FMO

Entrepreneurial
Development
Bank

ANNUAL REPORT

2019

Our mission is to empower entrepreneurs to build a better world

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AT A GLANCE

FMO is the Dutch entrepreneurial development bank

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

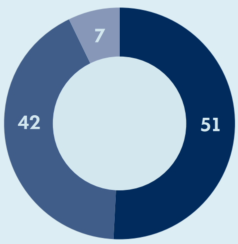
We invest with the aim of enhancing local prosperity in emerging markets. And take risks that the commercial banking sector is not willing to take. We focus on the private sector in the following industries: Energy, Financial Institutions and Agribusiness, Food & Water. Through our investments in these industries we empower entrepreneurs to build a better world.

Our role extends beyond financing, as we challenge and support businesses to meet international environmental, social and governance standards. These businesses, in turn, support job creation, reduce inequality and improve our climate. Our strategy is to be your preferred partner to invest in local prosperity.

FMO has its head office in The Hague, the Netherlands, with local offices in Johannesburg, South Africa, and Nairobi, Kenya. We also have a representative office registered in Singapore.

Organization and ratings

Ownership structure %



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

Ratings

AAA
Fitch ratings

AAA
Standard&Poor’s

5th/934 banks
Sustainalytics relative performance (1st=lowest risk)

Prime
ISS ESG rating

Employees

601
Total number of employees

57
Number of nationalities

42%
of women in senior and middle management

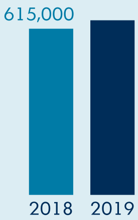
Financial performance

€120 million
Net profit

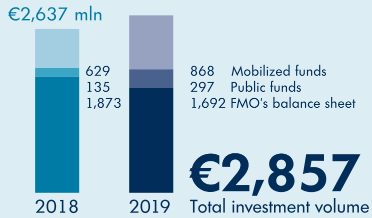
21.8%
CET1(%)

2019 Performance

Investing in local prosperity



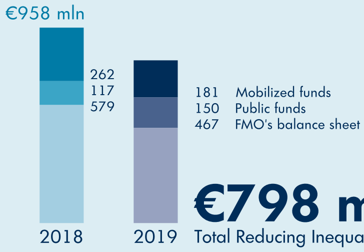
646,000
Jobs supported



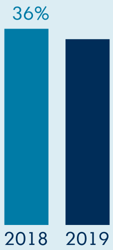
€2,857 million
Total investment volume

28%
Reducing Inequalities investments (% of total volume)

Investments in Least Developed Countries and in inclusive business

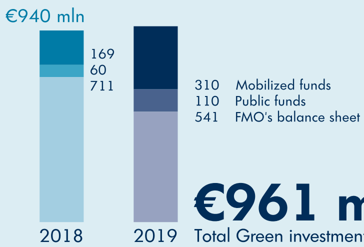


€798 million
Total Reducing Inequalities investment volume

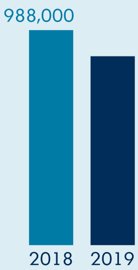


34%
Green investments (% of total volume)

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



€961 million
Total Green investment volume



868,000
Avoided greenhouse gas emissions (tCO_2eq)

Highlights | 2019

February 08, 2019

Together with Accion and Quona Capital, we organized the Fintech for Inclusion Global Summit focused on financial inclusion through Fintech solutions in emerging markets.

"Fintech can bring economies to life."

February 12, 2019

We successfully launched our first Green Bond, having previously pioneered the Sustainability Bond market in the Netherlands.

March 19, 2019

We redefined our values and behaviors to match our people and our strategy.

April 12, 2019

Together with our fellow European development banks, we signed the Operating Principles for Impact Management, to bring greater transparency and discipline to the impact investing market.

April 18, 2019

Together with Proparco, we acted as anchor investor to the **first Eurobond issuance by African Ecobank Group**, affirming the importance for African companies to access international capital markets.

DFCD

May 23, 2019

FMO, SHV, WWF and Climate Fund Managers, a pioneering partnership of NGOs and financiers, won the tender to manage the Dutch Fund for Climate and Development (DFCD).
In November DFCD opened for business.

June 19, 2019

We launched the First Risk Sharing Facility for refugee entrepreneurs with the Jordanian Micro Finance Institution Tamweelcom, as a pilot under our NASIRA program.

July 01, 2019

We optimized our organizational structure to further embed impact and ESG in our organization. We further created a new Impact Committee to advise our Supervisory Board.

July 15, 2019

We published our first internal quarterly report on diversity and inclusion related to gender balance, recruitment, turnover, reward, bonuses, promotions and engagement.

F€mpower Your Growth Program Equality = growth

September 11 , 2019

Closing event of the **F€mpower Your Growth** pilot program for female entrepreneurs and bankers organized together with ABN AMRO, ING, Rabobank, Better Future and The Next Women NL.

September 16, 2019

Our governance structure was expanded with the introduction of an Executive Committee responsible for the day-to-day management of the company.

November 05, 2019

FMO supports the First Palestinian Employment Development Impact Bond.

November 11, 2019

The European Commission signed the guarantee agreement for the FMO Ventures Program; this blended finance solution allows us to invest in early-stage opportunities with high development potential.

Launch of FMO's innovative early-stage investment program

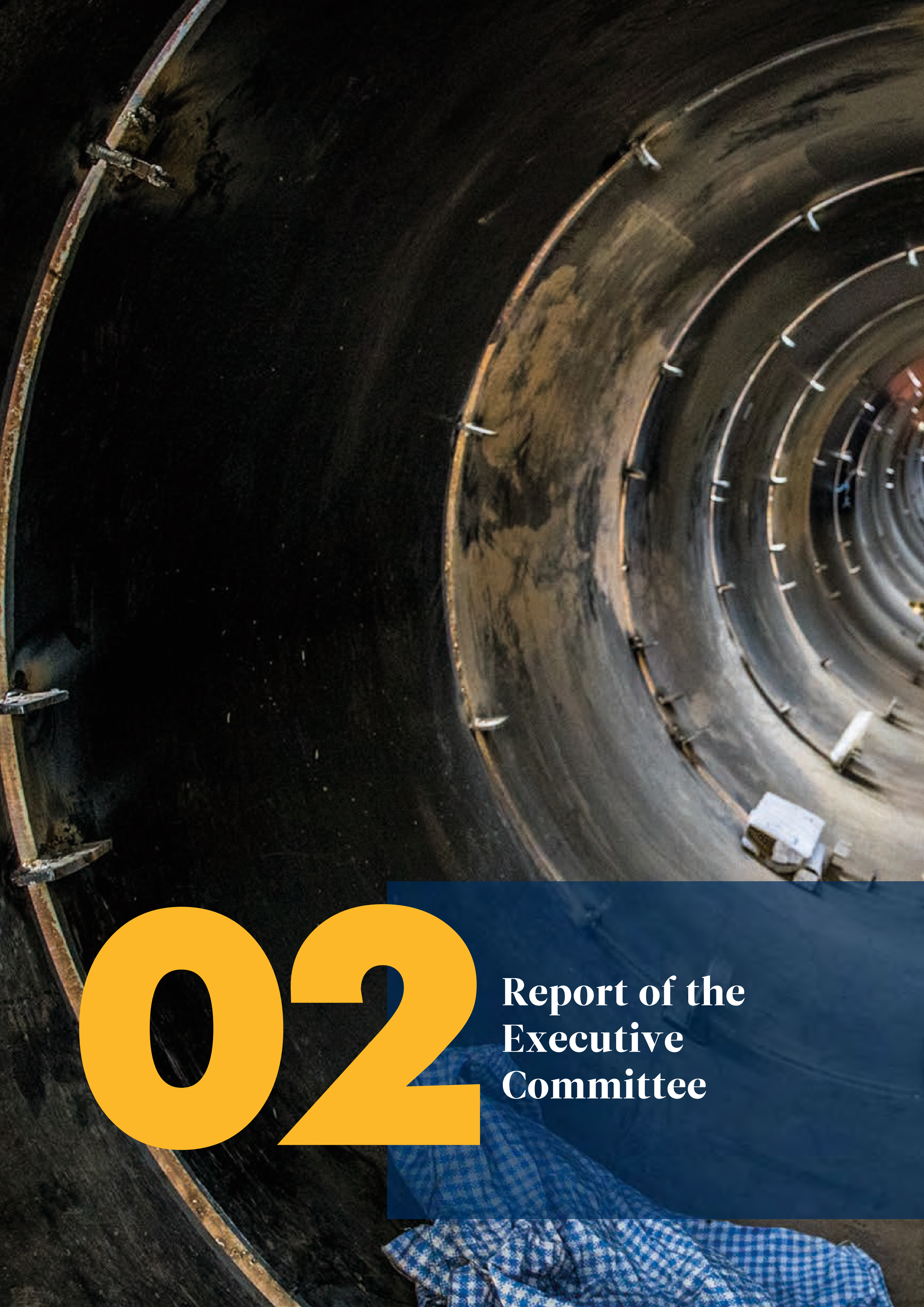
December 04, 2019

Our clients awarded us a 9.0 on overall satisfaction. This translates to a Net Promotor Score of 75.5.'

December 19, 2019

We signed a US$500 million Risk Sharing Framework Agreement with Munich Re to scale up impact investing.

2020



02 Report of the Executive Committee


TAILIN

LETTER OF THE EXECUTIVE COMMITTEE

The year 2020 is a special year for FMO: it marks our 50th anniversary. We are proud to have been entrusted with the mandate to empower entrepreneurs in developing countries for five decades. We are passionate about this mandate and the fact we fulfill it with the many dedicated, experienced and resourceful professionals at FMO.

Let’s first take a moment for a number of highlights from 2019:

- In May, the Dutch government entrusted us with the management of the Dutch Fund for Climate Development (DFCD), which, under FMO’s management, consists of a unique consortium with Climate Investor One, SNV and WWF that will develop and enable climate mitigation and adaptation projects;
- The first pilot under the NASIRA risk-sharing program has started in Jordan; Tamweelcom will provide Syrian refugees with access to finance;
- The F€mpower Your Growth program was completed in the autumn of 2019, in the presence of Her Majesty Queen Máxima in her in her capacity as the UN Secretary-General's Special Advocate for Inclusive Finance for Development; this program aimed to promote gender equality in the Dutch financial sector;
- Our clients gave FMO a 9 out of 10 on overall client satisfaction, which translates to a Net Promotor Score of 75.5. Our employee satisfaction remained a solid 7.4;
- Our increased focus on un(der)-served markets and fragile states has enabled us to mobilize more funds under our management;
- In early 2019, we successfully issued our inaugural green bond (US$500 million, 5 years);
- During COP25, the Partnership for Carbon Accounting Financials (PCAF), of which FMO is a founding member, launched its carbon accounting method for the financial sector globally, with a number of FMO clients committing to the methodology. This is an important step forward in how financial institutions measure the emissions associated with their loans and investments;
- In November, EC Commissioner Neven Mimica signed FMO's Ventures Program. This is FMO's second guarantee program with the European Fund for Sustainable Development (EFSD). The fund focuses on early-stage investments in innovative, technology-enabled business models with high impact potential for underserviced entrepreneurs;
- Finally, we have partnered with Munich RE to form a promising US$500 million financing vehicle that enables the mobilization of commercial capital from institutional investors. This vehicle offers them opportunities to make a difference in developing economies with a healthy risk-return.

As proud as we are on these steps forward, we realize that humanity is yet to solve the world’s challenges, captured in the Sustainable Development Goals (SDGs). The growing political and economic complexity of our time, along with rising environmental pressures, means that no one can afford to be complacent.

Geo-political developments reduce the stability of trade relations and feed growing political unrest. This leads to volatility in economic growth projections, currency rates and therefore an increase in risks in our business model. The effort that is needed to live up to the regulatory and legislative framework has also increased in 2019 for us as FMO as well as for our partners and clients. Both trends we see reflected in our own annual results over 2019 and in changing economic dynamics in our investment countries.

Yet, despite these challenges we also see promising progress. In a number of African countries, governance has significantly improved. And the signing of the African Continental Free Trade Agreement (ACFTA) opens compelling prospects for trade relations. At FMO we are convinced that Africa will become more important for the global economy with every passing year. The continent is as vast as it is diverse, and is most certainly compelling from an investment perspective. We hope that the realization that Europe will need Africa in order to remain relevant on the world stage will slowly but surely take root. This awareness, and an interest in the opportunities Africa’s growth will bring, is most certainly growing among European Development Finance Institutions (EDFIs).

In 2019, EDFIs further intensified their cooperation in a number of fields, including Impact and Environmental, Social & Governance (IESG). An initiative was taken to harmonize standards: a critical topic in our view, because what is measured, gets done. The EDFIs launched a multi-year harmonization project to ensure we all define and measure our impact the same way. FMO has taken the lead in harmonizing the indicators on jobs supported (SDG 8) and GHG avoided (SDG 13), and the first results are shown in the harmonization of the E&S approach of the EDFIs towards local financial institutions.

Also in 2019, seven complex projects of FMO were explicitly in the news. Each one an example of our challenge to do the most difficult investments under the most difficult circumstances with the objective to make a difference. And the truth is we do not always achieve what we want to achieve; it takes longer for the project to fulfill its potential or the project does not get all ESG goals realized or even fails altogether.

It became clear that we will have to explain more - and more often - how our operating environment works, what our mandate is as a development bank and what the dilemmas are that we weigh and consider every day. In this annual report we have scaled up our transparency around these challenges materially.

Within FMO we have to change to be better positioned with the expectations of our stakeholders. Mainly in terms of risk identification in the areas of ESG, impact execution, culture and compliance. The first steps of this transformation process have been taken. We have continued previous initiatives to anchor Impact and ESG (IESG) even more firmly in our organization and our primary investment process to strengthen management and decision-making on these topics. Our Supervisory Board has created an Impact Committee that supervises all related matters within our bank. In addition, a new IESG department combining five different teams in total with around 60 professionals was formed within FMO in July 2019 under the leadership of one director.

In 2019 we also improved FMO’s compliance with the Financial Supervision Act (Wft), followed by the Anti Money-Laundering and Financing Terrorism Act (Wwft). We have recruited a new Compliance Manager, strengthened our KYC capabilities and teams, are setting up a renewed training program and will further expand the Compliance and KYC teams to meet the necessary requirements.

Our wider organization continues to grow and diversify. Today, we can build on the expertise and perspectives of colleagues representing 57 nationalities, a diverse team for which we are both grateful and proud. A value project to rephrase FMO’s corporate values was successfully completed, resulting in four values and twelve new behaviors being introduced. These have been defined in a process in which over 80% of our staff have participated. These Values & Behaviors capture both what we collectively want to nurture in our present culture as well as what is needed to guide our impact work in the world we live in.

We very much realize that these developments demand a lot from our people. External pressures and changing market dynamics require a different way of thinking and operating that need time to take root.

To enable our people to be at their best and to perform to the best of our collective ability we will invest in engagement and development. A new talent model has been defined which we will introduce in the course of 2020. A new management development training is being co-created in which the central model is around how we can improve the connection to oneself, to the organization and to our stakeholders. We will further focus on the engagement between the different layers within the organization to ensure we can keep the right pace of change.

We highly appreciate the commitment and passion of our colleagues and we would like to thank all employees of FMO, for their strong dedication, perseverance and enthusiasm in contributing to our impact goals.

We are grateful and proud to experience the trust of our stakeholders and our clients.

A special word of thanks goes to our Chairman of our Supervisory Board, Mr. Pier Vellinga. At our Annual General Meeting of Shareholders (AGM) on 23 April 2020, Mr. Vellinga will say goodbye to our organization after twelve years of partnership. Mrs. Alexandra Schaapveld will also leave the Board after eight years at the upcoming AGM. We would like to express our great appreciation for all that Mr. Pier Vellinga and Mrs. Alexandra Schaapveld have meant for our organization and the enormous commitment, enthusiasm and knowledge they have brought to FMO.

We have less than ten years to reach the SDGs and as FMO we have a role to play. We want to and will continue to empower entrepreneurs to build a better world and help address the two biggest challenges in the world for the coming decade: inequality and climate change.

In picture | from left
Danny Klappe, Director Human Resources, **Huib-Jan de Ruijter**,Director Debt, **Linda Broekhuizen,** Chief Investment Officer, **Jorim Schraven**, Director Impact & ESG, **Chantal Korteweg,** Director Stakeholders, Strategy and Knowledge Management, **Idsert Boersma**, Director Partnerships for Impact, **Peter van Mierlo**, Chief Executive Officer, **Fatoumata Bouaré,** Chief Risk & Finance Officer, **Femke de Jong**, Director ICT

ABOUT THIS REPORT

FMO's integrated annual report was prepared following the principles of the Integrated Reporting framework of the International Integrated Reporting Council (IIRC) and in accordance with the 'core option' of the Global Reporting Initiative (GRI) standards.

We strive to report transparently on our strategy, the way we implement our strategy to create value for our stakeholders and the dilemmas we face along the way.

Stakeholder dialogue

We are aware that FMO operates in a network of organizations and civil society. In this network, our decisions have an impact on others and vice versa. We engage with our stakeholders to find out what matters most to them and improve our decision-making and reporting.

Dialogue with our stakeholders, whether through scheduled meetings or hosting events, ensures that we continue to learn from them. We identify our stakeholders based on their economic relationship with FMO, their interest in and influence on FMO, the extent to which they are affected by FMO's activities as well as the potential for sharing knowledge. To ensure a complete overview, we linked stakeholder groups to the inputs, activities and outputs of our business model.

Stakeholder engagement informs our strategy

Engaging with our stakeholders ensures our strategy and business continue to be aligned with their needs and expectations. As a Dutch Development Finance Institution (DFI), we maintain a close relationship with the Dutch Ministry of Finance and Ministry of Foreign Affairs. Together, we discuss FMO's strategy and operations. In addition, we engage with a wider group of stakeholders on themes that are of strategic importance to FMO.

We are part of several learning communities that share knowledge and look for best practice regarding climate (SDG 13), human rights (an inseparable part of all SDGs) and the harmonization of impact measurement and reporting standards. We have presented our climate approach on several occasions and have taken part in public debates on this subject. We also organized an NGO meeting on climate.

Our interaction with peers, knowledge partners and NGOs helps us develop our knowledge and improve our way of working. Our Management Board (MB) is actively involved in stakeholder dialogue with our key stakeholders. In bilateral settings as well as at public events, members of the MB regularly meet with the following key stakeholders: clients, the Ministry of Finance, the Ministry of Foreign Affairs, investors, the Works Council, partner DFIs, NGOs and the Dutch Central Bank. The day-to-day management of stakeholder relationships is entrusted to stakeholder account managers, who report to MB on a quarterly basis about the content of their discussions.

Stakeholder engagement on human rights

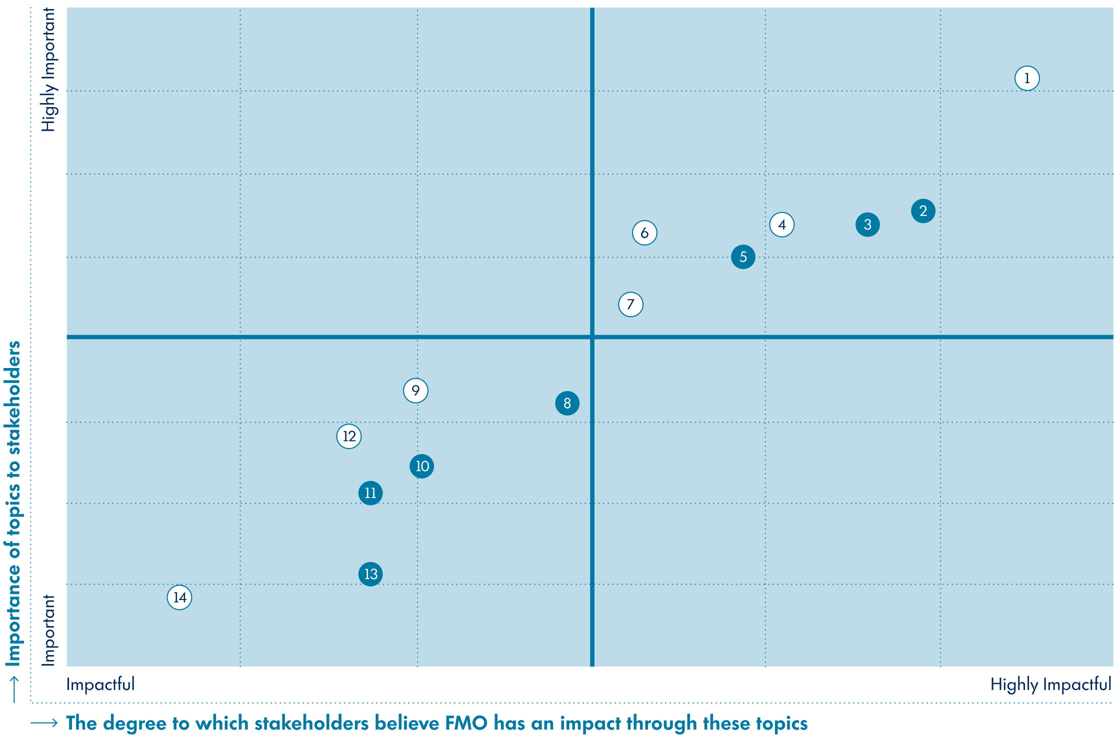
NGOs and other stakeholders have asked us to better explain our investment process and how we safeguard free prior and informed consent (FPIC) and land rights. These are recurring topics we address during scheduled meetings. In September, we organized a human rights exchange for a broad range of stakeholders, including NGOs, to discuss dilemmas in an open and transparent setting. FMO was part of the Dutch Banking Sector Agreement (IMVO Covenant, 2017-2019) that encourages Dutch banks and NGOs to jointly translate the banks' commitment to United Nations Guiding Principles on Business and Human Rights (UNGPs) into concrete actions.

In the context of the Dutch Banking Sector Agreement (DBA), FMO contributed to the working groups on Enabling Remediation, on the sector analysis of the palm oil value chain and on Increasing Leverage. As part of the latter, several NGOs, with support from FMO and the Dutch Ministry of Foreign Affairs, organized a learning session on shrinking civic freedoms and the position of human rights defenders. Publications of the working groups are available on the DBA website.

Moreover, we engage with NGOs in our investment process when looking for expertise on human rights in local contexts. Unfortunately, for a few projects in our portfolio we identified human rights violations despite our best efforts to support clients to improve their ESG (environmental, social and governance) performance in line with international standards. In these cases, NGOs hold us accountable. We work with our clients and other stakeholders to overcome these issues. In this annual report, we included an overview of high ESG risk clients that are currently not adequately managing their ESG risks or are materially behind schedule, as well as case studies of projects where human rights were violated.

Material topics

In 2018, we carried out a materiality survey following the standards of the Global Reporting Initiative. This resulted in 14 topics, ranked by FMO's key stakeholders in order of importance, and degree to which they believed FMO had an impact.[1] The top right quadrant represents material topics that are perceived as highly important and impactful.



Categories:
- Responsible & Impact Investing
- FMO Operations

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

1 A more detailed explanation of the assessment is included in 'How we report'. For a full list of topics and subtopics please see the GRI general disclosures table.

In 2019, we concluded – based on stakeholder dialogue and desk research – that these topics were still most relevant to our stakeholders and therefore material for FMO. Although overall the materiality matrix shows the same material topics as last year, for FMO's Management Board a few topics have become more material. First, the organization invested heavily in Know Your Customer (KYC) procedures. These should ensure that FMO does not facilitate corruption, organized crime, or terrorism. Following an investigation by the Dutch Central Bank in 2018, we realized we needed to increase our efforts and attention towards our KYC approach and other compliance matters. KYC is included as a sub-topic under the material topic 'business integrity'. In chapter Our performance we explain our approach to business integrity and KYC. Second, FMO has received increased scrutiny from stakeholders and the media with respect to ESG, including human rights. As a result, we have increased our efforts to improve internal management information and external transparency on ESG as you will read in this report. Third, we welcome the increased attention from investors towards climate-related matters. In the Our Commitments chapter we explain our approach in relation to the recommendations of the Task Force for Climate-related Financial Disclosure (TCFD).

Our materiality assessment shows that our strategy and reporting continue to meet stakeholders' expectations. There is consensus among our stakeholders on the importance of sustainable economic growth, reducing inequalities (both part of Development impact through responsible investing), and climate action (Environmental footprint of FMO's investments). Furthermore, our stakeholders confirm the importance of financial sustainability and risk appetite. A strong balance sheet and profitable operations allow us to further increase our investments for impact. They also allow FMO to act as a catalyst by attracting partners to co-finance our businesses and projects. Finally, the results confirm that being accountable and transparent is conditional to our role as a development bank.

Stakeholder engagement on material topics

The following table provides an overview of our key stakeholders, which topics are most material to them, how we engage with each and how this engagement contributes to realizing our long-term objectives.

Stakeholder group	Most material topics	Frequency and means of engagement	How the relationship contributes to FMO's long-term objectives
Clients - Our clients are companies, financial institutions, private equity fund managers, and infrastructure and energy project developers in developing countries.	Development impact Financial sustainability Client satisfaction	Frequent business meetings, specific events or conferences	We actively seek clients and projects with high potential for positive impact in terms of economic growth, social progress and environmental sustainability. We support our clients to realize their positive impact.
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.	Development impact Financial sustainability Transparency and accountability	Regular meetings with Ministry of Finance and Ministry of Foreign Affairs	As part of the Dutch government's international development agenda, our mandate is to promote private sector development in developing countries. The Dutch government also guarantees our financial commitments and entrusts us with the management of a number of government funds that have strong synergies with the overall FMO strategy.
Shareholders - The remaining 49% of our shareholders' capital is provided by commercial banks, trade unions and other private sector parties.	Financial sustainability Development impact Transparency and accountability	Annual General Meeting of shareholders	Our shareholders provide the basis for our financial sustainability.
Employees - Includes Directors, Management Board and Executive Committee.	Development impact Financial sustainability Environmental footprint of FMO's investments	Scheduled works council meetings, department meetings, town hall meetings	Our employees and management contribute to the realization of FMO's objectives. Directors and managers are involved in annual strategy review to ensure we continue to realize our mission.

Stakeholder group	Most material topics	Frequency and means of engagement	How the relationship contributes to FMO's long-term objectives
Investors - Includes bond investors, public investors and commercial partners who help us mobilize private capital through syndicated loans, unfunded risk participations or funds advised on by FMO Investment Management, as well as the institutional and private investors that invested in these funds.	Development impact Transparency and accountability Business integrity	Roadshows, frequent meetings	We offer investors access to our expertise on responsible investing in emerging markets while providing our clients with increased access to long-term financing and diversified lending.
Partner Development Finance Institutions (DFIs) - Includes international financial institutions and multilateral banks.	Development impact Financial sustainability Promote ESG best practices	Scheduled business meetings	Our financing partners co-finance with us and deliver valuable local knowledge about the markets in which we operate.
Non-governmental organizations (NGOs) - Includes international organizations with corporate/local presence that represent environmental and human rights advocates, knowledge centers and banking whistle blowers.	Environmental footprint of FMO's investments Human rights Development impact	Scheduled meetings	Through engaging with NGOs we aim to improve our ESG investment policies and practices. We are stepping up our efforts on the environment through our 1.5 degree pathway, human rights performance standards and venture capital initiatives.
Local communities and clients of clients[1] - As FMO is active in 91 countries, we work with NGOs to gain deeper understanding of local community needs. Moreover, our clients engage with their stakeholders in accordance with IFC Performance Standards.	Environmental footprint of FMO's Investments Human rights Development impact	Ad hoc meetings	We continue to improve our way of working so that our clients can create jobs (directly and indirectly in the value chain), manufacture products and deliver services in a more environmentally sustainable and socially responsible way. Local communities and clients of clients represent the people who put development impact into action.
Supervisor and regulator - Dutch Central Bank (DNB).	Financial sustainability Transparency and accountability Business integrity	Regular meetings	The Dutch Central Bank supervises that we manage risks in adherence to our risk appetite. A recent example were DNB findings in 2018 regarding our KYC procedures, which have led us to implement improvements. Our In Control Framework ensures continuous measurement and monitoring of the drivers in our risk universe.
Knowledge partners - Universities, NGOs, independent consultants who execute development impact evaluations.	Environmental footprint of FMO's Investments Promote ESG best practices Development impact	Scheduled meetings	Through scheduled consultation, knowledge partners help us develop relevant knowledge in order to finance innovative and impactful projects.

