FMO

Entrepreneurial
Development
Bank

Annual report

2016

Investments that benefit communities
The Pililla Wind Farm in the Philippines generates more than clean energy. It generates local business. The wind farm has become a popular tourist attraction and receives approximately 5,000 visitors each week. The influx of visitors created a vibrant small scale industry for the local community; the display area with brochures, souvenirs and beverages, provides additional income to local families.

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

HOW WE CONTRIBUTE TO THE SUSTAINABLE DEVELOPMENT GOALS

On 1 January 2016, the seventeen United Nations Sustainable Development Goals (SDGs) officially came into force. The Goals call for action by all countries and parties – government, civil society and the private sector – to end extreme poverty, reduce inequality and tackle climate change by 2030. FMO fully supports this shared plan of action for people, planet and prosperity.

Through its vision and mission, FMO contributes directly and indirectly to the achievement of the SDGs. We directly contribute to the SDGs at three distinct levels:

1. **FMO goals**
   FMO directly contributes to SDG 8 via our target on number of jobs supported. Through our environmental, social and governance (ESG) standards we support our clients to improve on business integrity, a healthy working environment and sustainability. We contribute to SDG 13 by doubling the amount of avoided GHG emissions by investing in renewable energy projects and enabling blended structures like Climate Investor One and ElectriFi. We seek to reduce inequalities (SDG 10) by investing in some of the world's poorest countries and we are pursuing inclusive business aimed at people earning less than 8 USD per day – the Base of the Pyramid – often including women and smallholders.

2. **Focused portfolios**
   FMO sector portfolios contribute to additional SDGs. SDG 2 is impacted positively by investments across the agribusiness value chain in an environmentally viable and socially inclusive manner. We offer financing solutions for renewable energy projects, off-grid solutions, refurbishments and efficiency improvements (SDG 7). Gender equality (SDG 5) is promoted through a variety of deals. To enhance impact, we further seek to maximize the volume of catalyzed funds through commercial or blended structures where other parties are encouraged to join our investments thereby contributing to SDG 17.

3. **International standards and internal policies**
   Adhering to international standards on ESG risk management and taking an active approach to client engagement, we pave the road for SDG delivery. We actively challenge the businesses we invest in to meet and maintain high levels of environmental and social performance.

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Client cases

Contact details
Should you have any feedback or questions, please feel free to contact us.

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Cover photo
Equis and FMO are shareholders in the Pililla wind farm through Equis' wind energy platform Energon. Equis is an independent renewable power developer in Asia and a long-term partner of FMO. Picture is taken by Opmeer Reports.

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1. FMO AT A GLANCE

FMO is the Dutch development bank

Since 1970, it has been our mission to improve the lives of people in developing countries by supporting job creation and responsible business practices. We do this by investing in the private sector in a socially responsible and environmentally sustainable manner, helping countries to grow their economy, strengthen their communities, and protect the environment.

Development impact and performance

812,000
Direct and indirect jobs supported (FTEs)

500,000
Avoided GHG emissions (tCO_2eq)
Equal to 1.9 billion kilometres of an average passenger car

80%
of FMO investments are in Low Income Countries and Lower Middle Income Countries

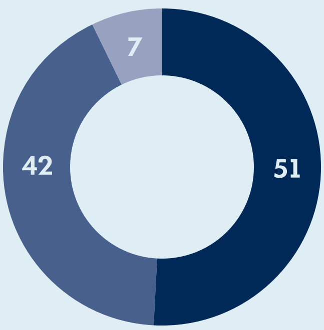
Net profit
€176 million

New commitments & catalyzed funds
€2,455 million

Average Full-Time Employees
404

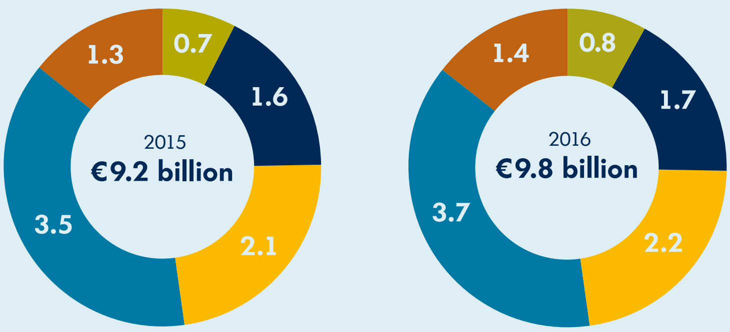
Ratings:	Fitch ratings:	Standard & Poor's:	Sustainalytics:	Oekom Research:
	AAA	**AAA**	**85**	**Prime**

Ownership structure %

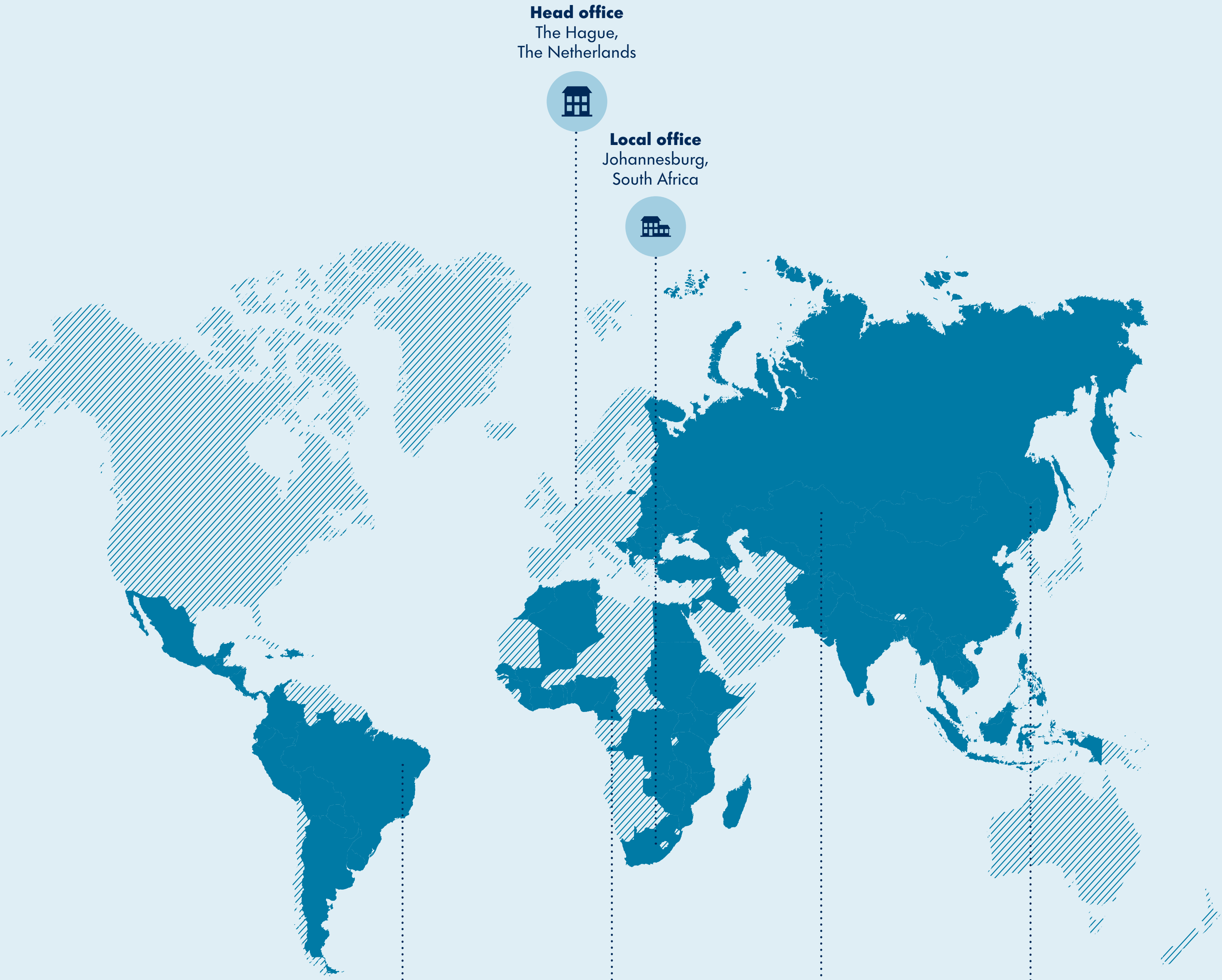


■ The State of the Netherlands
■ Dutch banks
■ Employers' associations, trade unions and individual investors

Total committed portfolio by sector (×€bln)



■ Agribusiness
■ Infrastructure, Manufacturing & Services
■ Energy
■ Financial Institutions
■ Multi-Sector Fund Investments



Total committed portfolio by region (×€bln)

Non-specific region	Latin America & the Caribbean	Africa	Eastern Europe & Central Asia	Asia
€0.6 bln	**€2.1 bln**	**€3.2 bln**	**€1.2 bln**	**€2.7 bln**
2015: **€0.6 bln**	2015: **€2.0 bln**	2015: **€2.9 bln**	2015: **€1.1 bln**	2015: **€2.6 bln**

Total committed portfolio 2016

€9.8 billion

FMO key figures

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

	2016	2015	2014	2013	2012
(in)Direct jobs supported (FTEs)(x'000)[1]	812	843	n/a	n/a	500
Avoided GHG emissions (tCO_2eq)(x'000)[2]	500	787	n/a	n/a	500
Green investments[3] (EURxmln)	519	685	530	n/a	n/a
Catalyzed funds[4] (EURxmln)	905	923	879	822	n/a
New commitments[5] (EURxmln)	1,550	1,584	1,632	1,524	1,390
· of which are government funds	118	184	177	144	160
Total committed portfolio (EURxmln, per ultimo year)	9,778	9,256	8,013	6,633	6,281
· of which are government funds[6]	1,239	1,194	978	844	831
Net loans[7]	4,527	4,307	3,860	2,981	2,817
Equity investments portfolio[7,8]	1,828	1,500	1,149	962	914
Shareholders' equity[7]	2,774	2,511	2,138	1,963	1,815
Debt securities and debentures/notes[7]	5,181	5,348	4,197	3,610	3,292
Total assets[7]	8,553	8,421	7,088	6,184	5,564
Income					
Net interest income	217	227	169	155	154
Income from equity investments	56	44	72	43	89
Other income including services	27	49	19	56	28
Total income	**300**	**320**	**260**	**254**	**271**
Total expenses	**-86**	**-79**	**-62**	**-62**	**-57**
Operating profit before value adjustments	**214**	**241**	**198**	**192**	**214**
Value adjustments					
· to loans and guarantees	43	-10	-36	4	-23
· to equity investments	-44	-19	-15	-22	-23
Total value adjustments	**-1**	**-29**	**-51**	**-18**	**-46**
Taxes	-43	-41	-25	-36	-27
Net profit	**176**	**174**	**124**	**133**	**145**
Average number of full-time employees	404	372	362	342	306

1. (In)Direct jobs supported is the indicator for our 2020 strategic goal to double our impact. We measure this by comparing the baseline period (the average of the 2010-2012 new investments) with the endline period (the average for 2018-2020) for new investments. 2015 was the first year we measured our progress. In 2016 we changed the parameter in our Impact Model for our equity investments in debt funds. Baseline figures (2012) for jobs are unchanged, while 2015 figures changed from 858,000 to 843,000 supported jobs.
2. Avoided GHG emissions is the indicator for our 2020 strategic goal to halve our footprint by doubling GHG avoidance. It is measured in a similar way as the (in)direct jobs supported. 2015 was the first year we measured our progress. In 2016 we changed the parameter for equity investments in debt funds. This changed parameter changes the 2012 Baseline figures from 600,000 to 500,000 tons CO_2eq and the 2015 figures from 936,000 to 787,000 tons CO_2eq. See paragraph 8.4 for more information.
3. Green investments are the new investments for FMO's account, the government funds and catalyzed funds that have been labeled as green investments.
4. Catalyzed funds are new investments made on behalf of third parties.
5. New commitments and Total committed portfolio concern both investments for FMO's account and investments for government funds managed by FMO.
6. The government funds include MASSIF, IDF, AEF and FOM OS.
7. Figures per ultimo year, for further elaboration see paragraph 2.5.3.
8. Including investments in associates.

Report of the MANAGEMENT BOARD

II

CAPACITY BUILDING PAYS OFF | **Kyrgyzstan**

Farmer Bolotbek Isykjanov is a client of Kompanion Financial Group, a community development financial institution. Kompanion combines financing with an extensive and awarded Technical Assistance Program that promotes sustainable agriculture and natural resource management. FMO client since 2013, Kompanion received a USD 7 million local currency loan in 2016 to be on-lend to (mostly female) micro-entrepreneurs, small-scale farmers and pastoralists (livestock herders and shepherds).

2.1 LETTER FROM THE CEO

As I look back on 2016, I take pride in the fact that we continued to be successful at doing what we do best, being additional to our markets, fostering sustainable development and supporting job creation in developing countries. We invest in some of the world's most challenging business environments, encouraging the growth of responsible and profitable businesses in key sectors for development.

As a development bank, we are sensitive to the environment in which we are active. The companies and projects we invest in have a significant impact on local communities and society at large. In that respect, 2016 was a challenging year for us. The murder of Honduran environmental activist and indigenous leader Berta Cáceres, especially shocked us. The FMO financed Agua Zarca project was one of the projects she opposed.

We stepped up our efforts to properly address the issues related to this, taking into account the needs of our different stakeholder groups. In doing so, we experienced that stakeholder engagement is an attitude that should be *lived* and applied in practice. Over the course of the year, we continued to expand our stakeholder management activities and we have been able to reach out effectively to key stakeholder groups.

Firstly, on the project level, we have further intensified our actively engaging local communities wherever there are issues concerning human rights, land rights or the environment. We also have implemented an ex-ante disclosure mechanism, allowing interested parties to provide feedback on the environmental, social and governance aspects of our projects before contracting.

Secondly, on the policy level, we established a comprehensive sustainability policy, taking into account almost 300 comments from various parties from society, government and clients. Furthermore, together with the Dutch government, financial institutions and civil society we were one of the leading parties involved in establishing the Dutch agreement on international responsible business conduct regarding human rights. I am pleased with these steps, as they demonstrate our commitment to implement lessons learned.

At the organizational level, we provided input to the discussion initiated by the Dutch government about setting up a National Financing Institution for Development and Investment (Invest-NL). The aim of Invest-NL is to realize investments in corporates and projects in the Netherlands and internationally that are unable to attract sufficient financing from the market as a result of unsecure risk-return characteristics or long payback time. We will contribute to the alignment and bundling of the export and foreign investment instruments for Dutch corporates by setting up a Joint Venture with Invest-NL for the NL Business activities of FMO.

With all these developments going on, our business still made a strong contribution to a better world while generating solid financial results. Our new commitments in 2016 amount to a total of EUR 2.5 billion, of which EUR 0.9 billion was garnered from third parties. Our return on shareholders' equity exceeded our target return of 6.2%. However, this was driven by a substantial one-off release of our group-specific provision, which compensated for the fact that the results from our private equity investments were lower than expected.

With our new investments we support a total of 812,000 jobs, while avoiding 500,000 tons of greenhouse gas (GHG) emissions. With 21% green investments in 2016, we failed to meet our target of increasing our green investments to 30% of our new commitments. As a result, our GHG avoidance for the year was off the track towards our 2020 ambition. Green investments were lower than expected as we financed fewer and smaller renewable energy projects. In order to get back on track, we will develop new green initiatives and projects that go beyond renewable energy.

Development banks like FMO increasingly have a role in blending – that is, combining government funding and funding by businesses in order to leverage the impact that can be achieved. We broadened that role in 2016 by setting up ElectriFI with our European Development Finance Institutions (EDFI) partners. ElectriFI is an innovative fund targeted at early-stage renewable energy projects, with a focus on rural electrification. To that end we received EUR 75 million in EU funding, reflecting our new partnership with the EU aimed at jointly combating climate change.

We also took concrete steps to promote gender equality, financing various projects and organizing a conference with the Global Banking Alliance for Women, during which we engaged with a large number of banks on the importance of supporting women-owned businesses.

Another milestone was the establishment of the investment company Arise. This partnership between Rabobank, Norfund and FMO will combine banking skills and financial capabilities and currently manages minority equity investments in excess of USD 660 million in financial institutions in Africa. Through these means we strengthen and further develop effective, inclusive financial systems in Africa that contribute to economic growth and poverty reduction.

In light of the new market dynamics and the challenges that they bring to a growing organization like FMO, we have started to undertake a strategy review. The results of this review are expected in the first half of 2017. This strategy review covers our role towards other public and private partners going forward. In that context, recommendations about our sectorial and regional positioning and focus may be discussed. We look forward to having these discussions and adjusting our priorities in 2017 if need be.

On the organizational level, we have been working to improve our discipline and focus. Being a more focused organization will enable us to be more effective with respect to implementation, while at the same time creating more room for renewal and innovation. To that end, in the course of 2016 we invested in our project management capabilities.

My predecessor, Nanno Kleiterp, left FMO per October 1, 2016, marking the end of his second term as FMO's CEO. I would like to thank Nanno sincerely for his outstanding contribution as CEO of FMO during his eight-year tenure and during the past twenty-nine years at FMO. Nanno led our organization through a phase of significant growth and professionalization, during which our focus on impact and sustainability grew markedly.

In my role as CEO, I will do my utmost to continue to develop FMO into an organization that makes a real difference and continues to be a pleasure to work for.

Jürgen Rigterink
Chief Executive Officer

2.2 EXTERNAL ENVIRONMENT

This chapter outlines the context in which we operate and that influences the needs of our stakeholders.

2.2.1 Sustainable Development Goals set the global development agenda

On 1 January 2016, the seventeen United Nations Sustainable Development Goals (SDGs) officially came into force. The Sustainable Development Goals call for action by all countries and parties – government, civil society and the private sector – aimed at, for example, ending extreme poverty, reducing inequality and tackling climate change by 2030. The SDGs are increasingly supported by businesses[9], governments, non-governmental organizations and the general public, aligning efforts towards achieving these common goals. This impacts various aspects of the global development agenda.

Stakeholder needs

The SDGs provide a framework for different stakeholder groups to align and prioritize impact objectives. Our stakeholders consistently indicate the importance of the SDGs, of which supporting economic growth and decent job creation (SDG 8), reducing inequality (SDG 10) and combating climate change (SDG 13) are a subset.

Risks, opportunities and dilemmas

The SDGs allow us to report our development impact in terms of their contribution to meeting the SDGs, using SDG terminologies and indicators. We do so throughout this report. Moreover, in some of the most crucial SDGs we recognize an opportunity to strengthen our focus on projects that foster progress, especially with regard to inclusive development. Such projects often have a higher risk profile and tend to be smaller in size, presenting us with the dilemma of how to balance growth of our inclusive portfolio with ensuring our financial sustainability.

Link to our strategy

- Supporting inclusive investments
- Growing a green portfolio
- Enabling sustainable business

2.2.2 Blending public and private capital to leverage impact

In the past, development banks were among the few parties to invest in developing countries. However, in recent years this has changed: public funds for funding private projects – in particular in energy and infrastructure projects[10] – have become increasingly available, sometimes at subsidized rates. During the same period, private investors' appetite for investing in long-term projects increased as well. High net worth individuals tend to invest in private investment funds, as such investment funds move fast and efficiently and have proven to be attractive partners for project owners in energy and infrastructure markets. This has also affected the competitive environment and market position of development banks like FMO.

Stakeholder needs

In this new environment, stakeholders urge development banks to behave as market makers, building investment opportunities with impact and risk profiles that meet the need of governments, private business and NGOs.

Risks, opportunities and dilemmas

We have the opportunity to attract public and private funding to invest in individual projects or unite into broader investment funds. In some cases public funding creates a dilemma, as they sometimes carry subsidized rates. By enabling projects that take longer to reach maturity and that would otherwise have been unbankable, subsidies can have positive effects, but nevertheless, in cases where proper criteria are lacking they can at times also distort markets.

Link to our strategy

- Catalyzing public and private capital

9. www.fmo.nl/news-detail/aa0223f3-0cca-449b-a344-fe10b7b75026/leading-dutch-financial-institutions-embrace-united-nations-sustainable-development-goals
10. www3.weforum.org/docs/WEF_Blended_Finance_A_Primer_Development_Finance_Philanthropic_Funders_report_2015.pdf

8 DECENT WORK AND ECONOMIC GROWTH 13 CLIMATE ACTION 17 PARTNERSHIPS FOR THE GOALS

– CASE A –

Syndication and green financing to support SMEs in Ecuador

With one of the highest population densities in South America, Ecuador is a relatively small but significant country that has experienced declining poverty levels and growing social equality in recent years. Still, its market environment remains challenging due to low oil prices in a fully dollarized economy. Continuous improvement of its investment climate and strong private sector activity are essential for Ecuador to diversify its economy and facilitate higher-quality jobs. The financial sector plays an important role here as it could provide finance not only to corporates but also to small and medium-sized enterprises (SME), and starting entrepreneurs.

Banking experience throughout the continent

Banco de la Producción S.A. Produbanco (Produbanco) is the third largest bank in Ecuador, majority-owned by Promerica Financial Corporation (PFC or Promerica Group) since 2014. The Promerica Group has operations in Ecuador, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, the Dominican Republic and the Cayman Islands. The group is a long-standing client of FMO.

Support through syndication

In 2016, FMO provided two facilities to Produbanco. The first was a syndicated term facility to be on-lend to SMEs for which FMO provided US$ 15 million and catalyzed US$ 28.75 million from Blue Orchard, US$ 13.75 million from Symbiotics, and US$ 2.5 million from Atlantic Forfaitierungs AG – all new lenders to Produbanco. This brought the total loan amount up to US$ 60 million, an excellent achievement in difficult market circumstances.

Additionally, FMO provided a US$ 10 million facility to Produbanco through a so-called green line, provided to be on-lend to green projects only. These projects can range from renewable energy solutions (e.g. solar panels) to efficiency projects in a broad variety of sectors, for example replacement of machinery or the upgrading of production processes. FMO's first green line in Latin America was closed with PFC's subsidiary in Nicaragua in 2014. The success of this project led to an alliance between the Promerica Group and FMO for the further roll-out of this concept to other countries. As part of this alliance, a green-line technical assistance project was set up to investigate further opportunities to introduce more green and value-add products to Promerica's clients. After Nicaragua and Costa Rica, Ecuador is the third country in which the Promerica Group is pioneering green lending.

Link to strategy
· Enabling sustainable business
· Growing a green portfolio
· Catalyzing private capital

Sector
Financial institutions

FMO arranged investment
US$ 60 million five-year syndicated term facility

FMO investment
US$ 15 million and US$ 10 million 'green line' loan facility

Country
Ecuador

Year of investment
2016

2.2.3 Stakeholders demand more transparency and accountability

An increasingly broad set of stakeholders – ranging from investors to government and NGOs – demands increased transparency and accountability. Key themes are the effectiveness and sustainability of financial sector investments, respect for human rights (especially land rights issues in areas with indigenous people), taxation and transparent reporting. This ties in with an international trend of structural change in the dissemination of information, as exemplified by disclosures of vast amounts of private information, such as WikiLeaks and the Panama Papers.

Risks, opportunities and dilemmas
We are committed to being open and frank about the way we do business. We are still learning how best to manage this, while at the same time gaining a clearer understanding of the impacts of our investments and our responsibilities in local contexts. Experience has taught us that attention to local issues is not always sufficient. As a result, we stepped up our efforts to avoid negative impacts and look for opportunities to do better. To facilitate this change process, we also seek constructive dialogue with NGOs on our progress and the limitations to what we can do, while maintaining focused on identifying mistakes. We continue to improve on transparency in our reporting, also demonstrated by our rise in the Transparency Benchmark from position 68 to 13 in 2016.

Link to our strategy

- Strengthening accountability

2.2.4 Facilitating Dutch corporates in developing countries

In the context of the Aid & Trade agenda[11], the Dutch government emphasizes the importance of support for domestic corporates that develop projects or set up business activities in developing countries. Also to that end, we provided input in 2016 and 2017 to the discussion initiated by the Dutch cabinet to set up a National Financing Institution for Development and Investment (Invest-NL).

Stakeholder needs
The government decided in February 2017 to set up Invest-NL. The aim is to provide export finance, risk finance for Dutch SME's and other foreign investment instruments for Dutch corporates that are unable to attract sufficient financing from the market.

Risks, opportunities and dilemmas
We see an opportunity to contribute to the bundling of the export and foreign investment instruments for Dutch corporates by setting up a Joint Venture with Invest-NL for our NL Business activities.

Link to our strategy

- Servicing Dutch corporates

2.2.5 Regulatory developments

Three years after CRD IV and CRR were finalized, the European Commission released a consultation regarding a revised Capital Requirements Directive and Capital Requirements Regulation. In a comprehensive package these revisions to CRD IV and CRR are likely to stretch important regulatory implementation into the next decade. Meanwhile, regulatory authorities have released a number of additional banking regulations aimed at improving the stability of the financial sector. At a global level, however, the Basel Committee on Banking Supervision announced that more time is needed to complete the final refinements to the reforms by Basel, also known as Basel IV. An important element of Basel IV is the proposed amendment to the standardized approach to credit risk.

Stakeholder needs
An essential part of FMO's added value as a development bank is our ability to provide clients in developing countries with long-term capital. Future regulation could limit this ability if the Basel IV proposals are implemented as currently proposed.

Risks, opportunities & dilemmas
Higher capital requirements for products, such as equity investments, challenge FMO to define mitigating measures, as providing high risk finance in developing countries is our core business.

Link to our strategy

- Enabling sustainable business

11. www.government.nl/topics/development-cooperation/contents/trade-and-development-cooperation

– CASE B –

Dutch expertise to improve local-for-local dairy production in Pakistan

At 38 billion liters produced on an annual basis, Pakistan is the third largest milk-producing country in the world. Farmers and smallholders sell their daily dairy goods at markets or through local stores where unprocessed milk is bought by families for consumption. Often, milk is distributed in pans, bottles, or other loose packaging with currently less than 10% of it being processed and offered in packages.

Demand for hygiene and quality in Pakistan's cities

With increased urbanization and a growing middle income class, however, an enlarged desire for higher quality and more hygienic milk has emerged. With this came a need for international standards, knowledge and networks, so that food security can be enhanced and the necessary requirements can be taken into account.

Support for smallholders in Pakistan's rural areas

FMO has supported Royal FrieslandCampina N.V. with the acquisition of Engro Foods Limited, the second-largest dairy company in Pakistan. Reaching 150,000 dairy farmers in Pakistan, Engro Foods continuously seeks ways to improve opportunities for farmers. An Engro Milk Automation Network payment system received multiple local and international awards for its Inclusive Business Innovation.

Sharing expertise

Supporting Dutch enterprises to invest responsibly is important to FMO. Dairy is an important sector in the Netherlands, with an export value of €7.2 billion. FrieslandCampina N.V. has built strong expertise in both milk procurement and the manufacturing of high-added-value dairy products. With the help of FMO's and IFC's emerging market knowledge and expertise, FrieslandCampina N.V. can now pass its standards and skills on to the Pakistani market.

Link to strategy
Servicing Dutch corporates

Sector
Agribusiness

FMO investment
€40 million

Country
Pakistan

Year of investment
2016

Estimate of jobs supported
1,600 jobs supported

Instrument
Equity

2.2.6 FMO's stakeholders and engagement

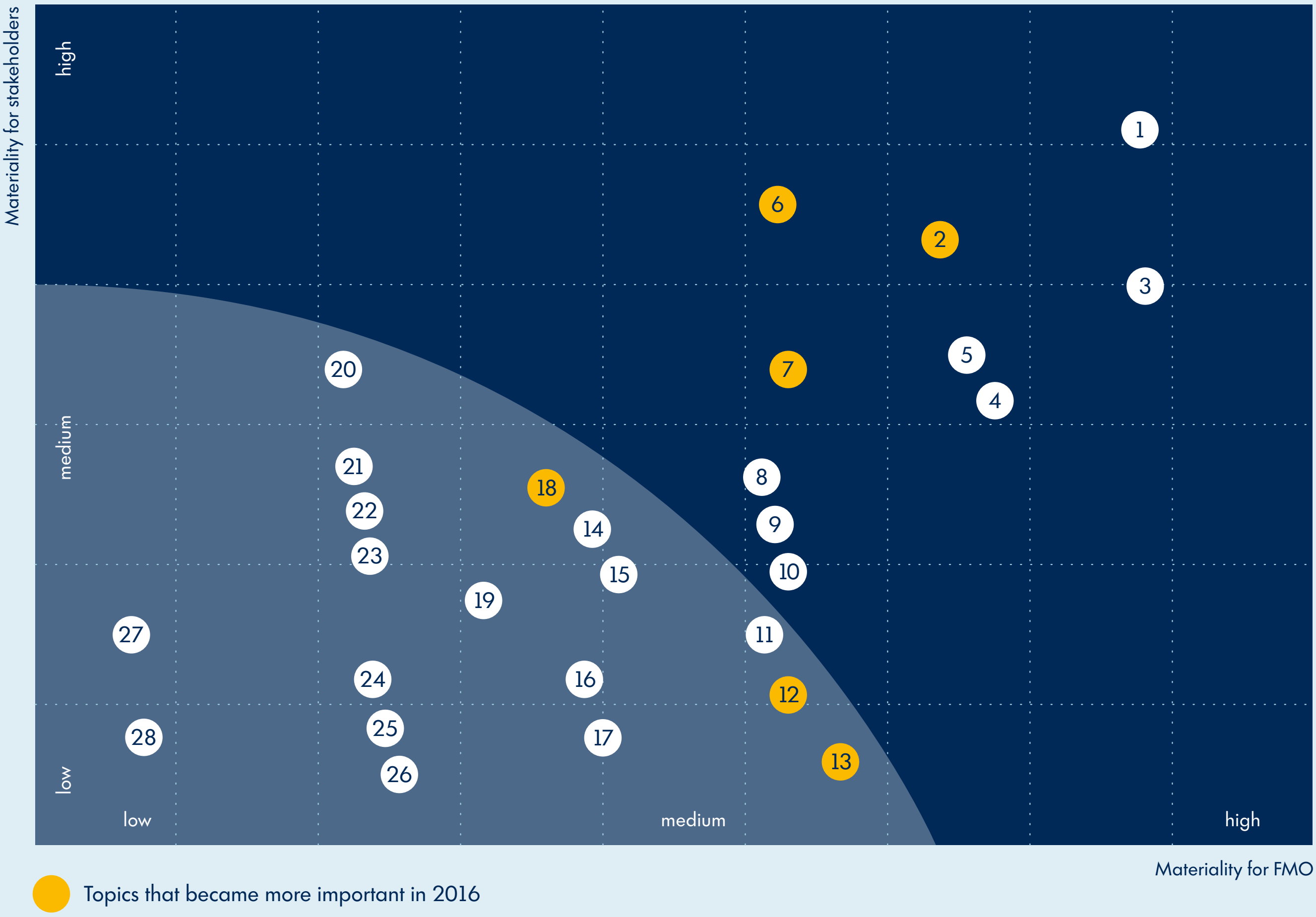
We actively engage with our stakeholders to find out what matters most to them, improving our decision-making and accountability in the process. We have identified FMO's stakeholder groups based on the influence they have on FMO's strategy as well as the extent to which they are affected by FMO's strategy.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

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

2.2.7 2016 materiality assessment

To establish what matters most to our key stakeholder groups we updated and validated the survey held in 2015. As 2016 was a year of extensive stakeholder dialogues, we chose to ask their input, in some cases using feedback collected during ongoing dialogues to see if and how stakeholder needs changed in the course of the year. The outcomes were verified by desk research and consequently used to update the 2015 survey results. The outcome of the materiality assessment is included in the matrix below, in which the major changes are indicated. For a detailed description of the topics included in the matrix please refer to the annex 'Glossary of terms'.

The results largely reflect the developments in our external environment in 2016, specifically the trends of increased demand for accountability and transparency, the adoption of the SDGs, and the increasing importance of combining aid and trade. The reporting process for this integrated report was guided by our strategic priorities, in combination and alignment with material topics from the matrix.



1 Development impact
2 Transparancy & Accountability » P.42
3 Financial sustainability and risk appetite of FMO
4 Client satisfaction
5 Additionality of FMO' activities
6 ESG risk management » P.36
7 Inclusive development » P.38
8 Catalyzing public & private capital
9 Environmental footprint of our investments
10 Innovation and knowledge management at FMO
11 Health and (travel) safety FMO employees
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13 Taxation (investment portfolio) » P.43
14 Local stakeholder engagement
15 Promote ESG best practices
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17 Employee development in FMO
18 Human Rights » P.42
19 Diversity and equal opportunity
20 Investing in resource efficiency and renewable energy
21 Biodiversity
22 Business integrity of FMO
23 Good labor practices and decent work conditions
24 Safeguard privacy of FMO's clients
25 Role in public debate
26 FMO's own direct environmental impact
27 Remuneration policy of FMO
28 Local presence

Making Solar Bankable

Conference

18 – 19 February 2016
Amsterdam

8.9
general evaluation

75
inspirational speakers

95%
of attendees would recommend the event to a friend / colleague

450
attendees from
44
different countries

750
one-one meetings facilitated

The first edition of this conference was held on 18 and 19 February 2016 in Amsterdam, focusing on **unlocking capital for new solar project development in emerging markets.** The conference was organized by FMO and Solarplaza, a solar event business. A project-pitch competition for local developers was held as part of this conference. Winner of the competition was **Africa Growth & Energy Solutions** with their portfolio development of solar photovoltaic power station projects in Sierra Leone.

2.3 OUR STRATEGY

We believe in a world where, in 2050, nine to ten billion people[12] live well and within the limitations of this planet. We empower entrepreneurs to build a better world by investing in businesses, projects and financial institutions. We provide capital, knowledge and networks to support sustainable growth.

We believe in a world where, in 2050, nine to ten billion people live well and within the boundaries of this planet.

2.3.1 Our strategy in summary

We work towards our ambitious goal of becoming the leading impact investor by doubling our impact and halving our footprint by 2020. We aim to do so by doubling the number of direct and indirect jobs supported by our investments as well as doubling the expected amount of avoided greenhouse gas (GHG) emissions per annum. These goals will be measured with respect to our annual new investments in 2018-2020 versus the 2010-2012 baseline period. These two goals represent two essential aspects of what our clients achieve in their markets: the creation of income – and hence jobs – in our markets in an environmentally sustainable manner, and in many instances avoiding GHG emissions.

We do not directly steer on the number of jobs created or amount of GHG emission avoided. Instead, we have opted for specific and measurable targets that can be managed well by our commercial departments and that support the creation of jobs ('new commitments') and the avoidance of GHG emissions ('green transactions'). In 2016 we measured our progress towards doubling impact and halving footprint by 2020 for the second time.

