs	274	-	-	-	-	274
Other receivables	9,393	107,648	98	3	75	117,217
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 instruments[1]	-652,654	1,079,513	13,133	114,031	-380,322	173,701
Debentures and notes	2,340,752	1,898,602	74,173	-	809,619	5,123,146
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	38,872	-59,463	-369	-	23,103	2,143
Accrued liabilities	14,802	-5,068	-393	156	-911	8,586
Provisions	49,484	-	-	-	-	49,484
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 gap 2017		**1,263,402**	**48,484**	**34,097**	**52,128**	
Currency 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.

As described above, FMO's loan assets in local currencies, such as Indian Rupee (INR), are fully swapped to US dollar on a cash flow basis. The 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

	December 31, 2018		December 31, 2017	
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%	127,333	6,700	1,688	126,340
USD value decrease of 10%	-127,333	-6,700	-1,688	-126,340
SEK value increase of 10%	359	-	-	-
SEK value decrease of 10%	-359	-	-	-
INR value increase of 10%	996	-	-524	3,410
INR value decrease of 10%	-996	-	524	-3,410
ZAR value increase of 10%	-	-	-364	4,849
ZAR value decrease of 10%	-	-	364	-4,849

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.

Structural Hedge

FMO maintains a deliberately unhedged foreign currency position for purpose of managing the volatility of the capital ratio (structural hedge). These foreign currency positions stem from the private equity investments, and act as a 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 the risk weighted assets - are mainly denominated in foreign currencies. The long open position in the equity portfolio thereby functions as a partial hedge for FMO's regulatory capital ratios. In addition, the uncertainty in the size and the timing of the cash flows for equity investments makes micro-hedging less effective, hence these positions are better fit for use as a capital ratio hedge. With respect to equity investments, the expected returns in local currencies are assessed in terms of their sufficiency to compensate for the currency risk.

Article 352(2) of the CRR allows DNB to authorize, on an ad-hoc basis, the exclusion of FX positions taken deliberately by firms to hedge against the adverse effect of exchange rates on capital ratios where those positions are of a non-trading or structural nature (i.e. the waiver), where properly substantiated and justified. As of 2018, FMO does not have a waiver for its structural hedge positions under Article 352(2) of the CRR.

NON-FINANCIAL RISK

ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS

Definition

Environmental, Social and Governance (ESG) risk is the potential adverse impact of the investments FMO makes to people and the environment. Such risks will also negatively impact the sustainable development of FMO's investees, which can lead to financial losses and/or reputational damage for FMO.

Risk appetite and governance

FMO has an appetite for ESG risks that can be managed and mitigated over time. FMO's clients operate in difficult markets, in countries where regulations on ESG are less institutionalized. However, FMO actively works with clients to achieve improvements over time.

As part of the investment process, FMO screens all transactions on ESG risk and categorizes them as low, medium, medium-high or high ESG risk. All medium-high and high ESG risk transactions undergo a thorough ESG assessment to identify ESG impact and risks and to assess the quality of existing risk management and mitigation measures. Due diligence also includes an analysis of contextual and human rights risk. Where ESG risk management shows gaps FMO works with clients to develop and implement an Action Plan to avoid adverse ESG impacts and/or to improve ESG risk management over time. Key ESG risk items are tracked during the tenor of engagement. FMO's ESG risk management support to clients is an important part of development impact ambitions.

In addition, for high-risk clients, FMO monitors client performance on key ESG risk themes (against the IFC Performance Standards) using the ESG Performance Tracker (ESG-PT). For each high ESG risk client the ESG-PT keeps track of key ESG risks and client performance level, enabling FMO to have a portfolio-wide view of its ESG risks. This indicates the resources required for ESG risk management; performance is judged on distance travelled.

Developments

The ESG-PT is a new system launched on 1 January 2018, alongside a new ESG performance target.

COMPLIANCE RISK

Definition

Compliance Risk is the risk of failure to comply with laws, regulations, rules, related self-regulatory organization, standards and codes of conduct applicable to FMO's services and activities.

Risk appetite & governance

FMO's standards and policies and good business practices foster acting with integrity. FMO is committed to its employees, clients and counterparties, adhering to the high ethical standards. FMO has a Compliance framework which entails identifying risks, designing policies, monitoring, training and providing advices. FMO has policies on topics such as know your customer (KYC) & sanctions, anti-bribery and corruption, conflicts of interest, internal fraud, private investments, privacy and speak-up. FMO also regularly trains its employees in order to raise awareness by means of e.g. face-to-face trainings and mandatory compliance related e-learnings. Employees are also encouraged to speak up in case of suspected integrity violations conducted by an FMO employee. Management is periodically informed via the Compliance Committee or when required on an ad-hoc basis, on integrity related matters at client or employee level. In case of violations, management will take appropriate actions. The governance of compliance also entails the following key risks:

KYC & sanctions

FMO's KYC procedure screens clients on compliance with applicable anti-money laundering, terrorist financing and international sanctions laws and regulations. Due diligence is performed on clients, which includes checks such as verifying the ultimate beneficial owners of the client we finance, identifying politically exposed persons, and screening against mandatory international sanction lists. These checks are also performed regularly during the relationship with existing clients. In 2018, timely conducting of periodic KYC reviews was a specific area of focus for FMO. As a result, we managed to timely complete the periodic reviews that were due in 2018. In 2018 we implemented new requirements based on the European Fourth Anti-Money Laundering Directive. In August 2018, DNB conducted an on-site inspection on the systemic integrity risk analysis (SIRA) and KYC procedure. FMO has started the necessary enhancements of the KYC procedures and increasing the effectiveness of controls based on DNB findings. During 2019, FMO will continue to strengthen its KYC procedure. Follow up is closely monitored by the Management Board and the Compliance Committee.

It cannot always be prevented that a client is involved or alleged to be involved in illicit acts (e.g. corruption). If such an event occurs, FMO will initiate a dialogue with the client to understand the background in order to be able to assess the severity. When FMO is of the opinion that no improvement by the client will be achieved (e.g. awareness, implementing controls) or the risk to FMO's reputation is unacceptably high, FMO can invoke legal clauses in the contract to terminate the client relationship.

General Data Protection Act (GDPR)

As from 2016 FMO is implementing improved policies, procedures and controls in order to adhere to the GDPR Regulation. In 2017 a GDPR project started addressing data protection of personal data processed of employees, clients and other stakeholders.

Corruption

Corruption is a global problem, requiring a global response. FMO is guided by the OECD Convention on Combating Bribery and the UN Convention against Corruption, and is dedicated to fight corruption and bribery not only to adhere to the law, but also because such acts undermine sustainable development and the achievement of higher levels of economic and social welfare. Good governance, fair business practices and public trust in the private sector is necessary to unlock the full potential of an economy and its citizens. Corruption can be best prevented collaborative and FMO actively supports the Transparency International's Netherlands branch and the International Chamber of Commerce in order to share best practices and stimulate the dialogue between Dutch corporates on best practices in doing international business.

Developments

In 2018, no significant integrity incidents related to FMO employees have been reported and there were no incidents at existing clients outside FMO's risk appetite.

Implementation of ICT solutions to facilitate adherence to the GDPR was prioritized in 2018 and the GDPR project was completed in accordance with the set internal timelines. No data leaks which required reporting to the data protection authority occurred over the course of the year.

OPERATIONAL RISK

Definition

FMO defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Risk appetite and governance

Operational risks are not actively sought and have no direct material upside in terms of return/income generation, yet operational incidents are inherent in operating a business. Operational incidents can result in non-compliance with applicable (internal and external) standards, financial losses or misstatements in the financial reports, and reputational damage. 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 operational incidents (P&L impact) and misstatements in financial reporting (P&L impact).