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

Connectivity table

The table below links the material topics to our key performance indicators, targets and performance.

In € million unless stated otherwise

Mission: We empower entrepreneurs to build a better world Strategy: Be the preferred partner to invest in local prosperity						
Material topics	**Contributing to the SDGs**	**Page nr.**	**Key performance indicator**	**2019 performance**	**2019 target**	**2018 performance**
Development impact through responsible investing	SDG 8	48, 49	Total investment volume	2,857	2,905	2,637
			Of which			
		48	For FMO's balance sheet	1,692	1,750	1,873
		56, 57	Public funds	297	195	135
	SDG 17	55, 56	Mobilized funds	868	960	629
	SDG 10	49, 50	Reducing inequalities investments (% of total volume)	28%	27%	36%
		57, 58	Dutch Business investments	47	100	30
Environmental footprint of FMO's investments	SDG 13	50, 51	Green investments (% of total volume)	34%	32%	36%
Promote ESG best practices	SDG 3, 5, 8, 10, 12, 13, 14, 15	52-54	ESG target performance (% risks managed)1	98%	90%	95%
Human rights	SDG 3, 5, 8, 10, 12, 13, 14, 15	54	Number of new admissible complaints received	0		1
		33	Number of investments for which human rights were assessed during due diligence	308		n/a
Transparency & accountability of FMO's activities	n/a	-	Transparency Benchmark (latest score)	76%		191 points (out of 200; TB 2017)
Business integrity of FMO	n/a	61	Number of alleged employee-related integrity issues	2		0
		60, 61	Number of alleged client-related integrity issues reported to Compliance	21		26
		60, 61	Number of alleged client-related integrity issues closed by Compliance	9		18
Financial sustainability and risk appetite of FMO	n/a	109	**Profit & Loss account**			
		109	Operating income	330	370	297
		109	Operating expenses	-130		-107
		109	Impairments	-92		-23
		109	Net profit	120		151
		160	Underlying net profit	96		108
		108	**Balance sheet**			
		181	Net loans	5,031		4,771
		139	Equity investment portfolio (incl. associates)	2,165		1,797
		108	Total assets	9,412		8,490
		108	Shareholders' equity	3,127		2,984
		143	Debentures & notes	5,808		5,140
		-	**Ratios at end of period**			
		179	Non Performing Loans (NPL %)	9.8%		8.4%
		108	Return on average shareholders' equity (%)	3.9%		5.2%
		108	Return on assets (%)	1.3%		1.8%
		174	Common Equity Tier 1 (CET 1 %)	21.8%		24.6%
Other		58	Client satisfaction (NPS score)	75.5	70.0	69.5
		59	Employee engagement (score)	7.4	8.0	7.4
		61	Realized delivery on project portfolio (%)	87%	85%	n/a

1 Scope of the target is limited to a sub-set of 40 new clients with an A or B+ E&S risk category or those supported by a corporate governance specialist that were contracted in 2017 or 2018, where FMO was in the lead.

2 In 2019 we introduced this new human rights indicator. For years we have performed E&S due diligence, including human rights, for all high E&S risk clients. At year-end 2019, for 308 clients in our portfolio E&S due diligence including human rights was performed. Of these 308 clients, the majority was already in our portfolio per year-end 2018. We are unable to differentiate the comparative figure for the portfolio per year-end 2018. Please refer to 'Our investment process' to read how we have strengthened the human rights lens in our due diligence practices in recent years.

A partnership to promote sustainable banking

At the turn of the century, international commercial investors and development financial institutions considered breaking into the Nigerian financial sector. However, Nigeria was classified as 'very high risk' and investors considered their options in the country with extreme care, due to lack of corporate governance, transparency and supervision.

In 2003, we begun to cautiously explore business possibilities in Nigeria, searching for selected banks that wanted to raise the standard and do business differently and who understood that adopting best international practices was necessary for long-term success. We found one in Access Bank.

Clear vision

In 2002, two executive directors from a competing local bank took over leadership of Access Bank, ranked as Nigeria's 65th largest bank at the time. They had a vision to grow rapidly in size and in reputation without compromising on best practices. They faced a long journey and we would be with them every step of the way, with a series of revolving investments starting in 2002 and continuing to the present day.

Like most Nigerian banks, Access Bank is a fully fledged commercial bank serving multiple client segments, including a large corporate portfolio. They were among the first banks to explore less popular segments such as specific lending for agricultural clients. In 2008, they became the first Nigerian bank to strategically develop products and services for women entrepreneurs, including financial technical support and creating web communities.

From policy to practice

Since 2014 Access Bank expanded its environmental and social (E&S) work force and started to integrate E&S factors throughout its credit process. Currently they are a front-runner in the field of E&S governance and business practices. They have also led the way in the adoption of sustainable banking principles. The groupwide environmental and social risk management framework, for example, places a strong emphasis on putting appropriate safeguards in place.

In 2019, the bank issued the first private sector Certified Climate Bond in Africa. It was also the first bank in Africa to join the global Taskforce on Climate-related Financial Disclosures (TCFD). TCFD is an initiative that helps the bank to better measure climate-related risks and opportunities, as well as provides recommendations for climate-related financial disclosure to stakeholders.

As the bank had envisioned, adoption and integration of the best practices had gone hand-in-hand with commercial success. In 2019, following its merger with Diamond Bank, it became Nigeria's number one bank by assets, deposits and customer base, with operations in Sub-Saharan Africa, the UK, Asia and the Middle East. The bank received also recognition for its efforts in areas such as sustainable banking and support of female entrepreneurs.

Chemistry sparks enduring partnership

The chemistry between us and Access Bank was cultivated from the onset based on our shared goals and ideals. We saw the ripple effect of financing corporates and SMEs, such as; how it enabled the companies to invest in their business, create local jobs, and contribute to real economic development.

Over the years, we have provided Access Bank with a range of equity, mezzanine loans and funding facilities. For example, syndicated transactions, leading a group of European Development Finance Institution lenders and impact investors, thereby mobilizing larger amounts of public and private funds into Africa while diversifying Access Bank's funding base.

We have also funded technical assistance to help strengthen the bank in key areas such as implementing an SME retail lending strategy and developing environmental and social risk management practices. We helped them to develop their banking on women strategy and set up a joint female leadership journey. In 2019, we supported Access Bank in the pilot of the TCFD.

Since 2017, we have extended our collaboration beyond Nigeria to the bank's subsidiaries in Ghana and Access Bank in the Democratic Republic of Congo (DRC), with several other subsidiaries targeted for 2020/21. Supporting Access Bank DRC, in particular, is an exciting prospect. First, because there are marked parallels with the start of our relationship with Access Bank Nigeria, in terms of the current state of the economy and being the first bank in DRC planning to work on E&S practices. Secondly, because of Access Bank DRC's commitment to collaborate with us on developing an E&S risk management framework with a strong focus on human rights, a critical area given the country's war-torn recent history.

EXTERNAL ENVIRONMENT

2019 was a year of civil protest, political tension and economic uncertainty in which we saw the world's two prime challenges – climate change and inequality – become even more pressing.

Climate change and inequality

Climate change is one of the greatest global challenges we are facing. Last year marked the earth's second hottest year on record, with the last decade being the hottest in history. Natural disasters like tropical cyclone Idai that hit Southeast Africa in March, killing hundreds of people in Mozambique and Zimbabwe, are a testament to the devastating effects climate change can have on societies. Climate risk is and will become even more prominent in emerging and frontier markets.

Climate change worsens inequality between and within countries. Developing countries are affected most by extreme weather because they are less equipped to deal with the impact. Climate change also affects the livelihoods of the poorest and most vulnerable communities first.[2] The Intergovernmental Panel on Climate Change predicts that risks related to extreme weather will increase as the global mean temperature continues to rise.[3] Inequality is a key driver of social unrest, which in turn can have a detrimental effect on economic growth and prosperity.

Governments, businesses and investors alike recognize these issues and have placed climate high on the agenda. While the 2019 COP25 failed to reach a much-needed agreement on the way forward, most countries are transforming their pledges into national climate action plans. COP25 marked the last summit before nations commit to new plans in 2020 to meet the target set by the Paris Agreement. Climate protests around the world, including a movement among the youth, are voicing increasing societal concern about the future of our planet.

In 2019, FMO signed the Dutch Climate Accord, a major initiative in The Netherlands to achieve the goals of the Paris Agreement. The Dutch financial sector, including investors and financial institutions, will start reporting on their climate impact from 2020. No later than 2020, signatories will announce their action plans, including reduction targets, for domestic and international investments. FMO also joined the global Platform for Carbon Accounting Financials (PCAF) Core Team to work with other financial institutions to develop a global carbon accounting standard.

European legislators also embarked on their own climate initiative: EU Sustainable Finance. In December, an agreement was reached on a framework for sustainable investments (EU Taxonomy). This unified classification system for sustainable economic activities will become the foundation for the EU green bond standard, methodologies for low-carbon indices, and metrics for climate-related disclosure. Banking supervisors are also taking notice and have shared a first set of expectations on how banks should manage their ESG risks in general and climate risks in particular.

Risks & Opportunities | Climate-related risks affect our portfolio

Extreme weather events and failure of climate change mitigation and adaptation are among the top five global risks.[4] This affects our portfolio in the following ways:

- Almost 80% of the economic impact of climate change is absorbed by low and low middle income countries;
- Agriculture, food production and deforestation are major drivers of climate change;
- In addition to physical risks, transitional risks that affect our clients include changes in climate and energy policies, shifts in technology and liability issues due to damaged assets.

2 Germanwatch (2020). Global Climate Risk Index 2019.

3 Intergovernmental Panel on Climate Change (2014). Climate Change 2014. Impacts, Adaptation, and Vulnerability: Summary for Policymakers.

4 World Economic Forum (2020).

Link to our strategy

- Higher Impact Portfolio: focus on Reducing Inequalities (SDG 10) and Climate Change (SDG 13) in targeted sectors and regions and raising ESG standards.

Macroeconomic trends

By 2050, two-thirds of the global population is expected to live in Asia and Africa. This brings challenges as well as opportunities to these regions. Rapid population growth challenges the poorest of countries with respect to tackling poverty, inequality, hunger and malnutrition. Other countries have experienced a growing working age population and middle class, creating opportunities for accelerated economic growth.[5] A stable middle class provides a solid foundation for economic progress by driving consumption and domestic demand, thereby also improving living standards. The internet and related technologies such as mobile devices have also reached developing countries much faster than previous technological innovations, which drives higher growth in these markets.

The world around us, however, remains uncertain. Trade disputes between the US and China have resulted in significant tariff increases, affecting business sentiment and confidence. Several countries faced economic and humanitarian crises as a result of social unrest and political instability. The situation in the Middle East put pressure on oil and related energy prices. Interest rates are at a historical low, creating opportunities as well as challenges as it may be more difficult for FMO to find good quality assets to invest in. Furthermore, the recent outbreak of the COVID-19 (Coronavirus) is affecting the global economy and productivity. For example, the solar industry supply chain is affected as a result of work stoppage in key manufacturing hubs in China.

Risks & opportunities I Country risks are higher in emerging and frontier markets

- Political risks relate to state failure, government and political instability;
- On average, Latin America and the Caribbean and Africa display elevated country risks, whereas Asia Pacific and Eastern Europe and Central Asia range between moderate and elevated risk;
- Economic instability may harm countries that, for instance, export commodities or have large current account deficits. This may limit the ability of our clients to grow, may reduce the value they create in their countries and may hurt their ability to fulfill their obligations to financiers.

Link to our strategy

- Higher Impact Portfolio: maintain strong geographic diversification and closely monitor country risks.

Development finance

There is increasing liquidity in development finance. This is caused, among others, by the establishment of new institutions such as the DFC[6] and FinDev[7], more capital being raised by existing institutions and substantial investment flowing from China towards emerging economies. This is a positive development for financing the SDGs. At the same time, when DFIs and blended funds compete for the same projects, this may increase pricing competition and reduce the bankability of investment projects. Ultimately, this could crowd out private investors, which undermines the role of DFIs.

The development finance sector is affected by the competition between China and the United States for influence in Africa, mainly through investments in infrastructure. At the same time, efforts are ongoing to increase cooperation among African countries that will stimulate trade and foreign investment in the region. In 2019, 53 states signed the African Continental Free Trade Area, which, when ratified, will improve business with and between member states. Africa's rapid development in the past decade, and its continued expected economic and demographic expansion, present new opportunities for (Dutch) companies.

5 United Nations (June 2019). World Population Prospects 2019: Highlights.

6 In 2018, the U.S. Senate passed the BUILD Act, creating a new agency – the U.S. International Development Finance Corporation. The DFC combines the Overseas Private Investment Corporation and Development Credit Authority, adds new development finance capabilities including equity mandate and has a higher lending limit.

7 In March 2017, Canada's federal budget confirmed the Government of Canada's intention to create a development finance institution, capitalized with US$300 million.

Considering these developments, the European Union (EU) is in the process of reforming its financial architecture towards its own development policy. These reforms are part of a systemic reform of the European Financial Architecture for Development.

Risks & opportunities I Creating a level-playing field to crowd in private investors

- The role of a DFI is to be additional to the market and to crowd in private investors so they can invest in markets that are often perceived as too risky;
- Below market pricing can crowd out private investors who are crucial in our quest to achieve the SDGs.

Link to our strategy

- Deeper relationships: mobilize commercial investors and create opportunities to leverage impact in our markets.

Harmonization of impact measurement

The introduction of the SDGs has given stakeholders a common language and a shared vision of the world, which makes working together easier. Collaboration within the industry is needed to achieve the SDGs, which the UN estimates will require US$2.5 trillion per year in developing countries alone.[8] In 2019, several initiatives were launched to harmonize the measurement and disclosure of development impact. Harmonization facilitates the development of common standards by which DFIs and private impact investors can measure and report on development impact achieved in order to track progress on the SDGs. This is part of the much-needed professionalization of the impact investment industry and a steppingstone for the creation of a non-financial accounting standard that will be applicable to all investors and enterprises.

Risks & Opportunities I Raising ESG and impact standards

- Harmonization is important to bring clarity, consistency and alignment between DFIs. This will raise industry standards with respect to ESG and impact and will enable us to work together to achieve the SDGs.

Link to our strategy

- Deeper relationships: working with others to achieve the SDGs.

Transparency and accountability

With climate and other impact related topics high on the agenda, our stakeholders expect development banks and their partners to be transparent about and accountable for the full impact of their investments. FMO recognizes this responsibility. Depending on a project's risks and adverse impacts and the project phase of development, FMO expects its clients and investees to engage with local communities on project risks, impacts and mitigation measures. As stated in our Sustainability Policy and Disclosure Policy, we also engage in an ongoing dialogue with stakeholders such as NGOs. Tapping into their expertise increases our understanding of local contexts, which in turn informs our decision-making and policy development. Furthermore, we disclose *ex ante* and *ex post* project information on our website.

Risks & opportunities I Managing ESG and reputational risk

- Our stakeholders hold FMO accountable for ESG-related incidents that occur with our clients. They also challenge us to fully embed ESG into our investment process and be transparent about how we have done that.

Link to our strategy

- Higher productivity: responding to stakeholder needs and regulatory requirements to improve our processes so that we can deliver high impact.

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8 UNCTAD World Investment Forum. Financing for SDGs: Breaking the Bottlenecks of Investment from Policy to Impact. https://worldinvestmentforum.unctad.org/financing-for-the-sdgs/

1

Dilemmas we face:

FINANCING SOME SECTORS INCREASES THE RISK OF SUPPORTING TAX AVOIDANCE

Financing the agribusiness sector means also financing commodity traders, who by the nature of their business are multiple entities carrying out various supply chain roles across multiple jurisdictions around the world. Commodity sourcing takes place where the crops grow, financing and trading where the commodity finance market is developed and sales where the consumer market is.

These business structures could potentially be (mis)used for profit-shifting to reduce taxes. We see countries with enabling environments for traders like Switzerland, Singapore and more recently United Arab Emirates actively trying to attract commodity traders.

Identifying and assessing unbalanced profit-shifting practices is a challenge, not least because many countries have their own specific rules for commodity export prices and intercompany trading.

Support with conditions

FMO insists every client explains the different functions of each of their onshore and offshore entities and provide us with transfer-pricing documentation covering all inter-company transactions. If applicable, clients are required to do country by country reporting in accordance with EU law.

If a client does not have transfer-pricing documentation in place, we feel it is part of FMO's added-value to support the project under the condition that the client works with a reputable advisor to create the appropriate transfer-pricing documentation, which also provides more transparency for tax authorities.

FMO closely follows international taxation developments, and we will continue to raise client awareness of the importance of responsible and transparent tax practices.

2

Dilemmas we face:

CAN YOU FUND PROJECTS LINKED TO SECTORS WITH A BAD REPUTATION?

Our NL Business team has a wider sector mandate and can invest in sectors other than FMO's key sectors. The team financed a project involved in the transshipment of minerals from western Africa.

Mining in west Africa has been booming of late. However, several large mining projects have been having a significant negative environmental and social impact.

The shipment operations were not an issue, but the question remained: can you fund the shipment of minerals from a region whose mining sector has such a dubious reputation?

A wider view on impact

Though not financing mining ourselves, FMO decided to expand its environmental and social impact analysis to include the mining operations producing the minerals to be shipped.

Thanks to the mine's cooperation, we could establish that its day-to-day operations, including its sustainability performance, are of a high standard. This was the reassurance FMO sought.

Digging deeper than reputations

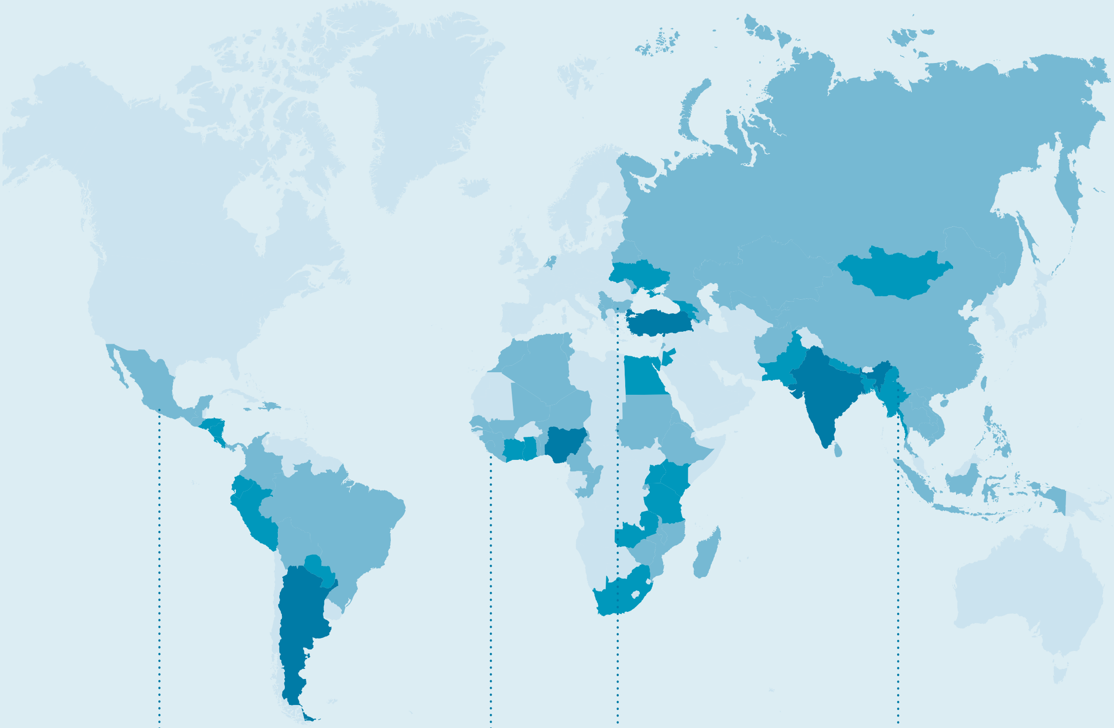
By researching the wider sustainability risks beyond a project's direct scope of influence, FMO can get a deeper understanding of a project's impact. In some cases, like this one, this can empower us to support and encourage good practice within sectors and regions that are otherwise problematic.

2019 Total committed portfolio

€10.4 billion

Total committed portfolio

Note: total committed portfolio consists of € 9.1 billion for FMO and € 1.3 billion for public funds

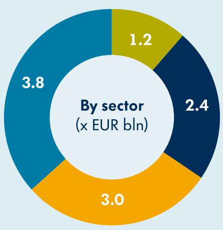


Total committed portfolio by region (per 31 December 2019)

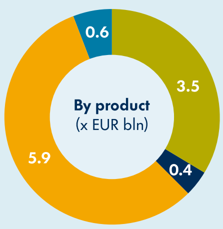
Latin America & the Caribbean	Africa	Eastern Europe & Central Asia	Asia	Non-region specific
€1.9bln	€3.6bln	€1.5bln	€2.6bln	€0.8bln
18% of total	35% of total	14% of total	25% of total	8% of total

Total committed portfolio

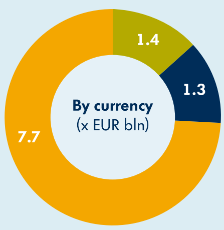
€10.4bln



- Agribusiness, Food & Water
- Diverse Sectors
- Energy
- Financial Institutions



- Equity
- Guarantees
- Commercial loans
- Mezzanine



- EUR
- Local currency
- USD

OUR VALUE CREATION MODEL

Our value creation model is based on the International Integrated Reporting Council's reporting framework. It explains how FMO steers on strategic priorities and uses financial and non-financial capitals (inputs) to create value (outputs, outcome and impact) for its stakeholders.

Our business model

Since 1970, FMO has made a positive difference in developing countries by empowering entrepreneurs to build a better world. We create long-term value by investing in the private sector, addressing climate change, reducing inequality and supporting (in)direct jobs.

Operating context

In working with the private sector to tackle these challenges, our investment decisions are guided by three principles:

1. Additionality: we exist so we can be additional to the market. FMO was established and received government support to only provide financial services that the market does not provide or does not provide on an adequate scale or on reasonable/ workable terms. We distinguish between two types of additionality:
    - Financial: providing financial products that are not readily available from commercial parties on workable terms;
    - ESG: ensuring that outcomes and returns to society will be higher than those of other parties.
2. Mobilizing role: maximizing the flow of finance to FMO's target sectors or groups. This requires FMO to maximize the growth in and utilization of its equity and the leverage provided by its financing activities.
3. Good governance: adherence to the principles of good governance in the widest sense. FMO sets the standard in several areas of its operations, including social and environmental policy.

We invest in countries that are characterized by a fragile private sector, little job security and high poverty rates. Our customers operate in volatile markets that are significantly impacted by macroeconomic trends like increasing commodity prices and foreign exchange movements. FMO engages with its customers before and during the lifetime of an investment to understand their context and risks. This enables FMO to offer products and services that suit the specific needs of its customers. In turn, our customers go on a long-term journey with FMO towards positive social, environmental and economic change.

Regional spread

Diversification is key to our risk management approach and allows us to limit the volatility of our earnings. FMO invests in 83 countries, across four regions: Africa, Asia, Eastern Europe and Central Asia, and Latin America and the Caribbean.

Sectors

We invest in sectors that are crucial for job creation (SDG 8), reducing inequalities (SDG 10) and taking climate action (SDG 13), specifically:

Overview of our key sectors

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

Inputs
Seeds, Animal feed, Fertilizer

Primary production
Crops, Livestock, Production, Fishing

Processing
Crushing, Storage, Handling, Packaging

Trade
Trading, Exporting

Distribution
Logistics to Retail

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

Wind

Solar

Hydro
(run-of-the-river)

Off-grid solutions

Energy efficiency & refurbishment

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

(Universal/SME) banks

Microfinance

Insurance companies

FinTech

We also finance other sectors indirectly through our investments in financial institutions, through private equity (PE) funds with a strong track-record in job creation, and through our Dutch business activities.

Value creation process

Key inputs

Our value creation starts with human, intellectual, financial, social and relationship capitals, known as 'inputs':

- Human capital | FMO has a stable and professional workforce. At the end of 2019, FMO employed 601 permanent and 114 external professionals, who are passionate about FMO's mission. Our employees embody the values – making the difference, diversity, quality and integrity – that were introduced earlier this year;
- Financial capital | We are a triple-A rated bank with 50 years of experience in the private sector in emerging and frontier markets. This rating follows from our ownership structure (51% of shares are owned by the State of The Netherlands) and the Dutch state guarantee. It allows us to attract funding at attractive rates. Commercial investors supply capital through FMO's (sustainability) bonds;
- Intellectual capital | We are recognized as a responsible impact investor and for our in-depth knowledge of ESG management and financing in emerging and frontier markets. This knowledge makes us an attractive business partner for others in the industry;
- Social and relationship capital | We have strong partnerships with (networks of) clients, knowledge institutes, governments and financial partners such as commercial investors and banks. By connecting their networks and resources to our own, and by inspiring them to act, we increase our impact on the world.

Our value creation model

WHY

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

Our Mission
We empower entrepreneurs to build a better world.

HOW

Our strategy in our markets
Goal: Your preferred partner to invest in local prosperity.
Strategy:
- Higher impact
- Deeper relationships
- Higher productivity

Our guiding principles
- Additionality
- Mobilizing
- Good governance

Our values
- Making the difference
- Diversity
- Quality
- Integrity

WHERE

Developing countries
FMO's activities focus on developing countries, defined by the World Bank as low income, lower middle income and upper middle income countries.

WHAT

Inputs

Human
professional and skilled employees

Intellectual
reputation and knowledge of finance and ESG in developing countries

Financial
strong capital base, triple A rated bank, Dutch state guarantee

Social & relationships
network of clients, investors, partners, universities & think tanks

Our business activities

Allocation of capital
- FMO's own capital
- Public investment management
- FMO investment management (FIM)

Structuring of capital
- Loans & Syndications
- Private Equity
- Guarantees & Trade Finance
- Blended finance

Advisory & capacity building
- ESG reviews and action plans
- Capacity development
- Network and knowledge sharing
- Industry development initiatives

Value Creation

Short term → **Long term**

Customers sustainable businesses through capital availability and mutually agreed E&S Action Plans

Employees career development with equal opportunity for professional development, leading to engaged employees

Investors stable risk-return and development impact

Local communities access to finance, markets, energy, food and other basic goods and services as well as job opportunities

Shareholders risk-return profile suitable for the development of sustainable businesses

Long term
- Economic growth, employment and decent work for all
- Reducing inequalities within and between countries
- Low carbon and climate resilient economies
- Raising ESG industry standards

FMO's business activities

Financing & investing. We offer long-term financing and, when needed, provide funding in local currencies to mitigate the exchange rate risk of our clients and end beneficiaries.

- We offer direct medium and long-term loans at both fixed and variable interest rates, with a repayment grace period where needed.
- We arrange syndicated loans by bringing together commercial banks, investors and other DFIs to raise larger financing amounts in an efficient way. FMO receives an arrangement and/or agency fee for these services.
- We invest equity directly or indirectly (through funds) or co-invest with partners. We work with fund managers and investee companies to integrate sustainability into their core operations. We provide stable, long-term capital and usually sell our stake after five to ten years. FMO receives dividends and accounts for fair value gains or losses during the lifetime of an investment.
- We structure our guarantees so that they meet the needs of the beneficiary, the market and the targeted creditors. This ensures companies have access to international markets and can participate in global trading.

Investment management. We manage public funds that we invest in higher-risk projects that promise substantial development impact. Through FMO IM funds and unfunded risk participations, institutional and other professional investors also have access to FMO's expertise in impact investing in emerging and frontier markets. We offer a selection of funds with different market-based, risk-return profiles.

Advisory and capacity building. Beyond financing, we also offer advisory services and technical assistance to support clients in building profitable and sustainable businesses. This consists of support in the design and implementation of ESG risk mitigation measures, master classes and events, capacity development and sector initiatives.

Long-term value

We create long-term value through investing in our clients and working with others. We allocate capital and expertise to develop markets and raise industry standards to foster economic prosperity and decent work for all, reduce inequalities and help build low-carbon and climate-resilient economies.