12. www.un.org/en/development/desa/news/population/2015-report.html

Strategic priority	Link with external environment	Stakeholder need	Key performance indicators	2016 targets	2016 performance
Enable sustainable business	SDGs set the development agenda	Development impact, additionality, client satisfaction, ESG risk management, human rights, taxation	· % ESG action items implemented · # jobs supported · Return on shareholders' equity · Capital ratio	· ESG action items due in 2016: 85% implemented · New commitments FMO & government funds: EUR 1.4 billion · Return on shareholders' equity: 6.2%	Paragraph 2.5.1, 2.5.2, 2.5.3
Support inclusive growth	SDGs set the development agenda	Inclusive development	· # smallholders financed · # of MSME loans · # of people served via power generation	· Strategic initiative: pilot inclusive investments	Paragraph 2.5.4
Grow green portfolio	SDGs set the development agenda	Indirect environmental footprint	· GHG avoidance · % green investments	· Green investments: 30% of total investments	Paragraph 2.5.1, 2.5.5
Catalyze public & private capital	Blending of public and private capital to leverage development impact	Enable impact investing, innovation and knowledge management	· EUR in catalyzed funds	· EUR 840 million in catalyzed funds · New commitments government funds: EUR 118 million	Paragraph 2.5.6
Strengthen accountability	Stakeholders demand more transparency and accountability	Transparency and accountability		· Strategic initiative: structured stakeholder engagement, including: · Strategic initiative: revise sustainability policy · Disclosure before contracting (ex ante) · Implement tax tool	Paragraph 2.5.7
Service Dutch corporates	Facilitating Dutch corporates in developing countries	Support Dutch corporates	· EUR new commitments related to Dutch corporates	· Strategic initiative: Project Development Facility	Paragraph 2.5.8

2.3.2 How we steer on our strategic goals

To attain the ambitious 2020 goals, we focus on a number of strategic priorities. Our experiences in 2016 as well as priorities stressed by our key stakeholders have influenced our strategic priorities going forward. The table shows how our strategic priorities are linked with the external environment and stakeholder needs, as well as how we steer on them.

Our strategic priorities reflect the way in which we steer our organization in an integrated manner to obtain our impact, footprint and financial objectives. Financial sustainability and our risk appetite are important preconditions: through maintaining a strong capital base and sufficient profitability, we secure our ability to continue to make investments and support development impact.

ENABLING SUSTAINABLE BUSINESS

We invest in our clients in a responsible way, taking account of applicable environmental, social and good governance standards, and ensuring compliance with regulations. If a client does not immediately comply with all applicable standards, we mutually agree on an action plan and support our clients with technical assistance. Lastly, we actively seek to enable cross-learning among clients through sector conferences or other events. We are convinced that investing in a responsible manner, and supporting our clients to run their businesses in a sustainable way, ultimately translates into sustainable financial results.

SUPPORTING INCLUSIVE DEVELOPMENT

We are stepping up our efforts to invest in projects that focus on inclusion of the poor in the formal economy. This is to be done by working with clients who are *directly* serving people at the Base of the Pyramid (i.e. earning incomes below USD 8 per day). Furthermore, gender equality is a universal human right, and we put particular emphasis on gender equality and gender diversity. Diversity in general tends to lead to better performance and more balanced decision-making by companies.

GROWING A GREEN PORTFOLIO

We have the ambition to grow our green portfolio materially. We invest in climate change mitigation mainly through projects involving renewable energy and energy efficiency. We also aim for investments in resource efficiency and the protection of biodiversity. Finally, as a Development Finance Institution (DFI) we also envisage a role in providing long-term finance for climate change adaptation projects – which are often large-scale infrastructure projects – provided that these are privately owned.

CATALYZING PUBLIC AND PRIVATE CAPITAL

We will continue our efforts to bundle public and private resources in our projects. Catalyzing commercial investors has always been one on of our key priorities, as has been the management of Dutch governmental funds. We are eager to attract public funds from other sources that are available now, in particular for projects that combat climate change, which allow us to make more high risk projects bankable, and in doing so provide additional investment opportunities for commercial financiers.

SERVICING DUTCH CORPORATES

FMO supports Dutch corporates that invest in developing countries by providing them with relevant networks and products. We have particularly strong ambitions in the field of export finance, seeking additionality in financing small to mid-sized transactions. In addition, building on the Partnership Development Facility (PDF) we are developing a strategic investment agenda for food security and climate adaptation and blueprint investment approach for the Netherlands with high development impact propositions for emerging economies. These propositions combine technical expertise, execution capacity, finance and offtake contracts.

STRENGTHENING ACCOUNTABILITY

We aim to be fully accountable to our stakeholders at the strategic, policy and project levels. Therefore we engage with our stakeholders and request their feedback on our strategy, policy adjustments and environmental and social sensitivities regarding our investments. Furthermore, we adhere to various international guidelines and principles that help us to improve and standardize our reporting.

– CASE C –

Supporting a sustainable timber industry in Rwanda

The majority of people in East Africa do not have access to the electricity grid. They use charcoal and wood as their main sources of fuel. Until they have an alternative source, the felling of natural forests will continue. Commercial plantations help to reduce the pressure on natural forests.

Economic and green growth
Without a well-functioning wood industry that can meet the growing demand for forest resources, Rwanda has to import the majority of its high-value timber products (e.g. furniture, transmission poles). Rwanda's developing its own domestic timber and wood based industry will drive economic growth by way of creating income, tax revenues and employment opportunities, especially in rural areas. It will also help to conserve indigenous forests, wetlands and woodlands if local, sustainably grown timber products come from responsible forestry practices.

Capable forestry management
The New Forests Company, headquartered in South Africa, is one of the leading forestry companies in East Africa, operating plantations, transmission pole plants and saw mills in Tanzania, Uganda and Rwanda. This company complies with the strictest international standards and has in-house expertise as well as a solid environmental and social management system in place. In Rwanda, the New Forests Company has acquired an existing plantation that had been unmanaged since the 1990s and functions as a buffer zone to protect the Nyungwe National Park from deforestation.

Long investment horizon
Growing trees until they are ready for harvesting takes time, requiring patient investors with a long investment horizon that most investors do not want to commit to. That is where FMO and Finnfund lead the way by together providing a USD 15 million senior loan. The trees of this plantation will be used as transmission poles for the rural electrification program of the government of Rwanda.

As Sima Dube, CEO of The New Forests Company Rwanda, underlined: "FMO is supportive of our integrated framework, which we call 'Shared Value' – the next generation of social enterprise in which we identify all of our stakeholders – social, environmental and commercial – and build win-win strategic partnerships with them to create more value that we can all share. FMO believes in our vision of companies as drivers of sustainable, robust economic growth across the African continent in a new model that prioritizes social, economic and environmental impact in addition to profits."

Link to strategy
Growing a green portfolio

Sector
Energy

FMO investment
US$ 7.5 million from the Infrastructure Development Fund that FMO manages on behalf of the State of the Netherlands.

Country
Rwanda

Year of investment
2016

Instrument
Senior loan

Jobs supported
154 jobs supported (June 2016)

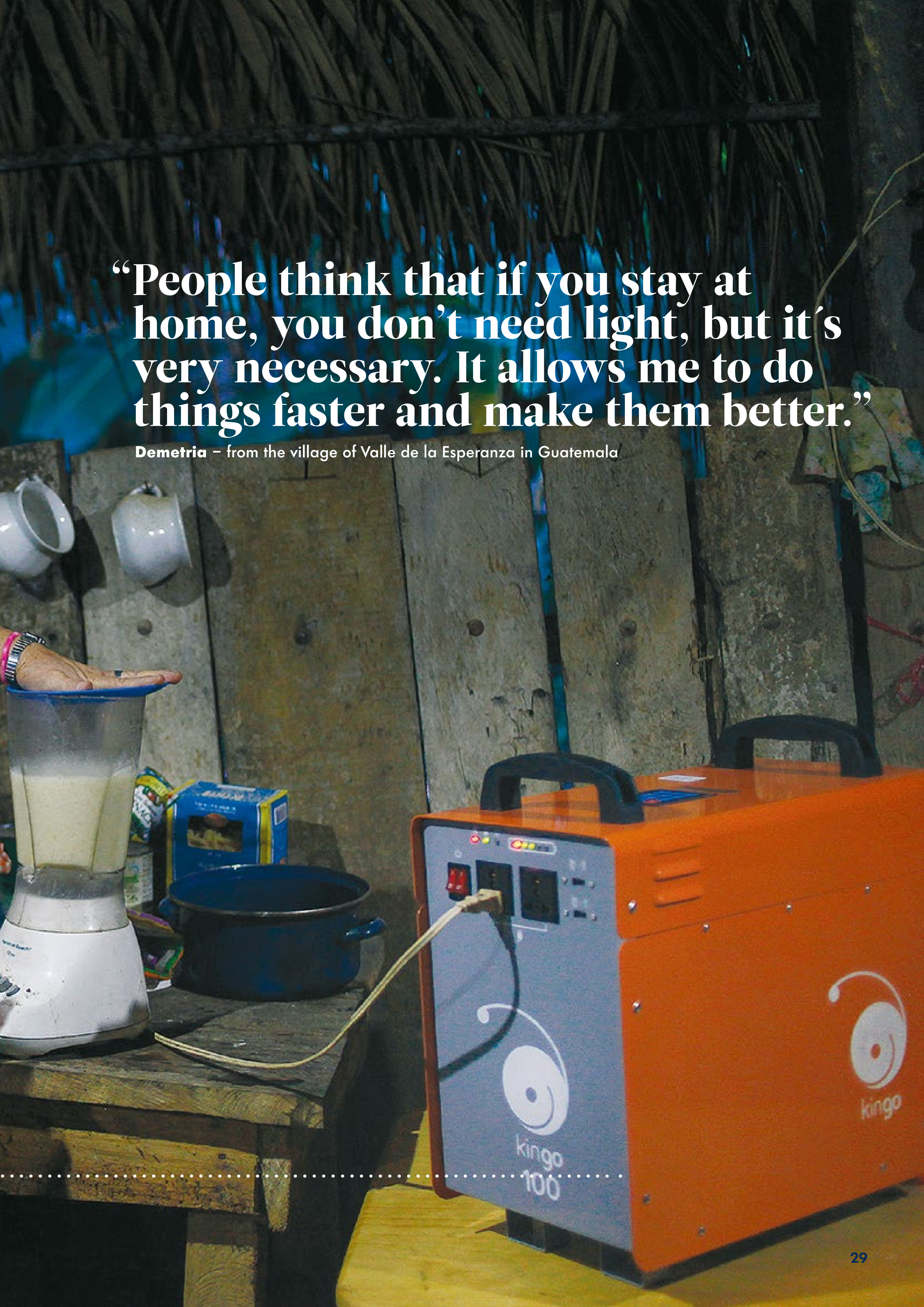
Avoidance of CO_2 emissions
FMO is financing a research project to properly calculate CO_2 avoidance for forestry projects.

Conservation area
- 14% of the plantation is conservation area.
- Plantation uses mosaic forestry to promote biodiversity and creates a buffer zone to protect Nyungwe National Park, over 1,000 km2 of natural tropical rain forest.

Out grower program for Rwanda (June 2016)
- 90-farmers received 160,000 seedlings in out-grower scheme pilot.
- 200,000 seedlings raised by out-grower nursery cooperative with 78 members.

Other related impacts
- Six water sources protected, providing clean water to 320 households.
- Treated poles provided for community electrification, connecting 80 households.

Kingo Energy provides prepaid solar systems to rural communities that lack access to an electricity grid. Families with a Kingo no longer need to rely on candles, kerosene or batteries for light and power in their homes and they can turn off their noisy and expensive diesel generators. In 2016, FMO invested US$2 million in Kingo from the Infrastructure Development Fund that we manage on behalf of the Dutch State.



"People think that if you stay at home, you don't need light, but it´s very necessary. It allows me to do things faster and make them better."

Demetria – from the village of Valle de la Esperanza in Guatemala

2.4 OUR BUSINESS MODEL

The diagram presents our business model, which makes use of elements of the International Integrated Reporting Council (IIRC) reporting framework while focusing on the elements that are most relevant to us. It shows how FMO as an organization creates value for its stakeholders, by steering on the strategic priorities that we set and by making use of the various financial and non-financial capitals (inputs) that we control.

Our partners allow us to increase our impact beyond our own financial means.

Our strategic priorities
The diagram shows that our strategic priorities – as well as our underlying mission and vision – are developed and adjusted in response to our immediate stakeholders. Naturally, we align our priorities to broader worldwide developments and priorities. The SDGs are of overarching importance, as they provide a global framework that supports FMO to steer its priority areas for impact.

Our key inputs
Our solid track record as a development bank demonstrates that we have cutting edge knowledge of ESG and commercial finance in developing countries. This strength is supported by an internal culture that is characterized by a drive to fulfill our mission and the willingness to take risks, balanced by our risk awareness. Our employees exemplify our corporate values: engagement, excellence, cooperation and making a difference.

Our networks are a crucial part of our business model, including networks of clients or financial partners as well as knowledge partners. Our financial partners are other development finance institutions, commercial investors and banks as well as governments. These partners are central to our business approach, as they leverage our own capital, allowing us to increase our impact beyond our own financial means. Our knowledge partners facilitate the transfer of best-practice knowledge to our clients.

A key factor is our AAA credit rating, as this allows us to attract funding at affordable rates. Our AAA rating follows from our ownership structure (the State of the Netherlands owns 51% of the shares) and the Dutch state guarantee.

External environment

Sustainable Development Goals

Input

Social and relational capital
Network of clients, financial partners, government, and civil society

Intellectual and human capital
Cutting edge knowledge on ESG and finance

Financial capital
AAA rating supported by strong capital base and Dutch government as a shareholder

Grow a green portfolio

Support inclusive development

Enable sustainable business

Catalyze public and private capital

Servicing Dutch corporates

Strengthen accountibility

How we create value

Financial,social and relational capital
Financially strong and healthy clients with high rates of satisfaction

Financial capital
Maintain FMO as a strong institution with risk-bearing potential and growth capacity through profitability

Human, social and relational capital
Support economic prosperity, income and jobs in main-stream business and the bottom of the pyramid

Natural, social and relational capital
Support sustainable development with attention for climate change, equal opportunities and human rights

Our stakeholders

Clients (local, NL), Dutch state, Shareholders, Employees, NGOs, Investors, Local communities

2.4.1 Our investment process

The diagram explaining our investment process illustrates the sequence of process steps that we follow to create value *on the individual project level*. For any project, the same inputs apply, the same strategic priorities are followed and our value creation is aligned with the value creation that is sought at the corporate level.

How we invest
We strive to create sustainable impact in developing countries. To support our efforts in this area, we have a framework in place – the FMO Sustainability Policy Universe – consisting of policies and tools that guide our behavior and way of working. This integrated approach, which ensures sustainability is at the heart of our operations, is aligned with the Sustainable Development Goals.

1

Sourcing

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

Our initial assessment focuses on factors as country, investment plan, development impact and our role as financier. Increasingly, we steer our investments towards projects that foster a transition to a more inclusive and greener economy.

2

Screening

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

To ensure that the client complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations, we conduct a Know-Your-Customer assessment. Furthermore, we categorize the project based on its potential effects on environmental, social and human rights conditions, as well as governance structures benchmarked against the IFC Performance Standards.

3

Due diligence

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

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

Applicable investment policies, guidelines and tools

For stages 1, 2 and 3:

- Sustainability policy, including position statements
- Country selection
- Investment criteria
- Exclusion list
- Know-Your-Customer policy
- Anti-bribery & corruption

For stage 4:

- Disclosure policy, including early disclosure of potential investments
- Active stakeholder engagement

For stages 5 and 6:

- Capacity development program
- Board participation (through private equity investments)
- Exchange programs and network events
- ESG masterclass, toolkits
- Disclosure
- Independent Complaints mechanism

6 Monitoring and value creation

Throughout the lifetime of the investment we monitor our clients' financial performance as well as progress with regard to the environmental, social and governance requirements.

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

5 Contracting

For each investment, we have assessed the environmental, social and governance risks, identified where improvements can be made, and established action plans for further development.

After internal approval, we sign an agreement with our clients to ensure that our requirements and conditions are legally binding. We disclose our investments on our website after contracting.

4 Stakeholder engagement

In addition to regular meetings and dialogue sessions with our main stakeholders, we also give stakeholders the opportunity to provide input for our decision-making on new transactions with a high environmental or social risk profile.

In 2016, we started to disclose the potential investment online to ensure that we have not overlooked any important concerns. From identification to implementation, we consult key stakeholders to properly assess, monitor and manage the impacts of the project.

The Future of Finance Conference

25 – 27 September 2016
Noordwijk

8
general evaluation

460
a record number of 460 participants

4th
4th edition of the Future of Finance conference

66
from 66 different countries

From 25 – 27 September 2016 the FMO's Future of Finance conference was held in Noordwijk, in the Netherlands. Invitees are FMO's financial institution clients, investees and partners. This edition took the attendees 'Beyond banking', reflecting on the future of the banking industry. Her Majesty Queen Máxima of the Netherlands received the book 'Banking for a Better World' from Nanno Kleiterp, previous CEO of FMO. The conference serves as a platform for networking, sharing ideas and aspirations.

2.5 PERFORMANCE ON OUR STRATEGY

In the course of 2016 we attained many of our strategic targets, created lasting development impact and maintained a solid financial position. Yet 2016 was also a challenging year for FMO, in which we coped with new market dynamics and worked on our approach to managing increasingly complex stakeholder relationships.

2.5.1 Doubling our impact & halving our footprint

Through our new commitments in 2016 we supported a total of 812,000 direct and indirect jobs (2015: 843,000), while avoiding 500,000 tons[13] of greenhouse gas (GHG) emissions (2015: 787,000).

The number of jobs supported is smaller than in 2015, because of a lower volume of investments. Approximately 26% of the total number of jobs for 2016 is supported by investment vehicle Arise, due to its high commitment (EUR 190 million), the applicable equity multiplier and the combination of Sub-Saharan Africa and SME. Important drivers for impact are investment volumes and the number of jobs supported per euro. Generally, the latter is determined by choices for sectors (e.g. SMEs and Microfinance are more labor intensive), products (equity has a large impact) and countries (the poorest being more capital extensive). We note that the number of jobs of 2015 was changed because the Equity Multiplier for Debt Funds in the Impact Model was removed, changing the number from 858,000 to 843,000 jobs. This multiplier was removed since the money is ultimately invested in debt products. More background on the methodology of our Impact Model and the key assumptions used is presented in chapter 8.4.

Important parameters for GHG avoided are volume of investments and GHG avoided per euro (for instance higher for Equity and depending on energy efficiency in countries). The decrease in GHG avoidance in 2016 is due to a lower volume of green investments (EUR 519 million versus EUR 685 million in 2015), a lower volume of energy investments and fewer green investments in private equity. In addition to these volumes, there were a few green investments with very high GHG avoided ratio per euro in 2015, which did not occur in 2016. As these green investments significantly drive the GHG avoided, we realize that green investments remain very important and we maintain our ambitions with regard to green volumes and percentages.

We note that the GHG emissions avoided in 2015 were changed because the Equity Multiplier for Debt Funds in the Impact Model was removed, changing the amount from 936,000 to 787,000 tons. The Baseline figures for GHG avoided (2010–2012 period) changed for this reason from 600,000 to 500,000 tons (see also paragraph 8.4).

2.5.2 Enable sustainable business

FMO aims to be additional with its investments, meaning that we provide products and services which the market does not provide, or does not provide on an adequate scale or on reasonable terms. Additionality is an important aspect of our investments. FMO provides financial additionality by providing financial products that are not readily available from commercial banks or investors on workable terms and conditions. FMO can also provide ESG inputs that other parties do not provide: this applies if FMO offers unique value-adding services or provides unique expertise in ESG standard setting or in enhancing green and inclusive outcomes that are of value to the client. Last year 100% of the approved investments were additional: 59% were financially additional and 41% were both financially additional and ESG additional.

An essential part of enabling sustainable business is ensuring compliance with applicable ESG standards. This not only prevents potential ESG risks but in most cases also improves business for our clients. In case of high ESG risk, we mutually agree on an action plan which should result in full compliance within a reasonable time period. For 2016 we set ourselves the target of implementing 85% of the actions due in 2016. By the end of the year 87% of actions due had been implemented.[14]

We also supported our clients' businesses by providing finance in local currencies. Local currency loans allow these end clients to borrow more local currency, reducing their exposure to volatility in exchange rates. A case in point was the first ever offshore Tajik Somoni linked bond. Client needs were also put at the heart of the conversion of an outstanding dollar facility to a local currency

13. The avoided tons of GHG could, in a comparatively straightforward manner, be monetized by applying a societal cost of carbon (SCC). Numerous studies (including the Stern Review; US EPA; UK Government) have calculated the SCC as the price of the damages caused by each additional ton of carbon dioxide (CO_2) released into the atmosphere. Most of these studies have found a SCC between USD 50-150 per ton of CO_2. In 2016 FMO investments avoided 500,000 tons of CO_2eq which if multiplied with the midrange value of USD 100 implies the mitigation of an externality costed at USD 50 million. FMO does not use this figure in decision making, but seeks financial return, development impact and sustainability impacts (including GHG avoidance), each in their own right, across its investments.
14. During 2016 a revised process for changing the due dates of ESG action items was implemented. Instead of the definition of acceptable changes to the target that was previously used (e.g. 'Force Majeure'), a second line of defence (the credit department) approves the change request. For 12.7% of the total action items due in 2016 (not event related) a change request was approved.

812,000
Direct and indirect jobs supported (FTEs)

500,000
Avoided GHG emissions (tCO_2eq)

21%
Green investments as share of total investments
Target: 30%

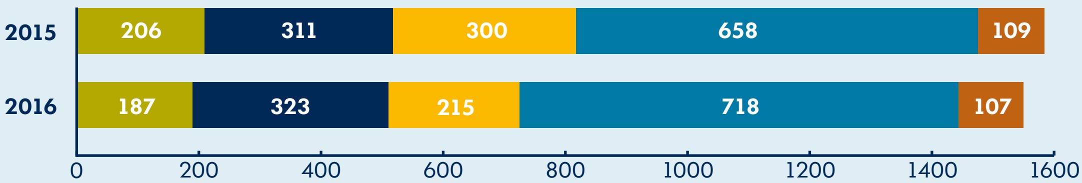
87%
ESG action items due to be implemented in 2016
Target: 85%

€1.6 billion
Total new contracts FMO and government funds
Target: 1.4 billion

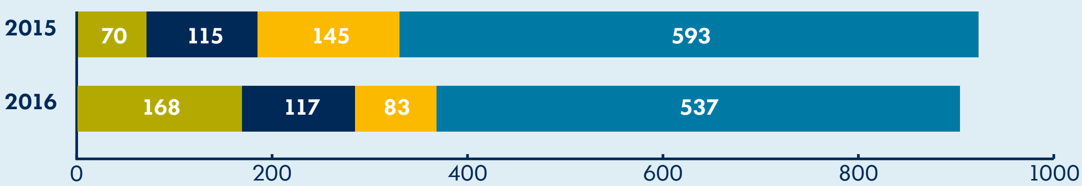
6.7%
FMO's net 5-year average return on shareholders' equity
Target: 6.2%

€905 million
Additionally catalyzed from third parties
Target: 840 million

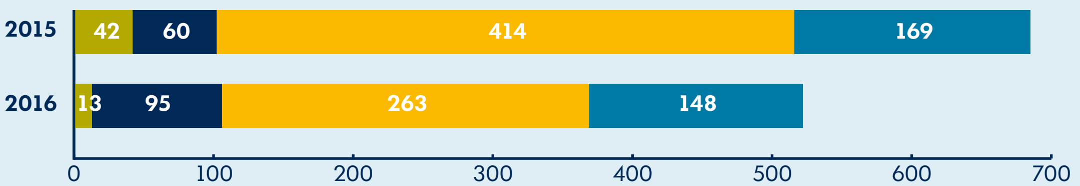
FMO & Government funds new commitments (× EUR mln)



Catalyzed funds (× EUR mln)



Green investments (× EUR mln)



Agribusiness · Infrastructure, Manufacturing & Services · Energy · Financial Institutions · Multi-Sector Fund Investments facility for a bank in Azerbaijan. Given the strong depreciation of the Azerbaijani manat in 2016, this provided substantive financial relief to the local bank concerned and improved the credit quality of our Azerbaijani credit portfolio.

An important aspect of the added value that we provide our clients with is our ability to deliver more than just financing. In 2016, we supported 71 clients with expertise them through our Capacity Development instrument. Also through Capacity Development we initiated the so-called Green Study Tour, entailing a visit from Indian and Cambodian microfinance companies to Bangladesh to share Indian and Cambodian experiences on how to finance clean cookstoves and small solar devices with Bangladeshi microfinance clients.

In addition, we organized a number of internationally leading conferences and seminars, aimed at building networks through which lessons and opportunities can be shared between clients from different regions and countries. Conferences organized in 2016 included the Making Solar Bankable conference in Amsterdam. This conference focused on the future of solar energy and on mechanisms to make it bankable, through both off-grid and rural solutions. The conference welcomed almost 500 participants and included more than 250 energy-related companies from over 40 countries. Other conferences included the Future of Finance conference – for FMO's financial institutions clients – and the gender conference organized with the Global Alliance on Banking for Women.

In November 2015, an independent external consultancy firm performed a client satisfaction survey, to gather input on the general satisfaction of our clients and specifically on qualities and added value, loyalty, capacity development and knowledge transfer, and our extended network. With a score of 8.6 out of 10, the outcome on client satisfaction was seen as positive, both in absolute terms and relative to results of the survey that was held in 2012 (8.3 out of 10).

2.5.3 Financial sustainability

In the context of an uncertain economic environment, we managed to record a net profit of EUR 176 million. This translates into a return on shareholders' equity of 6.7%, which is higher than the targeted level of 6.2%. Although bottom line results were positive, the underlying performance was more mixed.

Our loan and equity portfolio increased from EUR 5.8 billion in 2015 to EUR 6.4 billion in 2016. Due to the mixed economic environment, non-performing loans[15] increased, from 6.9% in 2015 to 7.5% in 2016. Our portfolio quality was safeguarded by the diversification we aim for when making our investments, in terms of both countries and sectors. The net value adjustments on our loan and guarantee portfolio amounted to a net release of EUR 43 million. This release is mainly the result of the re-assessment of certain parameters of our group-specific provisioning and declining risks in some of our countries and regions. The net release of the value adjustments on our loan and guarantee portfolio was partly offset by an increase of value adjustments on the equity portfolio related to client-specific circumstances and decline of stock market prices in some countries.

Results from private equity for 2016 were below expectations. Following macroeconomic uncertainties (among other things, surrounding US monetary policy) and lower forecasts for corporate earnings in emerging markets, private equity markets were volatile, with a limited appetite for exits. As a consequence, exit results in 2016 amounted to EUR 39 million – only half of the EUR 80 million which had been expected for the full year.

Our Common Equity Tier 1 (CET1) ratio declined slightly from 22.9% in 2015 to 22.7% in 2016. Though FMO's capital further strengthened as a result of high net profits and an increase in Available for Sale reserves, the significant increase in Risk Weighted Assets abrogated the initial increase in our Common Equity Tier 1. Increase in Risk Weighted Assets is caused by growth of our loan portfolio and equity investments during 2016, having a downward effect on the CET 1 ratio.

Capital market operations in 2016 supported our net cash needs resulting from our investment and market operations. We issued our third sustainability bond[16], this time denominated in Swedish krona with a total size of SEK700 million (equivalent to EUR 74 million), proceeds of which shall be used to fund green and inclusive finance projects. FMO has disbursed EUR 1.1 billion to eligible projects in the period November 2012 – December 2016.

For further elaboration on solvency, liquidity and financial instruments we refer to the section Risk Management in our Annual Accounts (page 97).

2.5.4 Supporting inclusive development

For many years we have focused on inclusive finance through microfinance, rural-based infrastructure and agriculture. Below we have stated the inclusive development results for the companies and projects in our portfolio. The portfolio scope is new compared to the Annual Report 2015 where we reported the same indicators only for new commitments during the reporting year.

15. Non-performing loans are loans with a counterparty-specific value adjustment and/or loans with interest and/or principal payments that are past due 90 days or more.
16. For sustainability bonds see www.fmo.nl/sustainability-bonds

7 AFFORDABLE AND CLEAN ENERGY | 8 DECENT WORK AND ECONOMIC GROWTH | 17 PARTNERSHIPS FOR THE GOALS

– CASE D –

Adding value to the financial sector of Nepal

Landlocked between India and China, Nepal's economy is ranked 109th globally with a GDP of US$ 20 billion. The country was hit hard by a devastating earthquake in 2015, leaving over 9,000 people dead. Many Nepalese not only lost their families but also saw their country's infrastructure and energy connections damaged or destroyed.

Strengthening the financial sector by adding value
FMO is the only Development Finance Institution with an equity stake in the Nepalese banking sector. Its first investment was in the Clean Energy Development Bank (CEDB) in 2008. In 2015 CEDB merged with NMB, as well as with the three smaller banks Bhrikutee Development Bank, Pathibara Bikas Bank, and with Prudential Finance Company Ltd. Parallel to this merger, FMO increased its stake to 20% to support NMB and assist the wider financial sector in Nepal, for instance through value adding programs focusing on strategy support, improved corporate governance and risk management with respect to environmental and social issues.

Financial support for the renewable energy sector
Through the development of the financial sector, FMO aims to indirectly support Nepal's renewable energy sector. NMB contributes to renewable energy, for instance by financing solar, biogas, and micro and medium sized hydro-companies. It also financed rural electrification initiatives to enable villagers to be self-sufficient in generating their own alternative source of energy.

FMO will assist the bank to become market leader in managing environmental and social risks and strengthening its corporate governance structure. Pawan Kumar Golyan, Chairman of NMB Bank, said: "This is an important milestone for NMB Bank, which positions the Bank with stronger foothold in supporting projects that will not only impact the industry segments that we invest in, but will also be a catalyst in shaping economic growth in the country."

Link to strategy
· Enabling sustainable business
· Catalyzing private capital

Sector
Financial Insitutions

FMO investment
FMO invested US$ 30 million for a 20% stake in NMB Limited

Country
Nepal

Year of investment
2016

Instrument
Equity

Sector	Impact indicator	31-12-2016	31-12-2015
Financial Institutions	Number of SME loans	1,200,000	1,200,000
	Number of micro loans	24,400,000	23,000,000
Agribusiness	Number of smallholders supported	1,200,000	600,000
Energy	Equivalent number of people served via power generation	31,700,000	26,800,000

The number of micro loans and SME loans in our FI clients portfolio has remained at a similar level as in 2015. The steep increase in the number of smallholders supported is due to the investment in 2016 in Ecom Agroindustrial Corporation, which has an active support program for farmers. The increase in the equivalent number of people served via power generation reflects the increase in operational power projects and the improved data collection for power projects financed via private equity funds.

For further elaboration on used reporting definitions for these indicators we refer to paragraph 8.5.

Scaling up of inclusive finance in Africa
A key investment in 2016 was our participation in the establishment of the Arise investment company. Arise is a partnership of Norfund, Rabobank and FMO in which a large number of minority equity investments in financial institutions in Africa will be pooled, with a portfolio that can further expand to a total size of USD 1 billion. FMO invested EUR 190 million in Arise, making it FMO's largest private equity investment to date. Setting up Arise will contribute to the scaling-up of inclusive financial systems in Africa by providing finance and knowledge to local financial institutions based on the expertise of the founding partners in rural finance, marketing, and integrated risk management.

Financing women
It is our ambition to strengthen our involvement in projects which serve people at the Base of the Pyramid directly, with a particular focus on financing women. We are in the process of finalizing a gender strategy. In the meantime, we have piloted providing gender finance through financial institutions. We invested EUR 26 million in the Women Entrepreneurs Debt Fund (see the case on page 157) and organized a conference together with the Global Banking Alliance for Women. For this conference we invited many of our financial-institution clients in order to increase understanding of the development of loan products specifically aimed at women entrepreneurs.

2.5.5 Growing a green portfolio

In 2016, 21% of total new commitments for our own account, funds managed for government and catalyzed funds concerned green investments. The percentage of green investments was below our target of 30%, mainly because we financed fewer and smaller renewable energy projects than we had foreseen.

These results partially reflect new market dynamics in renewable energy finance. 2016 saw a further increase in public and private investors' appetite for investing in the renewable energy sector. On the one hand this offers opportunities for 'blending' public and commercial funding, thereby increasing investments in the sector. On the other hand, as the increased supply of funding is not yet matched by an increase in good-quality renewable energy projects, competition for available projects increased.

To get back on track towards doubling GHG avoidance by 2020, we will develop new green initiatives and projects going forward, some of which will go beyond renewable energy in areas such as waste and resource efficiency. Sustainable forestry, for example, also has strong potential and will have our interest going forward. The closing of a debt transaction with New Forest Rwanda in 2016 is a successful step towards building experience in this area (see the case on page 27).

FMO has joined forces with a number of other prominent Dutch financial institutions in the Platform Carbon Accounting Financials (PCAF) initiative. PCAF aims to improve and harmonize carbon footprinting in the financial sector to help and inspire the financial sector to formulate ambitions and track progress in decarbonizing the economy. At the international level, FMO participates in the International Financial Institution Framework for a Harmonized Approach to Greenhouse Gas Accounting. This initiative works towards harmonized approaches for greenhouse gas accounting among development banks and other international finance institutions. To date this has resulted in concrete guidance on the harmonized accounting of greenhouse gas emission reductions from investments in renewable energy,

8 DECENT WORK AND ECONOMIC GROWTH | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 10 REDUCED INEQUALITIES | 17 PARTNERSHIPS FOR THE GOALS

– CASE E –

Supporting Myanmar's mobile connectivity

Emerging from decades of isolation, Myanmar's communications sector has radically evolved in recent years. Growth is impressive, but operating in Myanmar remains a complicated undertaking. In this fragile state, FMO supports the expansion of affordable and widely available mobile communications services through financing the operations of Irrawaddy Green Towers, an independent tower company.

Unlocking rural areas

From the start, Irrawaddy Green Towers has focused its tower rollout especially on rural areas, where over 65% of the people live. Currently, the company is rolling out telecom towers for all the major operators across Myanmar. The telecom infrastructure unlocks opportunities for people by providing first-time access to better quality mobile communications services.

Thorough approach

To assess the risks and opportunities, we undertook detailed research and spoke with management and key stakeholders to understand their motivations, challenges and working methods. As our fellow lenders and we maintain a zero-tolerance approach to any form of unethical behavior, just sponsors the company fully complies with and adheres to the strictest standards, set down in policies that apply to employees, contractors and partners.

Due diligence

As part of due diligence, our Environmental & Social (E&S) expert together with a local Human Rights expert made a number of field trips to visit construction sites and meet employees, contractors and subcontractors, management and local stakeholders. Key focus areas reviewed include human rights risks related to land rights, labor conditions, and security in conflict areas. Together with the company we established a complaints mechanism as part of a broader stakeholder engagement plan. As the country suffers from a lack in clarity over land property rights, the company hires local people to identify suitable sites. It has clear procedures for properly establishing ownership, leasing site plots and community engagement.

Safety & security

With regard to health and safety, the Environmental & Social Action Plan (ESAP) as prepared in close cooperation with the company contains actions to ensure that local contractors and subcontractors work according to the same standards as Irrawaddy's own employees. Security remains an issue in a country with ongoing ethnic and religious conflicts, which is contaminated with landmines. Together we introduced enhanced checks and clear procedures for site exploration and tower building in these regions.

Link to strategy
- Enabling sustainable business
- Supporting inclusive development (many people can get first time access to telecom services)
- Catalyzing private capital

Sector
Infrastructure, Manufacturing & Services

FMO arranged investment
- US$ 70 million (2016)
- US$ 122 million (2015)

FMO investment
- US$ 12 million (2016)
- US$ 24 million (2015)
- US$ 18 million from the Infrastructure Development Fund that FMO manages on behalf of the Dutch government

Country
Myanmar

Years of investment
2015, 2016

Instrument
Subordinated and Senior Loans

Jobs supported
- During construction of in total 3,500 telecom towers: thousands of (mostly short-term) local jobs to prepare and maintain the sites across Myanmar and hundreds of jobs for contracting firms that build the towers.
- 324 jobs supported at Irrawaddy Green Towers

Avoidance of CO_2 emissions
- Installed more than 1,000 sites with Grid connections. Reducing the dependency on Diesel Generator.
- Commenced replacing diesel generation with solar power supply, 100 units added in 2016. The intent is to double the number of solar units by 2017.

energy efficiency and transport improvements. In collaboration with the UNFCCC the group intends to further extend and improve these harmonized approaches.