FMO has an operational risk framework in place that supports and governs the process of identifying, measuring, monitoring, reporting and mitigating operational risks, and that aims for keeping the risks within the operational risk appetite. Operational risks are managed and monitored in accordance with the 'three lines of defence' governance principle. Management of the first line of defence is primarily responsible for managing (embedded)risks 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, the second line of defence. Internal Audit in its role of the third line of defence provides independent assurance on the effectiveness of the first and second lines.

Operational risk control self-assessments are conducted annually in order to identify inherent operational risks, controls, and residual operational risks. The strategy and business/strategic objectives are also reviewed annually by the Directors in a risk perspective. Based on these Risk and Control Self Assessments, the Directors sign an internal In Control Statement at the year-end, which sets the foundation for the management declaration in the Annual Report. Despite all preventive measures, operational risk events / incidents cannot always be eliminated. FMO, however, systematically collects incident information and analyses such events in order to take appropriate actions. Furthermore, operational risks resulting from new products or activities are assessed in FMO's Product Approval and Review Process. No incidents outside FMO's risk appetite have been reported.

(Information) Security
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.

Developments
FMO's Management Board supports the ambition to further develop the maturity of the second line oversight function. In 2018, FMO has improved the operational risk framework by, among others, installing an Operational Risk Committee and designing an operational risk policy. FMO's information security policy has also been updated and relevant process and ICT controls are further enhanced. Operational risk and information security awareness trainings were rolled out in order to raise operational risk and information security awareness in the three lines of defence. It was also assessed how operational risk, including information security, framework can be further improved. This resulted in selecting a Governance Risk and Compliance ('GRC') tool to support monitoring and testing key operational risk controls. This will be implemented in 2019.

OTHER RISKS

LEGAL RISK

Definition
Legal risk is defined as the risk that a (term in a) contract entered into by FMO (or an FMO partner) with a client, or a rule or statute in a relevant jurisdiction, relevant for the full implementation of such term or contract, is interpreted, by a court of law, arbiter or otherwise, in such a way as to adversely affect FMO's position, for instance because a contract is not (fully) enforceable in accordance with its terms, or the structure of the transaction is deemed invalid or illegal.

Risk appetite and governance
Given the specific nature of legal risks that can occur, no risk appetite metrics are assigned to this risk type. Instead, the most relevant developments on this risk type are included in the risk appetite report on a quarterly basis. FMO has a Legal department responsible for the review of FMO's legal contracts and for mitigating legal risks arising from FMO's businesses and operations. The members of the team are qualified in a variety of jurisdictions and competent to provide expert and professional advices for a wide range of legal aspects. An internal library of legal templates has been developed and maintained by the team with the aim to benchmark and standardize the conditions and provisions as much as possible. Where applicable, the Legal department also seeks external expertise, particularly for legal analyses in emerging market jurisdictions in which FMO operates or in the event of complex transactions and cases. Furthermore, FMO's legal experts are also members of several cross-department committees for promptly addressing potential legal risks at pre-contracting phase and for sharing their knowledge in different FMO's projects.

Developments
Brexit. On 29 March 2017, the United Kingdom notified the European Council of its intention to withdraw from the European Union. A hard Brexit (i.e. one without an agreement between the United Kingdom and the EU 27) could expose FMO to several legal risks. First, FMO is clearing trades through a UK based bank. If this were not to be recognised under EU regulation (EMIR) upon Brexit, this would affect the ability of FMO to continue to clear trades through the same counterparty. The European Commission notified that EU banks and companies may continue using UK-based clearing houses to process derivatives trades if Brexit negotiations fail. The exemption would be strictly short-term.

Second, fund managers operating out of the UK into the EU ("passporting" its UK licence under UCITS and AIFMD) would lose their passporting rights. This risk may be mitigated by the fact that many of FMO's fund managers are not using this passport (located in other jurisdictions), and for those that do, it is in their own interest to address this issue. Please note that a hard Brexit is not expected to materially impact the enforceability of the choice of English law, or the choice of an English court or arbitration, as is the case in many of our outstanding transactions.

LIBOR / new benchmark regulation. The London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR) and other interest rates or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reforms. The manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. In June 2016, the European Union adopted a Regulation (the "Benchmark Regulation") on indices (such as LIBOR and EURIBOR) used in the European Union as benchmarks in financial contracts. The Benchmark Regulation, which became effective as of 1 January 2018, provides that a supervised entity which uses a benchmark is required to have in place a "robust written" contingency plan to cover the eventuality of the benchmark no longer being available or being subject to material change. The potential elimination of the LIBOR benchmark raises various concerns, such as the risk of LIBOR becoming unrepresentative before appropriate fallback clauses are in place for existing and future financial contracts that are based on LIBOR, and the compliance with the replacement benchmark rates.

FMO has established separate working groups of legal experts and other specialists to closely monitor market developments and promptly address the abovementioned risks. A detailed action plan has been proposed by the groups and reviewed by the ALCO to cope with potential legal implications of the Brexit. External specialists' assistance has also been sought for required mitigations.

REGULATORY RISK

Definition

FMO defines two types of regulatory risks within the financial and prudential ("banking") regulation domain. Regulatory compliance risk is defined as the risk that FMO does not operate in accordance with applicable regulations, and future regulation risk is the risk that a change in regulations will impact the viability of the business strategy of FMO.

Risk appetite and governance

FMO is subject to detailed banking laws and government regulation in the Netherlands. DNB has broad administrative power over many aspects of the banking business, including liquidity, capital adequacy, permitted investments, ethical issues and anti-money laundering. FMO is subject to indirect supervision by the European Central Bank ("ECB") under the system of supervision, which comprises the ECB and the national competent authorities of participating EU Member States, the Single Supervisory Mechanism ("SSM"). The SSM is one of the elements of the Banking Union. The ECB may give instructions to DNB in respect of FMO or even assume direct supervision over the prudential aspects of FMO's business.

Changes in banking regulation may adversely affect FMO's operations or profitability, and it is difficult to predict the timing or form of any future regulatory or enforcement initiatives in respect thereof. FMO has in place the Financial Regulation Committee (FRC) to ensure that FMO adheres to existing financial and prudential regulation and assesses the impact thereof on FMO's business strategy.

Developments

The latest developments in (future) banking regulations are described insofar as these are not yet covered in the previous sections of the Risk Management chapter.

On 23 November 2016, the European Commission announced a further package of reforms to the CRR, CRD IV, the BRRD and the SRM Regulation (the "EU Banking Reforms"), including measures to increase the resilience of EU institutions and enhance financial stability. The most important element for FMO is the requirement to apply a look through for equity investments in funds. In short, investments in Collective Investment Undertakings (CIUs, or Funds) are no longer automatically labelled as 'high risk' with a 150% risk weight. Instead, risk weights will be determined using the look-through approach (LTA) or mandate-based approach (MBA) which requires an institution to look at the funds underlying investments and calculate the risk weights based on funds actual investments and leverage. There are several criteria which must be fulfilled to be able to use the LTA and MBA. These include (amongst others) the eligibility of a fund to apply the look through, sufficiently granular reporting and independent data verification. Under the CRR-2 proposals, an important part of FMO's equity investments in funds would not fulfil one of the eligibility criteria to apply the look-through approach (LTA) or mandate-based approach (MBA) as these funds are neither marketed in the European Union, nor managed by managers subject to the AIFM Directive. Consequently, these funds would become subject to a 1,250% risk weight under the fall-back approach. In the final stage of the Trilogue, a process to reach an agreement on the final texts for the EU Banking reforms, multi- & bilateral development banks were added to apply a look-through approach provided that the CIU's investment mandate limits the types of assets that the CIU can invest in to assets that promote sustainable development in developing countries. The EU Banking Reforms are still subject to debate and approval at the EU Level as well as implementation and entry into force in the Member States. Until the EU Banking Reforms are in final form, it is uncertain how the proposals will ultimately affect FMO.