Guided by our investment principles, we allocate capital to projects and businesses in developing countries, focusing on sectors that are crucial for job creation (SDG 8), reducing inequalities (SDG 10) and taking climate action (SDG 13). Our loans, equity and guarantees deliver financial impact and we leverage this impact by mobilizing third-party funds – public and private – through partnerships that complement our mandate and impact goals. More recently, this includes co-development of high impact models such as blended finance initiatives, risk-sharing mechanisms and market transformation programs.

Our impact extends beyond financing to achieve positive social, environmental and economic change. First, we work with our customers throughout the investment process on topics such as ESG, gender, green, technology, human capital, leadership and project development. We ensure our clients comply with our ESG requirements and continue to work with them to improve performance in line with mutually agreed ESG action plans. Second, we initiate sector initiatives that enhance ESG industry standards.

Our financial products, advisory and capacity building services give our customers the means to develop sustainable businesses. These, in turn, can provide local communities access to finance, markets, energy, food and other basic goods and services as well as decent job opportunities. These are crucial to local prosperity.

While we finance companies and projects in sectors where we believe there will be a positive impact on society and hold our clients to the highest international ESG standards, we recognize that these activities can also have a negative impact. Our investments enable companies to continue or expand their business activities. This may lead to the displacement of direct jobs in favor of a larger number of indirect jobs. For example, in the case of a bank that needs restructuring to become financially healthy again and in the position to drive SME growth and job creation. Or, people may need to be physically and/or economically resettled for the construction and safe operation of a hydro power plant, needed to generate a significant part of a country's renewable energy supply. Unsustainable agricultural practices may deplete the soil or diminish forests and adversely affect ecosystem services such as carbon storage, water and air purification and maintaining wildlife habitat. We require our clients to identify and evaluate environmental and social risks and impact as a result of their activities and adopt a mitigation plan. We furthermore require our clients to put in place a grievance mechanism and respond to community concerns.

Throughout the lifetime of our financing, we monitor client's progress on meeting the requirements of the environmental and social action plan, and support them in building a sustainable business for the long-term. We also work towards continuous improvement of our own practices, such as our ESG approach including human rights (refer to Our investment process), our KYC procedure (refer to Our performance) and our GHG accounting methodology (refer to Our commitments).

FMO in the public domain

There are only 10 years left to meet the SDGs and trillions more dollars are needed to achieve them. The public sector, private sector and civil society need to work together to accelerate progress. FMO extends its role beyond that of financing to push forward this agenda, developing meaningful partnerships (SDG 17), sharing knowledge and engaging in public debate.

Our engagement in the public domain

Strategic anchor

To scale up projects and achieve more impact, FMO sets up investment platforms or acts as their strategic anchor. In practice, this means we help the fund manager launch the fund, are the first to perform due diligence and give approval or enable the fund to close. FMO's reputation, triple-A status and expertise in ESG and emerging market financing are essential to creating such a platform. This allows platforms to draw in other investors and secure more funding. FMO was a strategic anchor for Arise in 2016 and Climate Investor One in 2017, as well as for multiple clients. FMO also developed ElectriFI (2015) and AgriFI (2016), two EU-funded facilities managed by the EDFI Management Company.

Innovating through leveraging partnerships

Innovation is key to achieving the SDGs. FMO is breaking free from traditional business models and seeking new ways to generate more impact. One way is to form partnerships with NGOs, like we did with DFCD, whose network and expertise is complementary to our own. In the agri-food domain, we partner with the UN Food and
Agriculture Organization (FAO) which enables us to connect knowledge and innovation to market opportunities for more value and impact. The agreement reached with the European Commission to provide guarantees to our Venture Capital Program enables us to invest in early-stage, technology-enabled businesses, technical assistance and the development of venture capital ecosystems in emerging markets.

Transforming the industry

We believe it is our duty to raise industry standards in the countries in which we invest. This not only creates a level-playing field for our customers, but also brings about changes that benefit society. In Honduras, for example, we have worked with local banks and other stakeholders to formalize ESG standards. FMO is also a signatory and board member of the Operating Principles for Impact Management, which increase the transparency and accountability of impact investing.

Harmonizing across EDFIs

FMO believes there needs to be a single way to measure and report impact to track progress towards the SDGs. Within the European Development Financial Institutions (EDFI) community, FMO is playing a leading role towards developing such a taxonomy. We believe that harmonization will lead to higher industry standards, clarity, consistency and alignment between DFIs. In addition, our customers will be able to work more efficiently with multiple DFIs. In 2019, EDFI launched a Joint Impact Model to estimate the number of jobs supported through their investments. We also made steps towards harmonizing our E&S approach for FIs with other EDFIs.

Advising on EU reporting standards for non-financial information

Harmonization across EDFIs is part of the much-needed professionalization of the impact investment industry. This includes the creation of non-financial accounting standards that are on par with financial reporting standards and that are applicable to all investors and enterprises. The upcoming EU Taxonomy is an important driver towards harmonization from a regulatory perspective. FMO is a member of the NVB (Dutch Banking Association), which has several working groups that closely follow the positions from the European Banking Federation (EBF). Through this platform FMO is regularly requested to share its view on public consultations. In July 2019, FMO joined a Working Group by the EBF and UN Environmental Programme (UNEP) Finance Initiative. The project has the objective to assess the application of the EU taxonomy and identify sustainable activities in banks' lending portfolios for banks that wish to apply the taxonomy on a voluntary basis.

Supporting Dutch national policy

Because the Dutch government has a 51% stake in FMO, we align our work with the country's development objectives. This is reflected in our articles of association and agreement with the State. With its financial instruments, FMO supports the government's policy on foreign trade and development cooperation, as well as the Dutch Africa Strategy launched in November 2019 by VNO-NCW, NABC, NLinBusiness, PUM and DECP.

OUR INVESTMENT PROCESS

Before we invest and during the investment period, we carefully research the financing opportunity and assess its impact on the environment, employees and workers, communities and other stakeholders.

Our investments are guided by policies that ensure that development impact and ESG are at the heart of our operations and our way of working adheres to high ethical standards. The IFC Performance Standards (IFC PS) provide guidance to our ESG assessments, covering a range of environmental, social and human rights impacts. This includes risk management, labor, resource efficiency, communities, land resettlement, biodiversity, indigenous peoples and cultural heritage.

As a bank, FMO runs the risk of becoming involved in money laundering or financing terrorism. FMO is also at risk of financing sanctioned entities or customers with a bad reputation in general. To mitigate such risks, we follow policies and procedures to deter criminal activity and ensure we do business with reputable customers. For more on FMO's risk management please refer to the Risk Management section. Applicable investment policies and guidelines can be found on our website.

Environmental, social and governance standards

Environmental, social and governance standards are an integral part of FMO's investment process. These standards serve several purposes. First, they help reduce the risk to the environment, employees and workers, communities and other stakeholders. Second, they help our clients to contribute positively to the SDGs. Third, they reduce risks to our clients and thereby to FMO.

Good corporate governance (CG) breeds trust between management, investors, employees, and other stakeholders through accountability, transparency and fairness. Poor governance increases risk and many of FMO's non-performing loans and special operations cases are rooted in weak governance. Improving governance therefore not only adds value to clients, it also helps us increase the performance of our portfolio. It further protects the reputation of FMO from issues such as corruption, which is common in some of our countries.

FMO's ESG standards are anchored in our Sustainability Policy. This Policy guides our contribution to sustainable development with respect to both development impact and ESG. This is further supplemented by our position statements on topics such as human rights, land governance and coal. FMO expects clients to work towards our ESG requirements, which are based on the IFC Performance Standards, the World Bank Group Environmental, Health & Safety Guidelines and the G20/OECD Principles of Corporate Governance. IFC Performance Standards cover Assessment and Management of Environmental and Social Risks and Impacts, Labor and Working Conditions, Resource Efficiency and Pollution Prevention, Community Health, Safety and Security, Land Acquisition and Involuntary Resettlement, Biodiversity Conservation and Sustainable Management of Living Natural Resources, Indigenous Peoples, and Cultural Heritage.

These standards are championed by a team of 32 environmental, social and corporate governance specialists, who are embedded in our investment teams and are involved in individual transactions. FMO's investment teams ensure that financing proposals submitted to FMO's Investment Committee have undergone due diligence and include information on environmental, social (including human rights) and governance risks, impact and any required mitigation measures. This may include an action plan (ESAP) for clients that need to improve their ESG performance. Independent scrutiny, challenge and advice is provided by FMO's Credit Department. In 2019, FMO made several changes to its corporate governance structure to further embed ESG into its core business. We added an Impact and ESG (IESG) Director to our leadership team to oversee our current team of IESG specialists. The IESG director has a seat on the Executive Committee, FMO's highest decision-making body. The Supervisory Board also introduced an Impact Committee to ensure ESG is closely integrated in the operations and the strategy of FMO.

As FMO has grown, stakeholder interest in our activities has increased. That is why we regularly participate in public forums and engage with critics, with whom we discuss our ESG ambitions and dilemmas. We also work closely with other DFIs to ensure our approaches are harmonized. In 2019, for example, we were part of an EDFI initiative to harmonize our E&S standards for financial institutions. More harmonization creates a level-playing field, helps to create greater impact and leads to efficiencies among clients working with multiple DFIs.

Human rights approach

FMO acknowledges it has the responsibility to respect human rights. Respecting human rights is fundamental to a peaceful, just and inclusive society. But while human rights are enshrined in various laws, businesses can undermine these rights through their action or inaction, especially in countries where baseline environmental and social conditions are less favorable. Poor health and safety practices can violate workers' right to a safe workplace, for example, while pollution can undermine a community's right to an adequate standard of living. At the same time, businesses have the power to strengthen human rights, for example by providing good-quality jobs or encouraging gender equality in societies or sectors where this is not common practice.

Human rights forms an integral part of our ESG approach. We have adopted the IFC Performance Standards as our operating standard and are further guided, among others, by the United Nations Guiding Principles for Business and Human Rights (UNGPs), the OECD Guidelines on Multinational Enterprises and the International Labor Organization Declaration on Fundamental Principles and Rights at Work. We also participated in the Dutch Banking Sector Agreement on international responsible business conduct regarding human rights, which focused on the implementation of the OECD Guidelines for Multinational Enterprises and the UNGPs. This Covenant ended in December 2019. FMO remains committed to continuously improve implementation of its standards and is currently exploring – with former Covenant parties – how to continue collaborating on this topic.

In recent years, FMO has strengthened the human rights lens in due diligence throughout our investment process. In 2019, we introduced further guidance on performing contextual risk analysis with a human rights lens and extended it to indirect investments (financial institutions and private equity funds). Our E&S specialists also received human rights training and coaching and mentoring from experts. Furthermore, we published a human rights defender approach that we apply once evidence arises that individuals are facing violence or threats of persecution due to engagement in an activity financed or considered for financing by FMO. For all high E&S risk clients we perform E&S due diligence, including human rights. At year-end 2019, for 308 clients in our portfolio E&S due diligence including human rights was performed.

How we apply ESG standards in our investment process

In the following overview, we provide an explanation of the different stages in our investment process and how ESG is integrated into that process. By means of examples, we show how this works in practice.

I CLIENT SELECTION →

We identify investment opportunities within our key markets that contribute to our three SDGs. In our selection, we check country, exclusion list, the viability of the investment plan and the business itself. We also check if our investment is 'additional'. This means that we can provide resources and share best practices that are critical for sustainable development and otherwise would not have been available to the company or project.

In Practice

Prior to initial approval of a project that would involve dredging of an access channel and reclamation of an island for the construction of a cruise terminal, an early E&S review flagged that the project could have serious environmental consequences.

The proposed project area was a critical marine habitat, including coral reefs, with an already low reef health index. Dredging in such a unique and pristine location could destroy the coral reefs and other marine resources and endanger the long-term ability of the marine habitat to continue providing critical ecosystem services. We decided not to pursue this opportunity driven by this early assessment.

II CLEARANCE IN PRINCIPLE →

We perform an initial assessment of risks and opportunities, define the key terms of client engagement, and scope any further assessment needs. We document these processes in a Clearance in Principle (CIP) proposal, informing our decision to continue preparing an opportunity for a final investment decision. We conduct a Know-Your-Customer assessment to ensure that the client complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations. The financing opportunity is also assessed against potential effects on environmental, social and human rights conditions, as well as governance structures.

In Practice

Desk research during the CIP stage flagged potential human rights infringement in the portfolio of a selected financial institution. As part of CIP decision making concerns were raised, particularly with regards to the bank's exposure to the mining sector, which is known for human rights violations, including child labour and forced labour.

Despite potentially positive impacts, we concluded after a thorough examination of the investment that we only had limited leverage over our client and sub-clients to adequately address the human rights abuses in the mining sector. Therefore, we decided not to approve the CIP. We continue to build a portfolio in this country but select clients that do not have a significant exposure to the mining sector and that are willing to commit to adequate ESG practices.

III DUE DILIGENCE →

We carry out a detailed project assessment. We document the results in a finance proposal informing FMO's final decision to invest. We perform a site visit, including visits to key stakeholders. Where needed, we engage consultant support in various fields. We define and negotiate further ESG requirements and conduct further human rights contextual risk assessment as informed by 'clearance in principle'. This includes on-the-ground research and consultation with local civil society.

In Practice

We explored a renewable energy project, situated in a region with high poverty and unemployment as well as historical ethnic tensions. Late in the due diligence process, a pocket of opposition emerged. Root causes were found to be related to the project's inexperience with clear and transparent community engagement, land agreements, and information flows, which was perceived negatively by one of the local groups, while others were very supportive and awaited the project eagerly.

Unsubstantiated rumors about project impacts abounded and the company was no longer trusted. We were convinced of the project team's integrity and intentions. However, our commitment to the investment was postponed to a later date to allow the project to invest in a robust expert-led conflict resolution, aimed at bringing all parties to the table to discuss a common way forward. The delay risked our participation in the transaction, as some other lenders had already received their approval to commit, but we awaited confirmation that the project was on track to achieve Broad Community Support and better cohesion between different local stakeholders, before proceeding to Financial Proposal.

IV DECISION TO INVEST

Our credit department evaluates all finance proposals and writes credit advice in support of a final investment decision by the investment committee. After investment approval, FMO discloses proposed investments for 30 days prior to contracting. This gives stakeholders the opportunity to share their concerns and feedback with us.

In Practice

A renewable project, with a committed developer, is applying the IFC Performance Standards for the first time. The decision to invest was conditional to several E&S requirements being in place prior to construction, such as a lender-approved labor management plan and a local labor recruitment procedure.

Two months after this decision, and one month prior to the scheduled start of construction, our review of the plans found significant gaps. Those gaps were largely caused by a lack of in-country E&S specialists and capacity, even though the developer's management was committed to proper implementation of the IFC Performance Standards and FMO had already provided hands-on capacity building through a social risk workshop. As a result, FMO withheld issuance of Notice to Proceed to Construction for a few weeks and assisted the client in identifying and onboarding an international expert to work alongside the client's in-country team to develop suitable plans and procedures, while building team capacity to implement them. The client developed an innovative and effective 'staged mobilization plan', to ensure compliance with FMO requirements, while minimizing losses to the company resulting from delayed construction.

V CONTRACTING & INVESTMENT DISCLOSURE

FMO includes ESG requirements and conditions in all its agreements with clients to ensure that they are legally binding. We disclose all contracted investments during the full tenor of our engagement in the World Map on our website.

In Practice

Our deal team conducted a due diligence on a fresh fruit and vegetable company and identified water availability and conservation, labor conditions and community health and safety as core risks. The company is experienced in E&S management and even though water was being adequately managed and current operations would not jeopardize local water sources, our Credit department was concerned with future changes in climate and thus future water availability for all users.

This resulted in a positive advice based on the recommendation that,
in addition to the existing GlobalGap certification, the company obtained the Alliance for Water Stewardship (AWS) - a global standard for entities willing to demonstrate their commitment towards ensuring (1) good water governance, (2) sustainable water balance, (3) good water quality status and (4) healthy status of Important Water-Related Areas, and to use this process to set water targets beyond existing permit. The objective was to encourage the company to become pro-active in water conservation. Because this requirement goes well beyond compliance, Credit recommended to link the AWS certification to a financial incentive in the form of an interest margin reduction.

VI DISBURSEMENT

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

In Practice

We provided a corporate loan to a renewable energy company, which was instrumental in growing the organization's E&S capacity and adherence to an Environmental Social Management System (ESMS). Since then, the company has grown rapidly and is now venturing into regions with elevated risks (e.g. areas with high presence of refugees, potentially contested lands, and forested areas), which were not anticipated at the time of investment. With a corporate loan, post financing leverage is limited, and our E&S officer was working with the client's E&S team on incremental improvements through strategic influencing. However, we had since invested in a separate loan with the same company on a different product line. When a disbursement for the new product line came up, we used the opportunity to add additional E&S scrutiny to the previous transaction, resulting in a new package of E&S commitments by the company, aimed at improving performance on both product lines.

VII MONITORING & VALUE CREATION

Throughout the lifetime of the investment, we monitor performance and progress and look for opportunities to add value. We continue to work with our clients to ensure implementation of our ESG requirements. We review the client's and consultant's ESG monitoring, accident and incident reports. We conduct client visits and perform an annual client credit review. We also conduct a regular and systemic ongoing community support check.

In Practice

As a result of a merger, FMO's overall exposure to large high-risk projects increased in the client's portfolio. The client requested us to support it in advancing its E&S due diligence and risk management practices. We developed a technical assistance program to further develop the bank's E&S risk management capacity.

As part of the program the bank has initially reviewed current systems and practices and prepared a work plan for the next year to integrate E&S risk management within the investee's daily operations. To date our investee has revised and improved its E&S policy. Next steps include capacity building of its E&S personnel and staff through on-the-job training and refresher courses.

OUR VISION

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

OUR MISSION

We empower entrepreneurs to build a better world.

OUR SDGs

STRATEGIC GOAL

Your preferred partner to invest in local prosperity.

OUR MARKETS

OUR STRATEGY

→ Higher Impact Portfolio

→ Deeper Relationships

→ Higher Productivity

OUR VALUES AND BEHAVIORS

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

We believe in a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources. To achieve this, we need to overcome the global challenges highlighted by the 17 UN Sustainable Development Goals.

In line with our vision and mission, we aligned our strategy with the SDGs with an overarching strategic goal of being 'Your preferred partner to invest in local prosperity'.

Our efforts to achieve this goal focus on three objectives: higher impact portfolio, deeper relationships and higher productivity. We create higher impact by focusing our activities on SDGs and markets that are key to economic, environmental and social progress. We increase this impact by deepening relationships with our stakeholders, by mobilizing third-party funds and by working closely with businesses and industry associations to enhance ESG standards. By achieving higher productivity and organizational efficiency we can have greater impact.

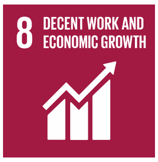
We monitor a set of performance metrics aligned with these three objectives and set specific targets for each. This allows us to define, steer and track success for each objective.

Higher impact portfolio

SDG focus

We aim to create a higher impact portfolio by focusing investments on three SDGs across all our sectors: Decent Work and Economic Growth (SDG 8), Reduced Inequalities (SDG 10), and Climate Action (SDG 13). Through our sector-specific strategies, we also contribute to Zero Hunger (SDG 2), Gender Equality (SDG 5), Renewable and Affordable Energy (SDG 7), and Partnerships for the Goals (SDG 17). Meanwhile, we contribute to other SDGs by ensuring our investments comply with international ESG standards and policies.

SDG 8: Decent Work and Economic Growth



The central goal of SDG 8 is increased economic growth and decent work for all. By investing in underserved markets, we support job growth, improved labor standards and economic prosperity. Jobs allow people to develop themselves and lift their families out of poverty.

Our contribution consists of:

- Providing finance to enhance economic growth and support jobs. In line with our mandate, we invest in low and middle-income countries where we are additional to the market;
- Promoting and protecting labor standards by ensuring our clients meet our ESG standards. These are based on the IFC Performance Standards and ILO labor standards. This includes freedom from forced labor and child labor, freedom from discrimination at work, freedom of association and the right to collective bargaining;
- Through our investments in financial institutions, we invest in small and medium-sized enterprises (SMEs). Several studies show that SMEs are job generators while their financing needs are often underserved.

SDG 10: Reduced Inequalities (RI)

Inequality within and among countries remains a key issue in the world today. SDG 10 is about promoting social and economic inclusion of all, which we support by investing in the world's poorest countries and inclusive business. Reducing inequality also strives for gender equality as women are often underserved in low-income countries.

Our contribution consists of:

- Providing finance to inclusive business that reduce inequalities within countries. Inclusive business expands access to goods, services and livelihood opportunities on a commercially viable basis to people at the Base of the Pyramid by making them part of the companies' value chain of suppliers, distributors, retailers or customers;
- Providing finance to projects in the Least Developed Countries [9] to reduce inequalities between countries;
- Providing finance to financial institutions with an SME and/or microfinance portfolio to increase access to capital and support business growth;
- Providing finance to power generation projects and off-grid power solutions to increase access to reliable and sustainable energy.

SDG 13: Climate Action

We all experience the effects of climate change. Annual average economic losses due to climate-related disasters are estimated by the UN to be hundreds of billions of dollars. Each country has a responsibility to contribute to a solution to limit the global mean temperature increase to below 2 degrees. An annual injection of approximately US$100 billion [10] is agreed and more is likely required to help developing countries to adapt to climate change and invest in low-carbon economies.

Our contribution consists of:

- Providing finance to projects that reduce greenhouse gas emissions, increase resource efficiency, preserve and grow natural capital and support climate mitigation;
- Building expertise and deal experience on climate adaptation;
- Aiming to align our portfolio to a 1.5-degree pathway. Staying on this pathway requires a continued reduction in portfolio emissions. This can be achieved through growing the green volumes across all departments, investing in projects delivering negative emissions and developing an approach to measure and report on climate risk and find ways to further improve data quality and availability.

Focus markets

To achieve the higher impact we aspire to, we focus our investments on regions where our impact can be the greatest and on sectors that are crucial to economic, environmental and social progress.

We maintain a wide geographical spread to optimize our impact and diversify risks, while prioritizing specific regions and countries where development impact is needed most. We increase our focus on countries in Africa, Asia and the European Neighborhood. We continue to invest in Latin America and the Caribbean, focusing our efforts on opportunities to achieve impact at scale by leveraging our strong network and client relationships. For instance through our sector initiatives to raise ESG standards in the financial industry.

9 As defined by the UN

10 https://www.undp.org/content/undp/en/home/sustainable-development-goals/goal-13-climate-action.html

We focus on three sectors that – in our view – are crucial to a country's economic and social progress:

1. Agribusiness, Food and Water. This sector can ensure that 9 billion people in 2050 have access to food and that the environmental and social footprint is minimized.[11] To this end, we invest in advanced technologies and apply international standards. We finance sustainable agribusiness companies throughout the value chain including those that make agriculture more water efficient. We also invest in forestry;
2. Energy. Approximately a billion people lack access to energy. Many of these live in rural Africa. Three billion people lack access to clean cooking fuels and technology.[12] We invest in renewable energy, as well as in projects that provide access to energy in less developed economies;
3. Financial Institutions. Accessible finance is a cornerstone of a strong economy and private sector. A healthy financial sector can bolster entrepreneurs and individuals. We provide long-term funding, risk capital and local currency financing and focus on SME financing. We also promote green lines and look for business models that serve the unbanked.

Deeper relationships

FMO is a relatively small player in light of the challenge we face. To achieve the SDGs in the next decade, we need to pool our resources and work with others. Deepening our relationships will enable us to mobilize third-party funds and create investment opportunities to increase our impact in our focus markets.

This is important for several reasons. First, to close the financing gap: in 2014, the UN estimated an additional US$2.5 trillion a year is needed in developing countries alone to achieve the SDGs.[13] Second, to facilitate learning and achieve more by harmonizing the way stakeholders measure and report on impact. Third, to address the lack of bankable projects in these markets. FMO and other stakeholders need to get involved much earlier in the development phase of a project and support projects throughout the entire life cycle.

We will continue to grow our mobilizing activities to increase the capital flow towards developing countries. This entails developing more efficient mobilizing vehicles with commercial investors and insurance companies such as the new Unfunded Risk Participation Program FMO established with Munich Re at the end of 2019. Munich Re will contribute to the SDGs by participating in FMO transactions for up to US$500 million in the next three years.

FMO will increase and strengthen its partnerships with (existing) donors on a national, European and global level. We will continue to manage several public funds on behalf of the Dutch government to invest early on in projects, take higher risks and achieve our higher impact objective. FMO will scale up the investments made through NASIRA, a European Commission financing program, which provides a bilateral loss-sharing scheme between FMO and its FI clients for unlocking lending to migrant, female and young entrepreneurs. Furthermore, FMO will operationalize the Dutch Fund for Climate and Development it recently established together with SNV Netherlands Development Organization, World Wide Fund for Nature and Climate Fund Managers.

We also support the Dutch private sector. We are building a portfolio which will be transferred to Invest International, a new joint venture that will be established in 2020 together with the Dutch government. The joint venture will continue to provide Dutch businesses and commercial banks export finance and investment solutions in emerging markets.

11 https://www.un.org/sustainabledevelopment/wp-content/uploads/2016/08/2.pdf

12 https://ourworldindata.org/energy-access#access-to-clean-fuels-for-cooking

13 UNCTAD (2014). World Investment Report 2014.

Higher productivity

FMO will continue to build a high-performing organization that enables us to deliver high impact and build deeper relationships in a more efficient and productive way. To respond to stakeholders' needs and regulatory requirements we have strengthened our organization in the past few years. We increased the number of staff and adapted our governance and organizational structure accordingly.

We will continue to improve management information and data quality and improve our processes, systems and culture. To support our portfolio growth and ambitions, we will find ways to achieve more with existing resources. By optimizing our business processes, we will be able to deliver better and faster service to our clients. Meanwhile, we will align the culture with the corporate values and invest in the training and development of our staff.

We will also strengthen FMO's leadership, by aligning roles and responsibilities and focusing on development of FMO's leadership competencies and talents. Finally, we will embed our redefined values and behaviors in our processes and procedures. For instance in our employee journey, from the moment of hiring to developing and promoting our staff. We will also review our business processes on how to better incorporate our values.

India: a pivotal role in achieving the SDGs

Home to nearly 1.4 billion people and the world's largest democracy, India has enormous potential as a marketplace for entrepreneurs. It is a country bursting with opportunities, optimism and innovation.

The last two decades have seen its emergence as a global player and the reduction of extreme poverty in many regions. Whether or not it can achieve sustainable progress on these fronts will have profound implications for the whole planet.

Key role in global prosperity

In 2019, we invested over €319 million in India, totaling an €839 million portfolio via companies spread across our three main sectors, but anticipate that through strategic investments this figure will rise over the next four years to €1 billion.

We recognize that India's success is pivotal to the achievement not just of its own mission, but of the SDGs as a whole. The world will find it very challenging to reach its targets in terms of reducing inequality, stimulating financial inclusion or closing the gender gap if India does not manage to lift its citizens above the poverty line and offer them sustainable economic opportunities.

On-the-ground impact

Since 2012, we have made over 60 direct investments across India. From microfinance institutions to wind farms, water management to agricultural systems, each one of these projects has been designed to drive sustainable economic growth and inclusion.

In 2019, we invested in Aye Finance, a non-deposit taking Non-Banking Financial Institution with a specific focus on micro and small enterprises. Our facility supports the expansion of Aye Finance's portfolio to female micro-entrepreneurs in different regions of India. Additionally, Aye Finance is receiving support from our Capacity Development Program, helping to identify the most effective ways to reach this market.

Furthermore, this year we provided also financial support to Sahyadri Farmers Producer Co., a farmer-owned producing organisation that procures, processes and markets fruits & vegetables from 7,000 small and marginal farmers. The farmers benefit from economies of scale, technology-driven enhancements, product marketing, adequate production and processing facilities, resulting in their comprehensive integration in the value chain with the potential to obtain higher returns.