2.5.6 Catalyzing public and private capital

An important aspect of the SDGs is that they foster alignment among various stakeholders in working together towards meeting the SDG targets. This has added a further impetus to our efforts to attract new sources of finance for FMO's projects.

In response to market developments in the renewable energy sector, we undertook efforts to attract public sources of high-risk capital, blending these funds with our own and commercial funding, so that more projects could be made bankable. These efforts have been successful. We had a leading role in initiating setting up the management company for the ElectriFI fund, which included an initial EUR 75 million EU funding for early stage finance (grants, equity and debt) aimed at making renewable energy projects bankable.

We were also pleased to have been granted the mandate to continue managing the MASSIF fund for the Dutch government. We will continue to support financial inclusion for micro entrepreneurs and SMEs with a particular focus on fragile countries, agricultural and rural livelihoods, gender finance, and innovations in inclusive business.

New commitments for government funds (€ × mln)	2016	2015
MASSIF	58	69
IDF	48	108
AEF	12	7
FOM-OS*	-	-
	118	**184**

Committed portfolio for government funds (€ × mln)	2016	2015
MASSIF	594	562
IDF	525	521
AEF	93	81
FOM-OS*	27	30
	1,239	**1,194**

* New FOM-OS activities were transferred to RVO as of mid-2014

Another important step was our accreditation to the multilateral Green Climate Fund, allowing us to submit financing proposals that contribute to climate change mitigation and adaptation.

Moreover, we also supported efforts by our Climate Fund Managers joint venture company towards the closing of Climate Investor One – an innovative fund targeting renewable energy projects in emerging markets that is expected for the first half of 2017.

We also actively participated in the Dutch SDG Investing Initiative, exploring opportunities to jointly step up SDG investments. The resulting report identifies areas in which collaboration with DNB and the Dutch government will unlock greater SDG investments by all. FMO, together with PGGM, led the working group on Blended Finance, exploring opportunities for combining public and private capital in order to scale up SDG investments.

In order to attract more private finance into our projects, FMO Investment Management launched the FMO Privium Impact Fund, which is available to private banking clients of ABN AMRO MeesPierson. This fund co-invests in FMO's investments in financial institutions, renewable energy, agribusiness and telecom infrastructure, making it a proposition that is attractive for the development impact that it generates, while enabling a well-diversified portfolio with an attractive risk and return profile. By the end of 2016 EUR 42 million had been entrusted to the fund, demonstrating its success in the market.

FMO Investment Management continued to advise on new loan participations for the EUR 153.5 million ACTIAM FMO SME Finance Fund and in the course of 2016 worked towards full investment of this fund, as the investment period will end in January 2017. By the end of the year, the fund participated in loans at a total value of EUR 131 million, provided by FMO to 36 financial institutions that focus on SME lending in their respective markets.

In addition to these new initiatives, we continued to be active in catalyzing commercial finance through our syndication activities. In addition to the co-investments of FMO Investment Management, a total amount of EUR 823 million was financed through syndications in 2016, bringing the total of catalyzed funds to EUR 905 million.

2.5.7 Strengthening accountability

Human rights issues in 2016
In March 2016, Honduran environmental activist and indigenous leader Berta Cáceres was murdered. The FMO financed Agua Zarga project was one of the projects she opposed together with the Non-Governmental Organization COPINH, which she led. As one of the lenders to this project we are shocked and deeply regret her violent death. We have called

upon the President of Honduras to conduct a thorough investigation and hold the murderers to account.

The Agua Zarca project is planned to be a small-scale run-of-river hydro-electricity scheme of 21MW, with an annual energy production of 99GWh. The Honduran company DESA is its owner and developer. FMO co-finances the development of this project because its construction will provide clean and sustainable energy to Honduras, a country that is largely depending on fossil fuels. The project generates jobs, clean energy (also to the local community) and helps to reduce poverty.

In early May 2016, several people were arrested in Honduras as part of the investigation of the murder of Ms. Cáceres, among them a person employed by our client. On 9 May, we decided to seek a responsible exit from the project. Together with relevant stakeholders we have been working throughout the rest of the year until today, to assess how a responsible exit could be organized, centered around the interests and needs of the local communities.

Implementing lessons learned
As the year progressed this event received much attention from our senior management (including our Management Board), who also took account of an ongoing matter (the Barro Blanco project in Panama) and a new issue concerning the Sendou project in Senegal, which was accepted as an official complaint by our independent expert panel (see **www.fmo.nl/independent-complaints-mechanism**).

Intense discussions were held with clients, civil society, local governments and the Dutch government. We immediately incorporated the lessons learned into our engagement processes at various levels of the process for improvement, as stated below.

At the policy level, we entered into a constructive dialogue with a large number of stakeholders in preparation of our **sustainability policy**. This policy sets out our commitment to sustainable development, our vision and strategy, and the principles and policies that guide our practical approach at the level of investments. A draft policy was distributed to public and private stakeholders and NGOs for consultation, after which almost 300 comments were made by 50 organizations. These comments were taken into account in producing a final draft, which was subsequently approved by our Management Board and published on our website. The sustainability policy[17] has been in force as of 1 January 2017. It will be reviewed periodically and brought up to date based on stakeholder feedback.

At the project level, we **adjusted our investment process** (described in paragraph 2.4.1) for environmentally and socially sensitive projects. ESG Action Plans can no longer be postponed to the stage of disbursement, but need to be agreed upon before contracting.

Another important step was the introduction per 1 July 2016 of an **ex-ante disclosure pilot**. This pilot entails that for environmentally and socially sensitive projects (category A and B+ projects – the latter if they involve the acquisition of new land), we disclose project details 30 days before contracting. As a result, interested external parties have the opportunity to make comments that can be taken into account in environmental and social action plans.

In 2016 we disclosed five projects in accordance with this procedure. The pilot ended on 31 December 2016, after which the mechanism was mainstreamed. Details can be found on our website (**www.fmo.nl/project-list**).

We confirmed our commitment and shared the lessons learned by actively engaging in the establishment of the agreement on international responsible business conduct regarding human rights between the Dutch government, financial institutions, and civil society ('**IMVO**-covenant bancaire sector'[18]). We were among the first banks to adhere to this agreement, and expect that this will serve as a solid basis for future cooperation between the parties involved.

With regard to **tax**, we issued a responsible tax position statement[19]. In this policy we recognize our own commitment to responsible tax, and explain what we expect from our clients in terms of policy and behavior. We have integrated tax due diligence as part of our broader client due diligence. This was facilitated in 2016 by the introduction of a tax tool, assisting our employees in analyzing the tax situation of clients and engaging with clients on this issue.

2016 was a valuable learning period, as we experienced how important it is to take different stakeholders needs into account. We continuously strive to be open-minded and are eager to learn from others. We value the open-mindedness of all involved, as many of us fight for the same cause – creating a sustainable livelihood for all who are directly or indirectly involved in our projects.

2.5.8 Servicing Dutch corporates

With respect to servicing Dutch corporates, in 2016 we committed a total of EUR 168 million related to activities of Dutch companies in developing countries. One example is the acquisition of Engro Foods in Pakistan by Royal FrieslandCampina BV (see the case on page 19), which will enable FrieslandCampina to build a key position in Central Asia. Besides directly supporting Dutch corporates investing abroad, we took steps to build up our support of Dutch companies.

17. www.fmo.nl/policies-and-position-statements
18. www.ser.nl/nl/publicaties/overige/2010-2019/2016/dutch-banking-sector-agreement.aspx
19. www.fmo.nl/position-statements

We have worked towards developing a strategic agenda, supporting Dutch corporates investing in and exporting to emerging markets and developing countries. We are committed to further develop and implement this agenda in the future. In that context, we are also a constructive participant in discussions concerning the establishment of a national financing institution, and support the intent to bundle knowledge and resources to facilitate foreign activities of Dutch corporates.

We were pleased with the approval of the Dutch government to support the establishment of the Partnership Development Facility. Through this facility we aim to develop a number of trade corridors and infrastructure projects with high development impact and unique Dutch business content.

Finally, we are working on an approach to expand our presence in the market of export finance for Dutch corporates, additionally to Dutch commercial banks.

2.5.9 Organizational developments

The development of our own organization is of great importance: as intellectual and human capital are core inputs of our business model, a knowledgeable and diverse staff is a continuous priority. All our staff can attend the FMO Academy, where employees are trained on relevant matters regarding (development) banking and sustainability issues. During 2016, 66% of our staff participated in at least one FMO Academy training. In addition, where needed, we hire outside expertise or provide the opportunity to join trainings outside FMO.

Diversity within the organization
By the year-end of 2016 the total workforce of FMO comprised 443 employees (404 FTEs on average), of which all are covered under the collective labor agreement. The gender distribution was 49% female and 51% male. We consider staff diversity with respect to gender and cultural background throughout the organization a key priority for FMO. We stimulate the inflow of international employees into our organization in order to reflect the cultural diversity of the countries where FMO is active. In 2016, about 20% of our employees did not have the Dutch nationality, while 30% of employees were not born in the Netherlands. The total staff of FMO represented 39 different nationalities (excluding the Dutch nationality) in total at the end of 2016.
To promote gender diversity, we targeted 30% female participation in senior and middle management positions for year-end 2016. At the senior management level we achieved 28%, whereas at the middle management level we achieved 31%.

For the new Supervisory Board vacancy created in 2016, female candidates were particularly invited to apply, so as to ensure a solid gender balance in the Supervisory Board as well. The gender distribution in the Management Board is 50% female and 50% male, whereas the Supervisory Board consists of 40% female and 60% male members.

HR figures	2016	2015
Total number of employees	443	395
Number of new recruits	74	31
% of women in senior and middle management	30	32
Number of nationalities	39	33
Number of trainings held by the FMO Academy	83	48
% staff turnover	7	6
% absenteeism	3	3
Total FTEs at year end	419	374

Accountability & compliance
We aim to be fully accountable to all our stakeholders. For many years this mainly regarded financial matters, but in recent years we have also made steps forward in accountability for development outcomes, supported by impact measurement by means of our impact model. In 2016 we appointed dedicated staff to ensure high-quality development data.

The continuously evolving regulatory landscape requires a thorough understanding and a structured implementation process. To this end, FMO established the prudential regulation committee (PRC), a sub-committee of the Asset and Liability Committee (ALCO). The PRC is the primary delegated responsible committee to ensure that FMO adheres to existing prudential regulation and to assess the impact of future regulation on FMO's business strategy.

FMO continued to strengthen its first line Know-Your-Customer resources in 2016 in order to adequately meet its legal obligations. Our Know-Your-Customer process ensures that we comply with international anti-money laundering and terrorist financing regulations as well as national anti-money laundering regulations. We perform due diligence on all clients, which includes checks such as verifying the ultimate beneficial owners of the client we finance, identifying politically exposed persons and screening against international sanction lists. These checks are also performed continuously during our relationship with existing clients.

It cannot always be prevented that a client is involved or alleged to be involved in illicit acts, such as fraud, during our long-term relationship. 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 legitimacy of the allegations. When FMO is of the opinion that no improvement by the client will be achieved or the risk to FMO's reputation is unacceptably high, FMO can invoke legal clauses in the contract to terminate the client relationship.

FMO Management is committed to its employees, clients and counterparties adhering to the highest ethical standards by maintaining a zero tolerance approach to any form of unethical behavior. FMO actively supports the Transparency International's Netherlands branch as a corporate member in order to stimulate the dialogue between Dutch corporates on best practices in doing business. FMO is guided by the OECD Convention on Combating Bribery and the UN Convention against Corruption and is dedicated to fight corruption and bribery (see also FMO's Anti-Bribery & Corruption statement: **www.fmo.nl/policies-and-position-statements** – 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.

FMO has policies on such matters as sponsorship, anti-bribery and corruption, gifts, entertainment and hospitality, privacy and speaking up. FMO also regularly trains its employees in order to raise awareness, by means of face-to-face trainings and FMO staff have conducted the Compliance e-learning. This e-learning also specifically addresses anti-bribery and corruption matters and all existing FMO staff as well as new employees have conducted the Compliance E-learning, except where there was a valid reason not to.

Employees are also encouraged to speak up in case of suspected integrity violations conducted by an FMO employee or a client. In case of suspected irregularities, the Compliance department will conduct an investigation. This department also conducts periodic risk assessment and when incidents occur these are included in the incident database for monitoring and management reporting purposes. When required, management will take corrective actions. In 2016 there were no incidents reported regarding FMO employees being involved in bribery or corruption.

Organizational capacity

We require high levels of accountability and feedback from all employees as they work together on a daily basis. This culture is driven by senior management and – increasingly so – by other FMO employees, as many of us have noticed that the growth of the organization requires more structured management of institutional priorities.

We began to professionalize internal project management in 2016 through setting up a Project Management Office (PMO), which will be fully operational in the first quarter of 2017. The PMO supports and monitors progress made in the implementation of internal (non-ICT) project activities as part of the quarterly planning and control process.

Follow-up on our strategy review

In the second half of 2016 we initiated a strategic review, supported by the Boston Consulting Group. At the moment of publication of this report the review is still ongoing, but the first results encourage us to proceed with the core elements of our current strategy, while triggering us to optimize elements and strengthen focus in order to respond to external developments and stakeholder needs. Above all, the review confirmed the urgency of further aligning strategy, client selection and impact reporting with SDG priorities.


BUSSCAR
SCANIA
TransCaribe S.A.
TC32040
TRANSAMBIENTAL S.A.S.
WGM 617
CARTAGENA

"I am proud to be the first female bus driver here. With this work I can support my family and develop my skills."

Mariana Torres Figueroa – first female bus driver at Transambiental

In 2016, FMO provided a US$15 million senior secured loan to **Transambiental S.A.S**, a bus operator in Colombia. The loan was funded by the Infrastructure Development Fund (IDF), which FMO manages on behalf of the Dutch government. IFC was lead arranger of a total debt package of 145 billion Colombian peso (approximately US$48 million). The funding will mainly be used to acquire new and cleaner buses to replace the old diesel buses in the city of Cartagena in Colombia.

2.6 OUTLOOK FOR 2017

Looking to the future, we expect 2017 to be a challenging year for FMO. Most forecasts for 2017 expect the growth in emerging markets to increase to a level slightly over 4%, with large differences among regions. Adding to this volatile economic and political environment is the uncertainty as to what extent changes in American policy, as well as elections in other European countries, will affect global trade and foreign investments.

An increasingly broad coalition of public and private parties join in the challenges to meet the SDG goals going forward.

Having said that, there is an increasingly broad coalition of public and private parties that join in the challenges to meet the SDG goals going forward. We are an integral part of that coalition and will continue to strengthen our partnerships to that end.

2.6.1 Increasing our contribution to the Sustainable Development Goals

We aim to close EUR 2.5 billion in total new commitments, of which EUR 1.6 billion will be for our own account. Similar to 2016, our target is to invest 30% of our total new commitments in green projects. To that end we will develop new green initiatives and projects going forward that will also go beyond renewable energy.

In our client selection we will step up our efforts to finance projects aimed at inclusion of the poor. In particular, we aim to realize more projects that support women in business. We have set ourselves a target and will develop sector strategies to that end. We will also assess how to include the contribution we make to improving the position of women in our investment process.

Public and private stakeholders have an increasing appetite to fund worthwhile projects that contribute to the SDGs. In order to blend these public and private resources we will continue our support of closing Climate Investor One and build our relationship with the EU. In parallel to this, we will further grow our commercial asset management activities and syndications.

2.6.2 Improving stakeholder responsiveness

We will continue to add value for our clients by offering access to knowledge and networks as well as support in the areas of ESG risk management. We will strengthen our ESG risk management, especially in the area of local stakeholder engagement, and set ourselves the target of implementing 90% of the ESG actions due in 2017.

Whereas in 2016 our stakeholder engagement was shaped by short-term events and agendas, in 2017 we will develop and implement a more structural approach, helping us to improve the identification of the stakeholder needs, and addressing these needs in a proactive and balanced manner.

2.6.3 Servicing Dutch corporates

In the near future Invest-NL will be set up for investments in Dutch corporates and projects. We will contribute to the bundling of the export and foreign investment instruments for Dutch corporates by setting up a joint venture with Invest-NL and will be actively involved in the implementation of the plans.

We will continue to support Dutch corporates that are investing abroad. We expect the strongest growth in export finance. Our aim is to build up a portfolio of EUR 500 million in 2017 to support Dutch companies that export or invest abroad. In addition, in the context of the Partnership Development Facility we will move ahead with development of trade corridors involving Dutch business and expertise.

2.6.4 Strategy for 2025

During 2017 we will decide on the implementation of the strategy review that was initiated in 2016. The financial, renewable energy and agribusiness sectors will continue to be our main sectors, while we will reassess our involvement in a number of other sectors, such as telecommunications, mining, ports and general manufacturing, to see how we can best position ourselves to contribute to the SDGs.

2.6.5 Organizing for success

As the development agenda is renewed and stakeholder requirements change, FMO will need to organize itself in accordance. A more complex and larger organization clearly brings a need for more agile operations and more focused operations. We will for that reason continue our focus on strengthening our internal project management. In addition, concrete decisions on strategy adjustments – and hence on FMO's commercial positioning – may also require fine-tuning of the internal organization, HR and the recruitment strategy. In parallel, we intend to optimize business processes and improve our financial and developmental reporting capacities.

Strategic priority		Target 2017
Enable clients to do sustainable business	· Total new commitments · ESG action items · Operating income	· EUR 2.5 billion · complete >90% of actions due · EUR 400 million
Grow a green portfolio	· Green investments	· 30% of total commitments
Support inclusive growth	· Inclusive & gender equality	· Finance >10 inclusive & gender equality transactions
Servicing Dutch corporates	· Dutch business · Export finance · Project development	· Finance a total of >EUR 500 million
Catalyze public & private capital	· New commitments state funds · Catalyzed funds	· EUR 100 million · EUR 900 million
Strengthen accountability	· Strategic initiative	· Structural approach to stakeholder needs and issue management
Organize for success	· Strategic initiatives	· IFRS 9; Corporate Data Model

2.7 IN CONTROL STATEMENT

FMO uses an integrated and solid In Control Framework that enables us to take risks and control them and that complies with international best practices.

Adequate internal control strongly supports the attainment of objectives in the following categories:

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

The Management Board regularly considers the design and effectiveness of FMO's internal risk management and control practices (taking into account the approved risk appetite) and discusses all related significant aspects with senior management. The results of the Management Board's review of FMO's internal risk management and control systems – 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 review 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 II.1.4 and II.1.5 of the Dutch Corporate Governance Code. The Management Board makes the following statement regarding the financial reporting risks:

- The internal risk management and control systems of FMO provide reasonable assurance that FMO's financial reporting does not contain any errors of material importance;
- FMO's risk management and control systems worked properly during 2016, and
- There are no indications that FMO's internal risk management and control systems will not continue to function properly in the current year.

Our risk management and control systems also give us reasonable assurance about the effectiveness of operations, realization of strategic and operational objectives and compliance with applicable laws and regulations. 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.

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 2016 financial year of FMO and its consolidated companies, and
- The annual report describes the material risks that FMO faces.

The Hague, March 28, 2017

Jürgen Rigterink, *Chief Executive Officer, Chief Risk & Finance Officer*
Linda Broekhuizen, *Chief Investment Officer*

Linda Broekhuizen
Dutch, 1968, female

Appointment in current position
2014-2018

Jürgen Rigterink
German, 1964, male

Appointment in current position
2016 - 2020

Report of the
SUPERVISORY BOARD

III

GUIDE FOR CATTLE FINANCING | Paraguay

In 2016, Sudameris Bank and the Mesa de Finanzas Sostenibles (Paraguayan Roundtable for Sustainable Finance) launched the Environmental & Social Guide for Cattle Financing. FMO co-developed this Guide with Sudameris and WWF Paraguay, and facilitated review and consultation of the guide with Banco Regional and Banco Continental. The Guide establishes Environmental & Social criteria for lending to cattle farmers in Paraguay, related to preventing illegal deforestation, to the protection of water resources, to the use of agro-chemicals and to labor conditions.

3. REPORT OF THE SUPERVISORY BOARD

Against the backdrop of ongoing economic and political volatility, the developmental and financial results of FMO have overall been positive. But 2016 was also a challenging year for the institution, in which FMO dealt with (project-related) human rights events that were unprecedented for the organization. Handling these events properly required strong managerial focus by the organization, plus particular attention paid by the Supervisory Board.

The developmental and financial results have overall been positive.

3.1 Key events in 2016

The local protests against the FMO financed Agua Zarca project were unprecedented from FMO's perspective and required strong organizational leadership in managing relations with local communities, with NGOs and with the client and the government of Honduras. Before granting the loan FMO undertook consultation (Free, Prior and Informed Consent, FPIC) which fulfilled the requirements of IFC Performance Standards, but an independent fact finding report clarified that – although primarily a government responsibility – FMO should have consulted also with indigenous communities of neighbour villages. It was therefore also a year of learning for FMO, in which it learned to cope with such extreme circumstances and in which it made steps toward improved management of stakeholder relationships with all local and international parties.

Another important national discussion concerned the possible establishment of a Dutch financing institution for development. An external advisory report suggested the need to bundle public resources and expertise in order to facilitate Dutch trade and investments in foreign countries. The government decided in February 2017 to set up the institutional structure Invest-NL. Its aim is to realize investments for Dutch corporates that are unable to attract sufficient financing from the market. FMO will contribute to the bundling of export and foreign investment instruments for Dutch corporates by setting up a joint venture with Invest-NL for FMO's NL Business activities.

In September Nanno Kleiterp resigned as CEO from FMO and was succeeded by Jürgen Rigterink. We are very grateful for the important contributions made by Nanno Kleiterp and are looking forward to work together with Jürgen Rigterink in his new role as CEO. We started the process of finding a successor for Jürgen in his former role as CRFO.

With the start of 2016 EY Accountants LLP took over as FMO's external auditor. The Audit and Risk Committee and the Supervisory Board met in 2016 on a regular base with EY to discuss the audit plan and key audit matters.

(Not in picture)
Thessa Menssen
Dutch, 1967, female

Initial appointment
2016
End of current appointment
2020
Supervisory Board Committee membership
Audit & Risk Committee

Dirk Jan van den Berg
Dutch, 1953, male

Initial appointment
2016
End of current appointment
2020
Supervisory Board Committee membership
Selection, Appointment and Remuneration Committee

SB Vice Chair
Pier Vellinga
Dutch, 1950, male

Initial appointment
2008
End of current appointment
2020
Supervisory Board Committee membership
Selection, Appointment and Remuneration Committee, *SARC Chair*

Alexandra Schaapveld
Dutch, 1958, female

Initial appointment
2012
End of current appointment
2020
Supervisory Board Committee membership
Audit & Risk Committee
ARC Chair ad interim

SB Chair
Jean Frijns
Dutch, 1947, male

Initial appointment
2010
End of current appointment
2018
Supervisory Board Committee membership
Selection, Appointment & Remuneration Committee

Other appointments outside of FMO

Jean Frijns	Thessa Menssen	Alexandra Schaapveld	Pier Vellinga	Dirk Jan van den Berg
· Member of the Board of Directors of JPMorgan Luxembourg SICAV Fund and JPMorgan Special Opportunities Fund Luxembourg Fund Luxembourg · Management Board member of the Volkswagen Investor Settlement Foundation · Vice-Chairman of the Supervisory Board of KAS Bank N.V. (until April 2016)	· Member of the Executive Board of Royal BAM Group in the Netherlands · Supervisory Board Member and Chairwoman of the Audit Committee at PostNL	· Non-Executive Director and Chair of the Audit Committee at Société Générale S.A. in France · Non-Executive Director of Bumi Armada Berhad in Malaysia · Member of the Supervisory Board of Vallourec S.A., France	· Professor on Climate Change at Wageningen University and the Vrije Universiteit Amsterdam · Director of the Wadden Academy, exploring options for the enhancement of the ecological and economic quality of the UNESCO World Heritage The Wadden Sea · Chairman of the Board of URGENDA · Member of the board of the Climate Adaptation Services Foundation (CAS)	· Chair of the Executive Board of Sanquin Blood Supply · Vice-Chairman of the Supervisory Board of Gasunie · Member of the Governing Board of the European Institute for Innovation and Technology

3.2 Supervisory Board roles in 2016

In general, the Supervisory Board approves FMO's strategy, risk appetite and budget.

Against the backdrop of the above-mentioned and other events in 2016, the Supervisory Board fulfilled its roles and duties throughout the year. We distinguish the following five material roles:
1. Stakeholder engagement, towards shareholders as well as other key parties;
2. Supervision, verifying that FMO is and remains compliant with regulatory requirements;
3. Strategy setting, approving FMO's strategy while playing the role of advisor to and sparring partner of FMO's Management Board;
4. Corporate governance, securing best practice in the organization;
5. The role of employer, appointment of Management Board members, remuneration policies and performance reviews.

3.3 Stakeholder engagement

The Supervisory Board has actively participated in discussions concerning further improvement of management of social and environmental issues connected to FMO-funded projects. Together with FMO's management, we critically evaluated the depth and timing of local stakeholder engagement in projects such as Agua Zarca as well as the Barro Blanco project in Panama. We are encouraged by how open FMO's management has been in gathering lessons learned and in taking measures to improve local stakeholder engagement. The introduction of the ex-ante disclosure program for high risk projects has been an important case in point in this regard.

Another important token of FMO's commitment to human rights in particular was its active role in establishment of the IMVO covenant amongst Dutch banks, the Dutch government and NGOs.

3.4 Supervision

The Supervisory Board regularly discusses FMO's risk profile and other financial and accounting matters in all of its meetings. Also in this year, particular attention was given to balance sheet management, credit risk management, operational risk management and compliance. In-depth discussions of all of these items were prepared by the Audit & Risk Committee ('ARC'), which met three times during the year.

Despite the challenging external environment, FMO was successfully managed as a AAA institution. Levels of capitalization and liquidity have been consistently strong and were supported by the strong quality of FMO's emerging market portfolio and conservative asset and liability management policies. The Supervisory Board approved the annual update of FMO's risk appetite.

As agreed with the Supervisory Board at the beginning of 2016, proper extra attention was given to the follow-up of recommendations of the external auditor and the Internal Audit Department. Having said that, it became clear that supervisory and reporting requirements by the Dutch Central Bank further increased in depth and breadth throughout the year. The introduction of IFRS9 implies that the quality of FMO's reporting will need to be further stepped up in 2017. This will therefore continue to be high up on the agenda of the Supervisory Board during this year.

2016 was the first year in which EY Accountants LLP was FMO's external auditor. Discussions among the Supervisory Board and the external auditor were therefore naturally more intensive than during previous years.

3.5 Setting strategy

The Supervisory Board has an important role in advising the Management Board in formulating and adapting FMO's corporate strategy. When approving FMO's strategy, the Supervisory Board takes carefully account of the boundaries set by FMO's key public shareholder (the Dutch Ministry of Finance) and its key public stakeholder, being the Dutch Ministry of Foreign Affairs.

Progress was made in making FMO's inclusive strategy specific and measurable and various projects were initiated to this end. Besides FMO's efforts in reaching small-scale farmers, progress was also made in fostering inclusive growth in Sub-Saharan Africa. One important initiative in this regard is the so-called Arise project, which pools investments and expertise of FMO, Norfund and Rabobank to support local African banks in reaching out to unbanked individuals, SMEs and rural enterprises.

Developments in 2016 also made it clear that the role of Dutch business in foreign and developmental policies is becoming ever more important. One example is the Dutch government's decision to set up a National Financing Institution for Development and Investment (Invest-NL).

As FMO's Supervisory Board we warmly welcome FMO's involvement in Dutch content transactions that trigger positive development impact in developing economies. We consider FrieslandCampina's investment in a dairy company in Pakistan as a very positive example in this regard.

3.6 Role as employer

The Supervisory Board appoints Management Board members and has evaluated the performance of the Management Board as a whole and of its individual members. Considering the size of FMO, we combined these functions in the Selection, Appointment & Remuneration Committee ('SARC'), which convened six times and played an important role throughout the year.

2016 was an important year, as it was marked by the departure and the succession of Nanno Kleiterp after the end of his second term (of four years) as CEO of FMO. An intense search for a new CEO was performed in 2016, considering both internal and external candidates available. The Supervisory Board is pleased that former CRFO Jürgen Rigterink was prepared to take up the role as CEO after Nanno Kleiterp's departure. Due to the promotion of Jürgen Rigterink from CRFO to CEO of FMO, the Supervisory Board initiated a search for the position of CRFO. It is expected that this vacancy will be filled in the course of 2017.

As announced earlier, the Supervisory Board presented a new remuneration policy for the Management Board to the AGM (Annual General Meeting of Shareholders) in the first half of 2016. This policy was approved in the AGM of May 2016.

3.7 Corporate governance

The Supervisory Board ensures that FMO complies with all applicable corporate governance codes, further described in the chapter on corporate governance.

The Supervisory Board has performed its customary self-evaluation with regard to 2016. The assessment looked at such issues as the Board's responsibilities and composition, the quality of the meetings of the SB and its committees, its proper functioning and relation with the Management Board, the follow-up of the priorities in 2016 and its new priorities. The Board concluded that membership was increasingly time consuming, discussed the role as employer and defined a number of points of attention for 2017. The completion of the search for a new CRFO and two Supervisory Board members is high on the priority list of the Supervisory Board. As in 2017 FMO's strategy review will be completed, several elements of the strategy and new developments will be looked at.

Specific governance responsibilities of the Supervisory Board included the tasks described in the Dutch Banking Code 2015 regarding sound and ethical operation. Among other things, the SB verified that all FMO employees have taken the Banker's Oath, well on time before the deadline of 1 April 2016.

The SB is pleased that the HR department pays special attention to diversity by means of hiring employees of different cultural backgrounds. The Supervisory Board is also committed to diversity among its own members, with regard to skills and competencies as well as gender composition and – if possible – foreign backgrounds.

With regard to checks and balances, the SB ensured that the Compliance function is safeguarded within the Management Board and Supervisory Board. The Chair of the SB meets with the Compliance Manager once or twice a year.

The Supervisory Board deems creating transparency towards FMO's stakeholders, and therefore Integrated Reporting, to be important. We feel that FMO made further progress in 2016, in which it steered the organization on financial as well as E&S indicators and further objectified its development impact claims through the use of its impact model. Control of strategic initiatives and projects was further expanded in 2016.

In line with the four core competencies for the management and Supervisory Boards of banks, Board members are required to have sufficient expertise and maintain appropriate knowledge of the following subjects:

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

To this end, Supervisory Board members follow a formal program of lifelong learning, which is also required by the Dutch Banking Code. In 2016, the program consisted of five sessions, the topics being focused on the design of FMO's new strategy and including among other things the blending of donor and commercial funding, Dutch business, agribusiness, private equity, climate change adaptation and other Sustainable Development Goals.

The introductory program for new Supervisory Board members supports new members in understanding the organization in-depth. In addition, new members follow a program of lifelong learning and, if necessary or desired, receive further tailored education, depending on their background.

Independence, conflicts of interest and governance
The Supervisory Board is of the opinion that all members of the Supervisory Board are independent, as required by Best Practice Provision III.2.1 of the Corporate Governance Code. No direct, indirect or formal conflicts of interest were identified in 2016. 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.

3.8 Proposals and recommendations to the annual general meeting

Having said all of the above, FMO's Supervisory Board endorses the Report of the Management Board. We propose that the AGM adopt the 2016 annual accounts audited by EY Accountants LLP. In accordance with Article 6(2) of the Agreement State-FMO of November 16, 1998 and the current dividend policy, we propose that the AGM approve the allocation of EUR 169 million (2015: EUR 168 million) to the contractual reserve. The remaining amount of EUR 6.7 million (2015: EUR 6.2 million) is the distributable component of profits. We recommend that the AGM adopt our proposal to pay a cash dividend of EUR 16.71 (2015: EUR 15.58) 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 recommendations of the European Central Bank on January 28, 2015, 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.

3.9 Supervisory Board Structure in 2016

Members of the Supervisory Board are appointed by the AGM. The Board currently comprises five members with specific expertise in areas relevant to FMO's activities. We are pleased with the appointment of Thessa Menssen in May 2016, who fits the profiles with respect to extensive financial and economic expertise and excellent knowledge of Dutch business. In September we welcomed Dirk Jan van den Berg as a new member, filling the vacancy which had existed since the departure of Agnes Jongerius in May 2016 relatively quickly. Also in May 2016, Bert Bruggink left the Supervisory Board. We thank both of them warmly for their excellent service in previous years. We expect to propose a new candidate for the latter position to the AGM in the course of 2017.

In addition, the Supervisory Board decided to specifically search for a seventh member, with a background in developmental policies as well as a network and expertise with respect to NGOs.

FMO's Supervisory Board and its committees work through regular, pre-scheduled meetings as well as on an ad hoc basis throughout the year. There were fourteen formal meetings of the Supervisory Board in 2016, including a two-day off-site strategy session. Members rarely missed a meeting. A transparent formal reporting structure is in place. Supervisory Board members are in frequent contact with the Management Board so they remain fully informed and can provide advice at all times. The Supervisory Board Chair meets the CEO informally once a month.

Besides providing strategic advice to the Management Board, Supervisory Board members advise on specific issues through two dedicated committees: the ARC and the SARC. In addition, the Supervisory Board holds annual three-way meetings with the Management Board and the FMO Works Council. Individual Supervisory Board members also attend Works Council meetings, along with Management Board members.

Through formal Board and Committee meetings as well as through informal consultations throughout the year, the Supervisory Board performs its roles as required.

All-Stars Academy

Global Banking Alliance for Women

13 – 16 June 2016
The Hague

50
50 participants

18
from 18 different countries

19
from 19 banks and institutions

"This highly-interactive four-day training is really the nuts and bolts of how to target the women's market effectively."

Inez Murray – CEO of Global Banking Alliance for Women

FMO provided capacity development funding for the very first Global Banking Alliance for Women All-Stars Academy on women financing that was held from 13 – 16 June 2016. Hosted by FMO, the program was set up to increase the ability of the financial services community to target women as a distinct market. A number of FMO clients, and for the kick-off also FMO staff and partners, joined this learning experience.

4. CORPORATE GOVERNANCE

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

Encourage sustainable growth for our clients in order to maximize development impact.

4.1 Articles of association

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

4.2 Governance structure

Our entire organization is expected to take the interests of all stakeholders into account at all times. 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. 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.

Our 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.

FMO has a Supervisory Board, which supervises and advises the Management Board. New members of the Supervisory Board are appointed by the General Meeting of Shareholders, on the nomination of the Supervisory Board. The Supervisory Board has two committees: the Audit and Risk Committee and the Selection, Appointment and Remuneration Committee, which advise and prepare decision making at a detailed level.

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

INVESTMENT	CORPORATE	RISK MANAGEMENT & FINANCE
Linda Broekhuizen Chief Investment Officer	**Jürgen Rigterink** Chief Executive Officer	**Vacancy** Chief Risk & Finance Officer
Financial Institutions **Huib-Jan de Ruijter** Director	Corporate Secretary **Catharina Oosterbaan**	Credit & Special Operations **Huub Cornelissen** Director
Energy **Elvira Eurlings** Director	Internal Audit **Friso Schellekens** Director	Legal & Compliance **Idsert Boersma** Director
Agribusiness **Suzanne Gaboury** Director	Human Resources **Eveline Allon- van Veelen** Director	Finance & Mid Office **Paul Buijze** Director
Infrastructure, Manufacturing & Services **Frederik Kummersteiner** Director	Strategy **Jorim Schraven** Director	Risk Management **Melchior de Bruijne** Director
Private Equity **Jaap Reinking** Director		ICT **Rolf Daalder** Director
Public Investment Management **Roel Messie** Director		Treasury **Matthijs Pinxteren** Director
NL Business **Janet Nieboer** Director		

FMO Investment Management B.V.
Yvonne Bakkum
Managing Director

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.