On 7 December 2017, the Basel Committee on Banking Supervision (BCBS) published the finalization of the Basel III reforms (bcbs 424). An important element for FMO is a change in the treatment of private equity exposures under the new standardized approach for credit risk. FMO's private equity exposures would no longer be treated as investments with a particular high risk and receive a 150% risk weight accordingly. Instead, three separate categories have been included: speculative equity (400% risk weight), equity holdings under national legislated programs (100% risk weight), and all other equity exposures (250% risk weight). All three categories could apply to FMO's equity investments and 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 with a five-year phase-in period for the higher risk weights for private equity exposures. 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.

On 8 March 2018, the European Commission launched a set of proposals on sustainable finance as it looks to encourage green investments and mitigate the risks to investors posed by climate change. The Action Plan on Financing Sustainable Growth stipulates that urgent action is required to reach the EU 2030 targets part of the Paris Agreement on climate change, and indicates that the support of the financial sector is required. The measures include a unified EU classification system ("taxonomy"), regulations on how financial markets participants should integrate Environmental, Social and Governance (ESG) factors in their decision-making, and a new market standard on sustainability disclosures.

On 31 October 2018, the EBA finalized its Guidelines on Management of Non-Performing and Forborne Exposures to take effect 30 June 2019. The Guideline requires all institutions with an NPE (non-performing exposure) ratio over 5.0% to draft an NPE Strategy and submit the document to the supervisor. The strategy should include an evaluation of the drivers of NPEs in the portfolio, available capabilities and governance structure, and an operational plan to reduce NPE levels. The guideline also provides a standardized NPE, to align with the definition used in the FINREP. As of Q2 2018, FMO has been fully aligned with the NPE definition provided by the Guideline. As FMO is above the threshold at the end of 2018, FMO will be required to submit an NPE Strategy to DNB before 30 June 2019.

On 18 December 2018, a political agreement was reached on an amendment to the Capital Requirements Regulation (CRR) which will implement the "prudential backstop" for non-performing exposures. The backstop will require, among other requirements, that all unsecured non-performing exposures more than 3 years vintage to be fully covered. If the impairment allowance does not fully cover the exposure, the difference must be covered with an own funds reduction from CET1 capital. The backstop will only apply to loans originating after 2018, therefore the potential impact will only be realized in 2022 at the earliest. The impact on FMO is expected to be limited and will depend on the size of FMO's future non-performing exposures over 3 years vintage.

On 14 January 2019, the BCBS published the final standard on the capital requirements for market risk (bcbs 457). 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. The capital requirements for foreign exchange position will increase with a multiplication factor of 1.2 under the simplified alternative approach. In case a sensitivity-based approach needs to be implemented the capital requirements will depend on the type of currency and the correlation between the currencies. The standard will come into effect in January 2022. FMO is closely monitoring the process of translating the standard into European legislation and incorporates the latest available information in terms of capital planning.

On 17 January 2019, the EBA published its final guideline specifying which types of exposures are to be associated with particularly high risk and under which circumstances. The guideline requires that, institutions that apply the standardized approach for credit risk should label exposures with a particular high risk in case these exposures show structural differences that are not reflected in the existing flat risk weights. For FMO, this could imply that also other exposures than private equity will receive a higher risk weight per reporting date September 2019.

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.

COMPANY BALANCE SHEET

As at 31 December 2018

(before profit appropriation)	Notes	Page number	IFRS 9 2018[1]	IAS 39 2017[1]
Assets				
Banks	(A)	167	35,811	53,775
Short-term deposits	(2)	96		
-of which: Amortized cost			391,635	-
-of which: Fair value through profit or loss			756,216	1,544,089
Interest-bearing securities	(3)	96		
-of which: Available for sale			-	364,905
-of which: Amortized cost			402,380	-
Derivative financial instruments	(4)	97	247,823	282,507
Loans to the private sector	(5), (8)	99, 102		
-of which: Amortized cost			4,085,022	4,200,948
-of which: Fair value through profit or loss			685,799	-
Equity investments	(B)	167		
-of which: Available for sale			-	1,485,286
-of which: Fair value through OCI			77,553	-
-of which: Fair value through profit or loss			1,487,917	-
Investments in associates	(7)	101	215,539	207,482
Subsidiaries	(C)	167	37,457	35,088
Property, plant and equipment	(9)	104	15,182	12,866
Current tax receivables	(28)	113	24,448	7,458
Deferred income tax assets	(28)	113	8,357	10,587
Current accounts with State funds and other programs	(10)	104	494	274
Other receivables	(D)	168	27,428	112,007
Total assets			**8,499,061**	**8,317,272**
Liabilities				
Short-term credits	(12)	105	76,051	125,935
Derivative financial instruments	(4)	97	217,174	173,701
Debentures and notes	(13)	105	5,139,881	5,123,146
Current accounts with State funds and other programs	(14)	106	4,173	182
Wage tax liabilities			262	117
Deferred income tax liabilities	(28)	113	2,801	9,682
Other liabilities	(15)	106	10,462	3,502
Accrued liabilities	(16)	106	10,063	8,641
Provisions	(17)	106	54,547	49,484
Total liabilities			**5,515,414**	**5,494,390**
Shareholders' equity				
Share capital			9,076	9,076
Share premium reserve			29,272	29,272
Contractual reserve			2,261,694	1,726,404
Development fund			657,981	657,981
Available for sale reserve			-	390,671
Fair value reserve			17,773	-
Actuarial result pensions			-21,123	-21,369
Translation reserve			-6,758	-16,696
Other reserves			32,162	41,987
Undistributed profit			3,570	5,556
Total shareholders' equity	**(E)**	**168**	**2,983,647**	**2,822,882**
Total liabilities and shareholders' equity			**8,499,061**	**8,317,272**
Contingent liabilities	(29)	115	75,066	68,129
Irrevocable facilities	(29)	115	1,789,994	1,766,501

1 In 2018 the accrued income is not presented separately but included as part of the carrying value of the relevant financial asset.

COMPANY PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2018

(before profit appropriation)	Notes	Page number	IFRS9 2018	IAS 39 2017
Income				
Interest income from financial instruments measured at AC[1]			286,884	294,040
Interest income from financial instruments measured at FVPL[1,2]			37,996	-9,416
Interest expenses from financial instruments measured at AC[1]			-100,231	-82,352
Interest expenses from financial instruments measured at FVPL[1]			-23,743	-2,387
Net interest income	**(19)**	**111**	**200,906**	**199,885**
Fee and commission income			5,708	6,723
Fee and commission expense			-844	-712
Net fee and commission income	(20)	111	4,864	6,011
Dividend income	(21)	111	28,251	36,530
Results from equity investments and associates	(22)	112	38,997	151,121
Results from financial transactions	(23)	112	-23,086	18,131
Remuneration for services rendered	(24)	112	28,048	28,756
Other operating income	(25)	113	4,202	1,348
Total other income			**76,412**	**235,886**
Total income			**282,182**	**441,782**
Operating expenses				
Staff costs	(26)	113	-78,385	-70,616
Other administrative expenses	(27)	113	-23,516	-23,775
Depreciation and impairment of fixed assets	(9)	104	-3,769	-3,154
Other operating expenses			-67	-47
Total operating expenses			**-105,737**	**-97,592**
Impairments on				
Interest-bearing securities			-18	-
Loans[3]	(8)	102	-16,186	-18,110
Loan commitments	(29)	115	4,265	-
Equity investments and associates	(6), (7)	100, 101	-	-46,919
Guarantees issued[3]	(29)	115	308	3,042
Total impairments			**-11,631**	**-61,987**
Share in the result of subsidiaries	(C)	167	2,370	454
Share in the result of associates	(7)	101	-1,802	9,293
Total result on associates and subsidiaries			**568**	**9,747**
Profit before taxation			**165,382**	**291,950**
Income tax			-14,561	-37,833
Net profit			**150,821**	**254,117**

1 In accordance with updated IAS 1.82(a), effective from 2018, interest revenue calculated using the effective interest method (applicable for financial instruments measured at amortized cost) has been presented separately. Comparative figures have been changed accordingly. The interest income as per December 2017 from interest-bearing securities that were classified as available for sale under IAS 39 has been presented under 'interest income from financial instruments measured at AC'.