In December 2019, we signed an agreement with National Collateral Management Limited (NCML), an agricultural-commodities storage company headquartered in Gurgaon, India. We subscribed to a 10-year non-convertible debenture of an equivalent amount of US$45 million in INR issued by NCML. The funding is being used to finance the construction of steel silos with a capacity of 800 million metric tons for the storage and preservation of staple foods which will help to secure food for the Indian food security system and decrease food-wasting as much as 30%. The government of India will distribute this food to consumers living below the poverty line so that they can purchase these staple food grains at affordable prices.

As well as investing in companies directly, some 60% of our investments are currently in private equity funds that invest in themes aligned with our strategy. In 2007, we invested for the first time in a fund of Aavishkaar, now the only diversified impact investing platform of its kind in India. Since then we have provided capital to support them in building scalable enterprises and creating nurturing ecosystems for start-up companies in India as well as emerging Asia and sub-Saharan Africa.

Another example is InCred, a new-age financial services platform that leverages technology and data-science to make lending quick and easy. InCred directly funds schools in India and students that want to study abroad but require additional financial support to do so.

We are now looking to increase our direct investments to have more leverage within companies, and so maximize the impact and focus of our investments.

Long-term commitment

As elsewhere, FMO strives to ensure its investments in India add value in more ways than one. With each investment comes a commitment to learning from the project's successes and setbacks, to build partnerships that can generate new opportunities, and to unlock any potential to scale success stories.

All-inclusive support for smallholder Nicaraguan coffee producers

At a time when foreign investors are fleeing Nicaragua and local banks are reducing their exposure to coffee in particular, Mercapital continues to support this fragile sector.

We have therefore provided two US$ 5 million long-term loans to strengthen the company's financial profile, so it can continue to support smallholders and capitalize on growth opportunities as other financial institutions retrench.

Multiple barriers

Nicaragua has Latin America's second-lowest GDP per-capita (US$ 2,028). Rural populations suffer lower educational and development standards than urban Nicaraguans. Rural poverty rate is nearly 50%, three times that in urban areas. Arabica coffee production takes place in the country's mountainous regions, on small plots run predominantly by small and medium-sized coffee producers.

These producers face three main barriers to financial security: First, the highly volatile price of coffee (in 2019, arabica coffee hit a 15-year low of US$ 0.9/lb, in 2011 it was at US$ 2.9/lb) makes it difficult for producers to plan their crops or manage their investment risks. Secondly, limited access to affordable long-term financing to invest in new plantations or to renew their existing ones. And finally, lack of access to export markets and, in particular, premium markets for distinctive coffees.

Integral solutions

At FMO, we look to support agribusiness companies that provide an integral solution to the challenges of complex value chains, connecting smallholder farmers in an efficient, transparent and fair manner to final consumers. As the financial arm in Nicaragua of the leading global coffee merchant Mercon Coffee Group (MCG), Mercapital is a key component in this integral solution.

Mercon has been operating in Nicaragua for nearly 70 years. Mercapital provides pre-harvest and long-term financing to over 2,700 local coffee producers, 75% of whom farm less than 5 hectares. While CISA Exportadora, also part of Mercon and our client, provides producers with seedlings, purchases their coffee and offers technical support through LIFT, a 3-year program that trains farmers in best practices to improve their productivity in a social and environmentally manner. The program also provides farmers with the tools to obtain certifications with which they can get access to various markets.

Innovative support

We supported Mercapital with two long-term financing facilities: in 2018, a US$ 5 million senior loan and the following year an additional US$ 5 million subordinated loan. The loans give Mercapital the stability to continue supporting producers with long-term finance. The subordinated loan, which creates a larger capital buffer that will entice other lenders to support Mercapital, was one of the very few foreign long-term transactions of its kind in Nicaragua in 2019.

One innovative feature of these loans is a sustainability margin reduction: following a pre-defined schedule, if Mercon continues to train farmers through the LIFT program and export more LIFT-certified coffee, Mercapital will receive a reduction on its interest rate. We have done this because we believe the LIFT program not only adds value for farmers, but also improves the risk profile of their farming activities and Mercapital itself.

Capacity development

We have also supported Mercapital/Mercon with various capacity development initiatives in Nicaragua. These include a Client Protection Principles assessment to ensure industry standards are being met; a socio-environmental evaluation of the impact of introducing Robusta coffee to a region in East Nicaragua; and a pilot project in two different coffee communities to incentivize rural youth to remain in the coffee industry and increase productivity. The key point being, as always, that interrelated complex challenges call for an innovative and multifaceted response.

Complex projects | Dealing with multiple dilemmas

In November 2019, the NGO Human Rights Watch (HRW) published a critical report concerning one of our investments in Feronia, a palm oil producer for the domestic market in the Democratic Republic of Congo (DRC). Given the remoteness of the plantations, the fluctuation of palm oil prices and legacy issues dating back more than 100 years, Feronia is one of the most complex investments we have in our portfolio.

In the beginning

When Feronia, a Canadian agribusiness, acquired its palm oil business, Plantations et Huileries du Congo (PHC) in 2009, they knew that there were many operational challenges that required serious attention and that it would be difficult to put the company and the surrounding communities on a sound footing. These nearby populations, together comprising around 100,000 people, rely on the company as a primary source of employment. In 2015, FMO and other lenders provided a long-term loan facility to rehabilitate the plantations to maintain valuable employment in the region.

A balancing act

Several of the conclusions drawn in the HRW report did not come as a surprise. The findings of the report represent some of the dilemmas we face in our daily line of work. Every investment we make comes with conditions, as stipulated in the loan agreement. We monitor all our investments, and sometimes, due to realities on the ground, we are required to make difficult choices especially in fragile states like DRC. For example, what happens when the company is truly committed to execute an Environmental and Social Action Plan (ESAP), but budgets are simply unavailable because of depressed commodity prices? Or what if the company has to deal with many urgent items at the same time? Which spending commitments, within the available resources, should take priority over others? These are not easy choices, especially when they have a direct impact on the daily lives of people in the area.

Confronting a dilemma: Palm Oil Mill Effluent

One of the HRW findings concerned the disposal of Palm Oil Mill Effluent (POME). This is an organic mix of natural wastewater, oils and fats which have been discharged into the rivers since the plantations began operation in the early 1900s. The installation of treatment plants for POME at the company's three sites, represents a multimillion-dollar investment. When deciding upon the loan agreement, the company and the lenders chose to allow the status quo regarding the discharge of POME to continue for a limited time. We absolutely accept that the discharge of organic waste materials from the palm oil extraction process is undesirable. In other words, priority was set to get the plantations running first and the POME treatments plants to be built from the moment that the more pressing social issues (health, education, wages, community relations) have been properly dealt with. This decision was made after ensuring that POME discharge into rivers does not cause any health hazards to local communities, and that additional sources of clean water would be made available via the drilling or renovation of boreholes or wells with 72 safe water sources completed to date.

The lenders felt that other urgent and pending matters such as health care and the continuation of payment of both salaries and pensions should take priority over the construction of treatment plants for POME.

How to move forward?

Despite all efforts by Feronia management and its shareholders, we recognize much more needs to be done to safeguard the sustainability of the company and hence the employment of the surrounding communities.

At the moment, the shareholders are drafting a turnaround plan towards financial self-sufficiency. This is a challenge in itself due to low palm oil prices, as well as Feronia's remoteness and resulting in high operating costs. For these reasons, the construction of treatment plants for POME is not scheduled for the immediate future.

In light of the HRW report, we have asked the management of the company to take steps to further investigate the impact of POME at specific sites, to present recommendations to address community concerns, to improve the monitoring of POME disposal through an appropriate water quality monitoring program, and to configure effluent discharge points to avoid impacting local communities.

For more information on the actions for Feronia in response to the report, please read the the joint statement from CDC Group, BIO, DEG and FMO on the long-term role of Development Finance Institutions in poverty-stricken regions of the world on our website.

FMO's strategy builds on three pillars: a higher impact portfolio in our chosen industries, deeper relationships and higher productivity. This chapter includes our 2019 performance with respect to these pillars. More information on definitions and our methodology is provided in How we report.

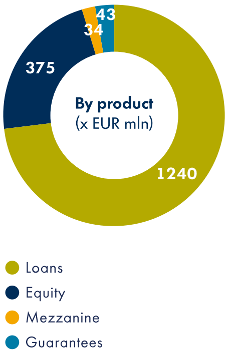
Contribution to the SDGs per investment area

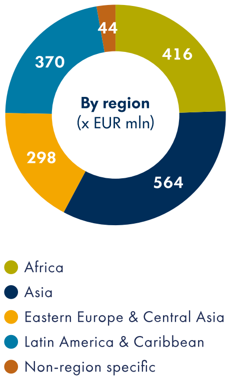
In € million unless otherwise stated	SDGs	Grand total	Agribusiness, Food & Water	Energy	Financial Institutions	NL Business	Private Equity	Other
Total investment	8 DECENT WORK AND ECONOMIC GROWTH	**€2,857**	€572	€540	€1,190	€7	€429	€119
...resulting in jobs supported		**646,000**	57,000	170,000	261,000	-	156,000	2,000
FMO-A		**€1,692**	€288	€295	€725	€7	€347	€30
Public funds		**€297**	€44	€41	€41	-	€82	€89
Mobilized funds		**€868**	€240	€204	€424	-	-	-
...of which Reducing Inequalities	10 REDUCED INEQUALITIES	**€798**	€147	€108	€416	€7	€120	-
Green investments	13 CLIMATE ACTION	**€961**	€173	€472	€172	-	€144	-
...resulting in GHG avoidance (in tCO_2eq)		**868,000**	150,000	412,000	21,000	-	285,000	-
ESG target performance[1]		**98%**	96%	99%	100%	-	99%	100%

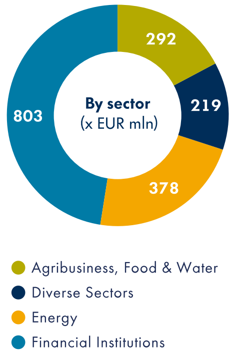
[1] Scope of the target is limited to sub-set of 40 new clients with an A or B+ E&S risk category or those supported by a corporate governance specialist that were contracted in 2017 of 2018, where FMO was in the lead.

Higher impact portfolio

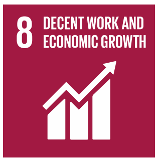
2019 New commitments FMO







SDG 8 I Decent Work and Economic Growth



Supporting jobs and safeguarding the quality of jobs is important for sustainable development, as decent employment paves the way out of poverty. The private sector is one of the most important employers across emerging and frontier economies. We measure our contribution to SDG 8 by our investment volume and the estimated number of direct and indirect jobs supported.

Indicator: Total investment volume

In 2019, we invested a total of €2.9 billion in developing and emerging markets of which €1.7 billion on FMO's own books (2018: €1.9 billion), €297 million of funds managed on behalf of the Dutch government (2018: €135 million) and €868 million of mobilized funds (2018: €629 million). In line with our strategy, 58% of investments on FMO's own books went towards countries in Africa and Asia (2018: 56%), while 17% of investments were made in countries in the European Neighborhood[14] (2018: 26%). Compared to last year, we made more equity investments, committing €375 million (2018: €210 million) of which 61% related to direct and co-investments in line with our target to shift 60% of our equity portfolio towards these types of investments.

Indicator: Number of jobs supported

In 2019, FMO's investments supported an estimated 646,000 direct and indirect jobs (2018: 615,000). Direct jobs refer to the number of full-time equivalent employees, as per the local definition, working for the client company or project. The number of indirect jobs supported provides a proxy of the spill-over effect of investing in the private sector. As businesses survive and grow, their outputs require direct employment and intermediary inputs. This in turn leads to activity among existing and new suppliers, thereby supporting and creating jobs. Some products and services – notably electricity, infrastructure and finance – remove constraints for other businesses, enabling them to succeed and hopefully to expand.

FMO's ambition was to, by the year 2020, double impact by investing in more companies that create jobs, while halving the footprint by investing in more companies that reduce greenhouse gas (GHG) emissions compared to the baseline for the 2010-2012 investment years. This ambition was to support 900,000 jobs in 2020. By now, we expect not to achieve our ambition as a result of obtaining lower portfolio growth than was projected.

14 The European Neighborhood is a category assigned by FMO to countries neighboring the EU based on EU's European Neighborhood Policy and FMO's strategic markets.

Moreover, as part of our ongoing harmonization efforts, the underlying FMO Impact Model to estimate indirect jobs supported will be adjusted leading to lower estimated indirect jobs supported for the same investment. Please refer to How we report for more information about the current methodology and Our commitments for more information on the harmonization initiative.

Quality of jobs

As part of our ESG approach, we monitor the quality of jobs to reflect decent working conditions. These are as important as the number of jobs. In April 2019, FMO and the EDFI launched a report on Decent Work and Development Finance. It is the first study of its kind to set out the best practices of DFIs regarding job quality – what it means in the field, and how it can be supported.

SDG 10 I Reduced Inequalities

10 REDUCED INEQUALITIES

FMO defines two sub-categories in social projects aimed at reducing inequalities: investments in the Least Developed Countries (reducing inequality among countries) and investments in inclusive business (reducing inequality within countries). An RI label is assigned *ex ante* to investments with an expected impact on reducing inequalities.

Indicator: Volume of investments to reduce inequalities

In 2019, we invested a total of €798 million in reducing inequalities (2018: €958 million), exceeding our target of €790 million. Of this total €467 million was invested from FMO's own books, €150 million from funds managed on behalf of the Dutch government and €181 million from mobilized funds.

€412 million contributed to reducing inequalities within countries, through investments made in microfinance, gender, youth finance, and innovative solutions for the base of the pyramid, as well as in agricultural SMEs, off-grid power, and smallholder finance.

In addition, FMO invested €419 million in Least Developed Countries, which will contribute towards reducing inequalities between low and higher-income countries. Most of these funds flowed to Africa, notably Uganda, Malawi, Tanzania, Djibouti, Zambia, Ethiopia, and Madagascar, as well as to Cambodia and Myanmar.

Indicator: Number of micro loans in clients' loan portfolios

FMO invests in microfinance to increase access to finance and business growth of micro entrepreneurs. Poor households can use micro loans to raise and smoothen household income, thereby reducing their vulnerability to economic stress. The number of micro loans in outstanding loan portfolios of FMO clients was 22 million (2018: 19 million).

In 2019, we financed several financial institutions with microfinance loan portfolios. For instance, FMO concluded a debt transaction of INR1,250 million (€15.6 million) with new client Aye Finance, a non-deposit taking NBFI (non-banking financial institution) in India. Aye provides innovative financial services to underbanked micro and small businesses dedicated to working capital finance and capacity expansion. Half of the money will be dedicated to female entrepreneurs. FMO will also work closely with Aye to expand its services to female entrepreneurs in the country, through a Capacity Development Gender Finance program.

Indicator: Number of SME loans in clients' loan portfolios

The intended impact of increasing access to finance of SMEs is job creation, inclusive development and economic growth. FMO targets SMEs because they are financially underserved and typically provide more jobs than corporates relative to capital invested.[15] FMO specifically targets women-owned and youth-owned SMEs as part of the Reducing Inequalities label. The number of SME loans in outstanding loan portfolios of FMO clients was 1.4 million (2018: 1.3 million).

15 IFC (2010). Scaling-Up SME Access to Financial Services in the Developing World.

In 2019, we financed several financial institutions with SME loan portfolios. For instance, Togo-based Ecobank Transnational Incorporated (ETI), with 19 million customers in 36 countries, received a US$50 million anchor investment. This helped to support a large bond offering by ETI, thereby mobilizing institutional investment into Africa. This is beneficial to small and medium-sized enterprises in Africa and promotes access to international capital markets for African issuers.

SDG 13 | Climate action

FMO's ambition is to grow its Green portfolio to reduce greenhouse gas emissions, increase resource efficiency, preserve and grow natural capital, and support climate adaptation. A Green label is assigned *ex ante* to investments with an expected impact on climate.

Indicator: Volume of Green investments

In 2019, we made a total of €961 million Green investments (2018: €940 million), exceeding our target of €930 million. Out of these investments, €541 million were invested from FMO's own books, €110 million from funds managed on behalf of the Dutch government and €310 million from mobilized funds.[16] Approximately half of all Green investments were made in the energy sector, mainly in renewable energy sources such as wind and solar. A further €172 million in loans were provided to financial institutions for Green products and €173 million in agribusiness, for example to avoid flaring emissions, introduce energy efficient design and climate smart agriculture, reduce greenhouse gas emission and generate electricity from agricultural waste.

In the area of forestry, we focused on equity and mezzanine deals. Forestry is a challenging industry as it requires considerable time to generate a good cash flow, but we are exploring opportunities in Agroforestry. This could see us finance initiatives to grow crops inside a forest or to have cattle graze among the trees. Combining agriculture and forestry has varied benefits, including increased biodiversity and reduced erosion. In 2019, FMO began setting up a dedicated Agroforestry-team that will do both equity and debt deals in this field.

FMO also welcomed Netafim as a new client. This Israeli firm is a world-leader in irrigation that drives mass adoption of smart irrigation solutions to fight scarcity of food, water and land. FMO financed Netafim's activities in Africa and other emerging markets.

In 2019 the volume of Green lines provided to financial institutions was lower than expected. We witnessed a slowdown in Turkey, one of our main green recipients. Green investments in other key markets are gaining in popularity, where subsidized pricing is creating a race to the bottom. FMO tries to set itself apart by adding value through our network and expertise and by taking a tailored approach to clients' needs. This, however, could conflict with FMO's goal to increase productivity.

In conjunction with the annual report, FMO has published detailed information about our Green definition on our website. Furthermore, FMO is pleased to announce that it has obtained reasonable assurance on Green investments. The reasonable assurance on Green Investments is an integrated part of the overall assurance engagement on the sustainability information in the FMO annual report and therefore no specific assurance is provided on the Green Investments standalone. Please refer to the combined independent auditor's and assurance report.

16 Mobilized funds are funds committed by third parties that are demonstrably mobilized by FMO. This includes: participations that were on FMO's own books in earlier years and sold on to other investors (€38 million) and guarantees provided by third parties on investments on FMO's existing portfolio (€54 million). Excluding these categories, the volume of mobilized funds with a Green label in 2019 amounted to €218 million.

Indicator: Avoided greenhouse gas emissions through FMO investments

Avoided emissions are the emissions that are avoided as a result of a project when compared to a baseline scenario established in accordance with the GHG Protocol. For example, this can be emissions avoided by additional renewable energy capacity that is assumed to replace future fossil fuel-based power plants, or emissions avoided through the protection of forests against illegal logging. In 2019, FMO's new Green investments resulted in an estimated 868,000 tCO2eq avoided greenhouse gas emissions (2018: 988,000 tCO2eq).

Indicator: Carbon emissions from FMO's own operations

The carbon footprint of FMO's own operations amounted to 5,865 tonnes CO2eq (2018: 6,808 tCO2eq). Because we serve clients around the world, 92% of this is generated by air travel. Where possible we try to make use of modern communication technology and we revised our travel policy which now requires staff to travel by train to destinations up to 500 km in continental Europe. We purchase electricity from renewable sources to limit the emissions of FMO's office building. Our efforts have contributed to a reduction of the GHG emissions per FTE from 14 tCO2eq in 2018 to 11 tCO2eq in 2019. We invest in a VCS and REDD+ certified forest conservation project in Brazil for the equivalent of our own emissions.

SDG 2 I Zero Hunger

By financing businesses across the entire agri-food chain we contribute to SDG 2, Zero Hunger. FMO targets smallholder farmers because in spite of meeting more than 70% of the world's need for food they have a weak market position and limited resources to invest in business improvements. FMO finances agricultural companies that help smallholder farmers to improve their production practices, thereby increasing their income and yield. Companies financed by FMO supported 1.7 million smallholder farmers in 2019 (2018: 1.6 million).

FMO completed a €15 million deal with Sahyadri, an Indian farmer-owned company that procures, processes and markets fruits and vegetables from its network of 8,000 small and marginal farmers. In 2019, we signed a memorandum of understanding (MoU) with the FAO to improve access to finance for all stakeholders across the agricultural value chain and enable them to operate to higher ESG standards. FMO and FAO will work to improve agri-business management skills, sustainable agro-ecological and processing practices and food loss-reduction techniques. A pilot project will be undertaken in Kenya.

SDG 5 I Gender Equality

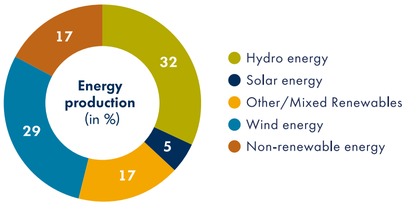
We contribute to SDG 5 Gender Equality by making investments that promote access to energy or finance for women. We currently invest in inclusive business - as defined under our RI label - with a focus among others on on-lending to women. In 2019, we invested €109 million in gender line financing for women-owned SMEs. This included US$5 million in financing to Kashf, a women-led microfinance institution in Pakistan that provides loans to female entrepreneurs. We also provided US$5 million to Banco de la Produccion and US$10 million to Grofin for on lending to women entrepreneurs. A further US$10 million was provided to Banco Solidario's financing of women-owned micro enterprises in Ecuador.

In 2019, FMO further committed to the 2x Challenge, an initiative started by several DFIs that aims to increase financing for gender equality and to establish harmonized measurement of the results. We are currently implementing a process that will enable us to steer and report on our results against the criteria defined by the 2x Challenge.

Beyond financing, we also offer Capacity Development to support clients' efforts to improve gender equality. For example, in 2019 we supported a training for women entrepreneurs in Bangladesh in association with BRAC Bank and the development of Banco Improsa's gender finance approach. We also hosted the annual meeting of the Gender Finance Collaborative and the annual EDFI meeting, where gender was a topic.

SDG 7 I Affordable and Clean Energy

Access to energy is not a given in many developing countries. In low-income countries 41% of the population has access to electricity against 28% of the rural population [17]. FMO invests in building (sustainable) power generation capacity in developing countries that, combined with investments in power distribution, improves access to energy. By financing off-grid power solutions, FMO invests in access to energy for rural populations.



In 2019, companies in FMO's energy portfolio produced 61,000 GWh (2018: 60,000 GWh), of which 83% was generated from renewable sources. This amount of on-grid power production served an equivalent of 52 million people (2018: 43 million).

In 2019, we launched the US$120 million Energy Entrepreneurs Growth Fund together with the Shell Foundation. This will provide catalytic financing to early-growth stage companies in Sub-Saharan Africa, where 600 million people lack energy and more than 125 million households lack access to modern energy services. The fund, which has a 12-year lifespan, aims to finance more than 25 companies, through mezzanine structures and equity and debt investments.

ESG performance

FMO monitors all clients with a high or medium ESG risk category against our ESG standards according to contractual agreements. We support our clients in managing environmental, social and corporate governance impacts. We step up our engagement in cases where ESG issues arise or when a client's ESG performance is below standard.

ESG target performance

We launched a new ESG performance tracking system in 2018 to document and track the performance of all our high ESG risk clients on the relevant risk items. Over the past two years we focused on building out the system and collecting and optimizing the required data. In 2018, with limited baseline data, we set an ESG performance target on a subset of clients, focusing on new clients with an A or B+ E&S risk category [18] or those supported by a corporate governance specialist that were contracted in 2017 where FMO was in the lead. In 2019, the target population followed the same criteria, but we expanded the number of clients by also including new A and B+ clients that were contracted in 2018 where FMO was in the lead. For these 40 clients, we set a target on the percentage of high and medium ESG risk items that, after one year from contracting, were managed in line with our standards or managed evidently towards meeting our standards. In 2019, FMO assessed that these clients effectively managed 98% of these risks, exceeding our target of 90%.

Currently, we have sufficient ESG information in our system to expand our ESG performance target for 2020 to focus on all A and B+ E&S risk clients, and all clients supported by a corporate governance specialist, including those clients where another financial institution is in the lead (e.g. IFC, DEG, Proparco, etc.). We are continuously improving system functionality to manage and track ESG performance.

17 World Development Indicators, latest data available from 2017

18 As defined in FMO's Sustainability Policy.

E&S issues in our portfolio

We monitor all medium and high E&S risks in our entire portfolio, not just the medium and high E&S risks in our target. Out of a total of approximately 800 clients, there are 308 clients with a high E&S risk category (A or B+). FMO accepts that when we first start working with a client the ESG performance may be below standard but we expect performance to improve over time in line with agreed action plans.

Most clients show progress towards these action plans and meeting our standards. FMO has, however, identified 35 A and B+ clients that are not managing their E&S risks in line with expectations or that are materially behind schedule. For FMO it is important to work with these clients to address such issues, as their activities are also expected to have a positive impact. The total committed portfolio for these 35 clients amounts to €741 million, which contributes to economic growth (SDG 8) in developing countries. Furthermore, more than half of this portfolio also contributes to climate action (SDG 13) and/or reducing inequalities (SDG 10). An overview of the issues for these clients are listed in Annex 1. An explanation of the criteria used to compile this table are included in the chapter 'How we report'. The table has been anonymized to respect client confidentiality. Below is a summary of the key issues we have identified and how we engage with our clients to help them get (back) on track. We continue to prioritize these issues until they have been addressed.

Type of issue	Description of the issue	FMO engagement with the client
Community and wider stakeholder issues	Our clients' activities often impact local communities and/or attract wider stakeholder attention. The issues we face are diverse, ranging from obstacles to achieve standards to project opposition with root causes that are not yet clear and legacy issues resulting in an impasse in community relations.	FMO assesses community engagement practices and effectiveness. We support the client where possible, for instance by connecting them to experts in this field.
Environmental and social management systems	FMO requires clients to develop and implement an environmental and social management system demonstrating how they identify and manage (key) environmental and social impacts and risks. This includes: an environmental and social management policy; a process for the identification of environmental and social risks and impact; organizational capacity and competency; emergency preparedness and response plan; monitoring and review; stakeholder engagement; and an external communication and grievance mechanism. These systems are not always adequate as clients may have limited experience or have not prioritized the implementation of such systems.	Once a system shortcoming has been identified, FMO discusses this with the client and agrees on an improvement plan. This may involve an expert, sometimes funded by our capacity development program. As part of our overall client monitoring, we monitor and support the implementation of the improvement plan through client visits by our ESOs and/or specialized consultants as well as regular phone and email contact.
Environmental management	Environmental management issues in our portfolio are primarily related to the control of carbon emissions, storm, waste water management and dust management. In some cases, this leads to serious consequences for community relations.	We engage with our clients on such topics in a variety of ways. Once we identify and clarify the issue, we agree corrective actions with the client. We may request or follow up on root cause analyses, and support the client by conducting further studies to come to possible solutions. We may also support strategic engagement with key stakeholders to get operations restarted and negotiating solutions for local communities.
Fatalities	FMO assesses risks related to the health and safety of our clients' workers and surrounding communities. We also look at a client's commitment to manage these risks and to create a safe working environment. In case we identify gaps, we support our clients in addressing them. Despite these efforts, fatalities do occur, regrettably.	FMO contractually requires all clients to report the details of fatalities related to their operation. This needs to include a specification of the nature of the incident, any on and off-site effects, details of actions that the client proposes to take in order to remedy these effects, and provide the right after care. We support our clients in this process as needed to properly address effects and root causes of such an event, and monitor the implementation of client actions closely. In 2019 we started to track fatalities in our portfolio manually and have decided to implement a reporting process and system. This will enable the disclosure of detailed information and to further improve portfolio performance on what is perhaps our most salient human rights issue (violation of the right to life).

Type of issue	Description of the issue	FMO engagement with the client
Labor and working conditions	The issues in our portfolio related to labor and working conditions consist of the quality of worker accommodation, low wages, long working hours, substandard occupational health and safety practices or suspicion thereof. These problems often occur as a result of relatively low country or sector standards or due to financial distress.	Such risks are typically identified prior to investment. Issues are picked up on during monitoring, for example because the implementation of agreed actions was slower than anticipated. We discuss these issues with the client and use our leverage to improve the situation, for example by making our disbursements conditional to an agreed improvement. We also help in prioritizing issues, facilitating engagement with external experts if needed, and preparing an improvement plan. Sometimes we support a client with capacity development funding if available.
Land acquisition and resettlement	A significant number of projects that we invest in involve land acquisition and the resettlement of local communities. We ask our clients to avoid or in some cases to minimize resettlement. And in doing so to apply international standards and best practice. Many of our clients, however, are new to this and underestimate the skills and other resources required to carry out a process and achieve outcomes in line with international standards. The situation becomes even more complex when it involves legacy issues related to land acquisition.	We clarify to our client what is required by our standards during each phase of the project. We help find solutions to avoid, minimize and plan for resettlement, as appropriate. And introduce the client to resettlement experts and suggest which stakeholders to engage with and how. We closely monitor the implementation of a client's action plan through client visits by our ESOs and/or specialized consultant (two to four times a year during project construction). During these visits, we ensure to spend ample time with senior project management, staff involved with resettlement (including grievance management), community rights holders and other key stakeholders. This allows FMO to develop a good view of the process itself and the outcomes that have been achieved for all involved.