4.3 Solid risk management framework

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

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

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

In addition, it has developed a set of investment criteria which set minimum standards for the acceptance of credit and ESG risks. These standards have been guided by a number of standards, among them the IFC performance standards, OECD guidelines and the UN Guiding Principles on Business and Human Rights. The Credit department is responsible for the acceptance of additional exposures and for any material amendments in agreements with existing clients. If an investment entails a severely increased risk, the project is transferred to the Special Operations team. FMO applies a conservative capital management framework and avoids financial risks other than credit risk as much as possible, in particular interest rate risks and foreign currency risks.

To promote fair business practices and increase public trust in the private sector, FMO is dedicated to fighting money laundering, terrorist financing, corruption and bribery. We actively support Transparency

International's Netherlands branch in order to encourage dialogue between Dutch corporates on best practices in doing business. FMO is also guided by the OECD Convention on Combating Bribery, the UN Convention against Corruption and the Financial Action Task Force (FATF) recommendations on combating money laundering and the financing of terrorism.

4.4 Aligned remuneration policies

Remuneration policies are also fully aligned with the principle of attaching equal importance to front office and risk functions, by ensuring similar salary scales for both functions and avoiding bonus structures that incentivize excessive risk taking. FMO discontinued variable remuneration for members of the Management Board in 2012. In 2016 the Annual Meeting of Shareholders established a new remuneration policy for its Management Board members. 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 on page 144 of the Annual Accounts. The ratio between the remuneration of our CEO (being the highest-paid individual) and the median of all other colleagues in 2016 was 4.82.

4.5 Independent complaints mechanism

We have an independent complaints mechanism (ICM) together with the Deutsche Investitions- und Entwicklungsgesellschaft (DEG). This allows affected parties the possibility to raise their issues with an Independent Expert Panel (IEP).

The SB was informed by the IEP about the status of the two ongoing complaints. The IEP has a dual mandate: a fact-finding and monitoring role and a problem-solving role. Stepping up to the problem-solving role is only possible if all parties agree and if there is a reasonable expectation that a mutually agreed resolution of the complaint will be possible.

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

4.6 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: **www.fmo.nl/corporate-governance**.

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

On 8 December 2016 a revised version of the Code was presented, since its role in society had developed over time. From 2018 and onwards we will report on compliance using the revised Code, beginning in the annual report covering 2017. The main modernization is the focus on long term value creation and the introduction of culture as part of good corporate governance.

The relevant principles and best practice provisions of the Corporate Governance Code (2009 version) have been implemented, with the exception of the following principles and best practice provisions, which can be explained as follows:

- **BPP II.1.9 – II.1.11:** Stipulations on the response time of the Management Board in case of shareholder activism and the hostile takeover stipulations are not implemented, given our stable majority shareholder, the State of the Netherlands.
- **BPP II.2.3:** FMO complies with this article, except for the fact that the share price is not taken into account when determining the remuneration of the Management Board, as FMO is non-listed.
- **BPP II.2.4 – II.2.7 and II.2.13 c. and d.:** These provisions relate to the granting of options and shares that are awarded to Management Board members. No options and shares are granted at FMO.
- **BPP III.8.1 – III.8.4:** These do not apply, since FMO does not have a one-tier board.
- **BPP IV.1.1:** This does not apply, since 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 IV.1.2:** This does not apply, since this provision refers to financing preferred shares, which FMO does not use in its share capital.
- **BPP IV.1.7:** FMO does not comply with the provision that the company determines a registering date to exercise voting rights and rights to attend the AGM. Since FMO has registered shares only and the identity of all shareholders is known, there is no need for separate registration.

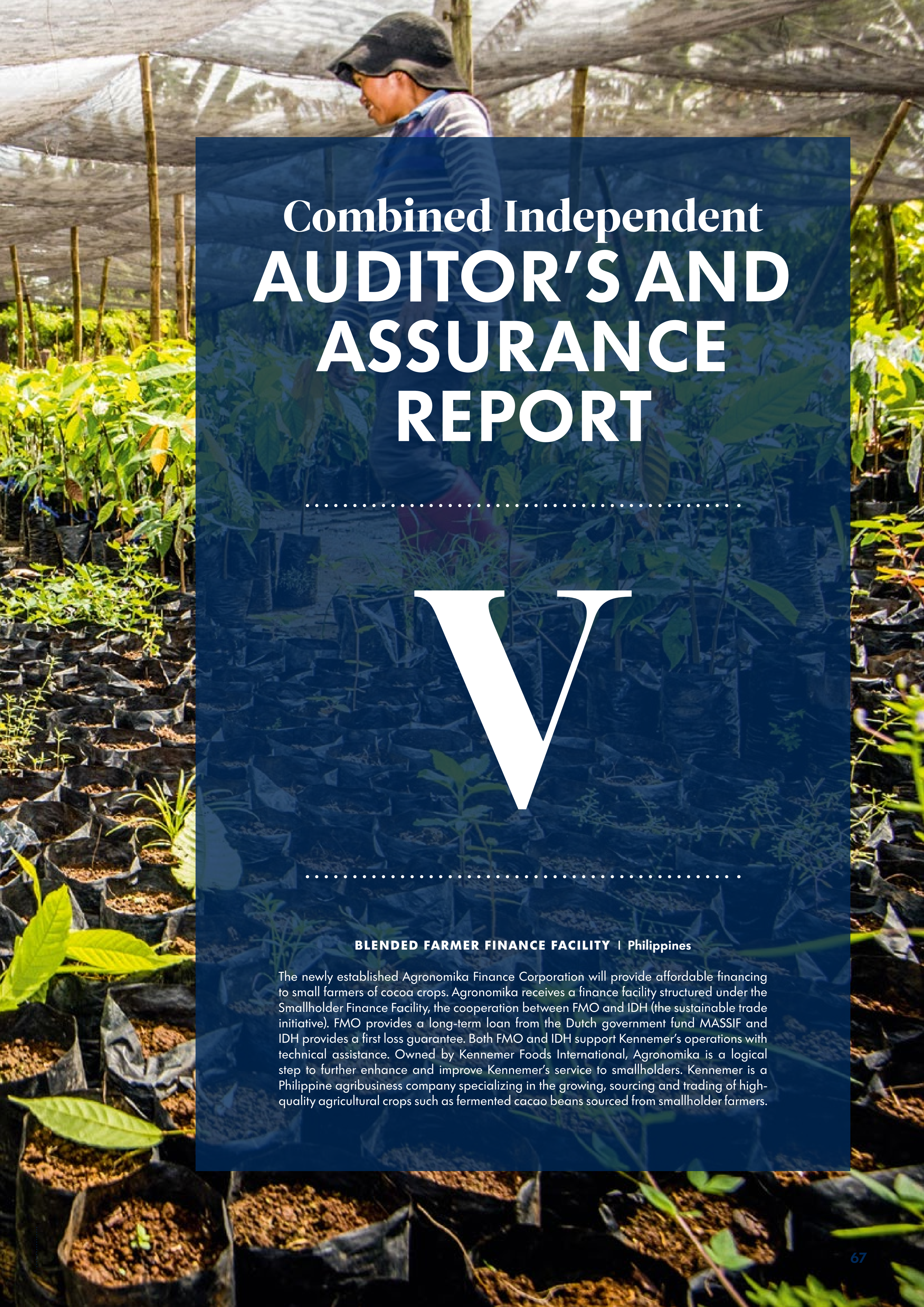
- **BPP IV.2.1 – IV.2.8:** These concern the issuing of depositary receipts for shares. There is no such requirement at FMO, apart from the articles of association, which lay down that the company is not permitted to cooperate in issuing depositary receipts of shares.
- **BPP IV.3.1 – IV.3.4:** These provisions relate to analysts' meetings and presentations to institutional investors. These provisions are of no practical significance for FMO and therefore do not apply.
- **BPP IV.3.8:** 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 IV.3.11:** This best practice provision requires the Management Board to provide a survey in the annual report of all the anti-takeover measures to prevent control from being relinquished. FMO has not incorporated any anti-takeover measures in its articles of association, which has to do with the fact that FMO has a stable majority shareholder, namely the State of the Netherlands. Therefore, an overview as meant in this provision is not incorporated in this annual report.
- **BPP IV.4.1 – IV.4.3:** Institutional investors annually publish their policy with respect to the exercise of voting rights on shares in listed companies, report annually on the implementation of this policy and report at least once a quarter on voting behavior at general meetings of shareholders. The vast majority of companies that FMO invests in are non-listed companies and the few exceptions concern very small stakes listed on stock exchanges abroad. FMO's mission states that FMO behaves as an active investor with regard to environmental, social and corporate governance issues, among other things. Where FMO has voting rights (with regard to its equity investments), it will always exercise these rights to ensure that its mission and interests are fulfilled and protected in the best possible way.
- **BPP V.3.3:** This provision only applies if the company does not have an internal auditor. FMO does have an internal auditor.

4.7 FMO Investment Management

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

Governance

FMO IM has a MiFID license from the AFM as an investment firm that can execute portfolio management, process receipt and transmission of orders, and provide investment advice. The Principles of Fund Governance as developed by the Dutch fund and asset management association (DUFAS) have informed the governance structure of the company. 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 certain specific matters. In 2016, FMO IM composed a dedicated Advisory Council (*Raad van Advies*) which, apart from having a general advisory function, and acting as sounding board, will focus on conflicts of interest between FMO IM and FMO as of 2017. Two of the three members of this council are independent members.



Combined Independent AUDITOR'S AND ASSURANCE REPORT

V

BLENDED FARMER FINANCE FACILITY | **Philippines**

The newly established Agronomika Finance Corporation will provide affordable financing to small farmers of cocoa crops. Agronomika receives a finance facility structured under the Smallholder Finance Facility, the cooperation between FMO and IDH (the sustainable trade initiative). FMO provides a long-term loan from the Dutch government fund MASSIF and IDH provides a first loss guarantee. Both FMO and IDH support Kennemer's operations with technical assistance. Owned by Kennemer Foods International, Agronomika is a logical step to further enhance and improve Kennemer's service to smallholders. Kennemer is a Philippine agribusiness company specializing in the growing, sourcing and trading of high-quality agricultural crops such as fermented cacao beans sourced from smallholder farmers.

Combined independent auditor's report

To: the shareholders and supervisory board of Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V.

Our conclusions

We have audited the financial statements 2016 of Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V. ('FMO' or 'the Company'), based in The Hague. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of FMO as at 31 December 2016 , and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying company financial statements give a true and fair view of the financial position of FMO as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

We have reviewed the sustainability information in the Annual Report 2016 of FMO (the scope is described in section Our Scope). A review engagement is aimed at obtaining limited assurance.

Based on our procedures performed, nothing has come to our attention that causes us to conclude that the accompanying sustainability information, in all material respects, does not present, a reliable and adequate view of the policy and business operations with regard to sustainability and the thereto related events and achievements for the year ended 31 December 2016, in accordance with the Sustainability Reporting Guidelines version G4 of the Global Reporting Initiative (GRI) and the supplemental reporting criteria as disclosed in the chapter 'How we report' in the Annual Report 2016.

Basis for our conclusions

We conducted 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'. Dutch Standard 3810N is a subject specific standard under the International Standard on Assurance Engagements (ISAE) 3000, 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'. Our responsibilities under those standards are further described in the section Our responsibilities in this report.

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

Our independence

We are independent of FMO in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

Our scope

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2016
- The following statements for 2016: the consolidated profit and loss account, the consolidated statements of comprehensive income, changes in shareholder's equity and the consolidated cash flow statement
- 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 2016
- The company profit and loss account for 2016
- The notes comprising a summary of the accounting policies and other explanatory information

The sustainability information comprise the chapters 'FMO at a Glance', 'External environment', 'Our strategy', 'Our business model', 'Performance of our strategy' and 'How we report' in the Annual Report 2016 of FMO.

Limitations in our review scope

The sustainability information contains prospective information, such as ambitions, strategy, targets, expectations and projections. Inherent to this information is that actual future results may differ in the future and are therefore uncertain. We do not provide any assurance on the achievability and feasibility of prospective information.

In the impact and footprint data in the Report of the Management Board, calculations are mostly based on external sources. The sources used are explained in the document 'FMO Impact Model Methodology version 1.1' 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.

Our scope for the group audit of the financial statements

FMO is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of FMO. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and / or the risk profile of the group entities or operations. With respect to FMO's associates and subsidiaries we did not request other external auditors to perform any additional audit or review procedures as the total size of the subsidiaries and the associates represent 0.4% and 1.4% of the balance sheet total respectively. On this basis, we did not select any group entities for which an audit or review had to be carried out on the complete set of financial and non-financial information or specific items. Our group audit mainly focused on the stand-alone financial information of FMO. By performing these procedures we have been able to obtain sufficient and appropriate audit evidence about the FMO's financial information to provide an opinion about the consolidated financial statements.

Materiality

General

The scope of our assurance procedures is influenced by the application of materiality. Our assurance engagements aim to provide assurance about whether the financial statements and the sustainability information are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements and the sustainability information. The materiality affects the nature, timing and extent of our assurance procedures and the evaluation of the effect of identified misstatements on our conclusions.

Financial statements

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

Materiality	EUR 11 million (rounded)
Benchmark applied	5% of profit before taxation.
Explanation	Based on our professional judgment, a benchmark of 5% of profit before taxation is an appropriate quantitative indicator of materiality and it best reflects the financial performance of FMO.

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

We agreed with the Supervisory Board that misstatements in excess of EUR 500 thousand, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Sustainability information

Based on our professional judgement we determined specific materiality levels for the sustainability information as a whole and for each part of the sustainability information. When evaluating our materiality levels, we have considered the relevance of information for the intended users of the sustainability information, based on the materiality analysis performed by FMO.

Our key audit and review matters

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

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

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

Estimation uncertainty with respect to impairment losses on loans to the private sector	
Key audit matter	The appropriateness of the loan impairment allowances for loans to the private sector require judgment of management. Impairment losses are incurred if there is objective evidence of impairment as a result of a loss event that has an impact on the estimated future cash flows of the loans that can be reliably estimated. The identification of impairment and the determination of the recoverable amount are part of the estimation process at FMO including, amongst others, the assessment of objective evidence for impairment, the financial condition of the counterparty, the expected future cash flows and the value of collateral. For loans to the private sector that are individually not impaired, the company assesses on a collective basis whether further impairment losses are present in the portfolio of accumulated loans with a similar risk. Through the use of models, the company

	estimates and accounts for incurred but not reported impairment losses based on the loss identification period and historical loss and recovery rates. The use of different modelling techniques and assumptions used for, amongst others, probability of default and loss given default could lead to different estimates of impairment charges on loans to the private sector. Furthermore, associated risk management disclosures are complex and dependent on high quality data. As the loans to the private sector, classified at amortised cost amount to EUR 4,470 million as at 31 December 2016 and given the related estimation uncertainty on impairment charges, we consider this a key audit matter. Please refer to section 'Value adjustments on loans' in the Significant accounting policies, note 5 'Loans to the private sector', note 9 'Movement in value adjustments' and related disclosures of credit risk within section Financial risk management.
Our audit approach	In our audit we assessed the effectiveness of controls within the loan origination process, risk management process and the estimation process of determining impairment losses. In addition, on a risk based approach we have performed a detailed credit file review for loan impairment allowances calculated on an individual basis. In selecting the loan exposures for our detailed credit file review, we applied professional judgment with an emphasis on pre-default exposures and exposures in countries with a higher risk profile. We challenged the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. For loan loss provisions calculated on a collective basis we tested, supported by our specialists, the underlying models including the model approval and validation process. We also tested the appropriateness and accuracy of the inputs to those models, such as the loss given default, loss identification period and historical loss estimates and experiences, and where available, compared data and assumptions made to external benchmarks. Finally we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS.
Estimation uncertainty with respect to equity investments measured at fair value	
Key audit matter	FMO holds equity investments in a variety of sectors, including financial institutions, energy, and agribusiness. These available for sale equity investments are measured at fair value with the corresponding fair value change recognised in other comprehensive income. Equity investments comprise of either direct investments or fund investments. The valuation is performed using quoted prices (unadjusted) in active markets (level 1), however the vast majority of the model valuations are based on unobservable inputs for the asset (level 3). 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 net asset values for the fund investments and recent transaction prices, book and earnings multiples and expected cash flows for the direct investments. Certain aspects of the accounting for fair values on equity investments require significant judgment, such as the assessment of the reliability of available valuation information, determining the appropriate peer group for establishing multipliers, and the identification of objective evidence of impairment exists for individual equity investments resulting in an impairment. In these cases, the difference between historical cost and fair value is transferred from other comprehensive income to the income statement. As the available for sale equity investments amount to EUR 1,712 million as at 31 December 2016 and given the

	inherent subjectivity in the valuation of level 3 equity investments and related estimation uncertainty on impairment charges, we consider this a key audit matter. Please refer to section 'Equity investments' in the Significant accounting policies, note 7 'Equity investments' and related disclosures of 'Equity risk' and 'Fair value of financial assets and liabilities' within section Financial risk management.
Our audit approach	In our audit we obtained, amongst others, an understanding of the effectiveness of relevant controls in FMO's valuation process for equity investments. In addition, on a risk based approach, we assessed whether the valuation policy has been applied consistently and whether sufficient and appropriate financial information from the investee was available for accounting at fair value. We evaluated the assumptions underlying the fair value calculations (level 3) and verified the reconciliation to the supporting financial information obtained from the respective investees. In doing so, we have utilized valuation specialists to assist us with the audit. For listed equity investments (level 1) we agreed the year-end valuation to external data sources. We also evaluated the company's assessment of the need to recognize an impairment loss for equity investments for which the fair value is below historical cost at balance sheet date including the consistent application of the accounting policy for significant and/or prolonged decline in fair value compared to its historical cost. Finally, we assessed the completeness and accuracy of the disclosures relating to investments to assess compliance with disclosure requirements included in EU-IFRS.

Estimation uncertainty with respect to derivative financial instruments measured at fair value	
Key audit matter	FMO utilizes derivative instruments (level 2) for both hedging and non-hedging purposes, using, amongst others, (cross-currency) interests rate swaps and currency forwards to reduce the interest rate risk and currency risks. Furthermore, FMO identifies equity share purchase agreements and loan contracts that include embedded derivatives. Fair value measurement and hedge accounting can be a subjective area and more so for areas were FMO uses model based valuation or with weak liquidity and price discovery. These instruments are valued based on models and assumptions that are not observable by third parties and are generally considered model based level 2 and level 3. The use of different valuation techniques and assumptions is subject to industry best practices and illiquidity adjustments, and could produce significantly different estimates of fair value. Associated risk management disclosure is complex and dependent on high quality data. As the derivative financial instruments amount to EUR 187 million (asset) and EUR 424 million (liability) as at 31 December 2016 and given the inherent subjectivity in the valuation of level 3 embedded derivatives, we consider this a key audit matter. Please refer to sections 'Derivative instruments' and 'Hedge accounting' in the Significant accounting policies, note 4 'Derivative financial instruments' and related disclosures of 'Equity risk' and 'Fair value of financial assets and liabilities' within section Financial risk management.
Our audit approach	We assessed the effectiveness of relevant controls over valuation and hedge accounting. In addition, on a risk based approach, we assessed the valuation of collateralised derivatives and embedded derivatives with the assistance of our valuation specialists. This included a challenge of the market observable and

	significant unobservable inputs used in pricing models in line with industry best practices and a test of hedge effectiveness. Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS.
Reliability and continuity of the information technology and systems	
Key audit matter	FMO is dependent on the IT infrastructure for the continuity and reliability of their business processes and financial reporting. FMO continuously made investments to further improve the IT environment and IT systems. Furthermore, the role of financial disclosures is important to stakeholders and increasing data granularity in financial reporting and regulatory reporting requirements urge for high quality data and an adequate IT environment. We therefore consider this as a key audit matter.
Audit approach	As part of our audit procedures we tested the IT general controls related to logical access and change management and application controls relied upon for financial reporting embedded in FMO's key processes. In addition, we assessed the reliability and continuity of the IT environment and the possible impact of changes during the year either from ongoing internal restructuring initiatives or from external factors such as reporting requirements. We assessed the reliability and continuity of electronic data processing only to the extent necessary within the scope of the audit of the financial statements. Our audit procedures consisted of assessing the developments in the IT infrastructure and analyzing the impact on the IT organization.

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

Measurement of impact and footprint data, methodology and reporting	
Key review matter	FMO has set the ambition 'to become the leading impact investor by doubling impact and halving footprint by 2020'. The ambition has been quantified by (in)direct jobs created and expected GHG emissions avoided respectively. This ambition has a central place in FMO's strategy and messaging. The information on impact and footprint data has been significant for our review due to the materiality of the figures in light of the above as well as the level of judgment involved in definitions, boundaries and calculation. FMO determined during 2016 that the equity multiplier should not be used for investments in debt funds, which leads to a restatement of both the 2015 and baseline figures. Please refer to the section 'Doubling our impact & halving our footprint' in the chapter 'Performance of our strategy' and to the chapter 'How we report' in the Annual Report 2016 of FMO.

Our review approach	We have reviewed the continued suitability of the developed reporting methodology and underlying assumptions as well as the consistent application of these in 2016. This included a review on whether the 2015 and baseline figures were correctly adjusted for the updated definition to calculate the impact from investments in debt funds. For these investments the equity multiplier is no longer used. The equity multiplier is now only used for doubling the impact and footprint data relating to equity investments. In addition, we conducted an in-depth analysis of the underlying drivers for the 2016 data reported and reviewed the design and existence of the internal controls implemented to ensure the accuracy, completeness and timeliness of the input for the model used. We held interviews with relevant staff and reviewed underlying documentation such as source reports for the calculations on a sample-basis. We determined that the most material assumptions and limitations as included in the document 'FMO Impact Model Methodology version 1.1' on www.fmo.nl/development-impact, have been properly disclosed in the chapter 'How we report' in the annual report 2016. The reporting methodology and underlying assumptions continue to be suitable for the reporting purpose and have been applied consistently with application of suitably designed internal controls.

Other information included in the Annual Report

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

- FMO at a Glance
- Report of the Management Board
- Report of the Supervisory Board
- Corporate Governance
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

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

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements or in our review of the sustainability information.

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

Report on other legal and regulatory requirements

Engagement

We were appointed 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 incoming statutory auditor since that date.

Responsibilities

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

Management is also responsible for the preparation of the sustainability information in accordance with Sustainability Reporting Guidelines version G4 of the Global Reporting Initiative (GRI) and the supplemental reporting criteria as disclosed in the chapter 'How we report' in the Annual Report 2016), including the identification of the stakeholders and the determination of material issues. The choices made by management with respect to the scope of the sustainability information are included in the chapter 'How we report' in the Annual Report 2016.

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

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

The supervisory board is responsible for overseeing the company's (financial) reporting process.

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

Our audit of the financial statements has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.
Our review of the sustainability information is aimed at obtaining limited assurance. The procedures performed in obtaining limited assurance are focused on the plausibility of information which does not require exhaustive gathering of evidence as in engagements focused on reasonable assurance. The procedures performed consisted primarily of making inquiries of management and others within the entity, as appropriate, applying analytical procedures and evaluating the evidence obtained. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in an audit engagement.

Amsterdam, 22 March 2017

Ernst & Young Accountants LLP

Signed by N.Z.A. Ahmed-Karim

Annex to the combined independent auditor's report

Work performed	
We have exercised professional judgment and have maintained professional scepticism throughout the assurance engagements, in accordance with Dutch Standards on Auditing and the Dutch Standard 3810N, 'Assurance engagements relating to sustainability reports', ethical requirements and independence requirements.	
Our audit to obtain reasonable assurance about the financial statements (consolidated and corporate) included the following: ▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if 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	Our review to obtain limited assurance about the sustainability information included the following: ▸ Performing an external environment analysis and obtaining insight into relevant social themes and issues and the characteristics of the organization. ▸ Evaluating the appropriateness of the reporting policy and its consistent application, including the evaluation of the results of the stakeholders' dialogue and the reasonableness of management's estimates. ▸ Evaluating the design and implementation of the reporting systems and processes related to the information in the sustainability information. ▸ Interviewing management and relevant staff at corporate and business division levels responsible for the sustainability strategy, policies and performance. ▸ Interviewing relevant staff responsible for providing the information as disclosed in the sustainability information, carrying out internal control procedures on the data and consolidating of data in the sustainability information. ▸ Performing analytical review of the data and trend explanations submitted for consolidation at group level. ▸ Evaluating whether the estimates made in the impact and footprint data are reasonable, including the assumptions on which the estimates were based, which are included in the document 'FMO Impact Model Methodology version 1.1' on www.fmo.nl/development-impact. ▸ 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 1.1' on www.fmo.nl/development-impact.

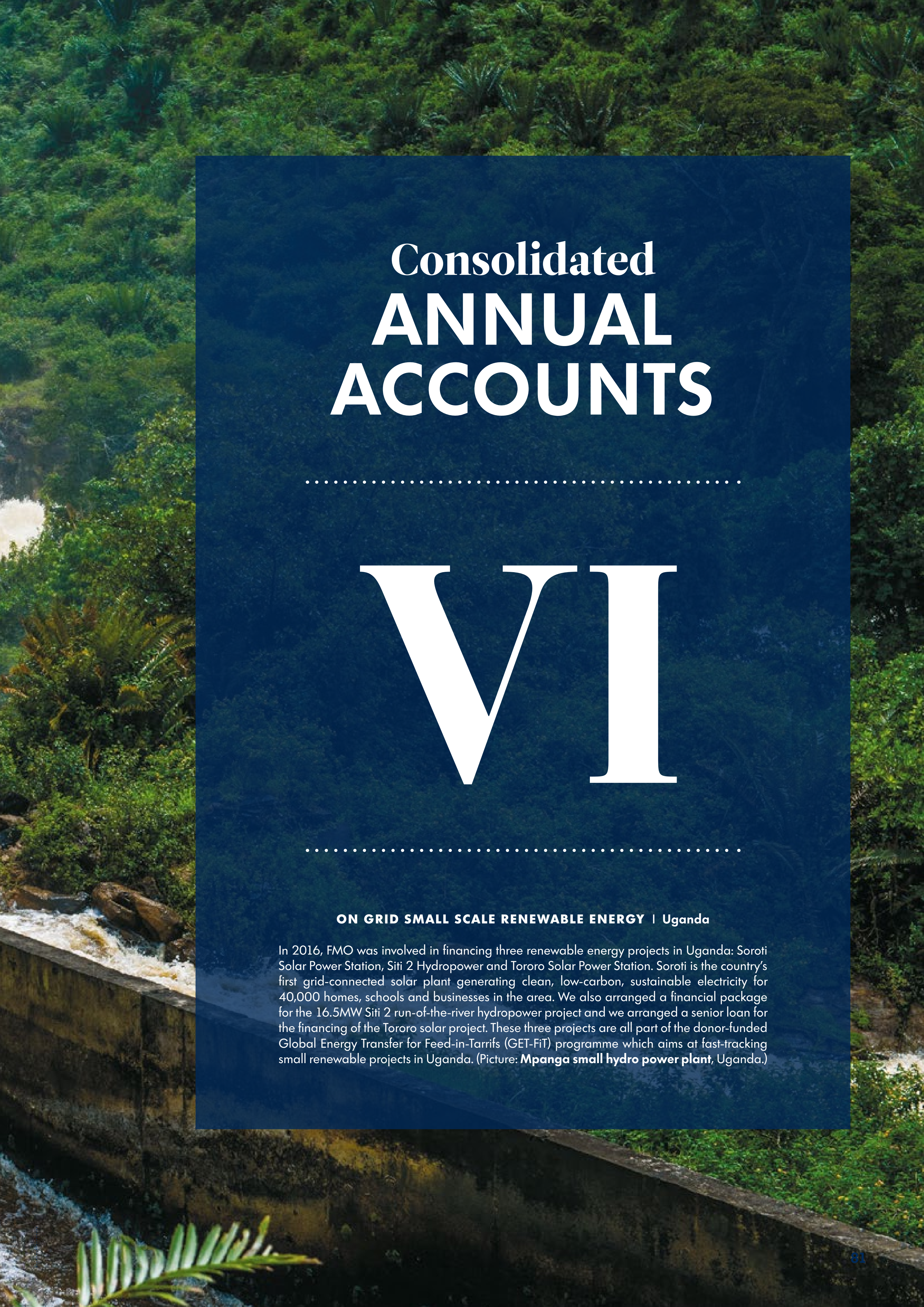
Work performed	
concern. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures. ▸ Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.	

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the assurance procedures and significant findings, including any significant findings in internal control that we identify during our assurance procedures.

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 the audit of the financial statements and the review of the sustainability information of the current period and are therefore the key audit and review matters. We describe these matters in our combined 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.



Consolidated ANNUAL ACCOUNTS

VI

ON GRID SMALL SCALE RENEWABLE ENERGY | Uganda

In 2016, FMO was involved in financing three renewable energy projects in Uganda: Soroti Solar Power Station, Siti 2 Hydropower and Tororo Solar Power Station. Soroti is the country's first grid-connected solar plant generating clean, low-carbon, sustainable electricity for 40,000 homes, schools and businesses in the area. We also arranged a financial package for the 16.5MW Siti 2 run-of-the-river hydropower project and we arranged a senior loan for the financing of the Tororo solar project. These three projects are all part of the donor-funded Global Energy Transfer for Feed-in-Tarrifs (GET-FiT) programme which aims at fast-tracking small renewable projects in Uganda. (Picture: **Mpanga small hydro power plant**, Uganda.)

ACCOUNTING POLICIES

CORPORATE INFORMATION

The 2016 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 22, 2017 and will be submitted for adoption in the General Meeting of Shareholders on May 17, 2017.

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

Financing and investing activities

FMO is the Dutch development bank. FMO's main activity consists of providing loans, guarantees, private equity capital, project financing and other tailor-made financing to the private sector in developing countries.

A minor part of the investment financing is guaranteed directly 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 this 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

We manage third party capital funds, which are invested alongside FMO's own transactions in emerging and developing markets. Through these funds, FMO's subsidiary, FMO Investment Management B.V. ('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 2.34% (2015: 2.35%). With respect to the remaining interest in MASSIF, and the full risk in the other government funds, FMO has a contractual right and obligation to settle the results arising from the funds' activities with the State. The economic risks related to these funds are predominantly taken by the State, and FMO has limited power over policy issues regarding these funds. FMO receives a remuneration for managing the funds. Therefore, with the exception of FMO's equity share in MASSIF, the funds' assets and the funds' liabilities are not included in the annual accounts. The segment information paragraph provides more detail on the loans and equity investments managed for the risk of the State.

SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated annual accounts (the 'annual accounts') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union and with Part 9 of Book 2 of the Dutch Civil Code for the financial period ended on 31 December 2016. These annual accounts are based on the 'going concern' principle.

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

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

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

Adoption of new standards, interpretations and amendments

Adopted

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

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (effective date 1 January 2016)

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

IAS 1 Disclosure Initiative – Amendments to IAS 1 (effective date 1 January 2016)

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

IAS 16 and IAS 41 Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41 (effective date 1 January 2016)

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

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date 1 January 2016)

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

IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27 (effective date 1 January 2016)

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

Annual Improvements 2012-2014 Cycle (effective date 1 January 2016)

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

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities - Applying the Consolidation Exception (effective date 1 January 2016)

The Amendments clarify: a) which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of IFRS 10, b) the exemption from preparing consolidated financial statements for an intermediate parent of an investment entity, c) the application of the equity method by a non-investment entity investor to an investment entity investee, and d) which disclosures are required by an investment entity that measures all of its subsidiaries at fair value. The amendments have no significant impact on FMO.

Not effective, not adopted

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

IFRS 9 Financial Instruments

In July 2014 the IASB issued the final version IFRS 9 'Financial Instruments' which will become effective as of January, 1 2018. IFRS 9 is replacing IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The Classification and Measurement and Impairment requirements are applied retrospectively, whereas Hedge accounting is applied prospectively from that date.
In 2016 FMO set up a multidisciplinary implementation team with members from Risk Management, Finance and other operational teams to prepare for IFRS 9 implementation. The initial assessment and analysis stage was completed at the end of 2016.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair Value through profit or loss (FVPL), Fair Value through Other Comprehensive Income (FVOCI), and amortised cost. The IFRS 9 classification and measurement is likely to impact FMO's most significant financial assets. Majority of our loan portfolio will remain to be classified at amortized cost however a small part is expected to be qualified for the classification as at fair value through profit and loss as it does not fully meet the business model and/or contractual cash flow criteria. The majority of our equity investments (currently accounted for at FVOCI) are expected to be accounted for at FVPL and will lead to an one-off movement between AFS reserve and other shareholders' equity components. The accounting for financial liabilities will largely be the same as the requirements under IAS 39.

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. FMO will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.
By the end of 2016 FMO was able to translate its estimation methodology in a calculation application. In 2017 we will perform a parallel run and further analyze/ test the outcome and if necessary enhance our estimation technique.

With respect to hedge accounting IFRS 9 allows to continue with the hedge accounting under IAS 39. The impact will therefore be insignificant for FMO.

The implementation of IFRS 9 will have an impact on Shareholders' equity, Net profit and/or Other comprehensive income and disclosures.

IFRS 15 Revenue Contracts with Customers

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue as and when the agreed performance obligations are satisfied. The standard should in principle be applied retrospectively, with certain exceptions. This standard will not have significant impact on FMO.

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

IFRS 16 Leases

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

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

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

Amendments to IAS 7 Statement of Cash Flows – Disclosure intiative

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

Amendments to IFRS 2 Share-based payment – Classification and measurements of share-based payment transactions

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

Amendments to IFRS 4 Insurance contracts – Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts

The amendments provide two options for entities that issue contracts within the scope of IFRS 4 and will have no impact on FMO.

Annual Improvements 2014-2016 Cycle

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

IFRIC Interpretation 22 Foreign currency transactions and advance consideration

The interpretation provides clarifications on the transaction date for the purpose of determining the exchange rate with respect to the recognition of the non-monetary prepayment asset or deferred income liability and that a date of transaction is establisched for each payment or receipt in case of multiple advanced payments or receipts. The interpretation has a minor impact on FMO.

Amendments to IAS 40 Investments property – Transfers of investment property

These amendments provide guideance and include criteria for transfers of property to, or from, investment property in accordance with IAS 40 and will have no impact on FMO.

Estimates and assumptions

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

In recent years FMO has further improved its valuation process for equity investments and in addition more reliable information has become available. As per December 2015 a part of the equity investments were measured at cost price as best estimate for fair value. As of the first half of 2016 FMO was able to reliably estimate the fair value of all its equity investments resulting in an unrealized gain of €16 million and is reflected in the available for sale reserve. For further details on valuation techniques and estimation/assumptions used we refer to the section fair value of financial assets and liabilities.

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

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

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

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

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the fair value of an instrument is measured by using the quoted price in an active market for that instrument. If there is no quoted price in an active market, valuation techniques are used that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Group accounting and consolidation

The company accounts of FMO and the company accounts of the subsidiaries Nuevo Banco Comercial Holding B.V., Asia Participations B.V., FMO Investment Management B.V., FMO Medu II Investment Trust Ltd. and Equis DFI Feeder L.P. are consolidated in these annual accounts. In the first half of 2015, the subsidiary FMO Antillen N.V. has been liquidated.

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

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.

FMO is active in the following sectors:

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

The business sectors are included in the segment reporting. In addition to these focus sectors, fund investments without a specific operating sector have been identified separately as Multi-Sector Fund Investments, since these are a substantial part of FMO's business. In 2016 there were not transactions between the operating segments.