2 Amount is related to interest from those derivative financial instruments that are associated with the 'loans to the private sector' and is therefore considered as 'interest income'.

3 2017 amount is related to the IBNR on loans and guarantees issued and specific provisions on these guarantees.

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

	2018	2017
Banks	35,811	53,775
Balance at December 31	**35,811**	**53,775**

The cash on bank accounts can be freely disposed of.

B. Equity investments

	Equity measured at FVOCI	Equity measured at FVPL	IFRS 9 Total 2018	IAS 39 Total 2017
Balance at January 1	77,798	1,407,918	1,485,716	1,687,162
Purchases and contributions	-	295,238	295,238	186,905
Reclassification from loans	-	4,814	4,814	7,875
Sales	-	-166,662	-166,662	-180,722
Impairments	-	-	-	-46,919
Write-offs	-	-4,268	-4,268	-
Changes in fair value	-245	-49,123	-49,368	-169,015
Balance at December 31	**77,553**	**1,487,917**	**1,565,470**	**1,485,286**

C. Subsidiaries

	2018	2017
Balance at January 1	35,088	33,566
Purchases and contributions	-	450
Share in other comprehensive income	-	618
Share in net results	2,369	454
Dividend declared and received	-	-
Balance at December 31	**37,457**	**35,088**

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.

	2018	2017
Asia Participations B.V.	9,051	8,000
FMO Investment Management B.V.	4,226	4,204
FMO Medu II Investment Trust Ltd.	2,867	2,937
Nuevo Banco Comercial Holding B.V.	13,770	12,934
Equis DFI Feeder L.P	7,543	7,013
Nedlinx B.V.	-	-
Balance at December 31	**37,457**	**35,088**

D. Other Receivables

	2018	2017
Debtors related to equity investments	6,224	86,873
Taxes and social premiums	1,007	877
To be declared on State guaranteed loans	894	266
Accrued management fees State funds	-	-
Amortized fee receivables	12,167	12,020
Intercompany receivables from subsidiaries	7,136	11,971
Balance at December 31	**27,428**	**112,007**

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	2018	2017
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	2018	2017
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 (2017: €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 section '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 AFS 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.

	IFRS 9 2018	IAS 39 2017
Gross gains and losses in the AFS reserve		
Equity investments at fair value	-	396,787
Interest-bearing securities at fair value	-	3,570
Subtotal gains and losses in the AFS reserve	**-**	**400,357**
Deferred taxes on gains and losses		
Equity investments at fair value	-	-8,785
Interest-bearing securities at fair value	-	-901
Subtotal deferred taxes on gains and losses	**-**	**-9,686**
Net gains and losses in the AFS reserve		
Equity investments at fair value	-	388,002
Interest-bearing securities at fair value	-	2,669
Total AFS reserve	**-**	**390,671**

The statement of changes in the shareholders' equity details the movements in the available for sale reserve during 2018. The statement is included in the consolidated annual accounts.

Other reserves

	Retained earnings	Share in other comprehensive income of subsidiaries	Total
IAS 39 Balance at January 1, 2017	31,971	8,949	40,920
Gains/losses during the period	-	1,067	1,067
IAS 39 Balance at December 31, 2017	**31,971**	**10,016**	**41,987**
Adjustment from adoption of IFRS 9 (net of tax)	191	-10,016	-9,825
IFRS 9 Restated balance at January 1, 2018	**32,162**	**-**	**32,162**
Gains/losses during the period	-	-	-
IFRS 9 Balance at December 31, 2018	**32,162**	**-**	**32,162**

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 €2,983,647. The legal reserves is not freely distributable to shareholders. The legal reserve includes the unrealized fair value increases of our equity investments, loans to the private sector FVPL and derivatives for which the valuation is not determined based on quoted market prices.

	IFRS 9 2018	IAS 39 2017
AFS reserve	-	411,938
Fair value reserve	17,773	-
Translation reserve	-	-
Equity investments FVPL	361,807	-
Loans to the private sector FVPL	4,238	-
Derivatives not hedged	172,768	222,015
Balance at December 31	**556,586**	**633,953**

The AFS reserve and fair value reserve presented are 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 2018 the translation reserve has a negative balance of €6,758. 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 FVPL for which the fair value determination is not based on frequent quoted information.

Proposal for appropriation of profit

A company net profit of €150,821 was recorded in 2018. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €147,251 to the contractual reserve. Therefore the 2018 profit is not completely distributable. The distributable element of the net profit amounts to €3,570 (2017: €5,556). The Management Board and the Supervisory Board propose distributing a sum of €3,570 (2017: €5,556) as cash dividend equaling €8.92 per A and B share (2017: €13.89 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 January 10, 2019 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.

COMBINED INDEPENDENT AUDITOR'S AND ASSURANCE REPORT

Building a better working world

Ernst & Young Accountants LLP
Cross Towers, Antonio Vivaldistraat 150
1083 HP Amsterdam, Netherlands
Postbus 7883
1008 AB Amsterdam, Netherlands

Tel: +31 88 407 10 00
Fax: +31 88 407 10 05
ey.com

Combined independent auditor's report on the 2018 financial statements and sustainability information

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

We have summarized the main conclusions and main features of our audit and review of Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V. (FMO or the Company) below. The full text of the independent auditor's report, which includes the assurance report on sustainability information, has been included in the following pages.

Summary

Financial statements

Unqualified opinion on financial statements

Materiality

- Materiality of EUR 29 million
- 1.0% of Equity

Key audit matters

- IFRS 9 adoption and impairment of loans to the private sector
- Valuation of equity investments at fair value
- Reliability and continuity of the information technology and systems

Sustainability information

Unqualified conclusion on sustainability information

Unqualified opinion on materiality matrix

Materiality

- Professional judgement for qualitative information
- Specific materiality levels for each quantitative element of the sustainability information

Key assurance matter

- Measurement of impact and footprint data, methodology and reporting

Combined independent auditor's report on the 2018 financial statements and sustainability information

Our conclusions

We have audited the financial statements 2018 of Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V. (FMO or the Company) based in The Hague, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements. Further, we have reviewed the 2018 sustainability information. A review is aimed at obtaining a limited level of assurance. The scope of our assurance engagements is described in the section Our Scope.

Based on the procedures we have performed and the evidence obtained, we have come to the following conclusions:

With respect to audit procedures performed, in our opinion:

- The consolidated financial statements give a true and fair view of the financial position of FMO as at 31 December 2018 and of its result and its cash flows for 2018 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 company financial statements give a true and fair view of the financial position of FMO as at 31 December 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code
- The materiality matrix as included in paragraph "Stakeholders and material Topics" on page 17 of the Integrated Annual Report has been prepared, in all material respects, in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in chapter "How we report" of the Integrated Annual Report 2018 (the Report)

Based on our review procedures performed, nothing has come to our attention that causes us to believe that the sustainability information in scope does not present, in all material respects, a reliable and adequate view of FMO's policy and business operations with regard to sustainability and the thereto related events and achievements for the year 2018 in accordance with the Sustainability Reporting Standards of the GRI (core option) and the applied supplemental reporting criteria as disclosed in chapter "How we report" of the Report.

With respect to procedures performed based on the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720, we conclude that the other information included in the Integrated Annual Report, including the Reports by the Management Board and Supervisory Board:

- 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

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 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.