Governance

In the area of governance, FMO delivered a day-long training on conducting (Supervisory) Board evaluations for FMO colleagues and several Directors that sit on the boards of our investee companies. This enables us to perform such evaluations ourselves, instead of hiring costly external parties. We also organized a day-and-a-half long roundtable for FMO's Nominee Directors and conducted the annual Directorship Training.

In addition, FMO and the Center for Financial Inclusion (CFI) published a corporate governance guide for early-stage innovative companies. It is based on testimonials from entrepreneurs, investors and industry practitioner and is available on FMO's website.

Setting common ESG standards

Following the success of ESG sector initiatives in Nigeria, Kenya, Mongolia, Bangladesh and Paraguay, FMO progressed with a similar initiative in Honduras. Beginning in 2017, FMO partnered with local banks, the Honduran bankers association (AHIBA), the IFC and Norfund to incorporate international ESG standards and best practices into the financial sector. The Honduran regulating agency (CNBS) is revising these standards to possibly be formalized into national regulations. This will create a level-playing field for all financial institutions in the country. FMO has fully committed to supporting this initiative by actively engaging with all stakeholders and by providing technical assistance, funded by its Capacity Development program to ensure a successful outcome. In the coming years, FMO aims to replicate this approach in other countries.

Independent Complaints Mechanism

FMO has implemented an Independent Complaints Mechanism for project-related complaints together with Deutsche Investitions- und Entwicklungsgesellschaft and the French DFI Proparco. This mechanism ensures the right to be heard for complainants who feel affected by an FMO-financed operation. This can lead to a resolution of the dispute and enables FMO to apply the lessons learnt to future investments. In 2019, no new admissible complaint was filed. We received one complaint but is was declared inadmissible by the independent panel. For information about the status of complaints filed in earlier years, please refer to FMO's website.

Deeper relationships

17 PARTNERSHIPS FOR THE GOALS

FMO attaches strategic importance to deepening relationships with our stakeholders, because by pooling resources and partnering with others we can significantly increase our impact. As part of these efforts, FMO mobilizes and blends funds, builds partnerships, manages funds on behalf of the Dutch government, supports Dutch businesses and empowers its employees and clients.

Mobilized funds

Our efforts to crowd in more third-party capital towards projects with high development impact have resulted in €868 million of mobilized funds at the end of 2019 (2018: €629 million). This is short of our target of €960 million. The divide between public and private mobilized funds was roughly 50-50. Although FMO performed better compared to last year, we continue to experience high liquidity in certain syndication markets. This makes it harder for FMO to find investment opportunities that meet our impact and financial criteria. FMO is looking for other opportunities involving smaller syndicated transactions. In addition, we have contracted an Unfunded Risk Participation Program with Munich Re and are preparing for a new impact fund with another insurance company to create new mobilizing opportunities.

In 2019, together with Proparco and OPEC Fund for International Development we successfully closed a US$100 million syndicated deal with the diversified agribusiness supply change manager and trader ETC Group, which operates and manages more than 460 warehouses and more than 120 processing plants globally. The facility will be used to expand the supply chain infrastructure and local processing capacity in Africa. FMO will assist in the improvement in E&S risk management of ETC Group through training of local E&S managers in the various countries in Africa.

FMO Investment Management

FMO Investment Management B.V. (FMO IM) is a 100% subsidiary of FMO. Its purpose is to build and grow investment management services for professional investors. By the end of 2019, FMO IM had €452 million (2018: €371 million) of assets under advisory. The main contributors to this growth were the NN-FMO Emerging Markets Loans Fund and the FMO Privium Impact Fund.

NN FMO Emerging Markets Loans Fund

In 2019, we welcomed a Dutch foundation as a new investor and an increase of a French investor resulting in total investor commitments of US$272 million (2018: US$250 million) by the end of 2019. Ongoing marketing efforts in The Netherlands, Sweden and Germany led to serious interest from a German pension fund. Including a remaining commitment from our Swedish anchor investor Alecta, this will enable a next close in early 2020 that will bring the fund size to around US$400 million. By year-end 2019 the fund participated in 37 loans to financial institutions, renewable energy projects and agribusinesses with commitments totaling US$169 million.

FMO Privium Impact Fund

Thanks to a steady monthly inflow of new investor commitments, our FMO-Privium Impact Fund increased to US$157 million by year end (2018: US$131 million). Private banks and wealth managers including founding partner ABN AMRO Private Banking advised their clients to invest in the fund. Though most investors are from The Netherlands, we also welcomed investors from Spain and the UK. The fund ended the year with a loan portfolio of US$143 million across 62 clients and our focus sectors financial institutions, energy and agribusiness.

Actiam-FMO SME Finance Fund

With a net asset value by year end of €175 million, the fund participates in FMO loans to financial institutions to improve access to finance for emerging markets-based SME companies. Investors are mostly medium-sized Dutch pension funds and insurance companies. By the end of 2019, the fund invested €157 million in 49 financial institutions and continued to re-invest proceeds in new loans during 2019.

ASN Green Projects Fund

FMO IM has been an investment advisor to the ASN Green Projects Fund since 2017. By the end of 2019, the fund participated in six new renewable energy transactions sourced by FMO, bringing total commitments to FMO loans by the fund to US$20 million.

Public funds

Public investment partners allow us to do investments with a higher risk profile and development impact. Our public investment partners are the Dutch state, the European Commission and the Green Climate Fund. On behalf of the Dutch state, we manage Building Prospects, Access to Energy Fund (AEF), the Dutch Fund for Climate and Development, MASSIF and the Capacity Development program. With guarantees from the European Commission we set up NASIRA and the Venture Capital program. In 2019, we invested a total of €297 million (2018: €135 million) through public funds, exceeding our €195 million target.

NASIRA with EC guarantee

We launched the first risk-sharing facility, as a pilot under FMO's NASIRA program. With MASSIF funding, FMO provided €1 million in risk-sharing to Tamweelcom, Jordan's second-largest micro finance institution. They will use this money to provide loans to Syrian refugee entrepreneurs, who need working capital for their small business, such as a cafe or hair salon. This deal comes one year after FMO was selected by the European Commission to manage the program, which includes up to €75 million in guarantees and €8 million in technical assistance for entrepreneurs in Africa and the European neighborhood, with a focus on young, female and migrant entrepreneurs. Prior to NASIRA, financial institutions would consider refugees to be too risky, while the contracting process would be too complex. 2019 was a pilot year for NASIRA and FMO intends to scale up in 2020. In addition to signing the first NASIRA guarantee, FMO and the European Commission signed a €4 million technical assistance facility to support the NASIRA program and its beneficiaries in Sub-Saharan Africa.

Venture Capital Program with EC guarantee

In 2019, we signed an agreement with the European Commission, which will provide €40 million in guarantees to our Ventures Program. The program will receive an additional €60 million from its Access to Energy, Building Prospects and MASSIF funds, as well as €140 million from FMO's own balance sheet. In total, the program will have €200 million at its disposal. This will be used to invest in early-stage, technology-enabled businesses, technical assistance and the development of venture capital ecosystems in emerging markets. The EC's guarantees will allow FMO to take an equity stake in risky but growing companies, so they can become bankable and scalable in two to three years.

Access to Energy Fund

The Dutch government and FMO set up the Access to Energy Fund (AEF) in 2007. It supports private sector projects aimed at providing access to energy services. New commitments for AEF amounted to €43 million in 2019. AEF and Building Prospects together with Africa Finance Corporation (AFC) and Climate Investor One (CIO) provided US$100 million to Djibouti Wind LP to construct and operate a 60 MW windfarm in the Ghoubet area, near Lake Assal, Djibouti. US$25 million was invested by AEF and Building Prospects, the remainder by AFC and CIO. This project will help to facilitate a clean energy shift in Djibouti by providing sustainable energy and reducing the reliance on domestic thermal power production and power imports.

Building Prospects

Building Prospects (previously Infrastructure Development Fund) was established in 2002 by the Dutch government and FMO. Building Prospects supports investments in the overall agribusiness value chain. A value chain is strong when it has access to energy, water, logistics and transport, while climate resilience and gender equality are additional factors that make a supply chain sustainable.

New commitments for Building Prospects amounted to €101 million. Building Prospects partially funded the expansion of the Yalelo Tilapia farm with a US$11 million loan in Zambia. Yalelo employs 800 people and provides smallholder tilapia farmers with training. Local food production means Zambia needs to import less food, while tilapia has a much lower carbon footprint than beef, pork and poultry.

MASSIF

We manage the MASSIF fund on behalf of the Dutch government. MASSIF reaches out to end-beneficiaries by financing local financial intermediaries and institutions that can contribute to their development.

New commitments for MASSIF amounted to €64 million. We provided Maha Agriculture Public Co. Ltd with a €2.6 million loan with which it can support farmers and small business owners in rural Myanmar. MASSIF funding was also used to invest in the Small and Growing Businesses (SGB) Fund, which is managed by impact investment fund manager GroFin. Our investment is earmarked for funding small and growing businesses owned and run by female entrepreneurs across Africa. GroFin received €9 million, with €5 million (including ZAR 25 million) coming from FMO-A and €4 million from MASSIF. MASSIF funding has been used to take on a higher risk, for instance by strengthening the equity base of the fund to reduce risk for debt investors.

Capacity Development

To increase our impact beyond our investments we use our Capacity Development program to strengthen the organizational capabilities of our clients. The program is financed by FMO and the Dutch state and contributes of up to 50% of the cost for external consultants, trainers and experts to facilitate knowledge transfer and the provision of technical expertise. Together with the Dutch Central Bank we supported a Certificate Program for Bankers in the Caucasus region. Sucafina, one of the leading coffee merchants in East Africa, received support from FMO on the first phase of development of its Farmer Hub initiative aimed at improving the livelihood of farmers in six countries in East Africa.

Dutch Fund for Climate and Development

In 2019, FMO, SNV Netherlands Development Organization, World Wide Fund for Nature (WWF) and Climate Fund Managers won a tender to manage the €160 million Dutch Fund for Climate and Development (DFCD). This is the first time we have ever worked with NGOs in this way and marks our foray into a new kind of business model. The DFCD connects the project development expertise of SNV and WWF to the mobilizing and investment power of FMO and Climate Fund Managers.

Climate Investor One

In 2015, FMO and Phoenix InfraWorks established the Climate Investor One (CIO) blended finance facility to encourage private sector investment into renewable energy projects in developing countries. CIO is a joint venture between FMO and Sanlam InfraWorks, a formal cooperation between Phoenix InfraWorks and Sanlam of South Africa, and is managed by Climate Fund Managers. In 2019, CIO closed at a higher-than-expected US$850 million. US$100 million was committed by Green Climate Fund (GCF). Investments include a wind park in Vietnam, a hydro project in Uganda and other high-risk projects across the planning, development and construction phases. CIO has adapted FMO’s ESG standards and its ESG team works closely with ours. For more information about the governance of CIO, refer to our website.

Dutch business

During 2019 considerable effort was made in deepening relationships with Dutch corporate clients, increasing the visibility of NL Business in the Dutch corporate landscape and stepping-up in strategic relationship building.

In 2019, a total of €47 million Dutch business-related investments was made (2018: €30 million). €39 million related to investments in the Agribusiness, Food & Water sector, including loans provided to Yalelo and Ivory Cocoa Products S.A. In addition, a US$30 million Framework Agreement was signed with Argentina's Banco de Inversión y Comercio Exterior, offering improved access to that market for Dutch businesses. Framework Agreements are part of our business proposition and focuses on improving opportunities for Small and Medium Enterprises. We did not meet the €100 million target due to the complexity of several large opportunities, which did not materialize as expected. During 2019 we continued to build relationships within the Dutch private sector and our partners which offers prospects for the future.

The Project Development activities of NLB secured a total of 12 transactions on three continents and in the sectors Water, Food, Health and Climate. The transactions were funded by the Development Accelerator and Partnership for Development Facility, both funded by the Dutch Government. Five of these transactions were the result of the Finture Solutions event, where we support Dutch small business with financing and financial expertise to aid them in their ambitions to create impact.

Invest International

The year 2019 also brought us more clarity about the future of the NL Business activities. The department will be merged with select international activities of the Netherlands Enterprise Agency (RVO) and the resulting joint venture will be named Invest International. FMO will hold a 49% stake and the Dutch government the remaining 51%. The formal procedure has started for the establishment of Invest International, including the development of its administrative laws and objectives. In addition, to ensure compliance with EC regulations, we are seeking green light from Brussels.

We aim to establish Invest International by the end of 2020. It will have a €800 million budget available for financial instruments to support Dutch businesses exporting to and investing in developing countries. Invest International will place strong emphasis on ESG standards and on partnerships with a range of Dutch stakeholders, as it will also operate on the basis of additionality. Building on the work of FMO and RVO, Invest International will seek to contribute to the SDGs with a more broadly defined scope to create impact on the world.

NL Business will support the VNO-NCW Africa strategy. FMO actively contributed to and supports the Africa Strategy for the Netherlands as designed by Dutch employers' organization VNO-NCW, NABC, NLinBusiness, PUM and DECP. The untapped potential for growth development on the continent creates vital investment opportunities for Dutch businesses. In March 2020, FMO will organize a CEO-level event for multinationals and SMEs with an interest in doing business in Africa.

Stakeholder events

FMO organized several events for our stakeholders to share expertise and build new connections. FMO joined forces with INSEAD, the Business School for the World, and the Inter-American Development Bank (IDB) to bring together 42 senior-level executives of financial institutions from FMO’s global client base. The Masterclass program ‘Strategy for Financial Services in the Digital Age’ combined world-class education and peer exchange, with exposure to innovations in fintech, banking and regulation at the Singapore Fintech Festival. Together with the non-profit ACCION and venture capital firm Quona Capital, FMO also organized the Fintech for Inclusion Global Summit. This brought together 250 fintech leaders, investors and financial institutions from around the world to talk about ways to increase financial inclusion. FMO further hosted the pilot of the F€mpower Your Growth program, which supports the career of female entrepreneurs and experienced bankers. FMO organized the program with ABN AMRO, ING, Rabobank, Better Future and The Next Women NL. Her Royal Highness Queen Máxima attended.

Other events that FMO organized were the DFI Portfolio Management Conference, which attracted 50 bankers from 20 DFIs. We also organized the kick-off event of the Global Entrepreneurship Summit. Some 50 professionals and gender finance thought leaders made seven recommendations for increasing female entrepreneurs' access to finance. The organizers will work together to put these recommendations in practice.

Together with Rockstart, a European startup accelerator, FMO organized the Finture Solutions competition for most promising Dutch business idea in agriculture, water and energy. Out of 100 submissions, five were selected for a €125,000 prize towards the development of their business model and a pilot.

Client satisfaction

We continue to uphold a good relationship with our clients. In December 2019, we conducted a client satisfaction survey in which clients awarded us a 9.0 (2018: 8.5) on overall satisfaction. Our Net Promotor Score reached 75.5 (2018: 69.5), which is above our target of 70. The scores reflect an improvement on almost all aspects that determine client satisfaction. The most notable improvements were for reliability, lead time and proactivity. Clients are likely to continue doing business with FMO in the future (9.2) and score us highest on professionalism (9.1) and reliability (9.0). Similar to previous years, we continue to score lower on lead time (6.7) and flexibility (7.4).

Employee engagement

By year-end 2019, our internal staff amounted to 601, all of whom are covered under the collective labor agreement. FMO invests in the wellbeing and development of employees because this contributes to our ability to realize our objectives. The average score from the 2019 employee engagement survey was 7.4, comparable to 2017 and 2018 but below our target of 8.0. On average, employees indicated that they are passionate about FMO's mission and enjoy working for FMO. There are also points to improve, such as efficiency in the way we work.

We encourage employees to develop themselves through internal and external training. Our FMO Academy offers various trainings and courses, from personal development to banking knowledge. In 2019, 216 courses and trainings were followed by 592 employees.

Last year we defined four values and corresponding behaviors that underpin our culture: making the difference, diversity, quality and integrity. We organized various events, dilemma and team sessions for staff to discuss what these values and behaviors mean in practice. These activities will continue in 2020.

FMO has the ambition to be a diversity and inclusion (D&I) leader in The Netherlands and among DFIs. Diversity is something our clients and stakeholders find important, too. FMO promotes diversity of culture, age and gender across the organization. We believe a diverse workforce produces better, more balanced decision-making and enhances creativity and innovation. All of this leads to better solutions for our clients and more impact on the world. In 2019, FMO renewed its EDGE certification. Economic Dividends from Gender Equality (EDGE) is the leading global standard for gender equality in the workplace. Certification requires a rigorous external assessment of the workplace against international best practice.

As we believe we need to practice what we preach, we want to be transparent about how we perform on key performance indicators (KPIs) for Gender Equality (SDG 5). In 2019, we committed to reporting on our performance on seven gender diversity KPIs, in the areas of gender balance, recruitment, turnover, reward, bonuses, promotions, and engagement.

7 Gender diversity & inclusion metrics					
		total	**female**	**male**	**% female**
1. Gender balance	Total number of employees per December 31, 2019	601	298	303	50%
	Employees in senior and middle management per December 31, 2019	65	27	38	42%
2. Staff growth	Net growth January - December 2019 (headcount)	73	36	37	
	Growth percentage	13.8%	13.7%	13.9%	
3. Turnover	Staff turnover January - December 2019 (headcount)	54	26	28	
	Turnover percentage (based on average total headcount)	9.6%	9.3%	9.8%	
4. Reward	Gender pay gap based on simple average salary per group				
	(minus means average salary for women is lower)				
	Senior management (salary scale 13-15)	1%			
	Middle management (salary scale 12)	-3%			
	Staff (salary scale 4-11)	-9%			
5. Bonuses	Share of bonus amount paid in 2019	100%	48%	52%	
6. Promotions	Promotion ratio January - December 2019	13%	16%	11%	
7. Engagement	Engagement score based on latest survey (October 2019)	7.4	7.3	7.5	

Other FMO employee statistics[1]		
-	Dec 31, 2019	Dec 31, 2018
Number of internal employees	601	528
Number of internal FTEs	574	503
Percentage non-Dutch employees	30%	27%
Number of nationalities	57	50
Absenteeism	4.1%	3.3%
-		
Number of external employees	114	84
Total number of internal and external employees	715	612

1 In 2019, we changed the method to report the number of employees per end of the period to exclude the employees who are leaving FMO on the last day of the period. Numbers per year-end 2018 have been adjusted for comparability purposes.

In 2019, FMO became more international. More than one-third of our employees were born outside of The Netherlands and every fourth employee has a nationality other than Dutch. In total, our colleagues represented 57 nationalities. Accepting diverse cultures starts with being aware of one's own. It is crucial to create a climate where people of different backgrounds feel comfortable expressing their opinions. In 2019, 70 employees participated in cultural diversity training at our FMO Academy.

Higher productivity

In 2019, we continued to build a robust, effective and efficient organization. We did this by further embedding ESG into our operations, improving our Know Your Customer (KYC) procedures and through data and systems that support our decision-making.

Organizational improvements

In 2019, we introduced an Executive Committee (ExCo) to support the Management Board in the day-to-day management of the organization. In addition, impact and ESG were further embedded into our governance structure. IESG became a new department with its own Director who has a seat on the Executive Committee. The Supervisory Board also set up a dedicated Impact Committee.

FMO opened joint offices in Nairobi and Singapore, in addition to our Johannesburg office. A stronger local presence enables us to connect with clients and to explore opportunities in the region.

Business integrity

One of FMO's core values is integrity. FMO believes it is important that this value is internalized and lived by its employees as well as its customers. FMO has translated this into its policies, products and procedures. The Know Your Customer Framework, the Anti Bribery & Corruption Policy as well as Gifts, Entertainment & Hospitality Policy address the minimum standards our stakeholders should adhere to.

In 2019, all new FMO employees were required to complete the Compliance E-learning that addresses personal integrity related topics such as bribery and corruption. All investment employees attended face-to-face sessions hosted by our Compliance Department on the updated KYC Policy and Manual. Employees were also required to complete an updated KYC refresher E-learning that addresses client integrity risk factors, which could indicate the likelihood of corruption, bribery or fraud occurring at a client.

Indicator: number of alleged client-related integrity issues

Alleged client-related integrity issues refer to any indication of suspected money laundering, corruption, fraud, terrorist financing, or non-compliance with sanctions programs (OFAC/EU/NL/UN) by clients or other counter parties (such as guarantors, custodians, UBOs). In 2019, a total of 21 new alleged client-related integrity cases were reported to the Compliance Committee. Issues are raised by investment staff, other DFIs/IFIs (e.g. with local offices) or whistle blowers. We investigate each case together with partner DFIs/IFIs. Investigation could result in the conclusion that there is no issue. If there is, we investigate solutions together with our partners. During 2019, we closed 9 alleged client-related integrity cases (either the issues were solved or FMO decided not to proceed with the relationship). Currently, the Financial Economic Crime (FEC) enhancement program is being developed and rolled out. The program involves further increasing staff awareness, conducting additional and deeper checks when onboarding customers and closer monitoring through periodic reviews.

Indicator: number of alleged employee-related integrity issues

Alleged employee-related integrity issues refer to any indication of suspected involvement with bribery, corruption, fraud, privacy violation, conflict of interest due to outside positions, gifts/entertainment/hospitality, or use of price-sensitive information. In 2019, a total of 2 cases were reported to the Compliance Committee. One case has been closed and the other is under investigation.

Indicator: number of KYC incidents due to not adhering to KYC procedure

In 2019, we registered 2 KYC incidents at existing clients. In both cases the KYC procedure was not fully followed. Remediating actions were taken.

Indicator: reported data leaks

Over the course of the year, 2 data leaks were reported to the Data Protection Authority. Both data leaks were adequately solved, and measures have been taken to prevent similar leaks in the future.

Know Your Customer

In August 2018, the Dutch Central Bank (DNB) conducted an on-site inspection of FMO's Systemic Integrity Risk Analysis (SIRA) and Know Your Customers (KYC) procedure. These should ensure that FMO does not facilitate corruption, organized crime, or terrorism. DNB concluded that our KYC process was not up to standard and issued recommendations. In 2019 FMO took various actions to follow up. This has resulted in a revised approach to conducting the Systemic Integrity Risk Assessment (SIRA) and enhanced KYC procedures. FMO has begun to bring all existing KYC files in line with the updated policy.

As FMO did not achieve the number of remediated KYC files as intended of year end 2019, FMO initiated a Root Cause Analysis (RCA) of this limited progress. Main conclusions of the RCA consist, among others, of underestimation of FMO's FEC risk profile and complexity and required governance, including the appropriate level of sponsorship. As a result, in 2020 more effort will be put in enhancing the FEC framework, as well as awareness and training of the investment departments. FMO will continue to enhance the Compliance Framework and controls in 2020.

Processes, data and systems

FMO continued to invest in an effective and efficient organization. In 2019, we realized 87% of our project deliverables, above our target of 85%. We made progress in the following areas:

We improved the governance of our project management. This entailed strengthening project owner accountability and involving the Executive Committee in decision-making of key projects. We added Project Management Office staff to liaise more strongly with projects. Also, we set up the Architecture Board to ensure that new processes, systems, data and products fit long term within our envisioned IT architecture. Standardized monthly reporting and focus on project deliverables has further supported effective project management.

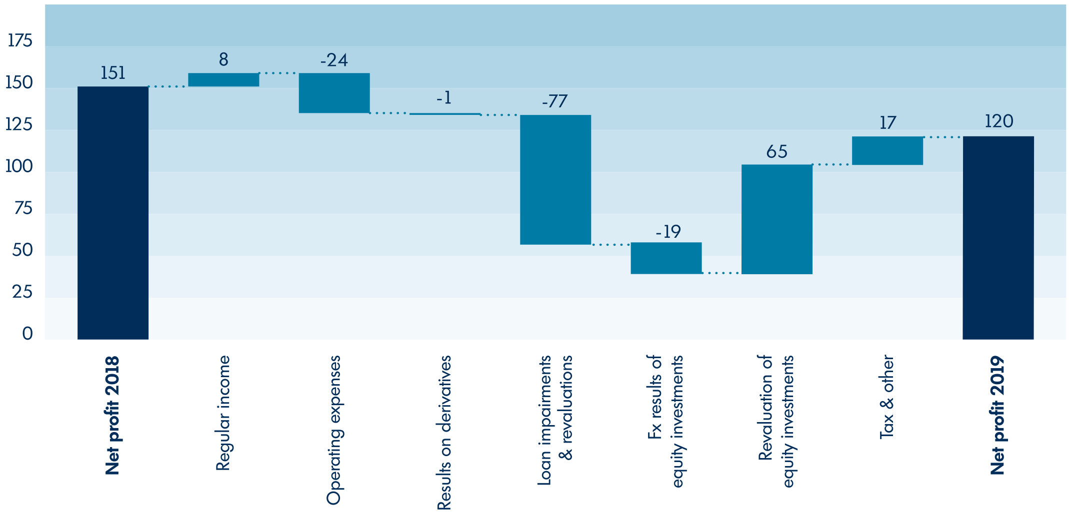
We finalized the Information Management program according to plan. Managing data as a business asset is expected to be fully embedded in the organization from 2020. We set up a Data Governance organization and introduced a Data Management Policy. We also established new data management processes, such as the Data Quality Issue Management process, to ensure root causes are analyzed and resolved to prevent re-occurrence. Moreover, we delivered information products which support effective decision-making throughout the organization.

We further implemented several system solutions. We optimized our equity administration system and implemented a tool to improve monitoring and reporting to the Dutch Central Bank on troubled loans. In addition, we prepared systems to administrate NASIRA instruments. As IT security is at the basis of well-functioning systems and reliable data, we further strengthened our IT security practices and implemented security-logging-monitoring.

Financial performance

The financial performance of FMO in 2019 showed mixed results. Our regular income was driven by continued stable growth of the loan portfolio whilst maintaining our margins. Furthermore, the equity investments showed initial signs of stabilization in the second half of 2019, leading to a higher valuation of the private equity portfolio compared to 2018. These positive developments, however, have been offset by a substantial increase of the level of impairments in our loan portfolio and higher operating expenses. Overall this has led to an overall net profit in 2019 of €120 million (2018: €151 million).

2019 compared to 2018 financial results



The financial results can be explained in more detail as follows:

- Regular income which consists of interest income, fee and commission income, dividend income and remuneration for services rendered, improved with €8 million, mainly as a result of continued growth of our loan portfolio of 5% in 2019, while we maintained stable margins. As a result, interest income amounted to €215 million (2018: €210 million);
- Operating expenses increased by €24 million due to increased staff costs resulting from the recruitment of new staff and contractors. Moreover, additional project expenses were incurred related to the implementation of the strategic initiatives;
- Loan impairments and revaluations changed with €77 million. The significant change is mainly driven by impairments on the loan portfolio in 2019, which amounted to €92 million (2018: €23 million). The difficult economic situation in Argentina and stage 3 impairments on individual clients, led to a substantial increase of our credit provisions in 2019. As a consequence, our overall non-performing loans portfolio increased to 9.8% (2018: 8.4%);
- Results from our equity investments (including associates), including currency effects, amounted to a €84 million gain. (2018: €41 million gain). This gain is the result of:
  - EUR/USD FX effects: €25 million gain (2018: €44 million gain);
  - Appreciation of the portfolio, including local currency effects: €59 million gain (2018: €5 million loss). In the second half of 2019, we noted that the valuations of our investments in primarily Nigeria, Vietnam, China and Cambodia have appreciated due to stabilization in local markets;

- Corporate taxation on the profit in 2019 amounted to €2 million credit (2018: €15 million charge). The result on equity investments and dividends are exempted from corporate taxation due to the participation exemption. The profit before taxation in 2019 amounted to €118 million of which 85% are exempted results (2018: gross result €165 million / exemption 46%). The variance in the exemption percentage compared to 2018 is the result of the material impairments on the loan portfolio in 2019.