Fiscal unity

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

Foreign currency translation

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

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

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

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

Offsetting financial instruments

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

Derivative instruments

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

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

Hedge accounting

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

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

FMO discontinues hedge accounting when it is determined that:

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

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

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

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

Interest income and expense

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

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

Fee and commission income and expense

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

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

Dividend income

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

Cash and cash equivalents

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

Loans to the private sector

Loans originated by FMO include:

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

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

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

Value adjustments on loans

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

1. *Counterparty-specific:*
   Individual credit exposures are evaluated based on the borrower's characteristics, overall financial condition, resources and payment record, original contractual term, exit possibilities and, where applicable, the realizable value of the underlying collateral. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. In case of a loan restructuring, the estimated recoverable amount as well as the value adjustments are measured by using the original effective interest rates before the modification of the terms. Value adjustments for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.

2. *Group-specific:*
   All loans that have no counterparty-specific value adjustment are divided in groups of financial assets with similar credit risk characteristics and are collectively assessed for value adjustments. The credit exposures are evaluated based on local political and economic developments and probabilities of default (based on country ratings) and loss given defaults, and taking into consideration the nature of the exposures based on product/country combined risk assessment. The probabilities of default and the loss given defaults are periodically assessed as part of FMO's financial risk control framework.

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

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

Interest-bearing securities

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

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

Equity investments

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

Impairments

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

Investments in associates

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

1. FMO is not involved in the company’s operational and/or strategic management by participation in its Management, Supervisory Board or Investment Committee; and
2. There are no material transactions between FMO and the company; and
3. FMO makes no essential technical assistance available.

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

Fixed assets

ICT equipement

Expenditures directly associated with identifiable and unique software products controlled by FMO and likely to generate economic benefits exceeding costs beyond one year, are recognized as fixed 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

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

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

Debentures and notes

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

Debentures and notes can be divided into:

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

Debentures and notes valued at amortized cost

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

Debentures and notes eligible for hedge accounting

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

Provisions

Provisions are recognized when:

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

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

Leases

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

Guarantees

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

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

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

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

Retirement benefits

FMO provides all employees with retirement benefits that are categorized as a defined benefit. A defined benefit plan is a pension plan defining the amount of pension benefit to be provided, as a function of one or more factors such as age, years of service or compensation. Employees are entitled to retirement benefits based on the average salary, on attainment of the retirement age of 65. Starting from January 1, 2014 this retirement age has been adjusted to 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 20. All actuarial gains and losses are reported in shareholders' equity, net of applicable income taxes and are permanently excluded from profit and loss.

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

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

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

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

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

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

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

Taxation

Income tax on profits is recognized as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise. The tax effects of income tax losses, available for carry-forward, are recognized as a deferred tax asset if it is probable that future taxable profit will be available against which those losses can be utilized. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods using the liability method.

Deferred tax assets are recognized for temporary differences, resulting in deductible amounts in future periods, but only when it is probable that sufficient taxable profits will be available against which these differences can be utilized. The main temporary differences arise from the post-retirement benefits provision and the fair value movements on interest-bearing securities and equity investments.

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

Shareholders' equity

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

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

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

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

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

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

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

(before profit appropriation)	Notes	Page nr.	2016	2015
Assets				
Banks	(1)	127	58,178	76,966
Short-term deposits	(2)	127	1,242,604	1,545,384
Interest-bearing securities	(3)	127	575,117	611,570
Derivative financial instruments	(4)	128	186,510	251,089
Loans to the private sector	(5), (9)	129, 131	4,469,948	4,250,379
Loans guaranteed by the State	(6), (9)	129, 131	56,768	56,780
Equity investments	(7)	130	1,712,112	1,467,516
Investments in associates	(8)	130	116,060	32,752
Fixed assets	(10)	133	9,168	7,626
Deferred income tax assets	(31)	141	10,618	2,108
Current accounts with State funds and other programs	(11)	133	1,901	724
Other receivables	(12)	133	21,753	25,071
Accrued income	(13)	133	92,028	93,317
Total assets			**8,552,765**	**8,421,282**
Liabilities				
Short-term credits	(14)	134	39,464	76,015
Derivative financial instruments	(4)	128	423,981	391,073
Debentures and notes	(15)	134	5,180,977	5,347,614
Current accounts with State funds and other programs	(16)	134	75	1,459
Current income tax liabilities			16,434	18,563
Wage tax liabilities			340	183
Deferred income tax liabilities	(31)	141	13,688	4,249
Other liabilities	(17)	134	7,441	12,476
Accrued liabilities	(18)	135	51,408	57,028
Provisions	(19)	135	45,422	1,706
Total liabilities			**5,779,230**	**5,910,366**
Shareholders' equity				
Share capital			9,076	9,076
Share premium reserve			29,272	29,272
Contractual reserve			1,477,843	1,308,420
Development fund			657,981	657,981
Available for sale reserve			571,075	455,352
Translation reserve			9,221	4,111
Other reserves			9,394	39,207
Undistributed profit			6,682	6,231
Shareholders' equity (parent)			**2,770,544**	**2,509,650**
Non-controlling interests			2,991	1,266
Total shareholders' equity	(20)	137	**2,773,535**	**2,510,916**
Total liabilities and shareholders' equity			**8,552,765**	**8,421,282**
Contingent assets and liabilities				
· Effective guarantees issued	(32)	142	61,050	119,974
· Effective guarantees received	(32)	142	-224,754	-230,937
Irrevocable facilities	(32)	142	1,820,239	1,823,122

all amounts in € × 1,000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2016

(before profit appropriation)	Notes	Page nr.	2016	2015
Income				
Interest income			282,401	272,708
Interest expense			-65,861	-45,506
Net interest income	(21)	139	**216,540**	**227,202**
Fee and commission income			6,691	7,545
Fee and commission expense			-547	-163
Net fee and commission income	(22)	139	**6,144**	**7,382**
Dividend income	(23)	139	16,819	20,052
Results from equity investments	(24)	139	39,041	24,239
Results from financial transactions	(25)	140	-8,779	13,357
Remuneration for services rendered	(26)	140	28,565	25,975
Other operating income	(27)	140	1,186	1,751
Total other income			**76,832**	**85,374**
Total income			**299,516**	**319,958**
Operating expenses				
Staff costs	(28)	140	-63,685	-59,642
Other administrative expenses	(29)	141	-19,357	-17,372
Depreciation and impairment	(10)	133	-2,565	-2,150
Other operating expenses	(30)	**141**	-75	-359
Total operating expenses			**-85,682**	**-79,523**
Value adjustments/ impairments on				
Loans	(9)	131	38,069	-8,425
Equity investments and associates	(7), (8)	130	-43,996	-19,128
Guarantees issued	(9)	131	4,920	-1,016
Total value adjustments			**-1,007**	**-28,569**
Share in the result of associates	(8)	130	6,247	3,090
Total result on associates			**6,247**	**3,090**
Profit before taxation			**219,074**	**214,956**
Income tax	(31)	141	-42,969	-40,668
Net profit			**176,105**	**174,288**
Net profit attributable to				
Owners of the parent company			176,105	174,288
Net profit			**176,105**	**174,288**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(before profit appropriation)	Notes	Page nr.	2016	2015
Net profit			**176,105**	**174,288**
Other comprehensive income				
Exchange differences on translating associates and subsidiaries			5,110	3,252
Available for sale financial assets			127,574	186,085
Income tax effect			-11,851	2,148
Items to be reclassified to profit and loss	(34)	145	**120,833**	**191,485**
Actuarial gains/losses on defined benefit plans			-39,750	14,502
Income tax effect			9,937	-3,625
Items not reclassified to profit and loss	(34)	145	**-29,813**	**10,877**
Total other comprehensive income, net of tax			**91,020**	**202,362**
Total comprehensive income			**267,125**	**376,650**

Total comprehensive income attributable to:		
Owners of the parent company	267,125	376,650
Non-controlling interests	-	-
Total comprehensive income	**267,125**	**376,650**

all amounts in € × 1,000

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium reserve	Contractual reserve	Devel-opment fund	Available for sale reserve	Trans-lation reserve	Other reserves	Undis-tributed profit	Non-con-trolling interests	Total
Balance at January 1, 2015	**9,076**	**29,272**	**1,140,363**	**657,981**	**267,119**	**859**	**28,330**	**4,560**	**-**	**2,137,560**
Exchange differences on translating associates and subsidiaries	-	-	-	-	-	3,252	-	-	-	3,252
Available for sale financial assets	-	-	-	-	186,085	-	-	-	-	186,085
Actuarial gains/ losses on defined benefit plans	-	-	-	-	-	-	14,502	-	-	14,502
Income tax effect other comprehensive income	-	-	-	-	2,148	-	-3,625	-	-	-1,477
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**188,233**	**3,252**	**10,877**	**-**	**-**	**202,362**
Changes in subsidiary Equis DFI Feeder LP	-	-	-	-	-	-	-	-	1,266	1,266
Net profit	-	-	168,057 [1)]	-	-	-	-	6,231	-	174,288
Dividend declared	-	-	-	-	-	-	-	-4,560	-	-4,560
Balance at December 31, 2015	**9,076**	**29,272**	**1,308,420**	**657,981**	**455,352**	**4,111**	**39,207**	**6,231**	**1,266**	**2,510,916**
Exchange differences on translating associates and subsidiaries	-	-	-	-	-	5,110	-	-	-	5,110
Available for sale financial assets	-	-	-	-	127,574	-	-	-	-14	127,560
Actuarial gains/losses on defined benefit plans	-	-	-	-	-	-	-39,750	-	-	-39,750
Income tax effect other comprehensive income	-	-	-	-	-11,851	-	9,937	-	-	-1,914
Total other comprehensive income	**-**	**-**	**-**	**-**	**115,723**	**5,110**	**-29,813**	**-**	**-14**	**91,006**
Changes in ownership subsidiary Equis DFI Feeder LP	-	-	-	-	-	-	-	-	1,739	1,739
Net profit	-	-	169,4231 [1)]	-	-	-	-	6,682	-	176,105
Dividend declared	-	-	-	-	-	-	-	-6,231	-	-6,231
Balance at December 31, 2016	**9,076**	**29,272**	**1,477,843**	**657,981**	**571,075**	**9,221**	**9,394**	**6,682**	**2,991**	**2,773,535**

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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	Page nr.	2016	2015
Operational activities				
Net profit			176,105	174,288
Adjusted for non-cash items:				
· Result of associates			-6,247	-3,090
· Unrealised (gains) losses arising from changes in fair value			7,761	-278,541
· Unrealised (gains) losses arising from changes in foreign exchange rates			46,615	106,993
· Unrealised (gains) losses arising from other changes			7,794	19,556
· Value adjustments			-1,672	25,238
· Depreciation and impairment of fixed assets			2,565	2,150
· Income tax expense			42,969	40,668
Changes in:				
· Income tax paid			-46,166	-22,811
· Net movement (disbursements and repayments) in loans (including guaranteed by the State)			-79,637	-127,867
· Purchase of and proceeds from equity investments and associates			-233,442	-170,713
· Movement other assets and liabilities[1)]			65,665	12,205
· Movement in short-term deposits[1)]			242,088	-450,849
· Movement in short-term credits[1)]			-36,388	-184,985
Net cash flow from operational activities	(35)	146	**188,010**	**-857,758**
Investment activities				
Purchase of interest-bearing securities			-74,235	-248,009
Redemption/sale of interest-bearing securities			112,507	221,292
Investments in fixed assets			-4,107	-2,380
Divestments of fixed assets			-	72
Net cash flow from investment activities	(36)	146	**34,165**	**-29,025**
Financing activities				
Proceeds from issuance of debt securities, debentures and notes			612,748	1,753,536
Redemption of debt securities, debentures and notes			-891,209	-680,100
Dividend paid			-6,231	-4,560
Net cash flow from financing activities	(37)	146	**-284,692**	**1,068,876**
Net cash flow			**-62,517**	**182,093**
Cash and cash equivalents				
Net foreign exchange difference			-16,963	-56,773
Banks and short-term deposits at January 1			913,116	787,796
Banks and short-term deposits at December 31			833,636	913,116
Total cash flow			**-62,517**	**182,093**
Operational cash flows from interest and dividends				
Interest received			282,572	264,673
Interest paid			-64,727	47,180
Dividend received			16,819	20,052

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

In 2016 presentation of cash flow items have been changed. Therefore, 2015 figures have been adjusted for comparative purposes.

all amounts in € × 1,000

RISK MANAGEMENT

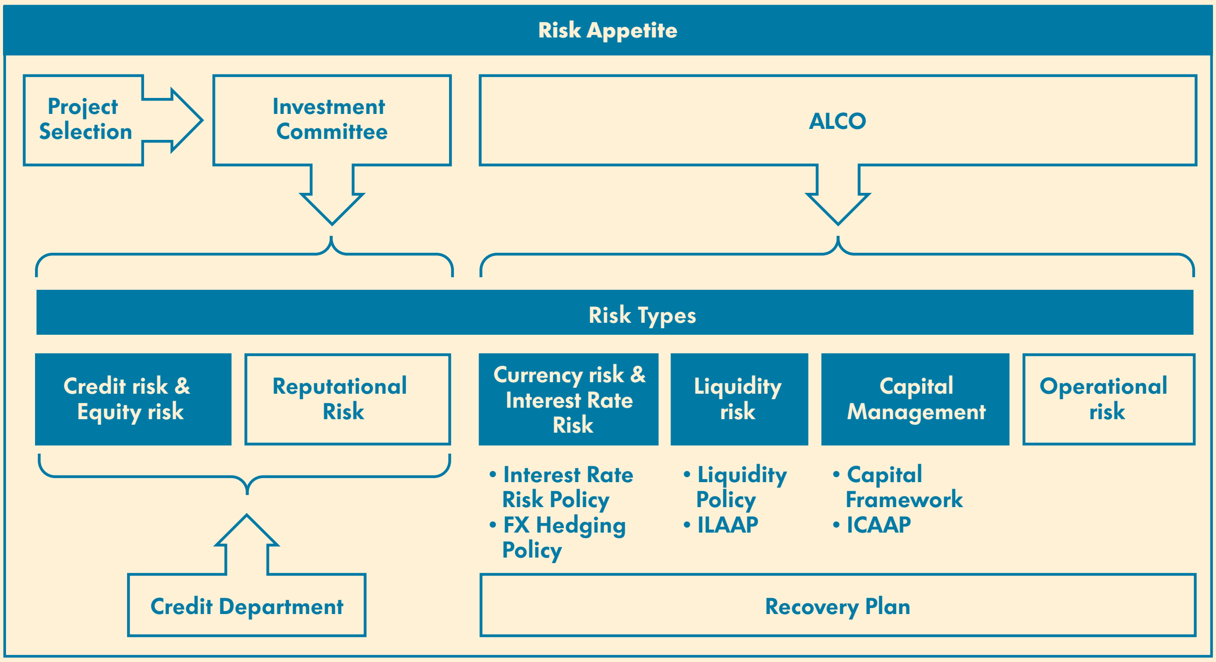
ORGANIZATION OF RISK MANAGEMENT

To be able to carry out its mission, it is essential for FMO to have an adequate risk management system in place to identify, measure, monitor and mitigate financial risks. FMO's Risk Management departments and committees reflect the specific nature of the various risks in order to ensure that these are managed within limits set in a transparent and timely manner.

The Risk Management department is responsible for managing portfolio risks of the emerging market portfolio, treasury portfolio, and all related market risks. Additionally, Risk Management follows and implements regulatory developments and increases awareness of the financial risks and the risk-return relationship.

The figure below provides an overview of FMO's risk control framework and an overview of the risk types.

Risk Control Framework



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

In addition, financial exposures in emerging markets are subject to a periodic review which are in general executed annually. Exposures which require specific attention are reviewed by the Investment Review Committee. The large and higher risk exposures are accompanied by the advice of the Credit department. If the Investment Review Committee concludes that a client has difficulty in meeting its payment obligations, the client is transferred to the Special Operations department – responsible for the management of distressed assets – where it is intensely monitored.

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

RISK PROFILE & APPETITE

FMO actively seeks to take risk stemming from debt and equity investments in private institutions in developing countries. This risk profile is supported by holding prudent levels of capital and liquidity and strong diversification of the portfolio over regions and sectors. About 80% of the economic capital is allocated to credit risk. Reference is made to the capital management paragraph. Although other financial risks cannot always be avoided, FMO mitigates them as much as possible. FMO does not have trading positions and in general no appetite for currency risk and interest rate risk. This risk profile is captured in FMO's risk appetite framework. This framework consists of a risk appetite statement which is based on FMO's ambition in terms of its risk profile, mission strategy and stakeholders' expectations.

Risk Appetite Statement	
Principle	**Ambition/objectives**
Capital	· Maintain capital ratios consistent with a high investment grade rating · FMO survives stress scenarios in line with internal and regulatory requirements
Liquidity	· Maintain sufficient liquidity to survive a severe stress situation · Maintain access to financial markets
Earnings	· Achieve long-term profitability of FMO's portfolio in line with shareholders' expectations
Development mandate	· Adherence to the criteria of the Agreement with the Dutch State · Become the leading impact investor for its own and 3rd party accounts, by doubling impact and halving footprint
Reputation	· Safeguard FMO's integrity by achieving good governance with robust controls · Operate in accordance with international ESG standards · Promote positive opinion of FMO's activities and seek active engagement and relationships with our stakeholders

FMO's risk appetite framework is reviewed at least once a year. Based on the advice of the Audit and Risk Committee, the Supervisory Board approves the risk appetite. Risk appetite is the amount of risk an entity is willing to accept in pursuit of value. Risk appetite can be defined as: "the types and degree of risk an institution is willing to accept for its shareholders in its strategic, tactical and transactional business actions".

The following paragraphs provide further details on the risk types that FMO is exposed to. For further detail on the development mandate please refer to the section 'Report of the Management Board' of the Annual Report.

REPUTATIONAL RISK

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

Environmental, social and governance risk

FMO runs environmental and social risks in its emerging market projects. These risks stem from the nature of our projects, which in some cases could carry negative environmental and/or social impacts. FMO accepts that in the pursuit of development impact there is a risk of negative press and/or negative reactions from NGOs in the context of ESG performance and mitigates this risk through environmental and social action plans and monitoring. The risk appetite for deviations from the exclusion list and human rights violations by projects financed by FMO is zero. We furthermore expect the highest standards in professional conduct. Internally, FMO strives to limit the footprint of its own workplace and strives to the highest standards in employee satisfaction. Ensuring a high diversity in staff is a leading Human Resources principle.

Stakeholder management

Inadequate relationship management with respect to our shareholders, investors and other stakeholders expose us to the risk that our objectives are not realized. Our mission is closely associated with our stakeholders and their expectations of FMO. These expectations are therefore an important input in the development of FMO's risk appetite framework and FMO's strategy.

CREDIT RISK

Credit risk is defined as the risk that the bank will suffer economic loss because a counterparty cannot fulfill its financial or other contractual obligations arising from a financial contract. Credit risk is the main risk within FMO and occurs in two areas of its operations: (i) credit risk in investments in emerging markets and off-balance instruments such as loan commitments and guarantees; and (ii) credit risk in the treasury portfolio, mainly consisting of high-rated and liquid bonds in developed countries and derivative instruments.

Management of credit risk is FMO's core business, both in the context of project selection and project monitoring. In this process, a set of investment criteria per sector is used that reflects benchmarks for the required financial strength of FMO's clients. This is further supported by internal scorecards that are used for risk classification and the determination of capital use per transaction. As to project monitoring, FMO's clients are subject to periodic reviews. Strong diversification within FMO's emerging market portfolio is ensured through stringent limits on individual counterparties (single client and economic group limits), countries (from 8% to 22% of FMO's capital, dependent on country rating) and sectors (50% of country limit). Similarly, credit policies and guidelines have been formulated covering treasury operations; these are reviewed regularly and approved by the ALCO.

The following table shows the maximum exposure to credit risk for FMO. The maximum exposure of balance sheet items, including derivatives, is shown gross, before provisioning and the effect of mitigation through the use of master netting and collateral agreements. Only derivative financial instruments with positive market values are presented. The maximum exposure to credit risk decreased during the year from €9,278,812 at December 31, 2015 to €8,954,682 at December 31, 2016.

Maximum exposure to credit risk, including derivatives	2016	2015
On-balance		
Banks	58,178	76,966
Short-term deposits	1,156,496	1,275,239
Interest-bearing securities	575,117	611,570
Short-term deposits – Dutch central bank	86,108	270,145
Derivative financial instruments	186,510	251,089
Loans to the private sector	4,825,530	4,666,569
Loans guaranteed by the State	59,154	62,918
Deferred income tax assets	10,618	2,108
Current income tax receivables	-	-
Current accounts with State funds and other programs	1,901	724
Other receivables	21,753	25,071
Accrued income	92,028	93,317
Total on-balance	**7,073,393**	**7,335,716**
Off-balance		
Contingent liabilities (guarantees issued)	61,050	119,974
Irrevocable facilities	1,820,239	1,823,122
Total off-balance	**1,881,289**	**1,943,096**
Total credit risk exposure	**8,954,682**	**9,278,812**

Credit risk in the emerging markets loan portfolio

FMO offers loans in emerging market countries. Concentration risks on individual counterparties, sectors or countries are mitigated due to stringent single client, sector and country limits, which are set by the ALCO. Please note that in this section loans guaranteed by the State are not included.

Gross exposure of loans distributed by region and sector

	Financial Institutions	Energy	Agri-business	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At December 31, 2016						
Africa	400,351	401,465	57,557	28,430	298,350	1,186,153
Asia	568,670	308,265	27,265	-	347,990	1,252,190
Latin America & the Caribbean	587,607	478,015	139,904	-	219,885	1,425,411
Europe & Central Asia	366,620	141,885	110,700	19,142	153,459	791,806
Non-region specific	49,393	16,813	61,791	-	41,973	169,970
Total	**1,972,641**	**1,346,443**	**397,217**	**47,572**	**1,061,657**	**4,825,530**
At December 31, 2015						
Africa	449,857	312,878	50,520	45,856	243,617	1,102,728
Asia	578,765	271,943	33,442	-	344,562	1,228,712
Latin America & the Caribbean	598,940	425,950	135,333	-	222,262	1,382,485
Europe & Central Asia	460,399	81,158	119,380	-	93,586	754,523
Non-region specific	33,758	38,555	53,161	-	72,647	198,121
Total	**2,121,719**	**1,130,484**	**391,836**	**45,856**	**976,674**	**4,666,569**

Internal credit approval process

Credit risk from loans in emerging market countries arises from a combination of counterparty risk, country risk and product specific risks. These types of risk are assessed during the credit approval and credit review process and administrated via internal scorecards. The lending process is based on formalized and strict procedures. Decisions on authorizations depend on both the amount of economic capital and the risk profile of the financing instrument. For distressed assets, the Special Operations department applies an advanced workout and restructuring approach.

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

Gross exposure distributed by internal ratings

Indicative counterparty credit rating	2016	%	2015	%
F1 – F10 (BBB- and higher)	259,827	5.4	263,305	5.6
F11 – F13 (BB-, BB, BB+)	1,808,404	37.5	1,858,841	39.8
F14 – F16 (B-, B, B+)	2,000,797	41.4	1,781,054	38.2
F17 and lower (CCC+ and lower ratings)	756,502	15.7	763,369	16.4
Total	**4,825,530**		**4,666,569**	

Maximum exposure to credit risk of the gross loan portfolio increased to €4,825,530 in 2016 (2015: €4,666,569). The bulk of our exposure of 79%, remains in the F11 to F16 ratings. The exposure to counterparties rated F17 and lower is spread across the regions and sectors of FMO. The largest sector within the loan portfolio is the sector Financial institutions. For more details, reference is made to the table above.

Apart from its on-balance finance activities, FMO is also exposed to off-balance credit-related commitments. Guarantees, which represent contingent liabilities to make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risks as loans. The majority of the guarantees are quoted in US dollars. Guarantees on export facilities are collateralized by the underlying letters of credit, and therefore carry less credit risk than a direct uncollateralized borrowing. The total outstanding guarantees add up to an amount of €61,050 (2015: €119,974). FMO has received guarantees for an amount of €224,754 (2015: €230,937). Provisions, amortized costs and obligations for guarantees add up to €6,726 (2015: €11,839).

Irrevocable facilities represent commitments to extend finance to clients. The irrevocable facilities amount to €1,820,239 (2015: €1,823,122) and correspond to 28% (2015: 31%) of the net exposure in emerging markets (including loans, equity investments and contingent liabilities). Irrevocable facilities are usually not immediately and fully drawn by clients, especially in case of commitments to equity funds, which have a contractual investment period of several years.

Collateral, loans past due and value adjustments

In 2016, collateral was acquired on 27% (2015: 29%) of the gross amount of loans. Collateral mainly consists of real estate, business assets or financial instruments. The collateral obtained is used to support FMO's position in renegotiation of loan terms. Due to the nature of the markets in which FMO operates, it has been proven difficult to assign reliable fair values to the collateral used to mitigate credit risk due to the limited liquidity and enforceability.

At the end of 2016, the counterparty-specific value adjustments as a percentage of the gross loan portfolio equaled 4.2% (2015: 4.1%). The group-specific value adjustments equaled 2.1% (2015: 3.7%), resulting in total value adjustments of 6.3% (2015: 7.8%) of the gross loan portfolio.

Non-Performing Loans (NPL) are defined as loans with a counterparty-specific value adjustment and/or loans with interest and/or principal payments that are past due 90 days or more. FMO's NPL ratio marginally increased from 6.9% to 7.5%[1)] as a result of increased provisioned loans. In general, the non-performing loans represent a fair cross-section of our portfolio and no correlation with respect to specific geographic region has been identified. However, correlation – though limited – can be found in terms of sector given that a relatively larger part of the NPLs is related to the Infrastructure, Manufacturing & Services sector. We have conducted an in-depth analysis of the NPLs from our portfolio in this sector. We found no specific trends and the higher provisions cannot be attributed to a specific industry, country or partner. Nevertheless the relatively higher NPLs of this portfolio remains under the attention of management, Front Office and the Risk departments. Loans with interest and/or principal payments that are past due 90 days or more, amount to 5.0% (2015: 3.8%) of the gross loan portfolio.

When the terms and conditions of a loan have been modified significantly, FMO considers these loans as restructured. Changes in terms and conditions usually include extending the maturity, changing the interest margin and changing the timing of interest payments. The loans are assessed to determine if they qualify for derecognition and if that is the case, they are recognized as a new loan with valuation differences through profit and loss. Value adjustments related to restructured loans are being measured as indicated in the accounting policies under 'Value adjustments on loans'.

In 2016, our (partial) write-offs were limited to 7 (2015: 5) loans, corresponding to 0.6% (2015: 0.6%) of our portfolio, mainly related to the Financial Institutions sector.

Loans past due and value adjustments 2016

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

1) Note that the NPL ratio is influenced by the recognition of a guaranteed amount which is thus deducted from the amount of the non-performing loans. When this guaranteed amount is not taken into account the overall NPL ratio increases to 7.9% (2015: 7.3%).

Loans past due and value adjustments 2015

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

Counterparty-specific value adjustments distributed by regions and sectors (% based on the gross exposure of loans)

At December 31, 2016	Financial Institutions	%	Energy	%	Agri-business	%	Multi-sector Investment Funds	%	Infrastructure, Manufacturing, Services	%	Total	%
Africa	-	-	-	-	-	-	-	-	26,325	9	26,325	2
Asia	-	-	9,044	3	-	-	-	-	115,952	33	124,996	10
Latin America & the Caribbean	1,572	0	8,965	2	-	-	-	-	8,847	4	19,384	1
Europe & Central Asia	6,885	2	-	-	3,554	3	-	-	19,714	13	30,153	4
Non-region specific	-	-	-	-	-	-	-	-	-	-	-	-
Total	**8,457**	**0**	**18,009**	**1**	**3,554**	**1**	**-**	**-**	**170,838**	**16**	**200,858**	**4**

At December 31, 2015	Financial Institutions	%	Energy	%	Agri-business	%	Multi-sector Investment Funds	%	Infrastructure, Manufacturing, Services	%	Total	%
Africa	-	-	2,189	1	1,850	4	-	-	19,420	8	23,459	2
Asia	-	-	-	-	-	-	-	-	100,506	29	100,506	8
Latin America & the Caribbean	2,892	-	12,118	3	-	-	-	-	7,558	3	22,568	2
Europe & Central Asia	-	-	-	-	2,302	2	-	-	20,770	22	23,072	3
Non-region specific	-	-	-	-	-	-	-	-	23,124	32	23,124	12
Total	**2,892**	**-**	**14,307**	**1**	**4,152**	**1**	**-**	**-**	**171,378**	**18**	**192,729**	**4**

Offsetting financial assets and financial liabilities

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 cash collateral only with respect to derivatives.

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

	(a)	(b)	(c)=(a)-(b)		(d)	(e)=(c)-(d)
				Related amounts not offset in the balance sheet		
At December 31, 2015	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	249,947	-	249,947			
Financial liabilities						
Derivatives	-390,223	-	-390,223			
Total	**-140,276**	**-**	**-140,276**	**-**	**-137,807**	**2,469**

1) Cash collateral amount is determined per counterparty and therefore not split by assets and liabilities.

Country risk

Country risk arises from country-specific events that adversely impact FMO's exposure in a specific country. Within FMO, country risk is broadly defined. It includes all relevant factors that have a common impact on FMO's portfolio in a country such as economic, banking and currency crises, sovereign default and political risk events. The assessment of the country rating is based on a benchmark of external rating agencies and other external information.

The level of the country limits depends on the sovereign rating. FMO recognizes that the impact of country risk differs across the financial products it offers. Group-specific value adjustments are established on the investment credit portfolio based on an incurred loss model with country risk and estimated recovery rates as main parameters. With respect to the geographical diversification in the portfolio, reference is made to the segment information paragraph. With respect to the sector diversification in the portfolio, reference is made to notes 5, 6, 7 and 8 of the notes to the consolidated balance sheet. In 2016 the ratings of Nigeria, Rwanda, and Papua New Guinea were downgraded from F14 to F15. El Salvador was downgraded from F14 to F16. This explains the significant increase in exposure in the F15 and F16 category in 2016 when compared to last year, with Nigeria alone accounting for 4% of the move.

Overview country ratings

Indicative external rating equivalent	2016 (%)	2015 (%)
F9 and higher (BBB and higher ratings)	8.0	8.2
F10 (BBB-)	10.4	12.8
F11 (BB+)	1.9	7.4
F12 (BB)	9.7	7.0
F13 (BB-)	15.8	9.5
F14 (B+)	14.3	21.9
F15 (B)	16.5	12.4
F16 (B-)	13.1	7.9
F17 and lower (CCC+ and lower ratings)	10.3	12.9
Total	100	100

Treasury counterparty credit risk

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 Treasury's mandate. Credit risk in the treasury portfolio stems from short-term investments, interest-bearing securities and derivative instruments. Derivatives are primarily used for hedging interest rate risk and foreign exchange risks.

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

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

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

FMO pursues a conservative investment policy.

Overview interest-bearing securities

At December 31	2016	2015
AAA	423,981	383,437
AA- to AA+	151,136	228,133
Total	**575,117**	**611,570**

Geographical distribution interest-bearing securities

At December 31	2016 (%)	2015 (%)
Belgium	4	7
Finland	14	9
France	10	7
Germany	17	12
United Kingdom	-	3
Netherlands	40	36
Supra-nationals	15	26
Total	**100**	**100**

Overview short-term deposits

At December 31	Rating (short-term)	2016	2015
Dutch central bank		86,108	270,143
Financial institutions	A-1	890,087	1,121,427
	A-2	20,990	-
	A-3	38,734	43,307
	Unrated	50,039	-
Money market funds	AAA	76,640	110,507
Municipality		80,006	-
Total		**1,242,604**	**1,545,384**

The short term ratings of the counterparties fit well in our liquidity and investment policy.

Derivative financial instruments distributed by rating[1)]

Derivative financial instruments (based on long-term rating)	2016		2015	
	Net exposure	**CSA (%)**	**Net exposure**	**CSA (%)**
AA- to AA+	1,517	100	-	-
A to A+	16,590	100	71,958	100
BBB	9,403	100	37,636	100
Total	**27,510**	**100**	**109,594**	**100**

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

EQUITY RISK

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

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

Market circumstances for exits deteriorated in 2016 and so we realised fewer exits than budgeted. FMO however 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 so wait for markets to improve again to realise exits. We have no deadlines on the exit date of our equity investments. Equity investments are assessed by the Investment Committee in terms of specific obligor as well as country risk. The Investment Review Committee assesses the valuation of the majority of equity investments quarterly. The performance of the equity investments in the portfolio is periodically analyzed during the fair value process. Based on this performance and the market circumstances, exits are pursued in close cooperation with our co-investing partners. The total outstanding equity portfolio at December 31, 2016, amounts to €1,712,112 (2015: €1,467,516) of which €875,140 (2015: €866,606) is invested in investment funds.

In recent years FMO has further improved its valuation process for equity investments and in addition more reliable information has become available. As per December 2015 a part of the equity investments was measured at cost price as best estimate for fair value. As of first half of 2016 FMO was able to reliably estimate fair value of all it's equity investments resulting in an unrealized gain of €16 million and is reflected in the available for sale reserve.

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

Equity portfolio distributed by region and sector

At December 31, 2016	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Africa	100,436	53,805	28,456	201,998	93,360	478,055
Asia	187,605	168,268	53,636	211,440	25,470	646,419
Latin America & the Caribbean	61,737	28,621	41,638	117,967	45,080	295,043
Europe & Central Asia	52,464	9,957	3,570	101,288	10,839	178,118
Non-region specific	56,737	6	895	13,969	42,870	114,477
Total	**458,979**	**260,657**	**128,195**	**646,662**	**217,619**	**1,712,112**

At December 31, 2015	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Africa	91,005	42,601	21,641	208,770	83,859	447,876
Asia	156,867	146,668	11,852	153,792	20,716	489,895
Latin America & the Caribbean	61,472	20,979	24,581	111,977	35,349	254,358
Europe & Central Asia	34,085	4,677	4,453	119,358	6,446	169,019
Non-region specific	52,889	6	614	52,859	-	106,368
Total	**396,318**	**214,931**	**63,141**	**646,756**	**146,370**	**1,467,516**

CURRENCY RISK

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

Limits have been set on currency positions and are monitored on a daily basis. Currency risks are managed by matching the currency characteristics of FMO's assets and liabilities, using derivative instruments such as (cross-) currency swaps and currency forwards. Equity investments are excluded from the currency position as the US dollar long position functions as a partial hedge for FMO's solvency ratios against adverse US dollar movements. Additionally, the uncertainty in the size and the timing of the cash flows make hedging less effective. With respect to equity investments, the expected returns in local currencies are assessed in terms of their sufficiency to compensate for the currency risk. Reference is made to the previous paragraph on equity risk.

FMO offers loans in emerging market currencies. We aim to match the currency needs of local banks and corporates, thereby reducing their currency risk. At December 31, 2016, 9% (2015: 8%) of the net loans to the private sector was in emerging market currencies. The emerging market currency loans are swapped to US dollars via either commercial parties or via The Currency Exchange Fund (TCX Fund N.V.). As a result, FMO's open emerging market currency position of the investment portfolio, apart from equity, is limited.