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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. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

Our scope

Our engagements scope

The Report consists of the financial statements and other information, including Reports by the Management Board and Supervisory Board, that provides altogether an overview of the policy, activities, events and performances related to both the financial position and the sustainable development of FMO during reporting year 2018. The following information in the Report has been in scope for our assurance engagements:

- The consolidated financial statements comprise:
  - The consolidated balance sheet as at 31 December 2018
  - The following statements for 2018: the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' 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 2018
  - The company profit and loss account for 2018
  - The notes comprising a summary of the accounting policies and other explanatory information

- The sustainability information comprise:
  - Reasonable assurance - Materiality matrix as included in paragraph "Stakeholders and material Topics" on page 17 of the Report
  - Limited assurance - The sustainability information in the chapters "FMO at a glance", "External environment", "Our business model", "Our strategy", "Our performance" and "How we report" in the Report

- The other information comprise:
  - FMO at a glance
  - Report of the Management Board
  - Report of the Supervisory Board
  - Corporate Governance
  - other information pursuant to the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720 concerning our obligation to report about the Report of the Management Board and other information.

Limitations in our engagements scope
The sustainability information contains prospective information, such as ambitions, strategy, plans, targets, expectations and estimates. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information. Calculations to determine the impact and footprint data as included in the Report of the Management Board are mostly based on external sources. The sources used are explained in the document "FMO Impact Model Methodology version March 2018" on www.fmo.nl/development-impact. We have not performed procedures on the content of these external sources, other than evaluating the suitability and plausibility of these external sources used. The references to other external sources or websites in the sustainability information are not part of the sustainability information as reviewed by us. We therefore do not provide assurance on this information.

Our scope for the group audit of the financial statements
FMO is the head of a group of entities. The financial information of this group 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 Treasury. 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 based on size and risk. Our group audit focused on the stand-alone financial information of FMO. This resulted in a coverage of 98,3% of profit before taxation and 99,7% of total assets. By performing these procedures together with additional procedures at group level we have been able to obtain sufficient and appropriate audit evidence about FMO's financial information to provide an opinion on the consolidated financial statements.

Reporting criteria

The information in the scope of our engagements needs to be read and understood together with the reporting criteria. FMO is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting. The reporting criteria used for the preparation of the Report are presented below.

Consolidated financial statements:	International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code.
Company financial statements, Report by the Management Board and the Supervisory Board:	Part 9 of Book 2 of the Dutch Civil Code.
Sustainability information including the materiality matrix:	Sustainability Reporting Standards of the GRI (core option) and the applied supplemental reporting criteria as disclosed in chapter "How we report" of the Report.

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 Report. 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

Materiality	€29 million (2017: €15 million)
Benchmark used	1% of Equity (2017: 5% of profit before taxation)
Additional explanation	FMO's shareholders' equity and solvency, and the ability to invest in and provide financing to companies in developing countries, are key indicators for the users of its financial statements. Due to the adoption of IFRS 9 Financial Instruments, and the accounting policy choice to account for equity investments at fair value through profit and loss, the volatility of FMO's income has increased significantly. As such, we have assessed shareholders' equity for the audit of the financial statements 2018 is a more suitable basis to set materiality than profit before taxation.

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 the financial statements in excess of €1.45 million, 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.

We agreed with the Supervisory Board that misstatements which are identified during our assurance engagement and which in our view must be reported on quantitative or qualitative grounds, would be reported to them.

Our key audit and assurance matters

Key audit and assurance 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 in scope. We have communicated the key audit and assurance matters to the Supervisory Board. The key audit and assurance 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 in scope as a whole and to conclude thereon, and we do not provide a separate opinion or conclusion on these matters.

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

IFRS 9 adoption and impairment of loans to the private sector	
Key audit matter	On 1 January 2018, FMO adopted IFRS 9 Financial Instruments (IFRS 9), which replaced IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). The implementation of IFRS 9 positively impacted the 2018 opening shareholders' equity by €14 million. The impact is mainly driven by changes to the measurement of loans and receivables from amortized cost to fair value through profit and loss and by the recognition of a provision for expected credit loss for guarantees and commitments. In accordance with the IFRS 9 transition provisions, the 2017 comparative information has not been restated. As a result, the 2018 and 2017 financial statements are not comparable in this respect. At 31 December 2018, FMO reported loans to the private sector measured at amortized cost of €4.1 billion and a provision of €156 million for expected credit losses. The timing and measurement of expected credit losses requires significant estimates and management's judgment in setting assumptions in respect of: - Allocation of loans to stages 1, 2 or 3 - Accounting interpretations and modelling assumptions used to build the model to calculate the expected credit loss (ECL) - Completeness and accuracy of data used to calculate the ECL - Inputs and assumptions used to estimate the impact of multiple macro-economic scenarios to calculate the ECL for stages 1 and 2 - Measurement of individually assessed provisions, including the assessment of multiple recovery scenarios - Accuracy and adequacy of financial statement disclosures Due to the significance of the loans to private sector portfolio and the related estimation uncertainty of expected credit losses, we consider the measurement of the provision for expected credit losses a key audit matter. Refer to the "Significant estimates, assumptions and judgements" section, note 5 "Loans to private sector", note 8 "Impairment" and "Credit risk" section under Risk Management Chapter to the financial statements.
How our audit addressed the matter	As IFRS 9 was adopted as of 2018, we performed audit procedures on the opening balances to obtain assurance on the transition from IAS 39. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made on transition. We tested the design and operating effectiveness of key controls across the processes relevant to the ECL. This included the allocation of loans into stages, model governance, data accuracy and completeness, credit monitoring, multiple economic scenarios, individual provisions, journal entries and disclosures. We performed an overall assessment of the ECL provision levels by stage to determine if they are reasonable considering FMO's portfolio, risk profile, credit risk management practices and macroeconomic environment. We considered trends in the economy and industries to which FMO is exposed. We challenged the criteria used to allocate loans to stage 1, 2, or 3 in accordance with IFRS 9. We tested loans in stage 1,2 and 3 and verified whether they were allocated to the appropriate stage. With the support of our modelling specialists, we tested assumptions, inputs and formulas used in the ECL model. This included the appropriateness of model design and formulas used and recalculating the Probability of Default, Loss Given Default and Exposure at Default in

	this model. Further, we assessed the selected macro-economic scenarios used with the support of our economic specialists. We examined a selection of loan exposures to assess the expected credit loss provision for stage 3 loans. We applied professional judgment in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that are potentially more sensitive to developing economic and political trends. For selected loan exposures we recalculated individually assessed provisions and challenged the recovery scenarios and probability weightings assigned. We assessed the completeness and accuracy of the disclosures for compliance with EU-IFRS.
Key observations	We are satisfied that expected credit loss provisions are reasonable and in compliance with IFRS 9 and concur with the related disclosures in the financial statements.
Valuation of equity investments at fair value	
Key audit matter	The equity investments amount to €1.6 billion as at 31 December 2018. These equity investments are measured at fair value with the corresponding fair value change recognized through profit and loss except for 3 strategic equity investments through 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 comparable recent transaction prices, comparable book and earnings multiples and discounted 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 recent available information, determining the appropriate peer group for establishing multipliers, and the income based methods where the value is significantly affected by input data that cannot be verified by external market data. 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 6 "Equity investments", related disclosures of "Equity risk" within section Financial risk management and "Fair value of financial assets and liabilities" in the notes to the financial statements.
How our audit addressed the matter	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 substantive audit procedures comprised, amongst others, of an assessment of the methodology and the appropriateness of the valuation models and inputs used to value direct investments. We involved internal valuation specialists to assess market related information for the valuation of a sample of direct investments (level 3), and to assess whether the valuations were within a pre-defined tolerable differences threshold. We assessed the accuracy of key inputs and assumptions driving the valuation. This included the assessment of the appropriateness of comparable market multiples, adjusted for comparability differences such as size and liquidity, and the assessment of the reasonability of the expected cashflows, risk free rates and credit spreads. We assessed the clerical accuracy of the fair value calculations. For listed equity investments (level 1) we agreed the year end valuation to external data sources. We assessed the completeness and accuracy of the disclosures for compliance with EU-IFRS.
Key observations	We are satisfied that the fair value of the equity investments is properly determined 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 its 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.
How our audit addressed the matter	As part of our audit procedures we have assessed the changes in the IT systems and IT infrastructure. We tested the reliability and continuity of electronic data processing within the scope of the audit of the 2018 financial statements. For that purpose, we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting. Amongst others, we tested the IT general controls related to logical access and change management and application controls embedded in FMO's key processes.
Key observations	The combination of the tests of controls and the substantive tests performed provided sufficient appropriate evidence for the purposes of our audit.