The capital position of FMO remained well within the boundaries of our risk appetite in 2019. The increase in the total capital position is primarily the result of the addition of the net profit. As a net growth in the loan- and equity portfolio of €0.6 billion was achieved in 2019, this led to an overall increase in the risk-weighted assets. This has led to a decrease in the Total Capital ratio from 25.5% in 2018 to 22.5% in 2019 and Common Equity Tier 1 ratio from 24.6% in 2018 to 21.8% in 2019.

3

Dilemmas we face:

INVEST IN NON-RENEWABLES OR HELP THE ENERGY TRANSITION? IT IS NOT ALWAYS EITHER/OR.

Ivory Coast has an electricity production deficit and only 65% of its population currently has access to electricity, hampering economic growth. Meanwhile, the country is committed to a 42% renewable energy target by 2030. For the moment however, energy supply to the grid by renewable sources can only be 20% of the total grid capacity in order to avoid frequency instabilities or outages.

Building a baseload

The existing lenders to Azito, a local gas-fired power plant that is already an FMO client, were approached to finance a further expansion of the plant, Azito 4, which would deliver over 30% of the country's electricity and reduce quality problems such as cut-offs.

Though a non-renewable energy project, FMO decided to support Azito 4. Because it is key to providing the baseload capacity required to ensure the national grid's stability and increase access to reliable, more affordable power for citizens and businesses.

The expansion is closed cycle, so it also has a steam turbine that converts heat from the gas turbine into electricity, using highly efficient turbine technology that halves the gas consumption of the country's existing gas-fired plants. It also allows Ivory Coast to close down expensive, polluting diesel generators, and therefore reduces CO_2 emissions.

The bigger picture

By taking a step back to view the overall picture, we saw that this project would deliver more reliable and efficient energy. The enhanced baseload capacity also lets Ivory Coast integrate more renewables onto its grid, thus facilitating the longer-term energy transition, while the increased access to cheap energy drives economic growth. We therefore see our €27.7 million loan to support the plant's extension as a good investment in the Ivory Coast's economy and its energy transition.

What we will (and will not) do

In the context of SDG 10, Reducing Inequalities, we may decide on a case-by-case basis whether to support a gas-fired power plant. We will not, however, invest in other non-renewable sources of energy, such as coal or Heavy Fuel Oil (HFO).

4

Dilemmas we face:

WHAT IF MOBILIZING PRIVATE INVESTMENT MEANS UNDERMINING YOUR OWN PROFITS?

To achieve the Sustainable Development Goals (SDGs), private investment in emerging markets will need to go from billions to trillions. Development Finance Institutions like us have a key role to play, as we aim to attract more institutional investors to our markets. This mobilizing role enables us to act as an accelerator boosting investments in developing countries.

The dilemma is not about impact, because we know that if institutional investors can build up a positive track record in our markets, they will scale up and invest more directly themselves at a later stage. The dilemma is about our profitability. FMO needs to be financially sustainable. Income from interest adds more to the bottom line than advisory and management fees.

There is more than profit

We continue to scale-up mobilizing also because we feel there are more factors to consider than just profitability: we need to maintain our reputation as leading impact investor and reliable long-term partner to investors and fund managers. Investors themselves bring scale and drive institutional quality. And we believe in the power of partnerships for the goals (SDG 17).

Mobilizing at scale may compete with growing our own profitability. For that reason, we optimize the allocation between our own portfolio and our mobilized portfolio. We first determine our required portfolio growth and then determine how much we can mobilize private capital from institutional investors.

During 2019, we laid the foundations for two significant new partnerships to mobilize large sums over the coming four years. These require FMO to step up its asset sourcing, looking to larger deals and more efficient execution as possible solutions. Meanwhile we increased our minimum hold in all loans to 20% or US$10 million (whichever is higher), thus safeguarding our own books and improving alignment with investors.

Regenerating a region's economy and ecology

Ledesma's importance to the remote region of Jujuy in the north of Argentina can hardly be overstated. The town of Libertador General San Martin (formerly known as Ledesma) has grown up around the company's activities over the last century and remains by far the biggest employer for a community of over 45,000 people. But through a combination of factors, the future for Ledesma, and therefore the regional economy and environment, was looking increasingly bleak.

A complex social and economic ecosystem

Ledesma operates in the agribusiness and food sectors. With over 8,000 employees, it operates across 200,000ha, producing a diversity of crops and managing a variety of associated industrial facilities. Through NGO partnerships, it also manages over 100,000ha of highly biodiverse primary forest in this remote region, and north of Buenos Aires.

Water captured in the mountains around Jujuy is used to irrigate 40,000ha of sugarcane and 3,000ha of citrus trees. The water also services the sugar mill and paper factory, as well as the bioethanol, fruit-packaging, juicing and aromatic oil facilities. There is a natural interaction between the various resources and associated processes, and Ledesma is constantly looking for ways to innovate so it can add value to sub-products, minimizing waste and maximizing circularity.

Ledesma also manages 50,000ha of integrated grain and livestock operations in the center of the country in the Provinces of Buenos Aires and Entre Ríos. Through natural conservation practices and largely biomass-based energy production, the company's overall operations are carbon negative.

A region's future threatened

Like the town, Ledesma's operations and practices have evolved organically over the decades. This has occurred independently within each operation, largely in response to local environmental, social and safety standards, which tend to be less stringent than international ones. Management practices are highly dependent on the knowhow of individuals, who are challenged to comply with increasingly complex national and international standards in a region with very high biodiversity value and increasing social demands.

There was also ground for improvement in various areas, from unsafe working conditions in the sugar mill to accident prevention, with heavy goods vehicles passing through the tight town center.

Lower emissions, higher standards, a brighter future

In 2019, together with the Rabobank, we invested US$90 million in Ledesma. The main goal was to enable the company to increase the overall efficiency of its operations, while also improving its environmental and social performance.

Ledesma plans to reduce from three to two sugar mills, while also making improvements to its power and steam generation facilities. This will reduce energy consumption and associated emissions. At the same time, it plans to mechanize its sugarcane harvesting operations, increase the use of drip irrigation, and increase the proportion of energy and power generated through biomass, thus reducing natural gas consumption.

We are also helping Ledesma improve its environmental and social management systems, applying international standards and with a particular focus on biodiversity management across both its 100,000ha of natural land and 100,000ha of farming operations. Ledesma is also addressing accident risk, for example by recently opening a logistics center a kilometer outside Libertador General San Martin.

Together with Ledesma and national researchers, we are looking into co-funding research into greenhouse gas emissions from Ledesma's grain and livestock operations. The aim is to identify the most appropriate local regenerative agriculture solutions. These carbon-neutral or negative solutions can then be applied regionally. Indeed, if the results are sufficiently positive, there is a hope they may even be the blueprint for regenerative agriculture across Argentina, generating carbon credits for the country while combating climate change for the planet.

OUR COMMITMENTS

Our impact goes beyond our investments. To embrace our mission fully, we are committed to doing business in a responsible and sustainable way, guided by global standards and guidelines. For an overview of the regulations and core reporting standards and guidelines we follow, please refer to the chapter How we report.

Transparency and accountability

In 2019, FMO committed to two initiatives that foster transparency and accountability of our investment practices related to climate and impact. FMO became a signatory to the Operating Principles for Impact Management and reports, for the first time, in line with the recommendations provided by the Task Force on Climate Related Disclosures (TCFD).

Operating Principles for Impact Management

In April 2019, FMO became a signatory to and advisory board member of the Operating Principles for Impact Management, a global initiative led by the IFC to increase the transparency and accountability of impact investing. This addresses the risk of 'impact washing', while fostering confidence in impact investing.

The Principles enable investors to compare organizations based on impact performance alongside financial returns. It assesses their operations against nine principles around strategic intent, origination & structuring, portfolio management, impact at exit, and disclosure.

FMO already applies most of these principles. All our investments must adhere to strict environmental and social standards and state their impact as contributions to the SDGs. Nevertheless, there were a few areas where FMO had to change its impact measurement and processes to align more fully with the Principles.

FMO has aligned its corporate strategy with the SDGs and impact goals since 2014. This has been operationalized in an impact management and monitoring system, organized around our core SDGs (8, 10 and 13). FMO first selects its investments on the principle of additionality and is one of the few DFIs to apply 'attribution' to its impact results. This means we attempt to weigh the reported impact figures with the share of our investment in projects or companies.

In 2019, FMO introduced changes to how we track expected impact per investment, using a system of impact indicators that aligns with FMO impact labels and impact model. From December 2019, each new investment is assessed and discussed along several financial and impact targets. We have also upgraded our processes for collecting impact performance data so we can compare future estimates with actual performance. Furthermore, we created a Knowledge Management, Learning & Development team to bring lessons learned into the investment decision process more explicitly.

Task Force on Climate-Related Financial Disclosures

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate Action is one of the key pillars of our 2025 strategy, and we acknowledge we need to demonstrate our responsibility and foresight in considering climate issues. This goes beyond assessing the impact of our activities on the environment as climate change may affect clients vulnerable to the material consequences of and the transition to a low-carbon economy.

This is the first time we report on our approach to climate following the recommendations provided by the TCFD in June 2017. We recognize that improving management of climate-related risks and opportunities is a journey and we plan to improve our practices over the next few years.

Governance: Climate is an integral part of our mission, vision and business strategy. Having oversight on FMO's strategy and performance, FMO's Executive Committee is responsible for key decisions related to climate, such as revising the strategy or setting ambitions. Impact-related topics, including climate, are also overseen by the Supervisory Board Impact Committee.

FMO recognizes the importance of systematically integrating climate change considerations into its operations. Climate-related risks and opportunities are covered across various functions. This ranges from strategy and investment teams preparing business plans to dedicated impact teams advising on definitions, policy, and position statements, and monitoring and reporting performance. Our cross-functional working groups monitor climate-related trends, developments and regulations. Where relevant, they provide recommendations to the Executive Committee for improvements to FMO's climate management.

Strategy: Climate change poses risks to the economies and markets in which we operate. Our clients' performance can be impacted by physical risks, such as extreme weather, or policy, legal, technology, market and reputational risks arising from the shift to a low-carbon and climate-resilient economy. While this may present investment and business risks for FMO, it also creates opportunities to help clients become more resource and energy efficient, reduce GHG emissions and transition to low-carbon solutions. We continuously assess how this may affect our business over the short, medium, and long term, but our strategy already considers:

- Adapting our portfolio: To reduce climate risks and seize opportunities, we are seeking to grow our green portfolio. We finance green projects in the energy and agricultural sector, provide green credit lines to financial institutions, contribute to green funds and issue green bonds. In line with the Paris Agreement, we aim to align our portfolio with the 1.5-degree pathway. We further aim to improve the GHG efficiency of our portfolio and finance carbon negative transactions. For the post-2025 period, more drastic choices may be needed, in line with the Dutch Climate Agreement;
- Supporting our clients: We work with clients like Access Bank and Banban Gona to better manage climate risks and opportunities;
- Mobilizing climate capital: FMO blends and mobilizes climate funds, for example via Climate Investor One, ElectriFI, and the Dutch Fund for Climate and Development (DFCD). We are also increasing the climate focus in AEF and Building Prospects, and climate is part of the investment strategy of three funds advised on by FMO Investment Management;
- Sectoral engagement: We are transparent about our approach to climate and engage other organizations on this topic. As an active member of the Partnership for Carbon Accounting Financials, FMO seeks to create an open-source global carbon accounting standard. We also cooperate with other bilateral and multilateral development banks to harmonize GHG accounting and improve our climate risks and opportunities management. FMO and the Dutch financial sector have pledged to report the footprint of relevant assets as of 2020 and set reduction targets from 2022 onwards through the Dutch Climate Agreement.

Risk management: Following FMO's Sustainability Policy, we identify, assess and manage climate-related risks and opportunities by:

- Protecting our assets: Our Position Statement on Coal states we will not directly finance any coal-based power generation and/or coal mining, and limit our indirect exposure. For all investments, we identify, assess and monitor ESG risks through our risk, compliance and operational processes. As climate change risks are becoming more prominent, we discuss how to improve mitigation and resilience with our clients. In case of agriculture projects, for example, climate risk consideration is inherent to our ESG assessment (e.g. impact on ecosystems and water resources, soil cover or micro-dripping for adaptation). We are currently working on formally integrating climate risk considerations at contracting and monitoring (ESAP). For instance, the assessment of physical risks and exposure in energy and FI related projects will be formalized in our due diligence process. Such discussions will also be held in the board room of our clients. FMO can still improve the way it quantifies risks, but we believe that closer relationships with the clients will raise awareness and allow us to manage risks together;
- Managing opportunities: While discussing climate-related risks with our clients, we also explore ways to create new opportunities. Moreover, we identify Green labelled investments and steer our portfolio towards a higher share of such transactions. We set up a process based on our Green definition and eligibility criteria, and internal verification and approval to obtain the label. Green performance at portfolio level is monitored monthly.

Metrics and targets: In line with our ambition to enhance green investments, we are currently measuring climate-related metrics. The results are disclosed in Our Performance.

- Green labelled investments: We steer our portfolio towards SDG 13 by setting an annual target on Green labelled investments of at least 32% of annual production. This influences client selection, project preparation and investment decisions;
- Avoided GHG emissions: To reflect our activities in transitioning towards a low-carbon economy, we have been measuring our avoided emissions since 2015;
- Absolute emissions: Work is ongoing to develop a GHG accounting approach for absolute emissions in our portfolio, which we plan to use for aligning our portfolio with the 1.5-degree pathway. In chapter Our performance we currently report our own GHG emissions scope 1 and 2, as well as part of scope 3 emissions related to staff travel. However, as a bank, our largest footprint lies within our portfolio. In annual report 2020, we start reporting on financed emissions.

Next steps: We continue to assess how climate-related risks and opportunities may impact our business. In 2020, we aim to formalize the management of climate-related issues in line with the TCFD recommendations.

Responsible business

We engage in several initiatives focused on developing a common approach to E&S and impact, resulting in more responsible business practices across the industry.

UN Principles for Responsible Investment

More than 2,000 organizations, representing over US$80 trillion in assets, have signed the PRI. This initiative aims to develop a sustainable global financial system by defining responsible investment as a strategy and to incorporate ESG factors into investment and ownership decisions.

As a signatory, FMO has applied PRI’s six principles since 2011. This entailed incorporating ESG into investment practices (Principle 1 and 2), disclosing on ESG issues (Principle 3), supporting acceptance and effective implementation of the principles (Principle 4 and 5), and reporting on progress (Principle 6). Our performance significantly improved across the year and in 2019 we received the highest score (A+) across the board. Our transparency report is available on the PRI website.

EDFI Harmonization

EDFI, the association of European Development Finance Institutions, launched the Harmonization Initiative on Responsible Financing and Impact Measurement in 2019. This is a multi-year program to harmonize approaches to economic and social impact and share E&S best practices. By making the SDG contributions of our clients measurable and comparable across the industry, we can be held accountable for progress and communicate it more clearly to our stakeholders.

FMO is involved in the key priority topics for 2019: decent jobs (SDG 8), climate action (SDG 13), gender equality (SDG 5), reduced inequality (SDG 10), and partnerships (SDG 17). Several milestones were achieved:

- SDG 5: To harmonize the way we monitor activities around gender finance, EDFI members agreed to report gender smart investments according to the 2X Challenge (explained below) and prepared guidance on how the apply its criteria.
- SDG 8: To ensure the number of jobs reported are comparable and to encourage action where needed, EDFI members agreed to harmonize definitions (scope, coverage, and unit), data gathering and reporting for direct jobs. Implementation will take place in 2020 for joint reporting in 2021.
- SDG 8: An open access model to measure indirect jobs was developed in cooperation with Steward Redqueen, FMO, Proparco, CDC, AfDB, and BIO. A webinar was organized in November 2019 to allow other organizations to learn about and adopt the model.
- SDG 10: EDFI members agreed on an approach for joint reporting of financing flows to countries with greatest needs, based on the OECD DAC country income classification and the World Bank Harmonized List of Fragile Situations.

- SDG 13: To align approaches to calculate avoided GHG emissions for mitigation projects, EDFI members are collaborating to define and use common definitions, methodologies and data sources (e.g. based on Multilateral Development Banks (MDB), the International Development Finance Club (IDFC) and IFI Technical Working Group (TWG)) and introduce a joint EDFI reporting for GHG accounting.
- SDG 17: EDFI agreed to report aggregate EDFI mobilization figures of private co-financing to joint reports with MDBs.

Developing a new impact model

In 2019, as part of the EDFI harmonization program, a number of EDFI members took the initiative to develop a harmonized input-output model which estimates the indirect jobs effects (through the value chain) of our investments made.

Harmonization requires alignment of the methodologies, underlying macro data and client data used to run the model. The Joint Impact Model that has resulted from this initiative was developed by Steward Redqueen. Besides the EDFIs, the African Development Bank and FinDev Canada have also joined the initiative.

The Joint Impact Model will apply different, more conservative assumptions and attribution rules than our current impact model. Consequently, we will not be able to compare the number of jobs supported in 2020 with the 2010-2012 baseline. A description of the current impact model is available on our website and a dedicated website was launched on the Joint Impact Model (https://jointimpactmodel.com/).

2X Challenge

The 2X Challenge was launched in 2018 by the Overseas Private Investment Corporation (now DFC), CDC and other DFIs from the G7 countries. Together, they mobilize investments that provide women in developing countries with leadership opportunities, quality employment, finance, enterprise support and products and services that enhance their economic participation and access. This initiative is a first step to standardize reporting on gender investments in emerging markets and to set financial ambition among DFIs. FMO joined the 2X Challenge in 2019 and is working to better track its investments towards gender finance and engage with investors and clients to increase gender equality.

Other engagements

We continue to engage with peers in the financial sector on ESG, human and labor rights, impact, environment, and responsible business through several long-lasting commitments. The next table summarizes our main engagements.

We are also involved in other initiatives, some being regional, national or specific to one topic, such as the African Infrastructure Development Association, the Nigerian Sustainable Banking Principles, the Kenya Green Bonds Program, the Mongolia Sustainable Finance initiative, and the Global Off-Grid Lighting Association.

Equator Principles

We have been implementing the Equator Principles (EP) since 2006. This risk management framework provides financial institutions with a minimum standard for due diligence and monitoring to determine, assess and manage environmental and social risks in projects. Our annual EP report is available online.

Signatory

IFC Performance Standards

Our E&S approach is guided by the IFC Performance Standards of Environmental & Social Sustainability. This framework helps us understand, avoid and mitigate E&S risks and impacts, for example through stakeholder engagement and disclosure obligations of the client in relation to project-level activities.

Adopter

OECD Guidelines

We follow OECD Guidelines on responsible business conduct, notably human rights, labor rights and the environment.

Adopter

UN Guiding Principles on Business and Human Rights

We integrate the set of guidelines defined by the UN for states and companies to prevent, address and remedy human rights abuses in business operations.

Adopter

ILO Standards

We follow the set of ILO legal instruments that set out basic principles and rights at work.

Adopter

Dutch Banking Agreement (IMVO Covenant)

We signed the Dutch Banking Sector Agreement on International Responsible Business Conduct Regarding Human Rights to analyze value chains of specific sectors and share practices on human rights.

Signatory

Global Impact Investing Network

We support the GIIN because it is dedicated to increasing the scale and effectiveness of impact investing through knowledge sharing, best practice exchanges, and tools / resources production.

Member

Sustainable Development Goals Charter

We joined the SDG Charter Network to foster cooperation between business, civil society and local governments in the Netherlands, in order to achieve the SDGs at home and abroad.

Signatory

Impact Management Project

We joined and support the IMP, a forum for building global consensus on how to measure, manage and report impact and for sharing best practices.

Member

Natural Capital Finance Alliance

We closely follow the developments of the NCFA initiative to integrate natural capital considerations into loans, public and private equity, and fixed income and insurance products.

Signatory

UNEP FI / EBF Working Group on Banking and Taxonomy

We are part of the UNEP Finance Initiative / European Banking Federation Working Group that assesses how the EU Taxonomy on Sustainable Activities can be implemented by banks and applied to selected banking products.

Member

Dutch Climate Accord

Signatory

We signed the financial sector commitment to fight climate change and support the Dutch Climate Accord to achieve a 49% CO_2 reduction by 2030 in the Netherlands.

	Mainstreaming climate action in financial institutions We are following the five principles of the Climate Action in Financial Institutions Initiative. This coalition of public and private financial institutions aims to enhance integration of climate change considerations across their strategies, programs and operations.	Signatory
	Platform for Carbon Accounting Financials We are one of the early adopters of PCAF, an industry-led global partnership to develop and implement a harmonized approach to assess and disclose GHG emissions of loans/ investments. This facilitates transparency and accountability of the financial sector to the Paris Agreement.	Signatory
	NpM Platform for Inclusive Finance As a member of the NpM platform for Dutch inclusive finance investors, we are expanding access to affordable financial services worldwide and increasing the effectiveness of our investments and activities.	Member
	Consultative Group to Assist the Poor We are part of the CGAP global partnership to test, learn and share knowledge intended to help build inclusive and responsible financial systems.	Member
	European Microfinance Platform We are part of the e-MFP network to foster activities that increase global access to affordable, quality, sustainable and inclusive financial services for the un(der)banked through knowledge-sharing, partnership development and innovation.	Member
	Emerging Market Private Equity Association We are a member of the global EMPEA association. This aims to catalyze the development of private equity and venture capital industries in emerging markets through research, conferences, networking, and advocacy.	Member
	Corporate Governance Development Framework We adopted the Corporate Governance Development Framework as a common approach to corporate governance risks and opportunities in DFI investment operations.	Adopter
	Financial Action Task Force We use the FATF framework to combat money laundering and terrorism financing, as well as the proliferation of weapons of mass destruction.	Adopter
	For our own operations, we maintain the following standards: - MVO Prestatieladder - The Gold Standard	Signatory

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Dilemmas we face:

DISTORTING COMMERCIAL DEBT MARKETS VS. ATTRACTING PRIVATE INVESTMENT

The trillions needed to achieve the Sustainable Development Goals (SDGs) by 2030 cannot come from Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) alone. Mobilizing private capital towards SDGs and frontier markets is essential. But private capital only invests where they feel the return adequately compensates for the risks. To crowd-in the private sector and create sustainable capital markets, DFIs and MDBs need to adopt market-based pricing.

Benchmarking challenges

Market-based pricing means benchmarking as many observable datapoints in the capital markets as possible for debt products of a similar structure, credit profile and tenor, envisaging the price of the DFI financing will match the return requirement of the private capital.

However, DFIs and MDBs operate in markets where in general such benchmarks and datapoints are limited. When disciplinary capital markets fail to guide DFIs and MDBs, the risk is that short term development impact can be preferred and (long term) market distortion is taken as collateral damage. As distorted markets are unfavorable for mobilizing private capital, DFIs and MDBs should put both outcomes in perspective when providing financing in fragile markets.

Market-pricing as standard

DFIs set high standards for their operations. We believe market-based pricing should be an integral part of these standards, as off-market pricing distorts commercial debt markets, thereby in the long-run undermining the DFI's mission.

We have therefore taken the lead within the EDFI community to establish high-level principles for market-based pricing. Using self-regulation to avoid market distortion, providing guidance on pricing, and creating accountability and transparency towards private market players.

2X Challenge: Mobilizing the world's great untapped resource

In May 2019, FMO joined the 2X Challenge. Launched by the Development Finance Institutions (DFIs) of the G7 in 2018, the 2X Challenge calls for DFIs across the world to work together to mobilize US$3 billion in commitments by 2020 to give women in developing markets improved access to leadership opportunities, quality employment, finance, enterprise support and products & services. In short, to give them access to economic participation.

World's #1 emerging market

By investing in women, we are recognizing not just the injustice of the existing credit gap they face, but also the huge economic opportunities women represent. Female SMEs worldwide face a US$320 billion shortfall in access to credit. According to a McKinsey study, closing the gender labor gap could add US$28 trillion (26%!) to global GDP in 2025. On the demand side, the female economy is also the world's largest emerging market: by 2028, female consumers will control some US$15 trillion of global consumer spending. That is twice the size of the markets of India and China combined.

However, this global economic and social impulse will not happen on its own. Indeed, in its 2018 Global Gender Gap Report, the World Economic Forum estimated that if we continue to move at the same pace as today, it will take 202 years to close the economic participation and opportunity gender gap. Change has to be driven, and the '2X' in 2X Challenge refers to the multiplier effect of investing in women.

Aligning efforts

As FMO, we have been active in female financing for some years, during which time we have developed a pipeline of gender lens financing. It is our policy to proactively seek investments that support women as entrepreneurs, reach women as end-users of goods & services, and include women in the labor market. In 2019, we made €140 million in new commitments with a gender component.

The 2X Challenge offers us the opportunity to leverage those efforts, by collaborating with peers to identify and support gender finance opportunities in our markets. The 2X Challenge has also developed a set of comprehensive but clear criteria defining exactly what it means for them to invest in women. Using these criteria, as DFIs we can better align our efforts against this global standard, which represents a major step towards a common language for investors worldwide.

Glimpse of the future

If that all sounds rather theoretical, the projects supported through the 2X Challenge could not be more concrete, with demonstrable impacts for women. A good example is our US$5 million investment in 2019 in the Kashf Foundation.

Founded and led by women, and serving mostly female customers, Kashf was Pakistan's first specialist microfinance institution and today offers a variety of innovative products & services to low-income households. It provides appraisal-backed individual lending and non-financial services that can have a transformative impact at a household level. Kashf's main focus is on financial services, insurance and safety nets, capacity-building training, and social advocacy.

The Kashf Foundation has over 500,000 active clients, of which 58% are women-led businesses. It drives gender equality not only through its programs, but also by example: 50% of staff at all levels of the organization are women.

At the time of writing, US$2.47 billion out of the US$3 billion that the 2X Challenge called for by 2020, has already been committed. By supporting organizations like Kashf, who will accelerate women's access to the economy, we and other DFIs will help drive a quiet but fundamental economic revolution.

A commitment by 14 DFIs
The founding members of the 2X Challenge are DFIs from Canada (FinDev Canada), France (Proparco), Germany (DEG), Italy (Cassa Depositi e Prestiti – CDP), Japan (JBIC and JICA), the United Kingdom (CDC) and the United States (Overseas Private Investment Corporation - OPIC). In May 2019, the 2X founding group welcomed 4 new DFIs from the Netherlands (FMO), Sweden (Swedfund), Finland (Finnfund) and Denmark (IFU). In October, the Swiss Investment Fund for Emerging Markets (SIFEM) joined the 2X Challenge Group and the European Investment Bank (EIB) committed to endorse the 2X Challenge criteria.

2020 OUTLOOK

In 2020 we will continue to steer our effort towards creating more impact on SDGs 8, 10 and 13. For 2020 we have committed to the following targets:

In € million unless stated otherwise

TARGETS		2020	2019
Higher impact portfolio	Green total portfolio (FMO+public funds+mobilized)	4,877 (34%)	n/a
	Of which Green New Investments (FMO+public funds+mobilized)	1,137 (35%)	930 (32%)
	Reducing Inequalities total portfolio (FMO+public funds+mobilized)	3,953 (28%)	n/a
	Of which Reducing Inequalities New Investments (FMO+public funds+mobilized)	888 (27%)	790 (27%)
	Portfolio FMO	9,821	n/a
	Of which New Investments FMO	2,155	1,750
	2020: ESG performance (% high/medium risks amber/green; all A and B+ or with CG support)	90%	
	2019: ESG performance (% high/medium risks amber/green; A and B+ or with CG support, contracted in 2017/2018)		90%
Deeper relationships	Portfolio public funds	1,294	n/a
	Of which New Investments public funds	195	195
	Portfolio mobilized	3,157	n/a
	Of which New Investments mobilized	902	960
	Of which New Private Investments mobilized	718	n/a
	Dutch Business New Investments	100	100
	Client satisfaction (NPS score)	70	70
	Employee engagement (engagement score 1-10)	8.0	8.0
	Gender diversity: % women in the workforce	50%	n/a
	Gender diversity: % women in management positions	50%	n/a
Higher productivity	Operating income	410	370
	Operating expenses	144	120
	Realized delivery on project portfolio	85%	85%

Economic outlook

Early January 2020, economic forecasts predicted that economic growth will pick up in 2020 and 2021 with global growth of around 4-5% [19] in developing and emerging markets. The world around us, however, remains uncertain. The COVID-19 (Coronavirus) outbreak in the first quarter of 2020 is a major risk to the global economy and financial markets. In two months' time the number of affected cases has increased rapidly and the virus has spread across the globe. In March 2020, The World Health Organization formally recognized it as a pandemic. In response, an increasing number of countries have imposed lock-downs on complete countries and/or regions and have taken national measures to contain

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and slow down further spreading of the virus. Collectively, these measures will dampen economic activity and growth. At this point in time, the impact this will have on the global economy, financial markets and FMO's operations is highly uncertain and difficult to assess, as it depends on the level to which the virus will further spread, its duration and growth rate. We expect this will impact FMO's overall performance. The degree of impact remains, however, uncertain. In 2020, we will continue to monitor these and other developments.