FMO's exposure to the Swiss Franc (CHF) and other developed market currencies is also limited. When we raise funding in CHF or JPY for example, we simultaneously enter into cross currency swaps to hedge our CHF, or JPY exposure back to USD.

all amounts in € × 1,000

Currency risk exposure (at carrying values)

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

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

At December 31, 2015	€	US $	CHF	INR	Other	Total
Assets						
Banks	37,187	34,653	285	2,404	2,437	76,966
Short-term deposits	483,522	1,061,862	-	-	-	1,545,384
Derivative financial instruments[1]	286,451	-117,592	327,630	-171,615	-73,785	251,089
Loans to the private sector	454,796	3,436,880	-	164,607	194,096	4,250,379
Loans guaranteed by the State	40,468	16,312	-	-	-	56,780
Equity investments	250,725	1,027,368	-	70,898	118,525	1,467,516
Investments in associates	1,485	31,267	-	-	-	32,752
Interest-bearing securities	611,570	-	-	-	-	611,570
Tangible fixed assets	7,626	-	-	-	-	7,626
Deferred income tax assets	2,108	-	-	-	-	2,108
Current accounts with State funds and other programs	724	-	-	-	-	724
Other receivables	7,760	16,109	-	170	1,032	25,071
Accrued income	12,831	57,484	4,204	4,546	14,252	93,317
Total assets	**2,197,253**	**5,564,343**	**332,119**	**71,010**	**256,557**	**8,421,282**
Liabilities and shareholders' equity						
Short-term credits	76,015	-	-	-	-	76,015
Derivative financial instruments[1]	-1,332,565	2,420,792	-160,843	122	-536,433	391,073
Debentures and notes	2,136,737	2,049,040	487,565	-	674,272	5,347,614
Other liabilities	791	9,685	-	-	2,000	12,476
Current accounts with State funds and other programs	1,459	-	-	-	-	1,459
Current income tax liabilities	18,563	-	-	-	-	18,563
Wage tax liabilities	373	-	-	-	-190	183
Deferred income tax liabilities	4,249	-	-	-	-	4,249
Accrued liabilities	9,789	30,265	4,170	5,720	7,084	57,028
Provisions	1,706	-	-	-	-	1,706
Shareholders' equity	2,510,916	-	-	-	-	2,510,916
Total liabilities and shareholders' equity	**3,428,033**	**4,509,782**	**330,892**	**5,842**	**146,733**	**8,421,282**
Currency sensitivity gap 2015		**1,054,561**	**1,227**	**65,168**	**109,824**	
Currency sensitivity gap 2015 excluding equity investments and investments in associates		**-4,074**	**1,227**	**-5,730**	**-8,701**	

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

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

all amounts in € × 1,000

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

	At December 31, 2016		At December 31, 2015	
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]
US $ value increase of 10%	1,815	133,273	561	77,922
US $ value decrease of 10%	-1,815	-133,273	-561	-77,922
CHF value increase of 10%	188	188	-30	-30
CHF value decrease of 10%	-188	-188	30	30
INR value increase of 10%	893	5,168	-639	3,088
INR value decrease of 10%	-893	-5,168	639	-3,088

1) The sensitivities employ simplified scenarios. The sensitivity of profit & loss account and shareholders' equity to possible changes in the main foreign currencies is based on the immediate impact on the financial assets and liabilities held at year-end, including the effect of hedging instruments.
2) Shareholders' equity is sensitive to the currency sensitivity gap, including the equity investments valued at cost minus impairments.

INTEREST RATE RISK

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

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

In 2016, FMO implemented a new interest rate risk policy, which has further improved the measurement and management of interest rate risks. FMO manages its interest position using:

- Earnings measurements: Gap report, Net Interest Income projection and Earnings at Risk (EaR)
- Economic Value measurements: Price Value of a Basis Point (PV01) and Equity Value at Risk (EVaR)

The EaR shows the interest rate risk sensitivity of earnings to yield curve shocks, while the PV01 expresses the impact on the fair value of the financial instruments by a basis point change in yield. EVaR is defined as the change in economic value of equity by shock of 200bps in the interest rates and is set as the capital charge for interest rate risk as prescribed by DNB. ALCO has set limits for PV01 and EVaR, which are monitored by Risk Management. FMO's interest policy has set the PV01 limits between -€1,000 and €0 and EVaR of €400,000. The interest position per end 2016 was a PV01 of -€497 and a EVaR of €99,420. Additionally, FMO monitors Earning at Risk (EaR) over a horizon of up to 2 years.

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

Interest re-pricing characteristics

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

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

all amounts in € × 1,000

Interest re-pricing characteristics

At December 31, 2015	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
Assets						
Banks	76,966	-	-	-	-	76,966
Short-term deposits	1,049,972	495,412	-	-	-	1,545,384
Derivative financial instruments[1)]	-756,095	-226,183	758,305	474,081	981	251,089
Loans to the private sector	1,639,348	1,236,630	697,554	676,847	-	4,250,379
Loans guaranteed by the State	19,583	14,612	16,935	5,650	-	56,780
Equity investments	-	-	-	-	1,467,516	1,467,516
Investments in associates	-	-	-	-	32,752	32,752
Interest-bearing securities	-	88,550	343,760	179,260	-	611,570
Tangible fixed assets	-	-	-	-	7,626	7,626
Deferred income tax assets	-	-	-	-	2,108	2,108
Current accounts with State funds and other programs	-	-	-	-	724	724
Other receivables	-	-	-	-	25,071	25,071
Accrued income	-	-	-	-	93,317	93,317
Total assets	**2,029,774**	**1,609,021**	**1,816,554**	**1,335,838**	**1,630,095**	**8,421,282**
Liabilities and shareholders' equity						
Short-term credits	76,015	-	-	-	-	76,015
Derivative financial instruments[1)]	363,105	1,479,814	-996,919	-454,927	-	391,073
Debentures and notes	1,746,355	383,588	2,228,285	989,386	-	5,347,614
Other liabilities	-	-	-	-	12,476	12,476
Current accounts with State funds and other programs	-	-	-	-	1,459	1,459
Current income tax liabilities	-	-	-	-	18,563	18,563
Wage tax liabilities	-	-	-	-	183	183
Deferred income tax liabilities	-	-	-	-	4,249	4,249
Accrued liabilities	-	-	-	-	57,028	57,028
Provisions	-	-	-	-	1,706	1,706
Shareholders' equity	-	-	-	-	2,510,916	2,510,916
Total liabilities and shareholders' equity	**2,185,475**	**1,863,402**	**1,231,366**	**534,459**	**2,606,580**	**8,421,282**
Interest sensitivity gap 2015	**-155,701**	**-254,381**	**585,188**	**801,379**	**-976,485**	

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

EaR and sensitivity of shareholders' equity to changes in interest rates

		Sensitivity of shareholders' equity				
At December 31, 2016	**1-yr EaR**	**< 3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Increase of 100 basis points	-1,597	954	7,410	4,406	-12,577	193
Decrease of 100 basis points	2,289	-954	-7,410	-4,406	12,577	-193

		Sensitivity of shareholders' equity				
At December 31, 2015	**1-yr EaR**	**< 3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Increase of 100 basis points	-986	986	6,955	3,548	-7,378	4,110
Decrease of 100 basis points	986	-986	-6,955	-3,548	7,378	-4,110

In 2016, for the EaR model an interest rate floor was introduced of -50bps, which is more relevant to the current market conditions. Applying the floor has resulted in asymmetric results for the EaR given the current low-rate environment. The sensitivity shown in the tables above cannot be directly converted to the PV01 mentioned on the previous page. The PV01 is an interest rate risk measure of all assets and liabilities on the balance sheet, while the interest sensitivity of Shareholders' equity is relative to only those assets and liabilities that are recorded at market value in the balance sheet.

LIQUIDITY RISK

Liquidity risk is the risk that insufficient funds are available to meet financial commitments. FMO's policy is to match the tenor of the funding with the assets (matched funding), in order to reduce liquidity risk. FMO's liquidity policy sets out a 4 pillar approach to address this risk.

- Pillar 1: Minimum Liquidity Buffer in stress scenario, to ensure that the bank has sufficient cash, liquidity buffers and access to emergency lines to survive a stress period of 6 months.
- Pillar 2: Matched Funding on current balance, in order to limit the funding risk or refinancing risk the tenor of the assets must be matched with the tenor of the liabilities.
- Pillar 3: Retaining market access, in order to ensure access to funding in case of stress, Treasury is required to maintain access to at least three funding markets. The USD and EUR are strategic markets for FMO. FMO strives to have diversified funding sources in terms of geography and instrument type.
- Pillar 4: Basel 3 Minimum Target Ratio, FMO maintains a minimum Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as defined by CRD IV/CRR.

The policy is managed by a model which places forecasted cash flows into time buckets. The net cash flows per bucket are tested against the limits.

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

The liquidity position is well within FMO's limits. The LCR was 167% as of 31 December 2016 and is above the limit of 125%. The NSFR reported 114% with limit of 105%, which is only applicable as from 2018. We perform a monthly stress test where: value adjustments on our loan and equity portfolio are increased to 20%; we assume a large collateral outflow and; we include larger haircuts on our liquid asset portfolio. For the annual Internal Liquidity Adequacy Assessment Process (ILAAP) process, we also perform other stress tests including a severe stress scenario provided by DNB and reverse stress testing. A continuous review is performed on the liquidity position, FMO's assumptions, internal expectations and external market conditions to ensure that FMO's liquidity overview remains relevant and accurate.

FMO raised USD 705,000 of funding during 2016. FMO achieved diversification in the markets, geography, investor types and tenor of its funding. A benchmark issue of USD 500,000 and an issuance of a Swedish Krona sustainability bond transaction of SEK 700,000 (around USD 76,000) were executed. In addition to the public placements, a number of private placements at attractive funding levels for a total of USD 129,000 were done.

all amounts in € × 1,000

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

Categorization of principal cash flows per maturity bucket

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

Categorization of principal cash flows per maturity bucket

At December 31, 2015	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
Assets						
Banks	76,966	-	-	-	-	76,966
Short-term deposits	836,150	495,412	-	-	213,822	1,545,384
Derivative financial instruments	10,734	64,314	127,128	113,274	981	316,431
Loans to the private sector	117,508	564,542	2,407,567	1,085,707	-	4,175,324
Loans guaranteed by the State	4,608	6,022	35,171	7,735	-	53,536
Equity investments	-	-	-	-	1,467,516	1,467,516
Investments in associates	-	-	-	-	32,752	32,752
Interest-bearing securities	-	87,000	327,100	180,000	-	594,100
Tangible fixed assets	-	-	-	-	7,626	7,626
Deferred income tax assets	-	-	-	-	2,108	2,108
Current accounts with State Funds and other programs	-	-	-	-	724	724
Other receivables	25,071	-	-	-	-	25,071
Accrued income	93,317	-	-	-	-	93,317
Total assets	**1,164,354**	**1,217,290**	**2,896,966**	**1,386,716**	**1,725,529**	**8,390,855**
Liabilities and shareholders' equity						
Short-term credits	-	-	-	-	76,015	76,015
Derivative financial instruments	3,128	19,831	262,772	87,270	-	373,001
Debentures and notes	160,755	750,097	3,375,848	1,038,175	-	5,324,875
Other liabilities	12,476	-	-	-	-	12,476
Current accounts with State funds and other programs	1,459	-	-	-	-	1,459
Current income tax liabilities	18,563	-	-	-	-	18,563
Wage tax liabilities	183	-	-	-	-	183
Deferred income tax liabilities	-	-	-	-	4,249	4,249
Accrued liabilities	57,028	-	-	-	-	57,028
Provisions	-	-	-	-	1,706	1,706
Shareholders' equity	-	-	-	-	2,510,916	2,510,916
Total liabilities and shareholders' equity	**253,592**	**769,928**	**3,638,620**	**1,125,445**	**2,592,886**	**8,380,471**
Liquidity gap 2015	**910,762**	**447,362**	**-741,654**	**261,271**	**-867,357**	**10,384**

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

Contractual maturity of contingent liabilities and irrevocable facilities

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

At December 31, 2015	< 3 months	3-12 months	1-5 years	>5 years	Total
Contingent liabilities	48,543	11,959	-	47,633	108,135
Irrevocable facilities	275,239	391,828	616,755	539,300	1,823,122
Total off-balance[1)]	**323,782**	**403,787**	**616,755**	**586,933**	**1,931,257**

1) FMO expects that not all of these off-balance items will be drawn before expiry

all amounts in € × 1,000

CAPITAL MANAGEMENT

FMO aims to optimize development impact. This can only be achieved with a sound financial framework in place, combining healthy long-term profitability and sound capital adequacy. Therefore, FMO seeks to maintain a strong capital position, by means of an integrated capital adequacy planning and control framework, regularly reviewed by the ALCO. In 2016, FMO further strengthened its capital policy among others by introducing early warning indicators in order to signal undesired developments.

FMO has an external and internal ratio to express its capital position. The external ratio is calculated based on the standardized approach of the CRD IV/CRR regulation and takes 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. Economic capital for credit risk is calculated based on Basel's Advanced Internal Ratings Based (A-IRB) methodology for measuring credit risk. FMO's rating methodology forms the basis for these calculations. Other risks in FMO's economic capital framework are operational, market, credit value adjustment, interest rate, concentration and reputation risk. Economic capital is calculated using a conservative confidence interval of 99.99%. This level is chosen to support an AAA rating and the bank's actual growth is steered to ensure that this will remain the case.

The main difference between the internal and external capital requirement is the calculation of the level of capital needed for credit risk on FMO's portfolio, which is higher according to the internal model. Under the standardized approach FMO's capital requirement for credit risk is lower than under the internal approach given the fact that the credit assessment is standardized for unrated entities. FMO's portfolio is invested in parties in emerging markets, which results in a profile with higher credit risk exposure than generally applies to parties in developed economies.

External capital requirement

FMO complies with the CRD IV/CRR requirements and reports its capital ratio to the Dutch central bank on a quarterly basis. FMO calculates the external capital requirement for its entire portfolio based on the standardized approach. Of the total capital requirement, 80% is related to credit risk (equity investments included), 15% to market risk, 4% to operational risk and 0.5% to credit valuation adjustment risk. The Dutch central bank has set a SREP requirement for FMO at 15% in terms of total capital (CET1 at 11.5%). In addition to this requirement, the Dutch Central bank has set a 1.25% combined buffer requirement and 1% Pillar II guideance. FMO's CET1 ratio remained strong at 22.7% in 2016 (22.9% in 2015), which is well above the prudential minimum.

Given that FMO's shareholders equity is euro denominated whereas the majority of the emerging market loans is US dollar denominated, an appreciation of the US dollar leads to a deterioration of the capital ratio in the short term, ceteris paribus (although partially hedged by a long US dollar position via the equity portfolio).

In order to be fully equipped to handle future market swings, FMO has set a target capital ratio on top of the minimum capital threshold set in FMO's risk appetite statement. The target capital ratio ensures sufficient capital buffers to cover realistic scenarios for external shocks. These scenarios include a large future appreciation of the dollar and a large credit loss incurred in one specific year. More specifically, FMO's capital ratio target is designed such that a EUR/USD rate of 0.80 combined with a loss of EUR 300,000 would still enable FMO to remain above its SREP minimum. The leverage ratio will become a mandatory reporting requirement in 2018. The minimum leverage ratio is set at 3%, FMO's leverage ratio equals 25.4% (2015: 22.6%).

	At December 31, 2016	**At December 31, 2015**
IFRS shareholders' equity	2,773,535	2,510,916
Tier 2 capital	175,000	175,000
Regulatory adjustments:		
· Interim profit not included in CET 1 capital	-65,674	-47,785
· Other adjustments (deducted from CET 1)	-157,913	-143,290
· Other adjustments (deducted from Tier 2)	-43,429	-105,783
Total capital	**2,681,519**	**2,389,058**
of which common equity Tier 1 capital	2,549,948	2,319,841
Risk weighted assets	11,214,531	10,139,274
Total capital ratio	23.9%	23.6%
Common equity Tier 1 ratio	22.7%	22.9%

Internal capital requirement

The internal ratio is based on an economic capital model. In compliance with regulations and best practice, the economic capital model includes both pillar 1 and pillar 2 risks. Credit, market, operational and credit valuation adjustment risk fall under pillar 1. As part of pillar 2, reputational risk, interest rate risk and concentration risk are included in the assessment of economic capital. Economic capital is calculated using a confidence level of 99.99%. Economic capital at the end of 2016 amounts to €1,717,481 (2015: €1,512,753). The calculated internal capital ratio amounts to 14.2% at the end of 2016 (2015: 14.69%).

Credit risk resulting from FMO's emerging market loan portfolio represents FMO's main financial risk. The credit risk of the loan portfolio is determined based on the Advanced Internal Ratings Based (A-IRB) methodology. The most important input parameters for the A-IRB model are Probability of Default (PD) and Loss Given Default (LGD). The PD is based on the outcome of FMO's ratings methodology, which was developed in cooperation with one of the leading rating agencies. The client is assigned a rating class on a scale of F1 to F21, with the majority of the ratings of FMO clients in the range of F10-F15, or BBB- to B in S&P-comparable rating terms. The LGD is determined on the basis of internal expert assessments. Up and till 2016 LGDs depended on security coverage, liquidity, enforceability of guarantees and on extraordinary circumstances. As of 2017, the LGD methodology will be more refined, also including client level characteristics such as strategic importance of the client to the main sponsor and business model viability next to the already existing product level characteristics. Credit risk for equity is based on the simple risk weight approach. Capital requirements for credit risk in FMO's treasury portfolio, market, operational and credit valuation adjustment risk are determined in accordance with the CRD IV/CRR standardized approach, in order to quantify total pillar 1.

	At December 31, 2016	At December 31, 2015
Pillar 1		
Credit risk emerging market portfolio (99.99% interval)	1,348,033	1,250,824
Credit risk treasury portfolio	28,980	44,454
Market risk	136,786	98,462
Operational risk	35,147	30,985
Credit valuation adjustment	4,115	13,324
Total pillar 1	**1,553,061**	**1,438,049**
Pillar 2		
Concentration risk	-	10,488
Interest rate risk in the banking book	99,420	13,705
Reputation risk	65,000	50,511
Economic capital (pillar 1 & 2)	**1,717,481**	**1,512,753**
Available capital		
Common equity Tier 1 capital	2,763,387	2,504,089
Surplus provisioning (capped at 0.6% RWA)[1)]	116,479	90,502
Tier 2 capital	175,000	175,000
Total available capital	**3,054,867**	**2,769,591**
Of which common equity Tier 1 capital	2,763,387	2,504,089

1) Surplus provisioning for the loan portfolio is only calculated at total provisioning (€305 million) minus total expected loss (€158 million), which equals €146 million. The amount to be included in the available capital is according to BIS-guidelines capped at 0.6% risk weighted assets (RWA), which equals €117 million at December 31, 2016.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or loss caused by external events. High operational risks leading to a financial impact higher than €1 million can occur when the integrity or continuity of critical processes are endangered. These high risks are unacceptable, require immediate action and must be remediated.

all amounts in € × 1,000

FMO aims to manage operational risk in a cost effective way. Operational risks – including related to information security and personal data breach – are identified, measured and controls are implemented and their effectiveness is monitored. Operational risks are managed and monitored in accordance with three lines of Defense governance principle. In the first line of defense business management executes and reviews processes, reports incidents and performs risk and control self-assessments. In the second line of defense monitoring is performed by specialized risk departments and committees and the third line of defense is performed by the Internal Audit function. Although controls are in place, incidents sometimes happen and damage may occur. FMO registers and analyses operational risk events and losses systematically. Analysis of these data triggers actions to improve controls.
Operational risks resulting from new products or activities are considered in FMO's Product Approval and Review Process. FMO monitors the trends of operational risks, including information security risks and where deemed necessary anticipates on the unfavorable effects.

PRUDENTIAL REGULATION

Basel IV

In response to the economic and financial crisis that started in 2007 the Basel Committee on Banking Supervision (BCBS) launched the Basel III international regulatory framework. Basel III is aimed at strengthening bank-level (micro prudential level) and addressing system-wide risks that can build up across the banking sector (macro prudential level). The BCBS has been working on addressing some of the shortcomings of Basel III that have emerged in recent years which are referred to as "Basel IV" in the banking industry. At the time of writing of this annual report the following topics of relevance to FMO are part of Basel IV:

- Standardized Approach for Credit Risk
- Credit Valuation Adjustment (CVA)
- Operational Risk
- Disclosures

Of particular relevance is the second consultative document "Revision to the Standardized approach for credit risk". The most important being increased risk weight for equity investments from 150% to 250% and potential capital requirements for the FX risks of the counterpart. Given its importance to the business strategy, FMO contributed to a response to the document by the Dutch Banking Association (DBA) and the European Development Finance Institutions (EDFI) which are available on the BIS website.

The overall revisions by the BCBS were expected to be completed before the end of 2016. However, the Group of Governors and Heads of Supervision (GHOS), the oversight body of the BCBS, announced in the beginning of 2017 that more time is needed to complete the final refinements to the reforms. After finalization of Basel IV the standards must be implemented in European legislation before they become law. Current timelines suggest that the proposals will come into force no earlier than 2020. The timelines are contingent on BCBS coming to a consensus on the more controversial proposals.

Amendments CRR and CRD-IV

On 23 November 2016, the European Commission proposed amendments to the Capital Requirement Directive (CRD), Capital Requirements Regulation (CRR) and Banking Resolution and Recovery Directive (BRRD). The European Commission is adopting various international regulatory standards into EU law, thereby taking into account specifics for the European context. The amendments of the CRR/CRD cover a wide variety of topics of which the following are of most relevance to FMO:

- Look through approach for investments in equity funds;
- Capital requirements for market risk (including FX in the banking book);
- Standardized Approach for counterparty credit risk;
- Interest Rate Risk in the Banking Book;
- Net stable funding ratio (NSFR).

FMO has initiated a bank-wide assessment into the implementation of these proposals and the corresponding organization requirements needed for compliance. The proposals will be submitted to the European Parliament and the Council for their consideration and adoption. The discussed proposals will be adopted in 2019 at the earliest.

Prudential Regulation Committee (PRC)

The continuously evolving regulatory landscape requires a thorough understanding and a structured implementation process. To this end, FMO established the prudential regulation committee (PRC), a sub-committee of the ALCO. The PRC is the primary delegated responsible committee to ensure that FMO adheres to existing prudential regulation and to assess the impact of future regulation on FMO's business strategy.

SEGMENT INFORMATION

SEGMENT REPORTING BY OPERATING SEGMENTS

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

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

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

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

all amounts in € × 1,000

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

At December 31, 2015	Financial Institutions	Energy	Agri-business	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Loans and guarantees						
Interest and fee income	105,844	54,201	18,459	-1,554	57,634	234,584
Other income	6,100	3,698	875	1,335	3,100	15,108
Value adjustments	6,635	1,016	-240	-3,133	-13,719	-9,441
Other comprehensive income	-3,073	-1,621	-565	-	-1,183	-6,442
Total loans and guarantees	**115,506**	**57,294**	**18,529**	**-3,352**	**45,832**	**233,809**
Equity investments (including associates and subsidiaries)						
Results from equity investments and associates	6,096	119	115	19,727	1,272	27,329
Dividend income	6,261	5,059	57	7,986	689	20,052
Impairments	-6,896	-775	-1,923	-8,118	-1,416	-19,128
Other comprehensive income	113,514	23,931	8,701	-16,165	67,946	197,927
Total equity investments	**118,975**	**28,334**	**6,950**	**3,430**	**68,491**	**226,180**
Remuneration for services rendered						
Managed government funds	10,693	3,513	1,186	1,810	1,694	18,896
Syndicated & parallel transactions	5,184	1,193	-53	-	755	7,079
Total remuneration for services rendered	**15,877**	**4,706**	**1,133**	**1,810**	**2,449**	**25,975**
Other						
Operating expenses	-33,209	-17,513	-6,112	-9,908	-12,781	-79,523
Income tax expenses	-21,553	-11,083	-3,185	2,847	-7,694	-40,668
Other comprehensive income	4,542	2,396	836	1,355	1,748	10,877
Total other	**-50,220**	**-26,200**	**-8,461**	**-5,706**	**-18,727**	**-109,314**
Total comprehensive income	**200,138**	**64,134**	**18,151**	**-3,818**	**98,045**	**376,650**
Total other comprehensive income net of tax	114,983	24,706	8,972	-14,810	68,511	202,362
Net profit	**85,155**	**39,428**	**9,179**	**10,992**	**29,534**	**174,288**

At December 31, 2015	Financial Institutions	Energy	Agri-business	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
Segment assets						
Loans (incl. guaranteed by the State)	2,026,188	1,066,139	383,898	43,906	787,028	4,307,159
Equity investments and investments in associates	405,169	214,931	63,141	669,172	147,855	1,500,268
Other assets	1,091,536	575,670	200,884	325,660	420,105	2,613,855
Total assets	**3,522,893**	**1,856,740**	**647,923**	**1,038,738**	**1,354,988**	**8,421,282**
Contingent liabilities – Effective guarantees issued	78,086	-	-	4,604	37,284	119,974
Assets under management (loans and equity investments) managed for the risk of the state	368,228	242,267	53,166	71,504	151,335	886,500

INFORMATION ABOUT GEOGRAPHICAL AREAS

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

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

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

At December 31, 2015	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Income	87,532	85,851	79,518	50,494	16,563	319,958
Share in the results of associates	-100	3,231	-	-41	-	3,090
Total revenue	**87,432**	**89,082**	**79,518**	**50,453**	**16,563**	**323,048**

INFORMATION ABOUT MAJOR CUSTOMERS

In 2015 and 2016, FMO did not have any customers that individually contributed more than 10% to FMO's total revenues.

all amounts in € × 1,000

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 2.34% (2015: 2.35%). In 'related parties', the relationship between the State and FMO regarding these funds and programs is described in detail.

Loans and equity managed for the risk of the State

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

	2016 Gross exposure	2015 Gross exposure
Loans	508,442	436,899
Equity investments	476,908	449,601
Total	**985,350**	**886,500**

Loans managed for the risk of the State

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

	2016 Gross exposure	2015 Gross exposure
MASSIF	177,018	152,491
Infrastructure Development Fund	283,468	234,389
Access to Energy Fund	31,105	31,702
FOM OS	16,851	18,317
Total	**508,442**	**436,899**

Equity investments managed for the risk of the State

The equity investments have been made by the following funds.

	2016 Gross exposure	2015 Gross exposure
MASSIF	303,709	283,797
Infrastructure Development Fund	133,389	135,699
Access to Energy Fund	36,857	27,105
European Investment Bank	2,953	3,000
Total	**476,908**	**449,601**

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT BASIS

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

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

all amounts in € × 1,000

At December 31, 2015	Held for trading	Designated at fair value through P&L	Loans & receivables and liabilities at amortized cost	Available for sale	Financial liabilities used as hedged items	Derivatives at fair value used as hedging instruments	Other	Total
Assets								
Banks	-	-	76,966	-	-	-	-	76,966
Short-term deposits	-	1,545,384	-	-	-	-	-	1,545,384
Interest-bearing securities	-	-	-	611,570	-	-	-	611,570
Derivative financial instruments	186,563	-	-	-	-	64,526	-	251,089
Loans to the private sector	-	-	4,250,379	-	-	-	-	4,250,379
Loans guaranteed by the State	-	-	56,780	-	-	-	-	56,780
Equity investments	-	-	-	1,467,516	-	-	-	1,467,516
Investments in associates	-	-	-	-	-	-	32,752	32,752
Fixed assets	-	-	-	-	-	-	7,626	7,626
Deferred income tax assets	-	-	-	-	-	-	2,108	2,108
Current income tax receivables	-	-	-	-	-	-	-	-
Current accounts with State funds and other programs	-	-	724	-	-	-	-	724
Other receivables	-	-	25,071	-	-	-	-	25,071
Accrued income	-	-	93,317	-	-	-	-	93,317
Total assets	**186,563**	**1,545,384**	**4,503,237**	**2,079,086**	**-**	**64,526**	**42,486**	**8,421,282**
Liabilities and shareholders' equity								
Short-term credits	-	-	76,015	-	-	-	-	76,015
Derivative financial instruments	371,736	-	-	-	-	19,337	-	391,073
Debentures and notes	-	-	2,194,942	-	3,152,672	-	-	5,347,614
Current accounts with State funds and other programs	-	-	1,459	-	-	-	-	1,459
Current income tax liabilitiy	-	-	18,563	-	-	-	-	18,563
Wage tax liabilities	-	-	183	-	-	-	-	183
Deferred income tax liabilities	-	-	-	-	-	-	4,249	4,249
Other liabilities	-	-	12,476	-	-	-	-	12,476
Accrued liabilities	-	-	57,028	-	-	-	-	57,028
Provisions	-	-	-	-	-	-	1,706	1,706
Shareholders' equity	-	-	-	-	-	-	2,510,916	2,510,916
Total liabilities and shareholders' equity	**371,736**	**-**	**2,360,666**	**-**	**3,152,672**	**19,337**	**2,516,871**	**8,421,282**

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

Equity investments are measured at fair value when a quoted market price in an active market is available or when fair value can be estimated reliably by using a valuation technique. The main part of the fair value measurement related to equity investments (level 3) is based on net asset values of investment funds as reported by the fund manager and are based on the most advanced valuation methods and practices. When available, these fund managers value the underlying investments based on quoted prices and if not multiples are applied as input for the valuation. For the valuation process of the equity investments we further refer to the accounting policies within these Annual Accounts as well as the Equity Risk section of the chapter Financial Risk Management. The determination of the timing of transfers is embedded in the valuation process, and is therefore recorded at the end of each reporting period.

FMO uses internal valuation models to value its financial instruments. Due to model imperfections, there are differences between the transaction price and the calculated fair value. These differences are not recorded in the profit and loss at once but are amortized over the remaining maturity of the transactions. Per December 31, 2016, the unamortized accrual amounts to €21,950 (2015: €26,312). An amount of €6,156 was recorded as a loss in the profit and loss (2015: €5,126).

The carrying values in the financial asset and liability categories approximate their fair values, except private sector loans and non-hedged funding. Loans to the private sector are valued at amortized cost. The underlying changes to the fair value of these assets are therefore not recognized in the balance sheet. At December 31, 2016, the fair value of the loans to the private sector was €82,013 (2015: €68,112) above their carrying value. A parallel shift of 100 basis points in the interest curves will result in an increase (decrease) of the fair value by €55 million (2015: €65 million).

The non-hedged funding is valued at amortized cost. The fair value, categorized as level 2, exceeds the carrying cost value with €9,456 (2015: €8,510).

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

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

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

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

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

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

	Derivative financial instruments	Equity investments	Total
Balance at January 1, 2015	**188**	**781,418**	**781,606**
Total gains or losses			
· In profit and loss (changes in fair value and value adjustments)	793	-13,430	-12,637
· In other comprehensive income (changes in fair value available for sale reserve)	-	197,772	197,772
Purchases	-	253,633	253,633
Sales	-	-82,858	-82,858
Transfers into level 3	-	287,286	287,286
Transfers out of level 3	-	-	-
Balance at December 31, 2015	**981**	**1,423,821**	**1,424,802**
Total gains or losses			
· In profit and loss (changes in fair value and value adjustments)	4,672	-35,851	-31,179
· In other comprehensive income (changes in fair value available for sale reserve)	-	105,578	105,578
Purchases	-	281,645	281,645
Sales	-	-118,328	-118,328
Transfers into level 3	-	-	-
Transfers out of level 3	-	-6,184	-6,184
Balance at December 31, 2016	**5,653**	**1,650,681**	**1,656,334**

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

Type of equity investment	Fair value at December 31, 2016	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Private equity fund investments	875,140	Net Asset Value	n/a	n/a
Private equity direct investments	181,536	Recent transactions	Based on at arm's length recent transactions	n/a
	243,630	Book multiples	Range of book value 0.25 – 2.03	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of €24 million. To be recorded in other comprehensive income.
	102,224	Earning Multiples	Depends on several unobservable data such as EBITDA multiples (range 5-10), EV/EBITDA (range 5-16)	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of €10 million. To be recorded in other comprehensive income.
	103,653	DCF	Based on discounted cash flows	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of €10 million. To be recorded in other comprehensive income.
	52,325	Put option based on guaranteed floor	The guaranteed floor depends on several unobservable data such as IRR, EBITDA multiples, book multiples and Libor rates	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €5 million. To be recorded in other comprehensive income.
	92,173	Firm offers	Range of book value 0.9 – 2.6	n/a
Total	**1,650,681**			

all amounts in € × 1,000

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS

NOTES TO THE CONSOLIDATED BALANCE SHEET: ASSETS

1. Banks

	2016	2015
Banks	58,178	76,966
Balance at December 31	**58,178**	**76,966**

The cash on bank accounts can be freely disposed of.

2. Short-term deposits

	2016	2015
Collateral delivered (related to derivative financial instruments)	297,493	213,822
Commercial paper	652,318	950,912
Money market funds	76,640	110,505
Dutch central bank	85,688	264,359
Mandatory reserve deposit with Dutch central bank	420	5,786
Call Deposits	130,045	-
Balance at December 31	**1,242,604**	**1,545,384**

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

Fair value changes of short-term deposits recorded in the profit and loss amount to €30 thousand (gain). The amount attributable to change in credit risk is fairly limited.

3. Interest-bearing securities

This portfolio contains marketable bonds with fixed interest rates.

FMO has no impairment charged to interest-bearing securities.

	2016	2015
Bonds (listed)	575,117	611,570
Balance at December 31	**575,117**	**611,570**

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

	2016	2015
Balance at January 1	611,570	593,263
Amortization premiums/discounts	-2,479	180
Purchases	74,235	248,009
Sale and redemption	-112,507	-221,292
Revaluation	4,298	-8,590
Balance at December 31	**575,117**	**611,570**

The interest-bearing securities have been issued by:

	2016	2015
Private parties - credit institutions	266,443	248,655
Public institutions	308,674	362,915
Balance at December 31	**575,117**	**611,570**

4. Derivative financial instruments

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

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

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

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

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

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

For the year ended December 31, 2016, FMO recognized an ineffectiveness of €0.2 million net loss (2015: €1.4 million net loss) on the fair value hedges. The profit on the hedging instruments amounts to €10.5 million (2015: €18.9 million loss). The loss on hedged items attributable to the hedged risk amounts to €10.7 million (2015: €17.5 million profit).

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

At December 31, 2015	Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedging instruments:			
· Currency swaps	53,550	426	-21
· Interest rate swaps	883,765	4,842	-1,990
· Cross-currency interest rate swaps	3,351,025	180,314	-369,725
Subtotal	**4,288,340**	**185,582**	**-371,736**
Embedded derivatives related to asset portfolio	0	981	0
Total derivative assets (/liabilities) other than hedging instruments	**4,288,340**	**186,563**	**-371,736**

At December 31, 2015	Notional amounts	Fair value assets	Fair value Liabilities
Derivatives designated as fair value hedges:			
· Interest rate swaps	3,116,931	64,526	-19,337
Total derivatives designated as fair value hedges	3,116,931	64,526	-19,337
Total derivative financial instruments assets (/liabilities)	**7,405,271**	**251,089**	**-391,073**

all amounts in € × 1,000

5. Loans to the private sector

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

	2016	2015
Balance at January 1	4,614,458	4,151,852
Disbursements	1,093,287	1,057,626
Reclassification to equity investments	-3,841	-
Repayments	-1,009,849	-925,359
Write-offs	-28,364	-26,484
Changes in amortizable fees	684	-6,694
Changes in fair value	-64	-225
Exchange rate differences	107,792	363,742
Balance at December 31	**4,774,103**	**4,614,458**
Value adjustments	-304,155	-364,079
Net balance at December 31	**4,469,948**	**4,250,379**

The following table summarizes the loans segmented by sector.