For the assurance procedures concerning the sustainability information in scope, we identified the following key assurance matters:

Measurement of impact and footprint data, methodology and reporting	
Key assurance matter	FMO has included information on impact and footprint data in the Report. FMO has developed a methodology to calculate the impact of (in)direct jobs created and expected GHG emissions avoided. This methodology includes key judgments and assumptions in respect of the measurement of the impact of impact and footprint data. The information on impact and footprint data has been significant for our review due to the importance of the figures as well as the level of judgment involved in definitions, boundaries and calculation. Refer to the chapter "Our performance" and to the chapter "How we report" in the Report.
How our review addressed the matter	We have reviewed the suitability of the reporting methodology developed and underlying assumptions as well as the consistent application of these in 2018. We conducted an analysis of the underlying drivers for the 2018 data reported and determined that the most material assumptions and limitations have been properly disclosed in the chapter "How we report" in the Report.
Key observations	The reporting methodology and underlying assumptions made by management have been properly disclosed in the Report.

In the 2017 auditor's report, "Valuation of derivative financial instruments at fair value" was identified as key audit matter. We consider the estimation uncertainty lower compared to prior year, as such, we have no longer included this item as a key audit matter.

Report on other legal and regulatory requirements

Engagement

We were engaged as auditor 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, Deposit Guarantee Schema (DGS) and Asset Segregation.
- Capital market transactions: We issued comfort letters and/or consent letters in relation to (updated) programs and/or transactions.
- State funds: We issued opinions on the reporting sets of the State Funds prepared in accordance with the specific requirements as set out by the Dutch State.

Responsibilities

Responsibilities of the Management Board and the Supervisory Board

The Management Board (hereafter: 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, and for the preparation of the other information, including the Report by the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

Management is also responsible for the preparation of reliable and adequate sustainability information in accordance with the Sustainability Reporting Standards of the GRI and the applied supplemental reporting criteria, including the identification of stakeholders and the determination of material issues. The choices made by management in respect of the scope of the sustainability information and the reporting criteria are set out in chapter "How we report" of the Report.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the Report that is 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 reporting process of FMO.

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 procedures have been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit. Our review of the sustainability information is aimed to obtain a limited level of assurance. The assurance procedures performed to obtain a limited level of assurance are aimed on the plausibility of information and vary in nature and timing from, and are less in extent, than for obtaining reasonable assurance. The level of assurance obtained in a review is therefore substantially less than the assurance obtained in an audit. We apply the "Nadere voorschriften kwaliteitssystemen" (NVKS, 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, 14 March 2019

Ernst & Young Accountants LLP

signed by J.G. Kolsters

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, in accordance with Dutch Standards on Auditing and the Dutch Standard 3810N, ethical requirements and independence requirements.</td></tr>
<tr><td>Our audit to obtain reasonable assurance about the financial statements (consolidated and company) included the following:

Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or errors, 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 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.
</td>
<td>Our review to obtain limited assurance about the sustainability information included amongst others:

Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues and the characteristics of the entity.
Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates 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.
Reconciling the relevant financial information with the financial statements.
Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatements, whether due to fraud or errors. Designing and performing further procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis.
These further review procedures consisted amongst others of:

Interviewing management and relevant staff at corporate level responsible for the sustainability strategy, policies and results.
Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information.
Obtaining assurance information that the sustainability information reconciles with underlying records of the company.

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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.

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Reviewing, on a limited test basis, relevant internal and external documentation
Evaluating whether the assumptions as included in the impact and footprint data, which are included in the document "FMO Impact Model Methodology version March 2018" 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 March 2018" on www.fmo.nl/development-impact.
Performing an analytical review of the data and trends.

Reconciling the relevant financial information with the financial statements.
Evaluating the consistency of the sustainability information with the information in the Report which is not included in the scope of our review.
Evaluating the overall presentation, structure and content of the sustainability information.
Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

In addition to the procedures mentioned above, for the materiality matrix we performed the following procedures to obtain reasonable assurance:

Obtaining a more detailed understanding of systems and reporting processes, including obtaining an understanding of internal control relevant to our assurance engagement.
Evaluating the design and implementation of the relevant internal controls during the reporting year.
Conducting more in-depth analytical procedures and substantive testing procedures on the relevant data.
Investigating relevant internal and external documentation, on a test basis, to determine the reliability of the materiality matrix.

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<tr>
<td colspan="2">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</td>
</tr>
</table>

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 on the other information is less than the scope of those performed in our audit of the financial statements.

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 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 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 our assurance engagements and are therefore the key audit and assurance matters. We describe these matters in our combined independent auditor's 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.

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 €150,821 was recorded in 2018. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €147,251 to the contractual reserve. Therefore the 2018 profit is not completely distributable. The distributable element of the net profit amounts to €3,570 (2017: €5,556). The Management Board and the Supervisory Board propose distributing a sum of €3,570 (2017: €5,556) as cash dividend equaling €8.92 per A and B share (2017: €13.89 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 January 10, 2019 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 stage 1 and 2 impairments under IFRS 9 / group-specific provision under IAS 39 (formerly the general value adjustments) and the contractually required reserve. On December 31, 2018 the fund amounted (rounded) to €2,336,610 (2017: €1,811,470).

We prepared this integrated annual report using the principles of the Integrated Reporting framework of the International Integrated Reporting Council (IIRC) and the GRI standards. 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 2018. The publication date of the previous annual report was March 27, 2018. There have been no significant changes to our legal structure, activities, policies or methods of measurement in the course of 2018 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 (GRI) Standards 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’, 'Risk Management' and ‘How we report’. Please refer to the separate GRI index for a detailed overview of all GRI disclosures.

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 2018. 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.

The previous materiality assessment was conducted in 2015 and updated yearly through interviews with stakeholder account managers and desk research. However, in our opinion a thorough materiality assessment needs to be repeated at least every three years.

Stakeholders

To validate the developments and issues, a survey was send to over 100 individuals, representing 8 key internal and external stakeholder groups. Previously only stakeholders with continuous dialogue were asked to participate, whereas for this survey also stakeholders we interact with less frequently were also invited. We received a total of 90 responses which cover our stakeholder groups as follows: 15 clients, 4 State of the Netherlands, 3 shareholders, 39 employees including management, 13 investors, 6 partner DFIs, 6 NGOs, 4 knowledge partners, 0 Supervisor and regulator. Since we invest in more than 80 countries worldwide, we have not invited local communities and clients of clients for practical reasons. For a description of our key stakeholders, please read chapter entitled ‘External environment’ included in the Report of the Management Board.

Topics and subtopics

FMO used the issues raised by stakeholders in previous engagements as a starting point for identifying the material topics, and to track change over time. Other commonly applied reporting guidelines such as (e.g. GRI, IFC performance Standards, and SASB) as well as reporting by peers and other financial institutions were also considered. In total 14 matters were identified as topics relevant to FMO’s context.

Topics were cut down from 28 (in previous assessments) to 14, by exhaustively reviewing previous topics and clustering them around themes. From there a main topic was selected, and additional items were re-categorized as subtopics. The intention was to reduce the number of choices for the stakeholder, and to present them with a truly mutually exclusive and collectively exhaustive set of choices. The aim of this was to gain better understanding of stakeholder needs. In addition, stakeholders were asked to rank subtopics, only if they had chosen a corresponding main topic, to provide deeper insights on topics relevant to certain stakeholders.