The various Brexit scenarios have been on our radar since early 2018 and we continue to follow developments until Brexit has formally taken place. We expect the financial impact on FMO to be insignificant. Once exit agreements have been reached and details are available, certain FMO products, transactions and processes will need to be made Brexit-proof, which can be realized within a short time frame.

Higher impact portfolio

In 2020, we introduced portfolio targets in addition to our usual targets on new investments. By closely monitoring the development of our portfolio, we will steer investment decisions towards creating a higher impact portfolio.

Based on a total committed portfolio of €9.1 billion at year end 2019, we aim to grow our FMO portfolio by 8% to €9.8 billion. This includes new investments of approximately €2.2 billion. We will grow our Reduced Inequalities and Green portfolios to continue to scale our impact towards SDG 10 and SDG 13. €4 billion of the combined FMO, public funds and direct mobilized portfolios will have an Reduced Inequalities label, a 28% share of the total. Similarly, €4.9 billion – or a 34% share of the total – will have a Green label.

We continue to steer on ESG performance by our clients through the ESG performance tracker. Compared to previous years, FMO has extended its definition to monitor performance of a larger subset of clients. In 2020, 90% of ESG risks are managed at an amber or green level for all A and B+ ESG risk category clients and clients that require additional corporate governance support.

Deeper relationships

To increase our impact, we continue to collaborate and create partnerships with our stakeholders, including public and private parties. For instance, we are developing new mobilizing vehicles together with institutional investors to increase private direct mobilized funds towards impact projects. FMO expects to grow its direct mobilized portfolio by 6% to €3.2 billion. This will include additional investments of €902 million, 80% of which will come from private funds.

We will invest €100 million to support Dutch businesses and invest €195 million using public funds that we manage on behalf of the Dutch government and other public parties like the EU. We will continue to implement our stakeholder engagement strategy and introduce a quality of stakeholder relationship metric to measure the success of our engagement with stakeholders.

Furthermore, we will carry out and contribute towards EDFI harmonization efforts, harmonization of reporting standards and other industry standard setting initiatives. These are important in the context of impact, but also take time due to the complexity of topics and the need to achieve consensus among a large group of stakeholders. These activities will therefore continue beyond 2020.

Higher productivity

In 2020, we continue to increase our productivity by implementing a multi-year portfolio of projects across three areas: (1) implementation of our Strategy 2025, (2) regulatory and operational requirements and (3) foundation for the future. 85% of all planned deliverables will be realized by the end of the year. This includes completing large projects such as an upgrade of our core banking applications and enhancing our KYC policies and processes in line with the requirements of the Dutch Central Bank. We expect to achieve an operating income of €410 million and maintain a stable staff base to achieve our ambitions. We will continue with the operationalization of FMO's new organizational values.

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Dilemmas we face:

HOW SHOULD YOU RESPOND WHEN SHARES SWITCH INTO QUESTIONABLE HANDS?

In the aftermath of the failed Turkish coup d'état in 2016, a shareholder of one of our clients, allegedly a Gülen supporter, was imprisoned and forced to sell his shares to a businessman supported by the regime. For various reasons, FMO considered the new shareholder unacceptable.

Realpolitik

We determine whether we find an individual or organization acceptable, for example in KYC (Know Your Customer) terms, before entering into a financial relationship with them. But in this instance, we were suddenly saddled during a loan's lifetime with a new shareholder who didn't meet our standards. Requesting full repayment would have immediately plunged the company into deep financial trouble.

Our solution was to agree a much faster loan repayment schedule with the new shareholder, enabling us to terminate the relationship reasonably quickly. However, Turkey's rapidly deteriorating economic situation meant the company could not find a replacement bank, forcing us to continue our relationship with this undesirable shareholder.

Expect the unexpected

In a politically volatile country like Turkey, it's vital to check whether and how a shareholder is politically linked, and the potential consequences of any changes in the political landscape. This is typically part of our due diligence, but on this occasion, we did not foresee the course of events in Turkey in 2016.

In the fragile world in which FMO often operates, it's important to develop procedures that can accommodate the unexpected.

IN CONTROL STATEMENT

FMO has internal risk management and control systems that enable us to take risks and control them and that are based on international best practices.

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

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

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

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

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

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

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

These statements are based on our knowledge and belief that:

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

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

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

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

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

- A Financial Economic Crime Enhancement plan has been initiated to further improve our control around Client Due Diligence in 2019. The Management Board decided to re-design the FEC Enhancement project (which is currently in progress) to further increase the effort to demonstrate full compliance with regulatory requirements;
- Current and upcoming regulations put pressure on FMO and require significant attention and effort from its resources. New and changed regulations are being monitored on different levels but will be integrated in 2020 in one framework;
- Data quality issues remain an attention point, although some data quality improvements have been realized. In order to further improve the accessibility, consistency, granularity and quality of risk and finance data, the Information Management Program that has been put in place will continue to further mitigate this risk;
- FMO is in the process of further strengthening its internal control framework for front-to-end processes. The Business Process Management function and an increase of the level of maturity of internal controls has been established in 2019. The implementation of the Control Testing process is on the agenda for 2020;
- As FMO has been adding more and complex programs with (relative) new donors like the Green Climate Fund, the European Commission and other investors, an improved risk and control system is implemented to monitor and steer on the progress of the programs and to monitor the quality of reporting on these programs.

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 2019 financial year of FMO and its consolidated companies; and
- The annual report describes the material risks that FMO faces.

The Hague, March 16, 2020

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

03 Report of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

The year 2019 has been a dynamic year for FMO. FMO is in a phase of enhancing professionalism in terms of data management systems and KYC procedures. Moreover, the focus on impact investment has been made more explicit in sourcing opportunities and providing loans and equity. Next to EU and government funds new private funds are entrusted to FMO, in particular by insurance companies and pension funds. Together with Climate Fund Managers and NGOs WWF and SNV, FMO has won the tender from the Dutch government for the Dutch Fund for Climate and Development. This unique partnership will be a test for a new business development model.

The influx of new money and the new partnerships also pose new challenges. The rise in the number of impact initiatives means the industry needs to harmonize its measuring and reporting methodologies. FMO took the lead in this area with peers from EDFIs.

FMO’s increased prominence, also in the media, illustrates the societal attention for its work and the projects that show shortcomings. FMO has around 800 clients in often fragile countries and takes risks that others shy away from. FMO operates in challenging markets where the local government often does not have the budget or the capabilities to provide a legal, social and/or physical infrastructure. FMO expects its clients to implement international ESG standards, increasing their scope of responsibility, where the government fails to do so. Having said that, there is a limit to FMO's and its clients’ responsibility, which FMO is finding hard to define.

In 2019 the Supervisory Board (SB) experienced this for itself. During a week-long visit to Kenya, we visited a wind farm that supplies 20% of Kenya’s energy. This gave us a better sense of the risks and opportunities on the ground, but also the dilemmas that FMO faces.

FMO continued to develop its organization and governance. An Executive Committee has been established to assist the three-person Management Board in strategic analysis and decision making. This step was needed to make FMO more agile in a rapidly changing world and to meet its impact and investment targets. It is also a response to the growth of the organization towards 700 staff and more active engagement with a larger number of stakeholders. With investment volumes also increasing, the need for further professionalization is apparent. FMO continued to increase its efficiency, IT capabilities and regulatory compliance, particularly in the challenging area of KYC. FMO hopes to harvest the fruits of these labors in 2020.

In 2019, we also saw FMO put more emphasis on its impact on equality, climate and jobs. Impact is embedded more fully in how FMO selects projects and grants approval to new investments. The Supervisory Board mirrored these developments by setting up an Impact Committee, which will operate alongside the existing Audit and Risk Committee and the Selection, Appointment and Remuneration Committee.

These internal developments are necessary to carry out FMO’s commitments, for instance FMO’s support for the Dutch Climate Accord, which aims for a 49% reduction of CO_2 by 2030. Dutch financial institutions like FMO have pledged to report the footprint of relevant assets as of 2020 and set reduction targets for domestic and international investments by 2022.

More than ever, FMO is relevant. So is its mandate to be additional to the market and take risks where others cannot. And yet FMO is a stable bank with investments spread across 83 countries and several currencies and sectors. It is FMO's ambition to bring others along on this journey. FMO’s support of NL Business will help Dutch businesses capitalize on impact investment opportunities and align their ambitions with the SDGs. This all in alignment with the development strategy of the Dutch government, FMO's major shareholder and partner.

Corporate governance

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

Composition of the Supervisory Board

At year end 2019, the Supervisory Board comprised three male and two female members and there is one vacancy. The Executive Committee (ExCo) consists of five male and four female members, with one vacancy. FMO aims to have a balanced composition of the different boards in terms of gender, experience, age, professional background and nationality. Further personal details on the members of the Supervisory Board can be found in the section Members of the Supervisory Board.

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

Permanent education

For the first time the Supervisory Board held its Lifelong Learning program in one of FMO's working areas, namely Kenya. Most of the subjects required by the Dutch Banking Code were included. The Supervisory Board looked at the sectors FMO invests in, discussed NL Business, the challenges and opportunities of clients, the SDGs, (measuring) impact and additionality, co-investments, partnerships, innovation, cyber security and FMO's local office. The Supervisory Board visited several clients in Kenya and more clearly saw where and how dilemmas occur. In October 2019 the program was completed with an in-house session around IT, Tax and Treasury.

Evaluation

During the year several meetings between Supervisory Board and Management Board members have taken place to discuss the Management Board composition and to monitor its performance. The Management Board prepared a self-assessment and a team assessment of its functioning in 2019. The Supervisory Board evaluated the individual Management Board members by means of separate interviews conducted by two SB members. In those meetings, these assessments and among others the 2019 and 2020 objectives and targets were discussed, as well as the cooperation in the current MB setting and in the new setting of the Executive Committee. The conclusions will be implemented in the 2020 team and personal goals. The Supervisory Board discussed the outcome in a conclusive session without the Management Board present.

The Banking Code requires an external evaluator to conduct the Supervisory Board evaluation once every three years. This was done over the year 2018 in the current SB setting. The Supervisory Board evaluated its functioning in 2019 by means of a self-assessment questionnaire and discussed the outcome in a separate session. The functioning of the SB committees and the functioning of the individual members were part of the evaluation. It was found that the SB functioned according to what can be expected. Suggestions made by the members will be dealt with adequately. During the selection process of the three new SB candidates, the SB profile, the composition, competences, experience and knowledge were extensively discussed. Based on these meetings individual profiles were adapted to the current environment FMO finds itself in.

Meetings of the Supervisory Board

During 2019, the Supervisory Board held four regular meetings and three conference calls on topics that came up during the year. The SB had several sessions during the Kenya site visit. Among others the following topics were discussed: Invest NL, the Supervisory Board Impact Committee, the establishment of the Executive Committee, Business Process Optimization, specific issues and a large investment framework.

	Supervisory Board meeting	Audit & Risk Committee	Selection, Appointment & Remuneration Committee	Impact Committee	Lifelong Learning
P. Vellinga	7 of 7		3 of 3		1 week Kenya April + 22.10.2019
A.E.J.M. Schaapveld	6 of 7	3 of 3	-		1 week Kenya April + 22.10.2019
T. Menssen	7 of 7	3 of 3	-	1 of 1	1 week Kenya April + 22.10.2019
D.J. van den Berg	6 of 7		3 of 3	1 of 1	1 week Kenya April + 22.10.2019
J.V. Timmermans	6 of 7	3 of 3	-		1 week Kenya April + 22.10.2019
F. Karimi (SB member until June 2019)	3 of 4		1 of 3		1 week Kenya April

Committee activities

The Audit and Risk Committee (ARC) met three times. These meetings are in principle attended by the ARC members, the CEO, the CRFO, the Director Finance, the Director Risk, the Director Internal Audit and the external auditor. The Audit and Risk Committee discussed, for instance, yearly and half yearly reporting, risk appetite reports, the risk appetite framework, the impact of Basel IV, internal and external audit plans and reporting, ICAAP and ILAAP, and the status of Know Your Customer projects. The following key audit matters were discussed with the external auditor: IFRS 9 impairment of loans to the private sector, valuation of equity investments at fair value, reliability and continuity of the information technology and systems, and Green labelled investments.

The Selection, Appointment and Remuneration Committee met three times. It discussed among others the succession of the Supervisory Board members, the establishment of the Executive Committee and the Change & Implementation Plan of the corporate values that were introduced in 2019.

The Impact Committee was established mid-2019 to assist the Supervisory Board among others on FMO’s strategy with regards to Impact and ESG, and held one meeting. It discussed current impact and ESG policies, impact and ESG targets and steering, harmonization of development impact measurement methodologies and complaints.

A Nomination Committee has been active in recruiting three new SB members. By December 2019 the preferred candidates had been identified. The SB renewal is envisaged to be formalized at the General Shareholders meeting end of April 2020.

Independence, conflicts of interest and governance

The Supervisory Board is of the opinion that all of its members are independent, as meant by Best Practice Provisions 2.1.7 up to and including 2.1.9 of the Corporate Governance Code. No direct, indirect or formal conflicts of interest were identified in 2019. FMO has specific regulations concerning private investments. Compliance by Supervisory Board members, Management Board members and all other employees with FMO’s regulations on private investments is addressed regularly.

Culture, including compliance

The Supervisory Board ensured that the compliance function is safeguarded within the Management Board and the Supervisory Board. In 2019, the Supervisory Board put more emphasis on supervising the improvement of KYC procedures. The Supervisory Board is updated in writing on compliance at every regular meeting. The Chairman of the Supervisory Board regularly meets with the Compliance Manager during the year and discusses issues where relevant.

On all levels of the organization, FMO puts strong emphasis on diversity. This regards diversity of cultural backgrounds, gender and skills and competences. FMO’s Human Resources department continues to pay special attention to strengthening the diversity of FMO’s workforce. The Supervisory Board welcomes this.

Proposals and recommendations to the Annual General Meeting

Having stated all of the above, the Supervisory Board endorses the report of the Executive Committee. We propose that the AGM adopt the 2019 Annual Accounts audited by EY Accountants LLP. In accordance with Article 6 (2) of the State-FMO Agreement of November 16, 1998 and the current dividend policy, we propose that the AGM approve the allocation of €118 million (2018: €147 million) to the contractual reserve. The remaining amount of €2.7 million (2018: €3.6 million) is the distributable component of profits. We recommend that the AGM adopt our proposal to pay a cash dividend of €6.77 (2018: €8.92) per share. This proposal for dividend distribution can be withdrawn if FMO's economical and financial conditions deteriorate significantly in the period up to the moment of distribution of the dividend. This reservation is the result of the recommendation of the European Central Bank on December 28, 2017 and adopted by the Dutch Central Bank.

The Supervisory Board will nominate three new Supervisory Board candidates for appointment, as a replacement of Pier Vellinga and Alexandra Schaapveld, who will be leaving us, and to fill the vacancy which arose when Farah Karimi became member of the Dutch Senate.

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

Members of the Supervisory Board

Front from left | **Thessa Menssen, Pier Vellinga (Chairman)**
Back from left | **Koos Timmermans, Dirk Jan van den Berg, Alexandra Schaapveld**

T. (Thessa) Menssen	P. (Pier) Vellinga, Chairman	F. (Farah) Karimi
Dutch, 1967, female	Dutch, 1950, male	Dutch, 1960, female
Appointment in current position: 2016-2020	Appointment in current position: 2008-2020	Appointment in current position: 2018 - 10 June 2019
Other positions: 1. Supervisory Board member Post NL 2. Supervisory Board member of the Scheepvaartmusem (National Maritime Museum) 3. Supervisory Board member of the Kröller Müller museum 4. Supervisory Board member Alliander, as of October 2019 5. Supervisory Board member Ecorys, as of May 2019	Other positions: 1. Director Climate and Water at the Wadden Academy 2. Chairman of the Board of URGENDA, the Netherlands platform for the promotion of sustainability in business practices, untill June 2019 3. Member of the Board of the Climate Adaption Services Foundation 4. Member of the Advisory Council of the Hogeschool Van Hall Latenstein, untill October 2019 5. Chair of the Foundation True Animal Protein Price Coalition, TAPPc, started 2019 6. Chair of the Foundation Obligatiehouders MisterGreen, started end december 2019 7. Chair of the Supervisory Council of the Foundation Celebrating Diversity / King of the Meadows	Other positions: 1. Member of the Supervisory Board of University NHL Stenden 2. Member of Advisory Board of NWO, the Netherlands Organisation for Scientific Research

J.V. (Koos) Timmermans	D.J. (Dirk Jan) van den Berg	A.E.J.M. (Alexandra) Schaapveld
Dutch, 1960, male	Dutch, 1953, male	Dutch, 1958, female
Appointment in current position: 2017-2021	Appointment in current position: 2016-2020	Appointment in current position: 2012-2020
Principal position: CFO of ING Group until February 2019	Principal position: Chair of the Executive Board of Sanquin Blood Supply	
Other positions: 1. Member of the Supervisory Board of Stadsherstel 2. Member of the Board of Foundation Post-Academic Medical Courses Indonesia	Other positions: 1. Vice-Chairman of the Supervisory Board of Gasunie 2. Member of the Governing Board of the European Institute for Innovation and Technology 3. Chair (non-executive) of the Board of TRADESPARENT BV: TP BV 4. Member of the 'Centrale Plancommissie' which has an advisory role for the Netherlands Bureau for Economic Policy Analysis (CPB) 5. President of the Atlantic Committee Netherlands 6. Member of the Academic Council of Technology and Innovation in the Netherlands	Other positions: 1. Non-Executive Director at Société Générale S.A., France 2. Non-Executive Director of Bumi Armada Berhad, Malaysia 3. Supervisory Board Member Vallourec S.A., France

CORPORATE GOVERNANCE

Good corporate governance at FMO is crucial for two reasons. First, as a public-private development bank, our own governance, structure and reporting lines must be both sound and transparent. Second, in order to carry out our mission we should set a high standard of corporate governance ourselves.

Articles of association

FMO's articles of association were last amended in 2009, the year in which the first version of the Dutch Corporate Governance Code came into effect. FMO's bylaws were updated in 2013 and we expect several of our bylaws will be updated in 2020.

Governance structure

FMO's corporate governance structure is based on the premise that FMO is a long-term partnership of stakeholders who, directly or indirectly, influence or are influenced by the achievement of our objectives. Stakeholders include clients, the Dutch government, shareholders and other providers of capital, employees, NGOs and local communities in the countries where we work, as well as partners.

FMO is expected to take the interests of all stakeholders into account at all times. In governance terms, this expectation is expressed through the responsibilities and accountability of the Management Board and Supervisory Board with regards to our shareholders and other stakeholders.

In 2019, management of our bank lay with the Management Board, which consisted of the Chief Executive Officer, the Chief Risk & Finance Officer and the Chief Investment Officer. They were formally responsible for the management of our bank and were appointed by the Supervisory Board.

P.J. (Peter) van Mierlo	**L.G. (Linda) Broekhuizen**	**F. (Fatoumata) Bouaré**
Chief Executive Officer	Chief Investment Officer	Chief Risk & Finance Officer
Dutch, 1963, male	Dutch, 1968, female	Ivorian (Ivory Coast), 1966, female
Appointment in current position 2018-2022	Appointment in current position 2014-2018, 2018-2022	Appointment in current position 2017-2021
Other positions: 1. Member Scientific Institute CDA 2. Member Supervisory Board (RvT) NL.IN.BUSINESS 3. Member Supervisory Board (RvT) Stichting Hoge Veluwe Fonds	Other positions: 1. Member of the Appeals Committee of the Foundation for Banking Ethics Enforcement and member of the Appeals Committee of DSI 2. Supervisory Board member of the Netherlands Council for Trade promotion (NCH) 3. Supervisory Board member Royal Institute of the Tropics (KIT) 4. Member of the Development Cooperation Committee of the Dutch Advisory Council on International Affairs 5. Member of the Advisory committee for Guarantee Program SME credits (Ministry of Economic Affairs and Climate) 6. Supervisory Board member Arise B.V. (until 23 May 2019)	Other positions: No other positions.

During 2019 it was deemed necessary to turn the three-person Management Board into a 10-person Executive Committee (ExCo), which would be responsible for the day-to-day management of the company. This is in response to the growing pace of change in our markets, the growth of our organization and the need to engage more actively with a larger number of stakeholders. The ExCo was officially established on 1 January 2020 and consists of the members of the Management Board, the Director Debt, the Director Finance, Impact & Data, the Director Human Resources, the Director Impact & ESG, the Director Partnerships for Impact and the Director Stakeholders, Strategy & Knowledge Management. In 2020, the Supervisory Board will deliberate on the way the contact with the ExCo should be formalized.

FMO's Supervisory Board supervises and advises the Management Board. New members of the Supervisory Board are appointed by the General Meeting of Shareholders on the nomination of the Supervisory Board. The Supervisory Board currently has three committees: the Audit and Risk Committee, the Selection, Appointment and Remuneration Committee, and, as of 1 July 2019, the Impact Committee, which advise and prepare decision-making. The Impact Committee allows the Supervisory Board to give more focused attention to this topic. The Committee will deal with subjects such as ESG (including human rights), impact strategy, impact measurement, (NGO) stakeholders and communication, audit, reporting and international developments regarding impact.

Appointment of both Supervisory Board and Management Board members is subject to the approval of the Dutch Central Bank, which assesses the reliability and suitability of candidates. FMO assessed the suitability of the new ExCo members and the Dutch Central Bank did not deem it necessary to make an additional assessment of its own. FMO organizes extra training where necessary and offers a Lifelong Learning Program to all members.

Organizational chart

Risk management framework

FMO has implemented a comprehensive risk management framework that reflects its banking license, state guarantee, and its mandate to do business in high-risk countries. The risk management framework is based on the three lines of defense principle, with the role of the first line of defense (investment departments and supporting functions) being balanced by the second line (Risk Management and Compliance) and the third line (Internal Audit) to provide independent assurance.

FMO's risk appetite is reconsidered annually and approved by the Management Board and the Supervisory Board. Adherence to risk limits is monitored by dedicated risk committees.

FMO applies a conservative capital management framework. The only risks that FMO actively pursues are credit risk and equity risk, resulting from loans to, and investments in private institutions in emerging markets. Diversification of investment risk is ensured through risk limits per country, region, sector, single and group exposures. Other risks that are not actively pursued, but are inherent to FMO's business, are also managed to remain with risk appetite.

FMO identifies and manages ESG risk as part of the investment process. ESG criteria and requirements are guided by various standards, such as the IFC Performance Standards, OECD Guidelines and the UN Guiding Principles on Business and Human Rights.

Finally, FMO has a compliance framework to ensure compliance with laws, regulations and ethical standards. This framework entails identifying integrity risks, designing policies, monitoring, training and providing ad-hoc advice. FMO monitors compliance risk indicators that are reported to, and steered on, by management.

For further information on our risk management please refer to the Risk Management section in the Consolidated Annual Accounts.

Aligned remuneration policies

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

FMO's remuneration policy for the Management Board aims to offer a competitive remuneration that allows us to attract, motivate and retain capable directors with sufficient knowledge and experience in international development finance. The remuneration policy is aligned with the mission of FMO, the corporate values, the strategy, the risk appetite as well as with the expectations of the various stakeholders. The remuneration policy does not incentivize directors to act in their self-interest or to take risks that do not fit within FMO's risk appetite. Furthermore, the policy aims not to reward this behavior after the event upon discharge of failing directors. The remuneration policy is based on a market median, composed of two equal proportions of a private benchmark (Dutch financial sector) and a public benchmark, taking into account the principles as applied by the State of The Netherlands as majority shareholder of FMO.

In principle, with effect from 2017, employment contracts of members of the Management Board are awarded for a definite period of time (with exception of internal appointments). In the event the employment contract is terminated before the expiry date, the maximum severance payment will amount one year's salary, unless the board member resigns voluntarily or the termination is the result of his or her actions.

The remuneration policy for the Management Board will be reviewed periodically (every three to four years) and amendments will be subject to approval of the AGM. During the May 2019 AGM a few elements of the remuneration policy were adjusted to be more in line with updated regulations and with policies applicable to the rest of the staff of FMO. In summary, the following items have been amended:

- Discontinuation of the profit-sharing scheme (for Management Board members, already effective from 1 January 2016 and for the entire FMO staff as from 1 January 2017);

- For commuting in The Netherlands, members of the Management Board may also opt for a lease car, an NS business card or a fixed gross mobility allowance;
- Discontinuation of individual Pension allowance and mortgage allowance for all employees joining FMO as from 1 January 2016. (Grandfathering existing allowances granted before 1 January 2016, applicable to one of the current Management Board members);
- Alignment of the applicable notice period.

More details on the remuneration of Management Board members and other specific staff members can be found on FMO's website. Remuneration aspects of Management Board members are also disclosed in the paragraph Related Party Information of the Annual Accounts. The ratio between the remuneration of our CEO (being the highest-paid individual) and the median of all other colleagues (including the other Management Board members) in December 2019 was 3.5 (2018: 3.5). Compared to what is seen in the financial sector in The Netherlands this ratio is relatively low.

Independent complaints mechanism

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

The independent expert panel has a dual mandate: a fact-finding and monitoring role and a problem-solving role. Escalating to the problem-solving role is only possible if all parties agree and there is a reasonable expectation that a mutually-agreed resolution of the complaint will be possible. For more information, please see the FMO website.

Corporate governance codes

FMO abides by two governance codes: the Dutch Corporate Governance Code and the Dutch Banking Code. We comply with the Banking Code or will otherwise explain in a document where and how we diverge from the Banking Code, including concrete examples. This document can be found on our website.

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 we have chosen to do so, nevertheless. The Supervisory Board and the Management Board fully endorse the basic principle on which the Code is based, namely that the company is a long-term partnership of our various stakeholders. In 2014, FMO published a policy specifically regarding bilateral contacts with our shareholders, which is provisioned by the Code and is available on our website.

FMO promotes diversity at all levels, including the Management Board and Supervisory Board. As principle 2.1.5 of the Code requires, FMO has diversity policies, which are included in the profiles of the Supervisory Board and the Management Board. The aim is to have well-balanced boards, which are up to their task and can come to good solutions, while considering the members' different perspectives, backgrounds and experiences. The Supervisory Board consisted of 50% men and 50% women in the first half of 2019; since mid-June there is one open vacancy. In 2019, the Management Board consisted of 33% men and 67% women. In both boards, the ages of the members are well distributed, and knowledge and experience comply with the applicable matrices. The Management Board has one African member, Fatoumata Bouaré.

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

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

BPP 2.2.2: This provision refers to reappointment of Supervisory Board members. The third term of four years, as meant in the previous version of the Corporate Governance Code, is split into two terms of two years in the current version of the Corporate Governance Code. Section 2.7 of the Supervisory Board Standing Rules, which deals with reappointments and the duration thereof, will be amended accordingly at the next revision. However, in practice only the Chairman of the Supervisory Board, Pier Vellinga, exceeds the eight years. The required explanation for this, is in short, that he was the best candidate to succeed the former Chairman, Jean Frijns, who retired October 1, 2017.