	2016	2015
Financial Institutions	1,899,788	2,026,188
Energy	1,285,647	1,066,161
Agribusiness	380,885	350,877
Multi-Sector Fund Investments	46,004	43,906
Infrastructure, Manufacturing and Services	857,624	763,247
Net balance at December 31	**4,469,948**	**4,250,379**

	2016	2015
Gross amount of loans to companies in which FMO has equity investments	175,989	289,420
Gross amount of subordinated loans	365,113	449,717
Gross amount of non-performing loans	361,223	321,351

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

6. Loans guaranteed by the State

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

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

	2016	2015
Balance at January 1	62,437	67,320
Disbursements	9,890	6,641
Repayments	-13,691	-11,041
Write-offs	-470	-3,126
Changes in amortizable fees	-48	134
Exchange rate differences	508	2,509
Balance at December 31	**58,626**	**62,437**
Value adjustments	-1,858	-5,657
Net balance at December 31	**56,768**	**56,780**

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

	2016	2015
Agribusiness	31,826	33,020
Infrastructure, Manufacturing and Services	24,942	23,760
Net balance at December 31	**56,780**	**56,780**
Gross amount of subordinated loans	29,046	33,637
Gross amount of non-performing loans	6,819	10,731

7. Equity investments

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

	2016	2015
Net balance at January 1	1,467,516	1,124,417
Purchases and contributions	282,504	254,560
Reclassification from loans	3,841	-
Sales	-121,088	-86,771
Value adjustments	-43,996	-19,128
Changes in fair value	123,335	194,438
Net balance at December 31	**1,712,112**	**1,467,516**

The following table summarizes the equity investments segmented by sector.

	2016	2015
Financial Institutions	458,978	396,317
Energy	260,656	214,931
Agribusiness	128,196	63,141
Multi-Sector Fund Investments	646,663	646,757
Infrastructure, Manufacturing and Services	217,619	146,370
Net balance at December 31	**1,712,112**	**1,467,516**

8. Investments in associates

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

	2016	2015
Net balance at January 1	32,752	24,358
Purchases and contributions	82,390	6,302
Sales	-10,365	-3,377
Share in net results	6,247	3,090
Translation differences	5,036	2,379
Net balance at December 31	**116,060**	**32,752**

all amounts in € × 1,000

On July 21, 2016 FMO signed an agreement to set up an investment vehicle, Arise B.V., together with Norfund and Rabobank. This investment vehicle intends to invest in African financial institutions. The total transaction amounts to US $211 million and consist of contribution of private equity assets and cash and is expected to take place in tranches in the upcoming 2 years. On August 30, 2016 the first investment tranch took place by a payment of US $90,5 million. FMO's share and voting rights in Arise B.V. is 27%. As of December 31, 2016 legal transfer of equity investments of US $3.7 million into Arise B.V. is yet to finalize and the outstanding commitment amounts to US $116 million of which US $78 million has been paid on January 3, 2017.

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.

The following table summarizes the associates segmented by sector.

	2016	**2015**
Financial Institutions	99,189	8,852
Multi-Sector Fund Investments	15,936	22,415
Infrastructure, Manufacturing and Services	935	1,485
Net balance at December 31	**116,060**	**32,752**

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	85,956	31,614
Total liabilities	-	1,510
Total income	-	10,052
Total profit/loss	-	6,247

9. Movement in value adjustments

Movement in value adjustments FMO portfolio in the consolidated balance sheet

	Guarantees	**Loans**	**Total**
Balance at January 1, 2015	9,659	350,527	360,186
Additions	1,016	53,770	54,786
Reversals	-	-45,245	-45,245
Exchange rate differences	838	31,511	32,349
Write-offs	-	-26,484	-26,484
Balance at December 31, 2015	**11,513**	**364,079**	**375,592**
Additions	-	78,887	78,887
Reversals	-4,920	-116,306	-121,226
Exchange rate differences	-133	5,859	5,726
Write-offs	-	-28,364	-28,364
Balance at December 31, 2016	**6,460**	**304,155**	**310,615**

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

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

	Group-specific value adjustments	Counterparty-specific value adjustments	Total
Balance at January 1, 2015	178,678	171,849	350,527
Additions	-	53,770	53,770
Reversals	-24,399	-20,846	-45,245
Exchange rate differences	17,071	14,440	31,511
Write-offs	-	-26,484	-26,484
Balance at December 31, 2015	**171,350**	**192,729**	**364,079**
Additions	-	78,887	78,887
Reversals	-70,445	-45,861	-116,306
Exchange rate differences	2,392	3,467	5,859
Write-offs	-	-28,364	-28,364
Balance at December 31, 2016	**103,297**	**200,858**	**304,155**

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

	Group-specific value adjustments	Counterparty-specific value adjustments	Total
Balance at January 1, 2015	2,883	6,776	9,659
Additions	144	872	1,016
Reversals	-	-	-
Exchange rate differences	314	524	838
Write-offs	-	-	-
Balance at December 31, 2015	**3,341**	**8,172**	**11,513**
Additions	-	-	-
Reversals	-2,403	-2,517	-4,920
Exchange rate differences	13	-146	-133
Write-offs	-	-	-
Balance at December 31, 2016	**951**	**5,509**	**6,460**

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

	2016	2015
Balance at January 1	5,657	8,805
Additions	112	2,249
Reversals	-3,442	-2,892
Exchange rate differences	1	621
Write-offs	-470	-3,126
Balance at December 31	**1,858**	**5,657**

FMO's own risk participation with regard to FOM (5% to 20%) is not guaranteed. The guaranteed part is recorded under other receivables, and this amounts to €2,680 (2015: €543) for the value adjustment recognized in 2016. See also note 12.

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

	2016	2015
Additions and reversals loans FMO portfolio	37,419	-8,525
Additions and reversals loans guaranteed by the State	3,330	643
Guaranteed part additions and reversals loans guaranteed by the State	-2,680	-543
Balance at December 31	**38,069**	**-8,425**

all amounts in € × 1,000

10. Fixed assets

	Furniture	ICT equipment	Leasehold improvement	Total 2016	Total 2015
Historical cost price at January 1	9,242	10,237	81	19,560	19,939
Accumulated depreciation at January 1	-7,372	-4,515	-47	-11,934	-12,471
Balance at January 1	**1,870**	**5,722**	**34**	**7,626**	**7,468**
Investments	389	3,534	184	4,107	2,380
Depreciation	-551	-1,997	-17	-2,565	-2,150
Divestments historical cost price	-	-	-	-	-2,759
Accumulated depreciation on divestments	-	-	-	-	2,687
Balance at December 31	**1,708**	**7,259**	**201**	**9,168**	**7,626**
Historical cost price at December 31	9,631	13,771	265	23,667	19,560
Accumulated depreciation at	-7,923	-6,512	-64	-14,499	-11,934
December 31	**1,708**	**7,259**	**201**	**9,168**	**7,626**

Software related assets are included in the ICT equipments and amount to €4.5 million.

11. Current accounts with State funds and other programs

	2016	2015
Current account EIB	299	299
Current account Infrastructure Development Fund	1,028	-
Current account Access to Energy Fund	407	-
Current account FOM OS	41	-
Current account Capacity Development Program	126	-
Current account MASSIF	-	425
Balance at December 31	**1,901**	**724**

12. Other receivables

	2016	2015
Debtors related to equity investments	3,634	351
Taxes and social premiums	600	355
To be declared on State guaranteed loans	1,961	4,660
Accrued management fees State funds	5,301	4,724
Amortized fee receivables	10,257	14,981
Balance at December 31	**21,753**	**25,071**

13. Accrued income

	2016	2015
Accrued interest on loans	63,265	60,347
Accrued interest on swaps and other assets	28,763	32,970
Balance at December 31	**92,028**	**93,317**

NOTES TO THE CONSOLIDATED BALANCE SHEET: LIABILITIES

14. Short-term credits

	2016	2015
Collateral received (related to derivative financial instruments)	39,464	76,015
Balance at December 31	**39,464**	**76,015**

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

15. Debentures and notes

Debentures and notes consist of medium-term notes under FMO's Debt Issuance Programme and public issues in the Swiss Franc public, the Japanese Yen Samurai, the Australian Dollar and Canadian Dollar market. Furthermore a subordinated note of nominal €175 million 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.

The movements can be summarized as follows:

	2016	2015
Balance at January 1	5,347,614	4,196,998
Amortization of premiums/discounts	5,951	2,299
Proceeds from issuance	612,748	1,753,536
Redemptions	-891,209	-680,100
Changes in fair value	10,887	-225,741
Exchange rate differences	94,986	300,622
Balance at December 31	**5,180,977**	**5,347,614**

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

	2016	2015
Debentures and notes under hedge accounting	3,270,265	3,152,672
Debentures and notes valued at amortized cost	1,910,712	2,194,942
Balance at December 31	**5,180,977**	**5,347,614**

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

	2016	2015
Debentures and notes under hedge accounting	3,520,606	3,810,008
Debentures and notes valued at amortized cost	1,648,491	1,514,867
Balance at December 31	**5,169,097**	**5,324,875**

16. Current accounts with State funds and other programs

	2016	2015
Current account MASSIF	62	229
Current account Access to Energy Fund II	13	-
Current account Capacity Development Program	-	1,229
Current account Infrastructure Development Fund	-	1
Balance at December 31	**75**	**1,459**

17. Other liabilities

	2016	2015
Amortized costs related to guarantees	266	326
Liabilities for guarantees	6,460	11,513
Other liabilities	715	637
Balance at December 31	**7,441**	**12,476**

all amounts in € × 1,000

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

18. Accrued liabilities

	2016	2015
Accrued interest on banks, debt securities and debentures and notes	47,405	48,133
Other accrued liabilities	4,003	8,895
Balance at December 31	**51,408**	**57,028**

19. Provisions

The amounts recognized in the balance sheet are as follows.

	2016	2015
Pension schemes	45,396	1,706
Other provisions	26	-
Balance at December 31	**45,422**	**1,706**

Pension schemes

FMO's pension schemes cover all its employees. The pension schemes are defined benefit plans and most of these plans are average-pay-schemes. FMO has a contract with a well established insurer, in which all nominal pension obligations are guaranteed. This guaranteed contract arranged that all significant risks associated with investments lies with the insurer. These significant risks are amongst others Credit risks, market risks, sufficient investment return to fund indexation of the defined benefit obligation. As a result FMO's pension plan is exposed to counterparty risk, interest rate risk (changes of discount rate), inflation and changes in the life expectancy for pensioners. FMO has outsourced the management of the pension assets to an asset manager and has agreed strict guidelines with this asset manager. The assets of the funded plans are held independently of FMO's assets by the insurance company in separately administered funds. Independent actuaries value the schemes every year using the projected unit credit method. The latest actuarial valuations were carried out as per December 31, 2016.

The amounts recognized in the balance sheet are as follows:

	2016	2015
Present value of funded defined benefit obligations	213,449	147,670
Fair value of plan assets	-168,053	-145,964
Liability in the balance sheet	**45,396**	**1,706**

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

	2016	2015
Present value at January 1	147,670	155,401
Service cost	9,591	10,088
Interest cost	4,187	3,765
Actuarial gains/losses	54,494	-19,755
Benefits paid	-2,493	-1,829
Present value at December 31	**213,449**	**147,670**

The actuarial loss on the defined benefit obligation amounts to €54,494 (2015: €19,755 gain) and is mainly due to:

- The decrease of the discount rate (2016: 1.8% and 2015: 2.7%);
- The changed method of service allocation compared to previous years. In the past accrued pension rights were allocated on policy level. Starting from 2016 the service time for active participants is equal for all of its policies. All accrued pension rights are allocated for the same service time without a distinction of policy.

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

	2016	2015
Fair value at January 1	-145,964	-143,164
Expected return on plan assets	-3,971	-3,335
Employer contribution	-5,214	-5,952
Plan participants' contributions	-653	-595
Actuarial gains/losses	-14,744	5,253
Benefits paid	2,493	1,829
Fair value at December 31	**-168,053**	**-145,964**

The categories of the plan assets can be summarized as follows:

	2016 (%)	2015 (%)
Equities	18	19
Fixed income	82	81
Total	**100**	**100**

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

	2016	2015
Balance at January 1	1,706	12,237
Annual expense	10,104	10,823
Contributions paid	-6,164	-6,852
Actuarial gains/losses	39,750	-14,502
Balance at December 31	**45,396**	**1,706**

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

	2016	2015
Current service cost	10,541	10,988
Net interest cost	216	430
Past service cost	-	-
Subtotal	**10,757**	**11,418**
Contribution by plan participants	-653	-595
Total annual expense	**10,104**	**10,823**

In December 2016 FMO decided (after consultation with the Works Council) to adjust FMO's pension scheme as of January 1, 2017. FMO made the following adjustments:

- Increase participant contribution from 2.5% to 3.5%;
- Decrease employer dotation for future indexation from 3.6% to 3.5%;
- Maximum cost level of 35% of the collective pension base.

These changes had a limited impact on the defined benefit obligation.

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

	2016 (%)	2015 (%)
Discount rate	1.8	2.7
Expected pension indexation for active participants	1.8	1.8
Expected pension indexation for inactive participants	0.5	1.0
Wage inflation	1.5	1.5
Future salary growth	0.5-3.5	0.5-3.5

all amounts in € × 1,000

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	-25,748	34,523
Increase indexation for active participants	6,050	-6,138
Future salary growth	4,166	-4,234

Other provisions

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

	2016	**2015**
Balance at January 1	-	230
Addition	26	-
Release	-	-204
Paid out	-	-26
Balance at December 31	**26**	**-**

20. Shareholders' equity

Share capital

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

	2016	**2015**
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

	2016	**2015**
Share premium reserve shareholder A, contributed on the transfer to the company of investments administered on behalf of the State at the time of the financial restructuring	8,061	8,061
Share premium reserve shareholder B, contributed on the transfer to the company of investments administered on behalf of the State at the time of the financial restructuring	21,211	21,211
Balance at December 31	**29,272**	**29,272**

Other reserves

	Retained earnings	Actuarial gains/ losses on defined benefit plans	Total
Balance at January 1, 2015	31,971	-3,641	28,330
Gains/losses during the period	-	10,877	10,877
Balance at December 31, 2015	**31,971**	**7,236**	**39,207**
Gains/losses during the period	-	-29,813	-29,813
Balance at December 31, 2016	**31,971**	**-22,577**	**9,394**

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 'other 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	Interestbearing securities	Total available for sale reserve
Balance at January 1, 2015	255,194	11,925	267,119
Fair value changes	100,725	-7,812	92,913
Foreign exchange differences	95,692	-	95,692
Transfers due to sale	-2,302	-778	-3,080
Transfers due to impairment	560	-	560
Tax effect	-	2,148	2,148
Balance at December 31, 2015	**449,869**	**5,483**	**455,352**
Fair value changes	64,375	5,131	69,506
Foreign exchange differences	59,426	-	59,426
Transfers due to sale	-38,192	-832	-39,024
Transfers due to impairment	37,666	-	37,666
Tax effect	-10,776	-1,075	-11,851
Balance at December 31, 2016	**562,368**	**8,707**	**571,075**

Included in the available for sale reserve is an amount of €30,053 (2015: €20,079) for fair value changes in equity investments that were previously impaired.

Translation reserve

	2016	2015
Balance at January 1	4,111	859
Change	5,110	3,252
Balance at December 31	**9,221**	**4,111**

Non-controlling interests

Equis DFI Feeder L.P.	2016	2015
Balance at January 1	1,266	-
Fair value changes	-13	-238
Purchases and contributions	2,279	1,504
Sales	-541	-
Balance at December 31	**2,991**	**1,266**

NOTES TO THE SPECIFIC ITEMS OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

21. Net interest income

Interest income

	2016	2015
Interest on loans valued at amortized cost	289,846	286,363
Interest on banks	-805	-156
Interest on short-term deposits	6,746	1,495
Interest on derivatives related to asset portfolio	-19,286	-23,607
Interest on available for sale interest-bearing securities	5,900	8,613
Total interest income	**282,401**	**272,708**

Included in the interest on loans is €11,328 (2015: €10,805) related to loans for which value adjustments have been recorded.

Interest income on financial assets designated at fair value through profit or loss amounts to €6,746 (2015: €1,495) and is related to financial assets reflected in the short term deposits.

Interest expense

	2016	2015
Interest on debentures and notes under hedge accounting	-50,864	-56,269
Interest on debentures and notes valued at amortized cost	-17,794	-8,458
Interest on derivatives	2,813	19,413
Interest on short-term credits	-16	-192
Total interest expense	**-65,861**	**-45,506**

22. Net fee and commission income

	2016	2015
Prepayment fees	1,798	2,390
Administration fees	2,053	2,173
Other fees (like arrangement, cancellation and waiver fees)	2,840	2,982
Total fee and commission income	**6,691**	**7,545**
Custodian fees and charges for the early repayment of debt securities	-547	-163
Total fee and commission expense	**-547**	**-163**
Net fee and commission income	**6,144**	**7,382**

23. Dividend income

	2016	2015
Dividend income direct investments	11,629	8,645
Dividend income fund investments	5,190	11,407
Total results from equity investments	**16,819**	**20,052**

24. Results from equity investments

	2016	2015
Result from the sale of equity investments at fair value	39,039	24,236
Result from the sale of associates	2	3
Total results from equity investments	**39,041**	**24,239**

The carrying amount of the equity investments valued at fair value at the time of sale was €80,935 (2015: €6,897). The release from the available for sale reserve at the time of the sale of equity investments at fair value was €38,300 (2015: €2,302); as a result the net result from sale of equity investments at fair value amounted to a gain of €739 (2015: gain of €15,240).

25. Results from financial transactions

	2016	2015
Result on valuation of hedged items	-10,702	17,498
Result on valuation of hedging instruments	10,525	-18,899
Subtotal	**-177**	**-1,401**
Result on sale and valuation of derivatives held for trading[1)]	-21,624	11,167
Result on sale and valuation of embedded derivatives related to asset portfolio	10,175	1,278
Result on sale of interest-bearing securities	833	778
Foreign exchange results	983	2,263
Other	1,031	-728
Total results from financial transactions	**-8,779**	**13,357**

1) Hedge accounting is not applied to these derivatives. These derivatives are used for hedging interest-rate and foreign-exchange risk for loans in emerging market currencies and funding in currencies other than euros and US dollars. FMO has no derivatives for trading purposes.

26. Remuneration for services rendered

	2016	2015
Funds and programs managed on behalf of the State:		
· MASSIF	13,247	13,130
· Infrastructure Development Fund	5,089	3,602
· Access to Energy Fund	2,117	1,635
· FOM OS	571	517
· Capacity Development Program	180	12
Syndication fees, remuneration from directorships and others	7,361	7,079
Total remuneration for services rendered	**28,565**	**25,975**

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

27. Other operating income

	2016	2015
Other operating income	1,186	1,751
Total other operating income	**1,186**	**1,751**

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

28. Staff costs

	2016	2015
Salaries	-35,933	-32,685
Social security costs	-4,075	-3,646
Pension costs	-10,104	-10,823
Temporaries	-2,773	-1,963
Travel and subsistence allowances	-4,124	-4,002
Other personnel expenses	-6,676	-6,523
Total staff costs	**-63,685**	**-59,642**

The number of FTEs at December 31, 2016 amounted to 419 (2015: 374 FTEs). All FTE's are employed in the Netherlands except for 2 FTE's.

29. Other administrative expenses

	2016	2015
Other administrative expenses	-19,357	-17,372

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, 2016 the Supervisory Board consisted of five members (2015: five). The members of the Supervisory Board were paid a total remuneration of €94 (2015: €102).

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 (2015: KPMG Accountants N.V.) to the company and its subsidiaries.

Fee charged by auditors	**2016**	**2015**
Statutory audit of annual accounts	-235	-208
Other assurance services	-269	-344
Total	**-504**	**-552**

30. Other operating expenses

	2016	2015
Other operating expenses	-75	-359

The other operating expenses includes bank charges.

31. Income taxes

Income tax by type

	2016	2015
Current income taxes	-43,953	-41,611
Deferred income taxes	984	943
Total income tax	**-42,969**	**-40,668**

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

	2016	2015
Profit before taxation	219,074	214,956
Income taxes at statutory rate of 25% (2015: 25%)	-54,769	-53,739
Increase/decrease resulting from:		
· Settlement with local withholding taxes	4,937	4,806
· Non-taxable income and expense (participation exemption facility)	6,739	8,576
· Tax adjustments to prior periods	40	-345
· Other	84	34
Total income tax	**-42,969**	**-40,668**
Effective income tax rate	19.6%	18.9%

Current income tax

The company paid €46,166 (2015: €22,811) to tax authorities. The remaining current income tax liabilities amount to €16,434 (2015: €18,563 liabilities). Per year-end 2016 there were no unused tax losses and the unused tax credits amount to €687 (2015: €188).

Deferred tax

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

	2016	2015
Deferred tax assets		
Pension provision	3,092	2,108
Actuarial gains and losses on defined benefit plans	7,526	-
Total deferred tax assets	**10,618**	**2,108**
Deferred tax liabilities		
Fair value movements equity investments	-10,776	-
Actuarial gains & losses defined benefit plans	-	-2,411
Fair value measurement of interest-bearing securities	-2,912	-1,838
Total deferred tax liabilities	**-13,688**	**-4,249**
Net balance at December 31	**-3,070**	**-2,141**

OFF-BALANCE SHEET INFORMATION

32. Commitments and contingent liabilities

The company issued guarantees regarding principal and interest repayments for a number of projects. The nominal amount of the guarantees is valued at the exchange rate as per December 31, 2016 and December 31, 2015.

	2016	2015
Contingent liabilities		
Effective guarantees issued	61,050	119,974
Less: provisions, amortized costs and obligations for guarantees (presented under other liabilities)	-6,726	-11,839
Total guarantees issued	**54,324**	**108,135**
Effective guarantees received	224,754	230,937
Total guarantees received	**224,754**	**230,937**

Of the liabilities for guarantees €0 (2015: €0) is covered by a counter guarantee of the State.

	2016	2015
Irrevocable facilities		
Contractual commitments for disbursements of:		
· Loans	768,838	934,109
· Equity investments	843,550	710,508
· Contractual commitments for guarantees	207,851	178,505
Total irrevocable facilities	**1,820,239**	**1,823,122**

33. Lease and rental commitments

The future lease payments under non-cancellable operating leases are based on contractual terms and can be summarized as follows:

2016	≤ 1 year	>1 - ≤ 5 years	> 5 years	Total
Buildings	2,142	8,990	8,445	19,577
Cars	839	1,255	-	2,094
Total lease and rental commitments	**2,981**	**10,245**	**8,445**	**21,671**

2015	≤ 1 year	>1 - ≤ 5 years	> 5 years	Total
Buildings	2,102	8,820	10,757	21,679
Cars	807	1,314	-	2,121
Total lease and rental commitments	**2,909**	**10,134**	**10,757**	**23,800**

RELATED PARTY INFORMATION

FMO defines the Dutch State, its subsidiaries and associated companies, the Management Board and Supervisory Board as related parties.

Dutch State

The Dutch State holds 51% of FMO's share capital. The remaining 49% is held by commercial banks and other private investors. In 2005 FMO received its last contribution to the development fund from the Dutch State. FMO has a guarantee provision from the State, which is detailed in 'other 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 July 1, 2016, the mandate of this facility has been transferred to the 'Rijksdienst voor Ondernemend Nederland' (RVO). After the transfer only existing loans in the portfolio and pipeline were serviced. These loans are included in the consolidated annual accounts under 'loans guaranteed by the State'.

FMO executes several government funds and programs at the risk and expense of the State. Below is a description of the different funds and programs:

1. *MASSIF*
   MASSIF extends risk capital and local currency financing to financial intermediaries in developing countries who in turn serve micro- and small-scale entrepreneurs and lower income households. FMO has a 2.34% (2015: 2.35%) stake in this fund. For 2016, FMO received a fixed remuneration of €13,247. In 2016 one investment was transferred at arm's length from MASSIF to FMO.
2. *Infrastructure Development Fund (I and II)*
   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 2016, FMO received a fixed remuneration of €5,089 in accordance with the subsidy order.
3. *Access to Energy Fund*
   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. For 2016, FMO received a fixed remuneration of €2,117.
4. *FOM OS*
   The program finances private sector companies with a strong focus on food security and water. For 2016, FMO received a fixed remuneration of €571. The program has been closed for new commitments at the request of the Ministry of Foreign Trade and Development Corporation as per June 30, 2014.
5. *Capacity Development Program*
   The program will invest in inclusive projects, focusing particularly on the themes of climate change and gender. For 2016, FMO received a fixed remuneration of €180.
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 2016, FMO received no remuneration except for staff compensation.

In our role of fund manager for the assets under management we held current account positions with State funds. The balances of those current account positions are disclosed under note 11 and note 16.

A part of our loan portfolio €56,768 (2015: €56,780) is disbursed under the a program from the Dutch State and recognized in our consolidated balance sheet (Loans guaranteed by the State). The credit risk of these loans is covered by Dutch State for 80%-95%. We refer to the section Guarantee provisions in the Agreement between the State and FMO of November 16, 1998 in the section Additional Information. The results due to addition and release of specific value adjustments follows the accounting policy for Loans to the private sector.

Subsidiaries

The consolidated subsidiaries Nuevo Banco Comercial Holding B.V., Asia Participations B.V., FMO Medu II Investment Trust Ltd. and Equis DFI Feeder L.P. are used for intermediate holding purposes. The subsidiary FMO Investment Management B.V. manages third party capital funds which are invested alongside FMO's own transactions in emerging and developing markets. In the first half of 2015, the subsidiary FMO Antillen N.V. has been liquidated.

The transactions during the year are summarized in note 3 of the company balance sheet.

Associates

In line with our investment activities we hold stakes directly in private equity companies or indirectly via fund structures. Investments are treated as associates in case criteria in accordance with our accounting policies are met. We refer to the significant accounting policies and note 8 for the transactions during the year.

Remuneration of the Management Board

On December 31, 2016 the Management Board consisted of two statutory members (2015: 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 2016 amounts to €1,101 (2015: €1,069) and is specified as follows:

	Fixed remuneration	Pension 3)	Allowance for retirement 4)	Other 5)	Total 2016
Nanno Kleiterp 1)	303	32	72	32	439
Jürgen Rigterink 2)	237	25	38	42	342
Linda Broekhuizen	243	25	32	20	320
Total	**783**	**82**	**142**	**94**	**1,101**

	Fixed remuneration	Pension	Allowance for retirement	Other	Total 2015
Nanno Kleiterp	300	29	69	32	430
Jürgen Rigterink	241	21	35	32	329
Linda Broekhuizen	241	18	31	20	310
Total	**782**	**68**	**135**	**84**	**1,069**

1) As of 1 October 2016 Nanno Kleiterp stepped down as CEO. After enjoying accrued holiday leave, Nanno Kleiterp continued his duties for FMO up and until January, 31 2017 as Advisor of the Management Board for succession purposes. The remuneration includes the reward for the agreed advisory role.
2) Jürgen Rigterink took up the CEO role as per October 1, 2016.
3) Costs related to pension accrual up to salary of €102
4) Allowance for retirement related to the salary above €102
5) Includes contributions to company car, fixed expense allowance, general profit-sharing (related to the results over 2015) and compensation of interest on mortgages. This is in line with the general fringe benefits within FMO. The maximal amount of general profit sharing is €2.800.

Except for allowance for pension (long term employee benefits) all components above are short term employee benefits.

In accordance with the G4 Sustainability Reporting Guidelines, the ratio between the highest-paid individual and the median of the rest is 0.20. Or in other words the highest-paid individual received 4.9 times the amount paid the median of (the rest of) the total population.

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

	Remuneration 2016	Committees 2016	Total 2016	Total 2015
Jean Frijns	23.0	2.8	25.8	27.5
Bert Bruggink [1)]	6.1	1.4	7.5	18.5
Agnes Jongerius [1)]	6.1	1.4	7.5	18.5
Alexandra Schaapveld	15.5	3.1	18.6	17.5
Pier Vellinga	15.5	3.5	19.0	20.0
Thessa Menssen [2)]	9.4	1.6	11.0	-
Dirk-Jan van den Berg [3)]	4.0	0.7	4.7	-
Total	**79.6**	**14.5**	**94.1**	**102.0**

1) Bert Bruggink and Agnes Jongerius departed from the Supervisory Board as per May 2016
2) Thessa Menssen is appointed as per May 2016
3) Dirk-Jan van den Berg is appointed as per September 2016

The members of the Supervisory Board have no shares, options or loans related to the company.

SUBSEQUENT EVENTS

On January 3, 2017, FMO disbursed US $78 million due to a capital call from Arise B.V. On January 12, 2017 FMO issued a US $500 million 3 year note as part of our Debt Issuance Programme.
In March 2017 the sale of Prasac Microfinance Institution Limited was finalized and a result from equity investments of €56 million was realized.

NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

34. Other comprehensive income

Other comprehensive income		2016		2015
Items to be reclassified to profit and loss				
Exchange differences on translating foreign operations		5,110		3,252
Available for sale interest-bearing securities:				
· Unrealized results during the year	5,131		-7,812	
· Less: reclassification adjustments for results included in profit and loss	-832		-778	
Total available for sale interest-bearing securities		**4,299**		**-8,590**
Available for sale equity investments:				
· Unrealized results during the year	64,375		100,725	
· Foreign exchange results	59,426		95,692	
· Reclassification adjustments for results included in profit and loss	-526		-1,742	
Total available for sale equity investments		**123,275**		**194,675**
Total other comprehensive income before tax		**132,684**		**189,337**
Income tax effect		-11,851		2,148
Total to be reclassified to profit and loss		**120,833**		**191,485**
Items not reclassified to profit and loss				
Actuarial gains/losses on defined benefit plans		-39,750		14,502
Income tax effect		9,937		-3,625
Total not reclassified to profit and loss		**-29,813**		**10,877**
Total other comprehensive income at December 31		**91,020**		**202,362**

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	5,110	-	5,110
Available for sale interest-bearing securities	4,299	-1,075	3,224
Available for sale equity investments	123,275	-10,776	112,499
Actuarial gains/losses on defined benefit plans	-39,750	9,937	-29,813
Balance at December 31, 2015	**92,934**	**-1,914**	**91,020**

	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	3,252	-	3,252
Available for sale interest-bearing securities	-8,590	2,148	-6,442
Available for sale equity investments	194,675	-	194,675
Actuarial gains/losses on defined benefit plans	14,502	-3,625	10,877
Balance at December 31, 2015	**203,839**	**-1,477**	**202,362**

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

35. Net cash flow from operational activities

The net cash flow from operational activities includes the company's portfolio movements, such as loans to the private sector and under guarantee of the State, equity investments, subsidiaries and associates. The net cash flow further includes the movements in working capital and current accounts with the State in regard to government funds and programs.

36. Net cash flow from investing activities

The net cash flow from investing activities includes the movements in the investment portfolio, such as the interest-bearing securities. The movements in fixed assets are also included in the cash flow from investing activities.

37. Net cash flow from financing activities

The net cash flow from financing activities includes movements in the funding attracted from the capital market. Also included in the cash flow from financing activities are the additions to and reductions from the company's capital.

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 tangible fixed assets and others.

COMPANY BALANCE SHEET

As at 31 December 2016

(before profit appropriation)	Notes	Page number	2016	2015
Assets				
Banks	(A)	150	37,827	56,304
Short-term deposits	(2)	127	1,242,604	1,545,384
Interest-bearing securities	(3)	127	575,117	611,570
Derivative financial instruments	(4)	128	186,510	251,089
Loans to the private sector	(5), (9)	129, 131	4,469,948	4,250,379
Loans guaranteed by the State	(6), (9)	129, 131	56,768	56,780
Equity investments	(B)	150	1,687,162	1,446,145
Investments in associates	(C)	150	116,060	32,752
Subsidiaries	(D)	150	33,566	33,211
Fixed assets	(10)	133	9,168	7,626
Deferred income tax assets	(31)	141	10,618	2,108
Current accounts with State funds and other programs	(11)	133	1,901	724
Other receivables	(E)	151	31,265	32,586
Accrued income	(13)	133	92,028	93,317
Total assets			**8,550,542**	**8,419,975**
Liabilities				
Short-term credits	(14)	134	39,464	76,015
Derivative financial instruments	(4)	128	423,981	391,073
Debentures and notes	(15)	134	5,180,977	5,347,614
Current accounts with State funds and other programs	(16)	134	75	1,459
Current income tax liabilities			16,434	18,563
Wage tax liabilities			340	183
Deferred income tax liabilities	(31)	141	13,688	4,249
Other liabilities	(17)	134	8,192	12,476
Accrued liabilities	(18)	135	51,425	56,987
Provisions	(19)	135	45,422	1,706
Total liabilities			**5,779,998**	**5,910,325**
Shareholders' equity				
Share capital			9,076	9,076
Share premium reserve			29,272	29,272
Contractual reserve			1,477,843	1,308,420
Development fund			657,981	657,981
Available for sale reserve			562,126	447,177
Translation reserve			9,221	4,111
Other reserves			18,343	47,382
Undistributed profit			6,682	6,231
Total shareholders' equity	(F)	151	**2,770,544**	**2,509,650**
Total liabilities and shareholders' equity			**8,550,542**	**8,419,975**
Contingent liabilities	(32)	142	61,050	-119,974
Irrevocable facilities	(32)	142	1,797,534	1,796,763

all amounts in € × 1,000

COMPANY PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2016

(before profit appropriation)	Notes	Page number	2016	2015
Income				
Interest income			282,402	272,708
Interest expense			-65,861	-45,506
Net interest income	(21)	139	**216,541**	**227,202**
Fee and commission income			6,691	7,545
Fee and commission expense			-547	-163
Net fee and commission income	(22)	139	**6,144**	**7,382**
Dividend income	(23)	139	16,624	19,779
Results from equity investments	(24)	139	39,041	24,239
Results from financial transactions	(25)	140	-9,211	11,845
Remuneration for services rendered	(26)	140	28,246	25,594
Other operating income	(27)	140	1,185	1,751
Total other income			**75,885**	**83,208**
Total income			**298,570**	**317,792**
Operating expenses				
Staff costs	(28)	140	-62,769	-59,479
Other administrative expenses	(29)	141	-19,222	-17,262
Depreciation and impairment	(10)	133	-2,565	-2,150
Other operating expenses	(30)	141	-75	-360
Total operating expenses			**-84,631**	**-79,251**
Value adjustments/ impairments on				
Loans	(9)	131	38,070	-8,425
Equity investments and associates	(7), (8)	130	-42,846	-18,073
Guarantees issued	(9)	131	4,920	-1,016
Total value adjustments			**144**	**-27,514**
Share in the result of subsidiaries	(D)	150	-1,190	460
Share in the result of associates			6,247	3,090
Total result on associates and subsidiaries			**5,057**	**3,550**
Profit before taxation			**219,140**	**214,557**
Income tax			-43,035	-40,289
Net profit			**176,105**	**174,288**

NOTES TO THE COMPANY ANNUAL ACCOUNTS

NOTES TO THE SPECIFIC ITEMS OF THE BALANCE SHEET

The company annual accounts of FMO should be red in conjunction with the consolidated annual accounts including the sections 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 extent 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. Bank

	2016	2015
Banks	37,827	56,304
Balance at December 31	**37,827**	**56,304**

The cash on bank accounts can be freely disposed of.

B. Equity investments

	2016	2015
Balance at January 1	1,446,145	1,117,009
Purchases and contributions	276,299	247,479
Reclassification from loans	3,841	-
Sales	-118,777	-86,771
Value adjustments	-42,846	-18,073
Changes in fair value	122,500	186,501
Balance at December 31	**1,687,162**	**1,446,145**

C. Investments in associates

	2016	2015
Balance at January 1	32,752	24,358
Purchases and contributions	82,390	6,302
Sales	-10,365	-3,377
Share in net results	6,247	3,090
Translation differences	5,036	2,379
Balance at December 31	**116,060**	**32,752**

D. Subsidiaries

	2016	2015
Balance at January 1	33,211	19,605
Purchases and contributions	964	5,240
Share in other comprehensive income	776	8,175
Share in net results	-1,190	460
Dividend declared and received	-195	-269
Balance at December 31	**33,566**	**33,211**

all amounts in € × 1,000

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%

The following table summarizes the carrying value of the subsidiaries.