New GRI Dimensions

Results of survey are plotted on a matrix along two dimensions in accordance with the GRI standards:

- The substantive influence on the assessments and decisions of stakeholders (importance to stakeholders, plotted on the vertical axis)
- Significance of impact on society, environment and the economy (plotted on the horizontal axis)

For the latter, new dimension stakeholders were asked by means of a survey through which of the topics they believed FMO could have the most/least significant positive/negative impact on society, the environment, or the economy. In previous years the X-axis was composed of importance to FMO’s strategy as ranked by FMO’s Management Board.

Threshold
The results have been clustered in two quadrants:

1. Important and impactful topics (bottom-left corner), which are relevant to our stakeholders and FMO but not considered most important and impactful.
2. Highly important and very impactful topics (top-right corner), are those which our stakeholders consider most important and through which they believe FMO can have most impact. Seven topics were found in this threshold.

Calculation method
The survey results determine the position of topics along two dimensions: the Importance to Stakeholders (plotted on the Y-Axis) and the significance of Impact on society, environment and the economy (plotted on the X-Axis).

The scoring matrix looks at each axis separately, balancing the number of responses received for most against least important / significant impact. This yields a net result and (X,Y) scatterplot for each of the 14 main topics. Stakeholder responses are weighted in two ways:

- Stakeholder engagement. FMO engages with many different stakeholder groups but engages most with those that have a high interest in and high influence on our business. These 'Dialogue' stakeholders are weighted higher (2x) than those categorized as 'Keep satisfied' or 'Keep informed'.
- Respondents per stakeholder group. A representative sample has been selected for each stakeholder group. As a result, some will include more respondents than others. To treat each stakeholder group equally- after applying the weights as explained above- results are normalized by taking the total number of respondents per stakeholder group and dividing it by the number of times a topic is chosen by that particular stakeholder group.

The results included in the matrix represent the aggregate scores for all stakeholder groups. As such it might be that specific topics score as important and impactful in our matrix, whereas for individual stakeholder groups or FMO the topic is highly important and very impactful. Examples include Client satisfaction and Employee engagement, which were scored material in previous materiality assessments, but no longer so in our latest survey. We consider both topics as key to our mission and strategy, and as such continue to monitor and report on both.

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 FMO website. We refer to Annex 5 of the FMO Impact Model Methodology document for an overview of rules and assumptions.

Macroeconomic update of the impact model

At the start of 2017 we updated macroeconomic data used in the FMO impact model. 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. In 2018, the investments on behalf of third parties contributed to 30% of the number of jobs reported (2017: 53%) and to 35% of the amount of GHG avoided (2017: 45%).

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 2018 by 8% (2017: 35%) and the amount of GHG avoided in 2018 by 2% (2017: 35%).

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 indicators.

Avoided greenhouse gas emissions

We calculate the avoided greenhouse gases (GHG) of our clients for investments in renewable energy and energy efficiency projects in accordance with International Financial Institutions (IFI) Harmonized Approach to Greenhouse Gas Accounting, which is in line with the GHG Accounting Protocol. GHG avoidance for renewable energy projects is calculated as the expected electricity production once the project is operational, multiplied by the country emission factors in accordance with the IFI harmonized list of emission factors. 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.

Catalysed 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.

Client satisfaction

Client satisfaction shows how satisfied clients are with the services FMO offers on a scale of 1 to 10. The client satisfaction score is calculated as the average of the scores given by respondents and expressed as an absolute number between 1 and 10. The scores for 2018 are based on 193 responses from clients that participated in a joint client satisfaction survey with DEG and Proparco, held in May 2018. The previous survey was held in 2015.

Committed portfolio

Total committed portfolio includes: 1) for debt – total commitment made to customers (committed not disbursed and outstanding principal amount), netted for guarantees received; 2) for equity – current exposure (fair value) plus remaining commitment reserved for all investments made; 3) for guarantees – limit amount.

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).

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.

Net Promoter Score

Net Promoter Score shows the extent to which clients would recommend FMO to others. The client is regarded as 'promoter', 'passive' or as 'detractor'. The NPS is calculated by subtracting the percentage of 'detractors' from the percentage of 'promoters'. The score is expressed as an absolute number between -100 and +100. The scores for 2018 are based on 177 responses from clients that participated in a joint client satisfaction survey with DEG and Proparco, held in May 2018. The previous survey was held in 2015.

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.

Reducing Inequalities investments

Investments are labelled as "Reducing Inequalities" following an internal approval process. Reducing Inequalities investment criteria relate to the following categories:

- The invested funds flow at least 50% to a Least Developed Country (LDC). These are countries identified by the United Nations as "low-income countries confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have low levels of human assets."
- Microfinance;
- Agricultural SME lending;
- Smallholder finance;
- Agribusinesses working with smallholders;
- Youth finance;
- Off-grid power;
- Innovative solutions for the 'Base of the Pyramid';
- Women-owned SME lending;
- Other inclusive business investments targeting female end-beneficiaries.

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.

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 and an audit of the Materiality Assessment. The scope of the review on this report is limited to the chapters ‘FMO at a glance’, ‘External environment’, ‘Our business model’, ‘Our strategy’, ‘Our performance’ and ‘How we report’. The review is conducted in accordance with Dutch Standard 3810N.

External commitments

PROJECT AND COMMITTEE MEMBERSHIPS

Project/Committee	Role
Association of European Development Finance Institutions, European Financing Partners, Interact Climate Change Facility	FMO is a member
Corporate Governance Development Framework	FMO is a signatory
Dutch Banking Sector Agreement on International Responsible Business Conduct regarding Human Rights	FMO is a signatory
Five Voluntary Principles of Mainstreaming Climate Change Actions	FMO is a signatory
Global Impact Investors Network (GIIN)	FMO is a member
IIRC Business network	FMO is a member
Institutional Integrity Forum or Transparency International Netherlands	FMO is a member
Natural Capital Coalition	FMO is a member
Nederlandse Vereniging van Banken	FMO is a member
NpM Platform for Inclusive Finance	FMO is a member
Platform Carbon Accounting Financials (PCAF) and the Dutch Carbon Pledge	FMO is a signatory
Sustainable Development Goals Charter	FMO is a signatory

Other positions	Name	Role
Arise (private equity investment holding company)	Linda Broekhuizen	Member of Supervisory Board
Royal Tropical Institute (KIT)	Linda Broekhuizen	Member of Supervisory Board
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
PwC's Global Insurance Captive, L&F	Peter van Mierlo	Chair of the Audit Committee (until December 15, 2018)

Peter van Mierlo holds no positions as referred to in article 2:132a of the Dutch Civil Code.
Linda Broekhuizen holds no positions as referred to in article 2:132a of the Dutch Civil Code.
Fatoumata Bouaré holds no positions as referred to in article 2:132a of the Dutch Civil Code.

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

UN Principles for Responsible Investment

Signatory of:

Equator Principles

Natural Capital Declaration

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

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 / Subtopic	Definition	Scope	Management of material issues	Title	2018	2017
1. Development impact through responsible investing	The positive indirect social, economic, and environmental influence on local economies achieved through responsible investment processes.	FMO's investments	Strategy & Corporate Affairs, investment departments	Our performance - Higher impact	1	1
1a. Inclusive development	Investing in projects with the specific aim of expanding access to goods, services and livelihood opportunities that are commercially viable with the specific aim of expanding services 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 definition of inclusive development also targets women, youth, and smallholder farmers.					5
1b. Environmentally sustainable development	Investing in projects with a focus on renewable energy and resource efficiency (water, materials, waste) in response to climate change and resource scarcity.					4
1c. Early stage and innovative projects	Investing in high-risk, early stage, and innovative projects with potentially high development impact. Early stage investments focus on making projects bankable and getting them past the development phase. Innovation includes new methods, ideas or products aimed to bring essential goods, services and opportunities to those currently underserved (Base of the Pyramid).					9
1d. Mobilizing public and private capital	Maximizing the flow of finance to FMO's client(s) by mobilizing third-party funds.					8
1e. Financial additionality	Providing financial services only where the market can or does not do the same, or otherwise does not provide on an adequate scale or on reasonable terms.					6
1f. Alleviating root causes of migration	Supporting business activities and related jobs in conflict-ridden countries, thereby improving the prospects of local communities and alleviating migratory pressures.					
1g. Support Dutch business opportunities in developing countries	Supporting Dutch businesses by facilitating investments in and export to emerging markets and developing countries.					11
2. Financial sustainability and risk appetite of FMO	The extent to which FMO's financial model results in long-term profitability within the boundaries of its risk appetite and capital requirements.	FMO's operations	Finance, Risk Management, Credit	Our performance - Financial performance	2	2
3. Transparency & accountability of FMO's activities	Ensuring accountability by reporting on activities and performance in a transparent way.	FMO's operations	Finance	How we report	3	3