	2016	2015
Asia Participations B.V.	8,632	9,362
FMO Investment Management B.V.	4,549	5,109
FMO Medu II Investment Trust Ltd.	2,961	2,561
Nuevo Banco Comercial Holding B.V.	14,347	14,023
Equis DFI Feeder L.P	3,077	2,156
Balance at December 31	**33,566**	**33,211**

E. Other Receivables

	2016	2015
Debtors related to equity investments	3,634	351
Taxes and social premiums	600	355
To be declared on State guaranteed loans	1,961	4,660
Accrued management fees State funds	5,301	4,724
Amortized fee receivables	10,239	14,983
Intercompany receivables from subsidiaries	9,530	7,513
Balance at December 31	**31,265**	**32,586**

F. 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	2016	2015
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	2016	2015
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

	2016	2015
Share premium reserve shareholder A, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	8,061	8,061
Share premium reserve shareholder B, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	21,211	21,211
Balance at December 31	**29,272**	**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 'other information').

Development fund

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

Available for sale reserve (AFS reserve)

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

The following table shows the components of the available for sale reserve at December 31, 2016 and December 31, 2015.

	2016	2015
Gross gains and losses in the AFS reserve		
Equity investments at fair value	564,195	441,694
Interest-bearing securities at fair value	11,623	7,324
Subtotal gains and losses in the AFS reserve	**575,817**	**449,018**
Deferred taxes on gains and losses		
Equity investments at fair value	-10,776	-
Interest-bearing securities at fair value	-2,916	-1,841
Subtotal deferred taxes on gains and losses	**-13,692**	**-1,841**
Net gains and losses in the AFS reserve		
Equity investments at fair value	553,419	441,694
Interest-bearing securities at fair value	8,707	5,483
Total available for sale reserve	**562,126**	**447,177**

The statement of changes in the shareholders' equity details the movements in the available for sale reserve during 2016. The statement is included in the consolidated annual accounts.

Other reserves

	Retained earnings	Actuarial gains/losses on defined benefit plans	Share in other comprehensive income of subsidiaries	Total
Balance at January 1, 2015	31,971	-3,641	-	28,330
Gains/losses during the period	-	10,877	8,175	19,052
Balance at December 31, 2015	**31,971**	**7,236**	**8,175**	**47,382**
Gains/losses during the period	-	-29,813	774	-29,039
Balance at December 31, 2016	**31,971**	**-22,577**	**8,949**	**18,343**

all amounts in € × 1,000

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 €2.770.544. The legal reserves is not freely distrubutable to shareholders. The legal reserve includes the fair value increases contained in the AFS reserve, the Translation reserve and derivatives that are not in a hedging relationship.

	2016	2015
AFS reserve	599,641	504,697
Translation reserve	9,221	4,111
Derivatives not hedged	113,674	186,563
Balance at December 31	**722,536**	**695,371**

The AFS reserve consist of the positive fair value movements of our equity instruments and interest bearing securities financial assets net of tax effect.

The translation reserve reflects the translation differences between closing and average weighted exchange rates of assets, liabilities, income and expenses from foreign subsidiaries and associates.

The derivatives not hedged reflect the fair value gains of our derivate portfolio (not used for hedge accounting purposes) designated at fair value throught P&L for which the fair value determination is not based on frequent quoted information.

Proposal for appropriation of profit

A company net profit of €176,105 was recorded in 2016. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €169,423 to the contractual reserve. Therefore this profit is not completely distributable. The distributable element of the net profit amounts to €6,682 (2015: €6,231). The Management Board and the Supervisory Board propose distributing a sum of €6,682 (2015: €6,231) as cash dividend equaling €16.71 per A and B share (2015: €15.58 per A and B share). This proposal for dividend distribution can be withdrawn if FMO's economical and financial conditions deteriorate significantly in the period up to the moment of distribution of the dividend. This reservation is the result of the recommendation of the European Central Bank on December 13, 2016, and adopted by the Dutch Central Bank.

SUBSEQUENT EVENTS

On January 3, 2017, FMO disbursed US $78 million due to a capital call from Arise B.V.
On January 12, 2017 FMO issued a US $500 million 3 year note as part of our Debt Issuance Programme.
In March 2017 the sale of Prasac Microfinance Institution Limited was finalized and a results from equity investments of €56 million was realized.

all amounts in € × 1,000

8. HOW WE REPORT

We prepared this integrated annual report using the principles of the Integrated Reporting framework of the International Integrated Reporting Council (IIRC). We strive for transparent reporting on our strategy, the dilemmas that we face and the way in which we are realizing our strategy in order to create value for our stakeholders.

8.1 Legal entity

This report covers the activities of Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), FMO Investment Management B.V. (FMO IM), 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.

8.2 Reporting policy

The period covered by this report is the calendar year 2016. The publication date of the previous annual report was 21 March 2016. There have been no significant changes to our legal structure, activities, policies or methods of measurement in the course of 2016 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. Green investments are subject to our internal green label approval process. 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, but 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.

8.3 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 doubling impact and halving footprint. In the context of the external environment and our business model we describe how we are steering the organization and what this means to our achieving this strategy in practice.

We apply the Global Reporting Initiative's (GRI) fourth-generation sustainability reporting guidelines (G4) and the specific financial sector guidelines and have chosen to report in accordance with the 'Core' option.

The European Parliament has adopted an EU directive that will require eligible organizations and all banks to disclose non-financial and diversity information from the end of 2016. We have already incorporated the elements of this Directive in this report. Policies, procedures, outcomes and risks with regard to prevention of bribery and corruption are described in paragraph 2.5.9. The same elements regarding environmental and social aspects are covered in paragraphs 2.5.2 and 2.5.7, where a more detailed elaboration on accountability aspects of human rights can also be found. Policies, procedures and figures on diversity are depicted in paragraph 2.5.9 ('Organizational developments').

Materiality determination process

One of the fundamental concepts of integrated reporting is materiality. As part of an ongoing process to further develop our strategy and ensure that our reporting reflects the most material developments and issues we undertook a materiality analysis in 2015. GRI defines material topics as those aspects that reflect the organization's significant economic, environmental and social impacts or that substantively influence the assessments and decisions of stakeholders.

FMO used the issues raised by stakeholders in previous engagements as a starting point for identifying the material topics. Other commonly applied reporting guidelines as well as reporting by peers and other financial institutions were also considered. In total 30 matters were considered. To validate the developments and issues, an online survey was conducted among key internal and external stakeholders. Based on qualitative analysis and discussions of the stakeholder input with the Management Board, ten topics were found to be the most material.

In 2016 we updated and validated the survey held in 2015. As 2016 was a year of extensive stakeholder dialogues, we asked input from our stakeholders directly, in some cases using feedback collected during ongoing dialogues to see if and how stakeholder needs changed in the course of the year. The outcomes were again verified by desk research and consequently used to update the 2015 survey results. The outcome of the assessment is reflected in the matrix in the chapter entitled 'External environment'. The reporting process for the 2016 integrated report was guided by our strategic priorities, in combination with and aligned to the material topics.

8.4 FMO impact model

We continue to use the FMO impact model to calculate the total number of direct and indirect jobs supported by, and greenhouse gas (GHG) emissions avoided because of, FMO's investments over the year. The jobs supported and GHG emissions avoided are estimated and reported in the year of commitment. The results represent the jobs and GHG emissions avoided that are supported on an annual basis. The model makes use of macroeconomic figures, 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 100% exact, but they do measure progress made towards meeting our ambitious goal in a consistent manner. This helps our organization in tracking success and, if necessary, deciding on redeployment of resources in order to stay on track to meet our priorities.

5 GENDER EQUALITY | 8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES | 17 PARTNERSHIPS FOR THE GOALS

– CASE F –

Supporting the growth of women-owned businesses worldwide

Globally, women-owned small and medium-sized enterprises (WSMEs) face a lack of access to finance as they are often unable to secure loans from formal lenders. Finance for the women's market offers enormous opportunities for financial institutions and banks worldwide. Yet, development of this market segment proceeds at a slow pace, as many formal financial providers are still unable – or unwilling – to apply alternative risk assessments.

A business case for diversity

FMO believes that there is a credible business case in providing finance to WSMEs, as women generally tend to be loyal customers. Gaining WSMEs as customers could help FMO's clients improve their profitability and lower their Non-Performing Loans (NPL) rates, while investing and financing through a gender lens is proven to have social impact by improving women's banking experience, wealth, health and livelihoods, and therefore those of their families.

Optimizing knowledge transfer by investing in a fund that finances the women's market

Finance focused on the women's market is a relatively new product to many, including FMO. Through its investment in the Women Entrepreneurs Debt Fund (WEF), FMO is able to offer these products to its clients while improving its relationship with globally renowned players such as the Global Banking Alliance for Women (GBA), IFC, and the Goldman Sachs Foundation. Through partnerships and its work with WEF, FMO has and will continue to increase its knowledge and experience to be passed on to its clients and their beneficiaries.

Simultaneously, FMO supports wider advisory projects on women's market financing, including academic sessions for FMO clients. FMO creates opportunities for learning – not only *for* them, but also *from* them. In this way FMO aims to build something more meaningful than just a relationship based on financial transactions.

Link to strategy
Supporting inclusive development

Sector
Financial Institutions

FMO investment
US$ 30 million

Country
Global

Year of investment
2016

Instrument
Loan

The Women Entrepreneurs Debt Fund (WEF) is a US$ 110 million fund that provides senior loans to financial institutions across emerging markets globally to be on-lend to women-owned small and medium enterprises (WSME). The fund is managed by IFC Asset Management Company.

Limitations of the model

The model allows quantifying the wider impact of investing in various economic sectors, both directly and through financial institutions. The economic input-output model is a widely recognized academic method. 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. 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). FMO periodically updates the macroeconomic data used in the model.
3. 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.

FMO mitigates these limitations by providing transparency in ex-post effects via in-depth case studies and monitoring of direct effects, and by using the model results only on the portfolio (and subportfolio) level. For more information on FMO's impact model, see **www.fmo.nl/development-impact**.

FMO attribution rules

We apply attribution rules to our reported impact. The jobs and avoided greenhouse gas emissions are reported pro rata with FMO's financing as part of the total (productive) assets or total project size. FMO's financing includes the amount in euros that we have invested and the third party amounts actively catalyzed by FMO ('catalyzed funds'). The underlying idea here is that without FMO the third party would not have invested in the project.

Furthermore, to take into account the higher impact of equity products due to its higher leverage effects on client level, the model uses a multiplier of 2 for equity products: both the number of jobs supported and the amount of GHG avoided by equity investments are multiplied by 2. The equity multiplier has an upward effect of 30% on the number of jobs supported in 2016 (2015: 13%) and of 23% on the amount of GHG avoided in 2016 (2015: 8%).

Change in equity multiplier for debt funds

We use a multiplier of 2 when we invest in direct equity and in PE funds. In 2016 we removed the multiplier for specific PE funds which invest in debt products. We have calculated the effects of changing this multiplier for this subcategory for the 2010-2012 baseline period and for 2015. The number of supported jobs in 2015 was changed from 858,000 to 843,000 jobs while the baseline figures for jobs are unchanged.

The GHG emissions avoided in 2015 were also changed, because the equity multiplier for debt funds in the Impact Model was removed, changing the amount from 936,000 to 787,000 tons CO_2eq. The baseline figures for GHG avoided have changed from 600,000 to 500,000 tons CO_2eq as a result.

Avoided greenhouse gas emissions

We calculate the avoided greenhouse gases (GHG) of our clients for investments in renewable energy and energy efficiency projects. GHG avoidance for renewable energy projects is calculated as the expected electricity production once the project is operational, multiplied by the grid emission factor of the country. The GHG avoidance for energy efficiency projects is the difference between the project GHG emissions and a baseline scenario. 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.

8.5 Other reporting definitions

We have aligned our indicator definitions with internationally harmonized definitions when these are available. Below we have included the definitions of the reported impact indicators.

Smallholders supported
The number of smallholder farmers that have had active support from the client company in order to improve production practices that have beneficial effects on yields and/or reduce environmental degradation and/or improve social practices during the reporting period. Smallholder farmers are defined as marginal and sub-marginal farm households that own and/or cultivate relatively small plots of land. Common characteristics of smallholder farmers are that they have low access to technology, limited resources in terms of capital, skills, and risk management, depend on family labor for most activities, and have limited capacity in terms of storage, marketing, and processing. This definition has been sourced from the UN Food and Agriculture Organization (FAO). The source document is usually a social report or management report from our customer.

Number of micro loans financed
Micro enterprise loans with an outstanding value up to USD 10,000, as reported by our financial institution customers.

Number of SME loans financed
SME loans with outstanding value between USD 10,000 and USD 1,000,000, as reported by our financial institution customers.

Equivalent number of people served via power generation
The number of people served via power generation projects is estimated by dividing the annual amount of electric energy delivered to offtakers during the reporting period by the power consumption per connected capita. The power consumption per connected capita is calculated as the electric power consumption per capita divided by the electrification rate (source: World Bank / IEA data).

Measurement of ESG risk management
We assess projects on ESG effects benchmarked against IFC Performance Standards during due diligence and monitoring phases. If needed, we agree on actions plans and support our clients with technical assistance.
The agreed-upon ESG action plans must ensure compliance within set timeframes. 85% of actions due in 2016 had to be implemented. When deadlines for action items were postponed in 2016, approval from the Credit Department (as independent second line of defines) needed to be obtained. Proposals for postponements had to be performed as Large Change Requests and changes in client contracts were mandatory. We will follow the same method of measurement in 2017.

8.6 External assurance

We have asked EY to audit the annual accounts and to perform a review of the Report of the Management Board section of this integrated report. The scope of the review on this report is limited to the chapters 'FMO at a glance', 'External environment', 'Our strategy', 'Our business model', 'Performance on our strategy' and 'How we report'. The review is conducted in accordance with Dutch Standard 3810N (see the combined independent auditor's and assurance report on page 66).

Project and Committee memberships

Project/Committee	Name	Role
Association of European Development Finance Institutions, European Financing Partners, Interact Climate Change Facility	Jürgen Rigterink	Member of the Board of Directors
Natural Capital Coalition		FMO is a member
Arise (private equity investment holding company)	Jürgen Rigterink	Member of Supervisory Board
Royal Tropical Institute (KIT)	Jürgen Rigterink	Member of the Board of Directors
Foundation for Banking Ethics Enforcement	Linda Broekhuizen	Member of the Appeals Commission
Netherlands Council for Trade Promotion (NCH)	Linda Broekhuizen	Member of the Board of Directors
Nederlandse Vereniging van Banken		FMO is a member
Global Impact Investors Network (GIIN)		FMO is a member
IIRC Business network		FMO is a member
NpM Platform for Inclusive Finance		FMO is a member
Institutional Integrity Forum or Transparency International Netherlands		FMO is a member
Five Voluntary Principles of Mainstreaming Climate Change Actions		FMO is signatory
Platform Carbon Accounting Financials (PCAF) and the Dutch Carbon Pledge		FMO is signatory
Sustainable Development Goals Charter		FMO is signatory
Platform Carbon Accounting Financials (PCAF) and the Dutch Carbon Pledge		FMO is signatory
Sustainable Development Goals Charter		FMO is signatory

International principles

FMO follows a number of guidelines and principles, which helps us to improve the quality of our work and standardize our reporting.

IFC Performance Standards

Principles for Responsible Investment

OECD Guidelines

Equator Principles

UN Guiding Principles on Business and Human Rights

Natural Capital Declaration

International Labour Organization

UN Principles for Investors in Inclusive Finance

Integrated Reporting

International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation – the FATF Recommendations

Global Reporting Initiative

For our own operations, we maintain the following standards:

- MVO Prestatieladder
- The Gold Standard

9. ADDITIONAL INFORMATION

9.1 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 €176,105 was recorded in 2016. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €169,423 to the contractual reserve. Therefore this profit is not completely distributable. The distributable element of the net profit amounts to €6,682 (2015: €6,231). The Management Board and the Supervisory Board propose distributing a sum of €6,682 (2015: €6,231) as cash dividend equaling €16.71 per A and B share (2015: €15.58 per A and B share). This proposal for dividend distribution can be withdrawn if FMO's economical and financial conditions deteriorate significantly in the period up to the moment of distribution of the dividend. This reservation is the result of the recommendation of the European Central Bank on December 13, 2016, and adopted by the Dutch Central Bank.

9.2 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 exchange forward contracts and forward rate agreements (FRAs);
- **(vi)** option and futures contracts;
- **(vii)** combinations of the products referred to in (i) to (vi);
- **(viii)** guarantees provided by FMO to third parties in respect of the financing of private companies in developing countries;
- **(ix)** commitments relating to the maintenance of an adequate organization.

Notes to the guarantee provision

The GRR fund referred to in Article 7 is defined in Article 6 of the Agreement State-FMO of November 16, 1998, and consists of the share premium reserve of €21,211 plus the group-specific provision (formerly the general value adjustments) and the contractually required reserve. On December 31, 2016 the fund amounted (rounded) to €1,603,302 (2015: €1,504,322).

9.3 Other indicators

FMO's direct environmental footprint

FMO fully offsets the CO_2 emissions from its own operations. In 2016 our direct environmental footprint amounted an emission of 4,000 tons of CO_2. We compensate these CO_2 emissions, the largest share resulting from employee flight travel, through the purchase of CO_2 credits (REDD+ projects) and directly through KLM, our most important carrier. In 2015 FMO made a full switch to green electricity. The external Climate Neutral Group calculates our footprint. The offset CO_2 emissions for 2015 were 4,100 tons.
For more information, see **www.fmo.nl/our-footprint**.

Taxation

Besides our corporate income tax for 2016 in the Netherlands (ad €43.0 million), local withholding taxes in 24 countries were applicable. These taxes amounted to €6.6 million, of which €2.1 million in Mongolia, €1.0 million in Cambodia, €0.6 million in Kenya and €2.9 million in 21 other countries.

10. INDEXES

Glossary of terms

In the overview below we explain terms and topics that are included in the materiality matrix. We distinguish between topics within our own organization and external topics (via our investments), and we have listed which departments are responsible for management of the topics.

Topic	Explanation of terminology	Scope	Governance / management of material issues	Paragraph
Development impact	FMO's positive indirect economic influence on local economies as participant or agent in socio-economic and environmental change	FMO's investments	Strategy, sector departments	2.5.1
Accountability & transparency activities	The extent to which FMO is operating in such a way that it is easy for stakeholders to see what actions are performed	FMO's own organization	Strategy	2.5.7
Financial sustainability and risk appetite of FMO	The economic value generated (revenues) and distributed (operating costs, wages, payments to providers of capital and to government) by FMO within the boundaries of FMO's risk appetite	FMO's own organization	Finance & Control, Risk Management, Credit	2.5.3
Client satisfaction	The extent to which FMO's products and services meet or surpass client expectations	FMO's own organization	Sector departments	2.5.2
Additionality of FMO's activities	FMO provides products and services which the market does not provide, or does not provide on an adequate scale or on reasonable terms	FMO's investments	Strategy, sector departments	2.5.2
ESG risk management	Businesses incorporating sustainable environmental, social and governance best practices enjoy stronger financial results and long-term viability; together with clients we therefore assess ESG risks, identify where ESG improvements can be made, agree on action plans for addressing improvements and support them on their way to meeting them	FMO's investments	Strategy, sector departments	2.5.2
Inclusive development	Invest in projects with the specific aim of expanding access to goods, services and livelihood opportunities on a commercially viable basis to people at the Base of the Pyramid (people living on less than USD 8 per day in purchasing power parity or lacking access to basic goods, services, and income)	FMO's investments	Sector departments	2.5.4
Enable impact investing	Provide access to investors to impact investing and new markets in emerging and developing countries, providing clients with increased access to finance and more diversified lending	FMO's investments	Sector departments, SYN, FIM, PIM	2.5.6
Indirect environmental footprint	Greenhouse gas emissions that follow from activities of companies that FMO finances	FMO's investments	Strategy, sector departments	2.5.1
Innovation and knowledge management at FMO	FMO's approach to knowledge management and innovation within its own operations	FMO's own organization	Sector departments	2.5.2, 2.5.4, 2.5.6

Topic	Explanation of terminology	Scope	Governance / management of material issues	Paragraph
Health and (travel) safety of FMO employees	Policies, procedures and actions taken by FMO to prevent injury, occupational diseases, lost days, absenteeism and work-related fatalities	FMO's own organization	Human Resources	2.5.9
Support Dutch corporates	Part of the Aid and Trade policy of the Ministry of Foreign Affairs is to support Dutch businesses by facilitating investments in and export to emerging markets	FMO's investments	NL Business	2.5.8
Taxation	Contributions to governments are important for each nation to finance public goods such as infrastructure, health and education and thus contribute to the wellbeing of the people of such nation (for both more and less developed countries); compliance and trust from both tax payers, tax authorities and governments can create a healthy tax environment, and within FMO's power we aim to contribute to such an environment	FMO's investments	Finance & Control, sector departments	2.5.7, 9.3
Local stakeholder engagement	FMO asks its clients to set up a local stakeholder engagement process including a local grievance mechanism; stakeholder engagement is important to identify risks and impacts at an early stage, and to help avoid, mitigate, and manage risks and impacts	FMO's investments	Sector departments	2.5.7
Promote ESG best practices	FMO organizes seminars, training and conferences for clients, peers and industry stakeholders to enable knowledge-sharing on Environmental, Social & Good Governance practices	FMO's investments	Sector departments	2.5.2
Networks	FMO partners with selected banks, development finance institutions, private investors, business organizations, knowledge institutes and civil society to complement the finance we provide to our clients with a network that enables the sharing of specialist knowledge and expertise	FMO's own organization	Strategy, sector departments	2.5.2
Employee development at FMO	Policies, procedures and actions taken by FMO to provide training and education for skill and talent development and employability	FMO's own organization	Human Resources	2.5.9
Human rights	FMO recognizes that businesses have a duty to respect human rights (such as the right to information and freedom of expression, right to land, water, health and safety), and a responsibility to ensure that effective and accessible means of redressing infringements of human rights resulting from our business activities or those we support are available; human rights are an important aspect in ESG Risk Management	FMO's investments	Strategy, sector departments	2.5.7
Diversity and equal opportunity	Actions taken by FMO and its clients to promote diversity, gender equality, equal remuneration and women's empowerment in their work force	FMO's own organization and investments	Sector departments, Human Resources	2.5.4, 2.5.9

Topic	Explanation of terminology	Scope	Governance / management of material issues	Paragraph
Investing in resource efficiency and renewable energy	Investments in resource efficiency (water, materials, waste) and renewable energy in response to climate change and resource scarcity	FMO's investments	Sector departments	2.5.5
Biodiversity	Potential impact of FMO's investments on ecosystems	FMO's investments	Sector departments	2.5.2
Business integrity of FMO	Policies, procedures and actions taken by FMO to ensure high standards of business conduct; examples include investment criteria, exclusion lists, anti-money laundering, anti-bribery and anti-corruption procedures	FMO's own organization	Legal & Compliance, Risk Management, internal audit	2.5.9
Good labor practices and decent working conditions	Actions taken by FMO's clients to ensure a healthy and safe working environment, provide training and education, fair/living wages, freedom of association and collective bargaining, working hours, prevention of child/forced/compulsory labor and discrimination	FMO's investments	Sector departments	2.5.2
FMO's own direct environmental impact	FMO's own greenhouse gas emissions, of which the majority is CO_2 emissions resulting from FMO's activities involving employee flight travel	FMO's own organization	Facility Services	9.3
Safeguarding the privacy of FMO's clients	Adequate systems and procedures in place to protect customer privacy and compliance with regulations	FMO's own organization	Compliance	2.5.9
FMO's remuneration policy	Remuneration policy and practices to reflect FMO's objectives of good corporate governance and sustained, long term value creation for its stakeholders; FMO has not had variable pay for members of the Management Board since 2012	FMO's own organization	Human Resources	4.4
Role in public debate	FMO's role in the public debate on sustainable development in developing countries	FMO's own organization	Strategy, Sector departments	2.5.2, 2.5.5, 2.5.6, 2.5.7
Local presence	FMO has its head office in The Hague, NL and a local office in Johannesburg, SA; local presence enables more frequent contact with clients, resulting in better relationships and service	FMO's own organization	Sector departments	2.2.7
Sustainability Bonds	Sustainability Bonds raise funds that support FMO lending for green and inclusive projects.	FMO's funding	Treasury	2.5.3

GRI content index

FMO has chosen for the 'In Accordance' option 'Core'. In the following table, reference is made to the general standard disclosures.

General standard disclosures	No	Description	Chapter
Strategy and Analysis	G4-1	Statement of senior decision-maker (CEO) about the relevance of sustainability to FMO and FMO's strategy for addressing sustainability	2.1
Organizational Profile	G4-3	Name of organization	1
Organizational Profile	G4-4	Primary products / services	1
Organizational Profile	G4-5	Location of headquarters	1
Organizational Profile	G4-6	Number of countries where the organization operates	1
Organizational Profile	G4-7	Nature of ownership and legal form	8
Organizational Profile	G4-8	Markets served (incl. geographic breakdown, sectors served and types of customers and beneficiaries)	2.5.1
Organizational Profile	G4-9	Scale of organization: · Number of employees · Number of operations · Net sales · Total capitalization · Quality of products/services provided	1, 2.5.3
Organizational Profile	G4-10	· Number of employees by gender · Number of permanent employees by employment type and gender	2.5.9
Organizational Profile	G4-11	Percentage of total employees covered by collective bargaining agreements	2.5.9
Organizational Profile	G4-12	Organization's supply chain	2.4
Organizational Profile	G4-13	Significant changes during reporting period regarding FMO's size structure, ownership, etc.	8
Organizational Profile	G4-14	How is the precautionary approach principle addressed?	2.4
Organizational Profile	G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which FMO subscribes	8
Organizational Profile	G4-16	List memberships of associations in which FMO holds a position on the governance body OR participates in committees/projects OR views its membership as strategic	8
Identified material aspects and boundaries	G4-17	Entities included in the organization's consolidated financial statements. This may be disclosed by referencing the information in publicly available consolidated financial statements	Notes to the Annual Accounts
Identified material aspects and boundaries	G4-18	Explain process for defining report content	8
Identified material aspects and boundaries	G4-19	List all material aspects identified	2.2.7, annex Glossary of terms
Identified material aspects and boundaries	G4-20	For each material aspect, report the aspect boundary within the organization	annex Glossary of terms
Identified material aspects and boundaries	G4-21	For each material aspect, report the aspect boundary outside the organization	annex Glossary of terms
Identified material aspects and boundaries	G4-22	Report the effect of any restatements of information provided in previous reports, and the reason for such restatements (e.g. from merger/acquisition, nature of business, etc.)	8

General standard disclosures	No	Description	Chapter
Identified material aspects and boundaries	G4-23	Report significant changes from previous reporting periods in the scope and aspect boundaries	8
Stakeholder Engagement	G4-24	Provide list of stakeholders engaged by the organization	2.2.6
Stakeholder Engagement	G4-25	Report basis of identification and selection of stakeholders with whom to engage	2.2.6
Stakeholder Engagement	G4-26	Report approach to stakeholder engagement, including frequency of engagement by type of stakeholder	2.2.6
Stakeholder Engagement	G4-27	Report key topics/concerns that have been raised through stakeholder engagement	2.2.1, 2.2.2, 2.2.3, 2.2.4, 2.2.5
Report Profile	G4-28	Reporting period	8
Report Profile	G4-29	Date of most recent previous report	8
Report Profile	G4-30	Reporting cycle	8
Report Profile	G4-31	Contact point for questions regarding the report	1
Report Profile	G4-32	Report the "in accordance" option the organization has chosen. Report the GRI Content index for the chosen option. Report the reference to the External Audit report, if the report has been externally assured	8
Report Profile	G4-33	Report policy and current practice with regard to seeking external assurance for the report	8
Governance	G4-34	Overview of: · Governance structure and composition · Role of highest governance body in setting the organization's purpose, values and strategy · Competencies and performance evaluation of highest governance body · Role of board in risk management · Role of board in sustainability reporting · Role of board in evaluating economic, environmental and social performance · Remuneration and incentives	3, 4
Ethics and Integrity	G4-56	Describe values, principles, standards and norms of behavior such as codes of conduct/ethics	4

In the following table, reference is made to the specific standard disclosures.

Material aspects	GRI Aspect	Disclosures management approach (DMA)	Indicators	Omissions
Development impact	Indirect Economic Impacts	FMO's strategy is becoming a leading impact investor by doubling the number of supported jobs and the expected amount of GHG avoided (see paragraph 2.3.1). FMO has chosen for targets that drive these goals, being the amount of new commitments (including catalyzed funds) and actively sourced green investments (see 2.4.1).	GRI indicator: G4-EC8 FMO specific: our investments supported 812,000 jobs and avoided 500,000 tons of GHG emissions (see paragraph 2.5.1). We measured these impacts using our Impact Model (see 8.4).	
Financial sustainability and risk appetite of FMO	Economic performance	To continuously be able to support our business our AAA credit rating, return on shareholders' equity and Core Equity Tier-1 ratio are important (see 2.3.2). These financial targets are defined and managed by performing due diligence on possible investments (see 2.4.1) and managing our Risk Appetite within our Risk Management Framework (see notes to our Annual Accounts).	GRI indicator: G4-EC2 FMO specific: FMO's financial and risk management are carefully set up and controls are implemented and functioning continuously (see explanatory notes to the Annual Accounts). This applies to processes, procedures and product systems, and financial systems. The RoE was 6.7% and the CET-1 ratio 22.7% (see 2.5.3).	
Additionality of FMO's activities	Indirect Economic Impacts	As a development bank we seek additionality in financing products and services which the market does not provide, or not on an adequate scale or reasonable terms. We also provide ESG inputs that other parties do not provide by offering value-added services or unique expertise in ESG standard-setting or green or inclusive investments (see 2.3.2). Deal teams assess additionality on these aspects during due diligence and monitoring and register this on scorecards (2.4.1).	GRI indicator: G4-EC8 FMO specific: of the approved investments in 2016 59% was financially additional and 41% both financially and ESG additional (see 2.5.2).	
Client satisfaction	Product and Service Labeling	We aim to realize positive impact in terms of economic growth, social progress and environmental sustainability with our clients (see 2.2.6). We build and maintain relations via sourcing through deep-rooted networks, due diligence screening and advice on improvements, monitoring of progress, support with assistance (2.4.1). We aim to be additional, support ESG actions, provide innovative products, Capacity Development and our knowledge and networks, e.g. in conferences (2.5.2). We support Dutch corporates investing in and trading with emerging markets (2.5.8)	GRI indicator: G4-PR5 FMO specific: In November 2015 an external independent survey was performed on general satisfaction and specifically on our qualities, added value, loyalty, capacity development, knowledge transfer and our extensive network. This bi-annual survey scored 8.6 out of 10 (2012: 8.3). See paragraph 2.5.2.	

Material aspects	GRI Aspect	Disclosures management approach (DMA)	Indicators	Omissions
Transparency of FMO's activities	Human Rights Grievance Mechanisms Environmental Grievance Mechanisms	Our stakeholders demand increased transparency and accountability, especially with regard to environmental and social aspects (2.2.3). In 2016 we have revised our Sustainability Policy and invested in extended and intensified stakeholder engagement. We disclose all contracted investments and implemented disclosure before contracting for investments with high ESG risk in 2016. For government funds we disclose according to IATI standards. FMO also has an Independent Complaints Mechanism (see 2.4.1).	GRI indicator: G4-HR12 & G4-EN34 FMO specific: FMO's Independent Complaint Mechanism received one admissible complaint in 2016 (see paragraph 4.5). Public consultation on FMO's new Sustainability Policy resulted in 285 comments by 50 organizations (see 2.5.7).	
Enable impact investing	FMO own developed aspect: Enable impact investing	Stakeholders ask us to behave as market makers, building investment opportunities with impact and risk profiles that meet their needs (2.2.2). We try to bundle public and private resources in our projects (2.3.2). Our financial partners leverage our own capital, allowing to increase impact (2.4).	FMO specific: we have undertaken efforts for blending public and private capital, for example in government funds, ElectriFI, FIM and through syndications. In 2016 we catalyzed EUR 905 million. (see paragraph 2.5.6).	
Inclusive development	FMO own developed aspect: Inclusive development	Stakeholders indicate the importance of, among other things, supporting economic growth, decent job creation and reducing inequality (see 2.2.1). FMO works with clients who are directly serving people at the Bottom of the Pyramid and improving gender equality (2.3.2). We select and screen these clients in our investment process (2.4.1).	FMO specific: our deal teams register results on impact indicators in the Impact Cards. Results on the supported smallholders, connections to electricity grids and Micro and SME loans are described in paragraph 2.5.4.	
Indirect environmental footprint	Emissions	Stakeholders indicate the importance of combating climate change (see 2.2.1). We aim to halve our environmental footprint by doubling the expected amount of GHG avoided via green investments (see 2.3.1). Green investments are primarily transactions in renewable energy and energy efficiency (see 2.3.2). We select and screen these transactions in our investment process (2.4.1).	GRI indicator: G4-EN19 FMO specific: we use our Impact Model to measure GHG emissions avoided in our investments. In 2016 our investments enabled the avoidance of 500,000 tons of GHG (see 2.5.1). For the governance and methodology of our Impact Model see paragraph 8.4.	

Material aspects	GRI Aspect	Disclosures management approach (DMA)	Indicators	Omissions
Innovations and knowledge management at FMO	FMO own developed aspect: Innovations and knowledge management at FMO	Based on markets and stakeholder needs (for example with respect to green investments, blending or Dutch business) we spend time and money on innovation and strategic initiatives, like ElectriFI, Climate Investor One and the Dutch business team (see 2.2.1 and 2.2.2). We measure the inputted resources that are expected to lead to realization of future targets (see 2.6.3 and 2.6.5). Another key input for success is knowledge (technical, financial and otherwise) from our employees, clients, other DFIs or knowledge partners (see 2.2.6 and 2.3.2). Knowledge is important intellectual capital and we transfer best-practice knowledge to our clients also: in our Capacity Development program we provide technical assistance to clients (see 2.4).	FMO specific: part of the added value to our clients is our technical assistance or Capacity Development. In 2106 we supported 71 clients with knowledge on issues important to them (see paragraph 2.5.2).	
ESG risk management	Product Portfolio (sector specific)	Following international standards and setting ESG requirements for clients will ensure compliance with regulations and contribute to the realization of SDGs. We assess projects on ESG effects benchmarked against IFC Performance Standards (see 2.4.1) during due diligences and monitoring phases. If needed, we agree on action plans and support our clients with technical assistance (see 2.3.2)	GRI indicator: Interactions with clients/ investees/ business partners regarding environmental and social risks and opportunities (former FS5) FMO specific: the agreed upon ESG action plans must ensure compliance within set timeframes. 85% of actions due in a certain year must be implemented. When deadlines for action items are postponed, approval from Credit Risk Management (second line of defense) needs to be obtained. In 2016 87% of the ESG actions due were implemented. See paragraph 2.5.2.	

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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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 28 March 2017. The annual shareholders' meeting is in May. The report is audited by an external auditor. Please read the EY's auditor's report for detailed information on the scope of their work. Previous reports are available on **www.fmo.nl/reports**.

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