4. Environmental footprint of FMO's investments	Any harmful effect on the environment caused by business activities financed by FMO, either directly or via intermediaries.	FMO's investments	Strategy & Corporate Affairs, investment departments	Our performance - Higher impact	4	10
4a. Greenhouse gas emissions	Any harmful effect on climate change caused by greenhouse gas emissions from business activities financed by FMO.					
4b. Water scarcity	Any harmful effect on water availability from business activities financed by FMO.					19
4c. Pollution and waste	Any harmful effect on air, land and water quality caused by waste and other contaminants from business activities financed by FMO.					19
4d. Biodiversity loss	Any harmful effect on habitat loss, degradation and fragmentation, or through invasive alien species, overexploitation, hydrological changes and nutrient loading from business activities financed by FMO.					20
4e. Deforestation and land use change	Any harmful effect caused by the removal of a forest or stand of trees where the land is thereafter converted to a non-forest use from business activities financed by FMO. Examples of deforestation include conversion of forestland to farms, ranches, or urban use.					19
5. Business integrity of FMO	Ensuring high standards of business conduct regarding anti-money laundering, anti-bribery, and anti-corruption procedures, remuneration of management and ethical behavior of FMO's employees.	FMO's operations	Compliance, Risk Management, Internal Audit	Our business model - Investment process, Our performance - Deeper relationships, Risk Management	5	21
6. Promote ESG best practices	The support and active promotion of ESG best practices by organizing seminars, training and conferences for clients, peers and industry stakeholders to enable knowledge-sharing.	FMO's investments	Investment departments	Our performance - Higher impact	6	16
7. Human rights	Human rights include freedom of expression, labor rights, land rights, and other civil, political, economic, social and cultural rights. Human rights topics are included in FMO's ESG risk management processes. FMO recognizes that businesses have a responsibility to respect human rights and redress any harm of human rights resulting from their activities and direct or indirect business relationships.	FMO's investments	Strategy & Corporate Affairs, investment departments	Our performance - Higher impact	7	14
7a. Good labor practices and decent work conditions	Providing a healthy and safe work environment; training and education, fair/living wages, freedom of association and collective bargaining, appropriate working hours; and protection from child/forced/compulsory labor and discrimination.					22
7b. Local stakeholder engagement	Informing and consulting communities and civil society, including human rights and environment defenders, on the business activities, ensuring they can express their opinions freely and have access to a grievance mechanism.					15
7c. Land & livelihood	Protecting legitimate rights to land, forest, fisheries and associated livelihoods, especially in projects that entail land acquisition and/or involuntary resettlement					
7d. Community health, safety, and security	Protecting community health, safety and security. Business activities and infrastructure projects may expose local communities to increased risks and adverse impacts related to worksite accidents, hazardous materials, spread of diseases, or interactions with private security personnel.					

7e. Indigenous peoples	Minimizing negative impacts on indigenous populations, fostering respect for their human rights, dignity and culture, and promoting development benefits in culturally appropriate ways. Indigenous peoples may be particularly vulnerable to the adverse impacts associated with project development, including risk of impoverishment and loss of identity, culture, and natural resource-based livelihoods.					
7f. Cultural heritage	Protecting cultural heritage from adverse impacts of project activities and supporting its preservation. Cultural heritage encompasses properties and sites of archaeological, historical, cultural, artistic, and religious significance. It also refers to unique environmental features and cultural knowledge, as well as intangible forms of culture embodying traditional lifestyles that should be preserved for current and future generations.					
7g. Non-discrimination	Preventing discrimination against vulnerable segments of the population such as minorities, women, youth and people with disabilities. Non-discrimination concerns inclusion of vulnerable people in the consultation process as well as access to project benefits or products and services offered by FMO's clients.					23
8. Client satisfaction	The extent to which FMO’s products and services meet or exceed client expectations.	FMO's operations	Investment departments	Our performance - Deeper relationships	8	7
8a. Local presence FMO	The availability of local office staff to FMO clients and other key stakeholders to enable more frequent, face-to-face and real-time engagement.					28
8b. Networks & external relations	The access to FMO’s network of select banks, development finance institutions, private investors, business organizations, knowledge institutes and civil society.					17
8c. Knowledge transfer	The knowledge transferred from FMO to its clients through providing e.g. technical expertise, trainings, events and publications.					9
8d. Product offering	The range of financial product offering such as loans, local currency loans, equity, and trade guarantees.					
9. Responsible taxation of FMO’s investments	The contribution to a healthy tax environment in which compliance and trust from both tax payers such as FMO’s clients, tax authorities and governments exist.	FMO's investments	Finance, investment departments		9	13
10. Environmental impact of FMO’s operations and business travel	Any harmful effects on the environment that follow from FMO's operations.	FMO's operations	ICT		10	26
11. Employee engagement at FMO	The degree to which employees get inspiration from their work. Engaged employees gain energy from their work, are proud of the work they do, and experience their work as meaningful.	FMO's operations	Human Resources	Our performance - Deeper relationships	11	12, 18, 27
12. Role in public debate	The involvement in formal discussions on sustainable development which are open to the public.	FMO's investments	Strategy & Corporate Affairs		12	25
13. Data protection and privacy	The protection of confidential data and compliance with privacy regulations through systems and procedures.	FMO's operations	ICT, Risk Management, Compliance		13	24
14. Animal welfare	Any harmful effect on the health and well-being of animals that are affected from business activities financed by FMO.	FMO's investments	Strategy & Corporate Affairs, investment departments		14	

List of abbreviations

AC	Amortized cost
AFS	Available for sale
AIFMD	Alternative Investment Fund Managers Directive
BRRD	Bank Recovery and Resolution Directive
CEO	Chief executive Officer
CET-1	Comment Equity Tier 1
CIO	Chief Investment Officer
CIU	Collective Investment Undertakings
CRD	Capital Requirements Directive
CRFO	Chief Risk and Finance Officer
CRR	Capital Requirements Regulation
CTI	Cost to income
C&M	Classification and measurement
EAD	Exposure at default
EBA	European Banking Authority
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
ECL	Expected Credit Loss
EU	European Union
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
FX	Foreign exchange
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GHG	Greenhouse gas
IAS	International Accounting Standards
IASB	International Accounting and Standards Board
IFRS	International Financial Reporting Standards
LCR	Liquidity Coverage Ratio
LGD	Loss given default
LTA	Look-through approach
L&R	Loans and receivables
MBA	Mandate-based approach
NAV	Net Asset Value
NPL	Non performing loans
NPE	Non performing exposures
OCI	Other comprehensive income
PD	Probability of default
SDG	Sustainable Development Goals
SPPI	Solely payments of principal and interest
SRM	Single Resolution Mechanism
USD	US dollar
tCO_2eq	1 tonne of CO_2 equivalent

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.

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Contact details Should you have any feedback or questions, please feel free to contact us.

Corporate Communications +31 (0)70 314 96 96 info@fmo.nl www.fmo.nl

For copies of FMO publication contact FMO N.V.

Mailing address P.O. Box 93060 2509 AB The Hague The Netherlands

Street address Anna van Saksenlaan 71 2593 HW The Hague The Netherlands

Text Ilja van Roon and FMO N.V.

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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 25 March 2019. 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 reporting.fmo.nl