BPP 2.2.4: This provision requires a written (separate) succession plan, which focuses on knowledge, experience and diversity. At FMO, knowledge, experience and diversity are included in the Profiles of the Supervisory Board and the Management Board. Succession and knowledge are regularly discussed in meetings of among others the Selection, Appointment and Remuneration Committee. The Supervisory Board retirement schedule is placed on the website. Therefore, there is no separate plan. In November 2018, the Supervisory Board came to full strength and consisted until mid-June of six members again. During 2019 one of the Supervisory Board members left as she became member of the Dutch Senate. This caused a search for three new Supervisory Board candidates at once, situations which cannot always be prevented.

BPP 2.3.1: The Standing Rules of the Supervisory Board need to be amended, due to the establishment of the ExCo as per 1 January 2020.

BPP 2.3.10: This provision states that the Supervisory Board is supported by the Corporate Secretary of FMO. Section 6.1 of the Standing Rules of the Supervisory Board states that the SB secretary might also be one of its members. In practice, it is the Corporate Secretary of FMO. This will most likely be amended at the occasion of the next amendment, as the Rules need an update in connection with the Executive Committee.

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

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

BPP 4.2.3: This provision relates to analysts’ meetings and presentations to institutional investors. This provision is of no practical significance to FMO and therefore does not apply.

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

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

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

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

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

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

FMO Investment Management BV

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

FMO IM has a license as an investment firm and is authorized to provide investment advice. FMO IM has its own management board. As sole shareholder of FMO IM, FMO determines the charter and scope within which the company operates, and FMO has approval rights for specific matters.

HOW WE REPORT

We prepared this integrated annual report using the principles of the Integrated Reporting framework of the International Integrated Reporting Council (IIRC) and the GRI standards. We strive for transparent reporting on our strategy, the dilemmas that we face and the way in which we are implementing our strategy in order to create value for our stakeholders.

Legal entity

This report covers the activities of Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), FMO Investment Management B.V. (FMO IM), NedLinx B.V. and FMO's intermediate holding subsidiaries: Nuevo Banco Comercial Holding B.V., Asia Participations B.V., and FMO Medu II Investment Trust Ltd. A small part of FMO's activities falls under the Fonds Opkomende Markten (FOM) facility, which is guaranteed by the Dutch government.

FMO also manages funds for the Dutch government – MASSIF, Building Prospects (formerly known as the Infrastructure Development Fund) and the Access to Energy Fund (AEF) – and executes on the Capacity Development subsidy scheme.

As it is based in The Netherlands, the FMO group falls under the Dutch tax regime. Our interest income, dividends and capital gains are subject to local tax laws, taking into account double taxation treaties between The Netherlands and the countries where we invest.

Reporting policy

The period covered by this report is the calendar year 2019. The publication date of the previous annual report was March 25, 2019. There have been no significant changes to our legal structure, activities, policies or methods of measurement in the course of 2019 that would require a restatement of information.

The figures and percentages mentioned throughout this integrated report include the figures for FMO and its subsidiaries 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 US dollars. Unless explicitly stated in specific cases, all new commitments, mobilized funds and green investments mentioned throughout the report have been translated into our functional currency, the Euro, based on the foreign exchange rates at the date of contracting. Figures referring to the year end committed portfolio have been translated into euros using the year end foreign exchange rates.

For the closing-of-the-books processes, data was taken from our internal systems. Data pertaining to our portfolio was taken from financial systems. Non-financial elements of our portfolio, specifically data for measuring impact and footprint, are based on data from clients and macroeconomic data sources. Information on human resources comes from our HR systems and is linked to our salary administration systems.

Data quality is important as it forms the basis for management reporting and steering. To safeguard data quality, financial and non-financial data registration are embedded in our core investment process. The results are analyzed by an employee independent of the investment process, both on project level during the year and on an aggregated level after closing of the books. Beyond that, as a third line of defense, FMO's Internal Audit Department considers data quality and the underlying processes to be important audit areas.

The case studies included throughout the report offer insight into our activities and are not necessarily representative of our entire portfolio or of new commitments. They do, however, exemplify projects within our regions and strategic sectors, and highlight material activities of FMO and their inherent dilemmas from the perspective of different stakeholders.

Standards and reporting guidelines

This report has been prepared according to the legal requirements of section 2:391 of the Dutch civil code and the Dutch legal guidelines for management board reports, RJ 400. We have used the Integrated Reporting framework to describe how we create value for our stakeholders through our strategy aimed at being the preferred partner to invest in local prosperity. In the External Environment and Our Business Model we describe how we are steering the organization and what this means to achieving our strategy.

We apply the Global Reporting Initiative (GRI) Standards and the specific financial sector guidelines and have chosen to report in accordance with the 'Core' option. The Board Report consists of chapters 'At a glance', 'Report of the Executive Committee', 'Corporate Governance', 'Risk Management' and 'How we report'. Please refer to the separate GRI index for a detailed overview of all GRI disclosures.

The European Parliament has adopted an EU directive that requires eligible organizations and all banks to disclose non-financial and diversity information from the end of 2016. We have incorporated the elements of this directive in this report. Please refer to the reference table (annualreport.fmo.nl) to find the relevant information.

External assurance

We have engaged Ernst & Young Accountants LLP to audit the annual accounts and to perform a review of the Report of the Executive Committee section of this integrated report and an audit of the Materiality Assessment and the indicator Green investments (% of total volume). The scope of the review on this report is limited to the chapters 'At a glance', 'About this report', 'External environment', 'Our value creation model', 'Our investment process', 'Our strategy', 'Our performance', 'Our commitments', and 'How we report'. The review is conducted in accordance with Dutch Standard 3810N.

Materiality determination process

In 2019, we reviewed the results of the materiality survey performed in 2018 to determine the topics that matter most to our stakeholders to inform our strategy and reporting. Based on the stakeholder dialogue, each of FMO's stakeholder account managers has indicated if any shifts in material topics occurred in the past year. These views were then verified by desk research using internal documents and media reports. Our stakeholder dialogue and desk research indicate that the material topics from the 2018 survey are still most relevant to our stakeholders and continue to be material for FMO. No changes have been made to the materiality matrix compared to last year.

Stakeholder survey 2018

In September 2018, a survey was sent to over one hundred individuals, representing eight key internal and external stakeholder groups. For a description of our key stakeholders, please read chapter 'Our stakeholders and material topics'. Respondents were asked to rank fourteen topics relevant to FMO with respect to the importance stakeholders place on the topics and the degree to which they believe FMO has an impact through these topics. In addition, several of the fourteen main topics were divided into subtopics. Respondents were requested to rank subtopics, only if they had chosen a corresponding main topic, to provide deeper insights on topics relevant to certain stakeholders. Please refer to the list of topics and sub-topics.

We received a total of ninety responses, which cover our stakeholder groups as follows: fifteen clients, four State of The Netherlands, three shareholders, thirty nine employees including management, thirteen investors, six partner DFIs, six NGOs, four knowledge partners, and zero supervisors and regulators. Since we invest in more than eighty countries worldwide, we have not invited local communities and clients of clients for practical reasons.

Topics and subtopics

FMO used the issues raised by stakeholders in previous engagements as a starting point for identifying the material topics. Other commonly applied reporting guidelines (e.g. GRI, IFC performance Standards, and SASB) as well as reporting by peers and other financial institutions were also considered. In total fourteen matters were identified as topics relevant to FMO’s context. We also defined sub-topics for Development impact, Environmental footprint of FMO’s investments, Human rights, Client satisfaction and Employee engagement at FMO. Please refer to the list of topics and sub-topics.

GRI Dimensions

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. Results of the survey are plotted on a matrix along two dimensions in accordance with the GRI standards:

1. The substantive influence on the assessments and decisions of stakeholders (importance to stakeholders, plotted on the vertical axis); and
2. Significance of impact on society, environment and the economy (plotted on the horizontal axis).

Threshold

The results have been clustered in two quadrants:

1. Important and impactful topics (bottom-left corner), which are relevant to our stakeholders and FMO but not considered most important and impactful;
2. Highly important and very impactful topics (top-right corner), are those which our stakeholders consider most important and through which they believe FMO can have most impact. Seven topics were found in this threshold.

Calculation method

The survey results determine the position of topics along two dimensions: the importance to stakeholders (plotted on the Y-axis) and the significance of impact on society, environment and the economy (plotted on the X-axis). The scoring matrix looks at each axis separately, balancing the number of responses received for most against least important / significant impact. This yields a net result and (X, Y) scatterplot for each of the 14 main topics. Stakeholder responses are weighted by level of engagement and number of respondents per stakeholder group. FMO engages with many different stakeholder groups but engages most with those that have a high interest in and high influence on our business. These 'Dialogue' stakeholders are weighted higher (2x) than those categorized as 'Keep satisfied' or 'Keep informed'. A representative sample has been selected for each stakeholder group. As a result, some will include more respondents than others. To treat each stakeholder group equally - after applying the weights as explained above - results are normalized by taking the total number of respondents per stakeholder group and dividing it by the number of times a topic is chosen by that particular stakeholder group.

The results included in the matrix represent the aggregate scores for all stakeholder groups. As such it might be that specific topics score as important and impactful in our matrix, whereas for individual stakeholder groups or FMO the topic is highly important and very impactful. Examples include Client satisfaction and Employee engagement. We consider both topics as key to our mission and strategy, and as such continue to monitor and report on both.

FMO impact model

In 2019, we continued to use the FMO impact model to estimate the total number of direct and indirect jobs supported by FMO’s investments over the year. From 2020, we will use the Joint Impact Model, as described in chapter ‘Our commitments’. The jobs supported and GHG emissions avoided are estimated and reported in the year of commitment. The model makes use of data from international statistical sources and investment-specific information which we obtain from our customers’ annual accounts. We do not claim that the results of our model are exact, but they do provide insight in the progress made towards meeting our ambitious goal in a consistent manner.

Limitations of the model

The impact model allows quantifying the wider impact of investing in various economic regions and sectors, both directly and through financial institutions and funds. The impact model is an economic input-output model, which is a widely recognized academic method to depict inter-linkages between sectors, which enables the model to trace product and money flows through an economy. However, it is also important to point out the limitations of this methodology:

1. The model produces ex-ante estimates of impact. Realized impact (ex-post) on the ground can differ from ex-ante expectations;
2. Estimates of indirect impact are based on industry averages (via input/output tables). In reality indirect effects will be different at the individual company level due to differences in individual company characteristics. As a result, model outcomes become less accurate for smaller numbers of investments;
3. Estimates are based on historical relations, while the methodology is based on the most recent (macro) economic data available;
4. FMO's investments are treated as investments from any other lender and it has been assumed that FMO's financial support does not affect the relations of sectors within an economy;
5. Given that the analysis is conducted for a specific moment in time, it does not take into account any structural changes in the economy (e.g. increased productivity). To better reflect economic changes, an update of the statistical data was conducted in 2017.

Taking the limitations of the model into account, we use the results only on the portfolio (and sub portfolio) level. In addition, we perform activities to provide insight in ex-post development effects, such as monitoring of direct effects, sector evaluations, effectiveness studies and impact evaluations. For more information on how we measure impact and FMO's impact model, see FMO website. We refer to Annex 5 of the FMO Impact Model Methodology document for an overview of rules and assumptions.

Macroeconomic update of the impact model

At the start of 2017 we updated macroeconomic data used in the FMO impact model. The update ensures that the estimation of jobs supported reflects the actual economic situation as much as possible. Because of economic progress, capital scarcity tends to decrease and labor productivity tends to increase over time in the countries we invest in. The update therefore resulted ceteris paribus in roughly 10% less jobs supported per euro invested.

FMO attribution rules

The number of supported jobs and the amount of avoided GHG 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 mobilized by FMO ('mobilized funds'). The underlying assumption is that without FMO the third party would not have invested in the project. In 2019, the investments on behalf of third parties contributed to 16% of the number of jobs reported (2018: 30%) and to 33% of the amount of GHG avoided (2018: 35%).

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 two for equity products: both the number of jobs supported and the amount of GHG avoided by equity investments are multiplied by two. The equity multiplier increases the number of jobs supported in 2019 by 15% (2018: 8%) and the amount of GHG avoided in 2019 by 19% (2018: 2%).

Other reporting definitions

We have aligned our indicator definitions with internationally harmonized definitions if these are available. Below we have included the definitions of the reported indicators.

Avoided greenhouse gas emissions

We calculate the avoided greenhouse gases (GHG) of our clients for investments in renewable energy and energy efficiency projects in accordance with International Financial Institutions (IFI) Harmonized Approach to Greenhouse Gas Accounting. This is in line with the GHG Accounting Protocol. GHG avoidance for renewable energy projects is calculated as the expected electricity production once the project is operational, multiplied by the country emission factors in accordance with the IFI harmonized list of emission factors. The GHG avoidance for energy efficiency projects is the difference between the project GHG emissions and the most likely alternative (i.e. industry average GHG emission per kWh energy production). For investments in Green funds and Green lines to financial institutions, we estimate the expected GHG avoidance using a tool based on average GHG avoided per monetary unit per country and renewable energy technology. The reported amount of GHG avoided represents the expected annual GHG avoidance to be supported by the commitments of the reporting year, after applying FMO attribution rules (see above).

Carbon emissions from FMO’s own operations

Carbon emissions from FMO's own operations include GHG emissions scope 1 and 2, as well as part of scope 3 emissions related to staff travel. The carbon footprint has been calculated in accordance with the Greenhouse Gas protocol by an independent consultant.

Client satisfaction

Client satisfaction shows how satisfied clients are with the services FMO offers on a scale of 1 to 10. The client satisfaction score is calculated as the average of the scores given by respondents and expressed as an absolute number between 1 and 10. The scores for 2019 are based on 143 responses from clients that participated in a client satisfaction survey held in December 2019.

Committed portfolio

Total committed portfolio includes: 1) for debt – total commitment made to customers (committed not disbursed and outstanding principal amount), netted for guarantees received; 2) for equity – current exposure (fair value) plus remaining commitment reserved for all investments made; 3) for guarantees – limit amount.

Direct Jobs

Direct jobs are defined following the HIPSO definition as the “number of full-time equivalent employees as per local definition working for the client company or project”. This includes directly hired individuals and individuals hired through third-party agencies as long as those individuals provide on-site services related to the operations of the client company. Also, this includes full-time equivalent worked by seasonal, contractual and part-time employees.

Part-time jobs are converted to full-time equivalent jobs on a pro rata basis, based on local definition (e.g., if working week equals 40 hours, a 24 hr/week job would equal 0.6 FTE job). Seasonal or short-term jobs are prorated on the basis of the portion of the reporting period that was worked (e.g., a full-time position for three months would equal 0.25 FTE job if the reporting period is one year). If the information is not available, the rule of thumb is two part-time jobs equal a full-time job.

ESG Performance Tracker

ESG Performance Tracker is the system we use to monitor the ESG risks and performance of our high-risk clients. The tracking sheet contains a list of pre-defined E&S and CG risks, based on IFC performance standards and international best practice. The E&S specialists and CG specialists give each risk that is applicable to the client a weighting of low, medium or high. Subsequently, they assess how well the client is managing to mitigate the risk, giving a performance level of Green, Amber or Red. Green performance means the level of risk mitigation is acceptable to us at the moment of assessment. Amber performance means the risk is partially but not sufficiently managed. There is, however, a clear expectation of improvement. Red performance means that the risk is not being managed at the moment of assessment. The E&S specialists and CG specialists update the ESG Performance Tracker after due diligence, during annual review and when significant changes occur. Before contracting, an independent validation of the E&S risk assessment is carried out by the E&S specialist in the Credit Department.

ESG target definition

In 2019, the target population was determined based on the following criteria: new clients with an A or B+ E&S risk category (as defined by FMO's Sustainability Policy) or those supported by a corporate governance specialist that were contracted in 2017 and 2018 where FMO was in the lead. For these 40 clients, we set a target on the percentage of high and medium ESG risk items that, after one year from contracting, were managed in line with our standards or managed evidently towards meeting our standards.

E&S issues table

The E&S issues table was compiled as follows. First, we used client level data from the ESG performance tracking system for A and B+ clients to identify the risks that have the potential to have an adverse impact (medium risks) or are likely to have a significant adverse impact (high risks) on people and/or the environment. For those, we included the risks that – according to our assessment – are not adequately managed, and are scored ‘red’. Second, we supplemented the list with information from another internal system – Sustrack – that tracks progress towards implementing action items as agreed in the ESAP, and focused on overdue action items. Third, we discussed each item with the relevant Environmental and Social Officer (ESO) to describe the issue and follow-up that has since occurred. As performance tracker assessments are completed once a year or in the case of a large change or client event, we excluded those issues which – as confirmed by our ESOs – have since been resolved. As a result, the list consists of current issues that are a high priority for our deal teams.

Equivalent number of people served via power generation

The number of people served via on-grid power generation projects is estimated by dividing the annual amount of electric energy delivered to customers during the reporting period by the power consumption per connected capita. The power consumption per connected capita is calculated as the electric power consumption per capita divided by the electrification rate (source: World Bank / IEA data).

Green labelled investments

Definition

Green labelled investments contribute to climate mitigation, climate adaptation or other footprint reduction (water, waste, biodiversity). Green labels are applied ex-ante for the new commitments in a running year. Please note that we apply the labels to new commitments, but that these are referred to as investments throughout the report. To facilitate steering on SDG 13 through our Green label, we set an annual target on ‘Green’ as a percentage of new commitments that influences client selection, project preparation and investment decisions. FMO’s Green criteria for climate mitigation and climate adaptation are in line with the IDFC - MDB list of Green investments. FMO Green definition also recognizes activities that do not directly target climate change mitigation or adaptation yet have a positive impact on the environment including water treatment, waste management and biodiversity conservation ('other footprint reduction').

All Green labelled investments need to comply with two underlying Green principles by default, namely 1) Green investments should contribute to a genuine improvement beyond the local regulatory requirements; and 2) Green investments should not contribute to a long-term lock-in of high carbon infrastructure. Based on these principles, FMO has defined a non-exhaustive list of pre-approved eligible activities such as making, installing, distributing or financing renewable energy projects/products and agriculture in line with certain certification schemes. Improvements that are not included on this list, may still be found eligible if they meet the Green principles. In these cases, a minimum threshold of 20% improvement against a baseline needs to be substantiated. For example:

- Upgrade: If the investment is going towards an activity/equipment that is 20% more efficient than what it is replacing, FMO’s investment will be labelled 'Green' based on the amount of FMO's investment going towards that specific upgrade.
- Expansion: If the investment is going towards an activity that is 20% more resource efficient than the company's current practice, FMO’s investment will be labelled 'Green' based on the amount of FMO's investment going towards that specific expansion.
- Greenfield: If the investment is going towards an activity that is 20% more resource efficient than the current business as usual practice, FMO’s investment will be labelled as 'Green' based on the amount of FMO's investment going towards that specific greenfield.

Approval process

Investments can only be labelled Green following a robust approval process. The deal team is responsible to assess its investments based on FMO's Green principles and Green definition. The deal team should supplement the request with adequate substantiation for the Green eligibility of the financed activities. A specialist independent of the investment teams assesses the label request and determines the Green percentage. For example, if FMO finances an agricultural holding that has 30% of its operations certified under a pre-approved FMO certification while the rest are not certified and don't have other underlying Green elements, then the Green percentage for that investment will only be 30%. The approval process is traced and documented in Impact Card.

Scope

The volume of Green investments includes a decrease or increase in an existing commitment for an existing client, a new commitment for an existing client, or a new commitment for a new client. The volume of Green investments includes investments from FMO's own books, funds managed on behalf of the Dutch government and mobilized funds. Mobilized funds are amounts committed by third parties that are demonstrably mobilized by FMO. This includes participations that were on FMO's own books in earlier years and sold on to other investors in the running year, as well as guarantees provided by third parties on investments on FMO's existing portfolio.

FMO's full Green Methodology is available on FMO's corporate website.

Human rights due diligence indicator

The total number of significant investment agreements in FMO's portfolio for which E&S due diligence including human rights was performed, or human rights clauses were included in the contract. This includes all high E&S risk clients in our portfolio.

Investment volume

Total investment volume is the sum of new commitments made to customers in the reporting period by FMO, the public funds managed by FMO and by private and public participants directly mobilized by FMO.

Mobilized funds

Mobilized funds are amounts committed by third parties that are demonstrably mobilized by FMO. For example, syndicated loans where FMO is mandated arranger and parallel loans where FMO is formally in the lead. Also, loan participations by funds under advisory of FMO Investment Management are considered mobilized funds.

Net Promoter Score

Net Promoter Score shows the extent to which clients would recommend FMO to others. The client is regarded as 'promoter', 'passive' or as 'detractor'. The NPS is calculated by subtracting the percentage of 'detractors' from the percentage of 'promoters'. The score is expressed as an absolute number between -100 and +100. The scores for 2019 are based on 143 responses from clients that participated in a client satisfaction survey held in December 2019.

Number of micro loans financed

Micro enterprise loans with an original value up to US$10,000, as reported by our financial institution customers.

Number of SME loans financed

Small and medium enterprise loans with original value between US$10,000 and US$ 1,000,000, as reported by our financial institution customers.

Reducing Inequalities investments

FMO defines two sub-categories in social projects aimed at reduced inequalities: investments in the least developed countries (reducing inequality among countries) and investments in inclusive business (reducing inequality within countries). Least developed countries (LDCs) are identified by the United Nations as low-income countries confronting severe structural impediments to sustainable development.

Investments in inclusive businesses expand access to goods, services and livelihood opportunities on a commercially viable basis, either at scale or scalable, to people at the Base of the Pyramid (BOP). This is done by making them part of companies' value chain of suppliers, distributors, retailers or customers. Deals are eligible for inclusive business in case they relate to investment in inclusive business:

- Microfinance;
- Agricultural SME lending;
- Smallholder finance;
- Agribusinesses working with smallholders;
- Youth finance;
- Off-grid power;
- Innovative solutions for the 'Base of the Pyramid';
- Women-owned SME lending;
- Other inclusive business investments targeting female end-beneficiaries.

Whereas the sub-categories are similar to the inclusive business/gender categories of IFC, the eligibility criteria and thresholds are FMO-specific as other DFIs (including IFC) have not developed similar eligibility criteria.

Similar to Green labels, requests for Reducing Inequalities labels are made through Impact Card. For the LDC sub-label, a request is not needed if the investment is single-country and the country of impact is the same as the Country of Risk Exposure. A request for the LDC sub-label is only needed if the investment is multi-country with at least 50% of the investment expected to benefit LDC countries, or in the case the country of impact is an LDC and is different from the Country of Risk Exposure.

For the inclusive business sub-label, a request through the labels tab in Impact Card is always required. A deal team submits a request via Impact Card, after which Credit receives an email notification. Credit assesses the request for the relevant labels and decides whether the labels are granted. If the (sub)label is likely to be granted but more evidence is needed at a later stage (e.g. evidence of a use of funds clause in the contract), the label request can be conditionally approved. Credit archives the Green and Reducing Inequalities Labels tab and informs the deal team about the outcome of the assessment. Information on the Green and Reducing Inequalities status of the proposed transaction is to be included in the CIP and FP.

Smallholders supported

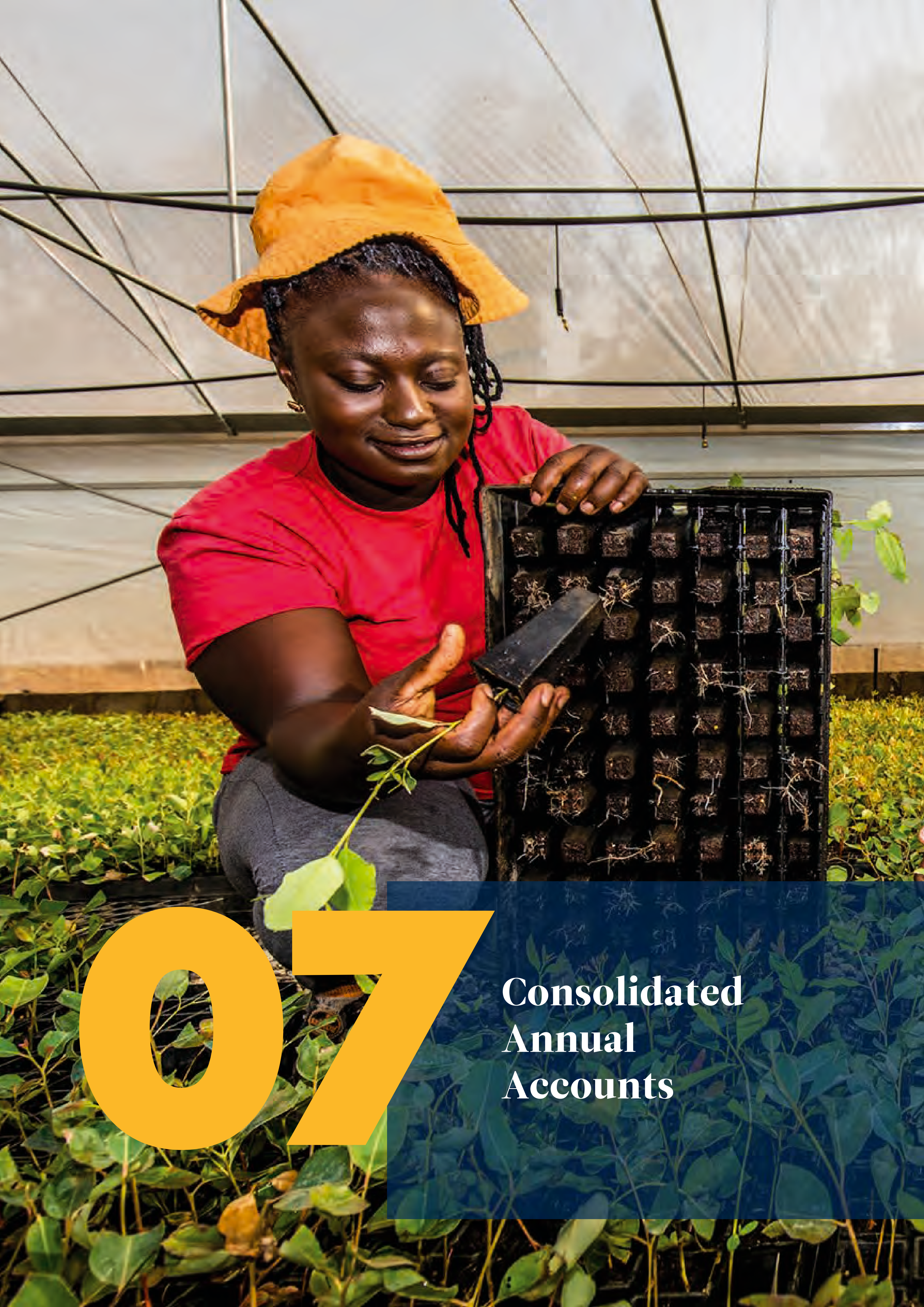
The number of smallholder farmers that have had active support from the client company in order to improve production practices that have beneficial effects on yields and/or reduce environmental degradation and/or improve social practices during the reporting period. Smallholder farmers are defined as 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 limited access to technology, 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 documents of the reported number of smallholders supported are usually social reports or management reports from our customers.

ANNEX 1 - E&S ISSUES TABLE

Industry	Description of the issue	FMO engagement with the client
AFW	Improvements on housing for workers are delayed as a result of cash shortage.	FMO monitors the issue closely, and will press for investment in this part of the project as soon as the client's financial position improves.
AFW	The adequacy of water supply is a concern.	FMO supported a study and will continue to support water management by the client.
AFW	Delays in implementing the environmental and social action plan.	The client has agreed to increase environmental and social capacity.
AFW	Client management of environmental and social risks is deemed insufficient.	External expertise was engaged to define and implement a plan to better manage these environmental and social risks.
AFW	Lack of operational processes to identify and manage environmental and social risks.	FMO put a contractual condition to engage an external advisor to help develop policies and procedures for the management of environmental and social risks.
AFW	A delay in the execution of a labor audit.	FMO used its leverage to ensure satisfactory completion of the labor audit.
AFW	Identified risks related to dust explosion.	The client agreed to a remediation plan.
AFW	A client motor vehicle accident resulted in fatalities.	An investigation was conducted by the client, and FMO engaged in the identification and implementation of follow up actions to address the root causes of the accident.
AFW	Client did not put in place the equipment required to control emissions.	The client agreed to install the missing equipment.
AFW	Waste water monitoring showed values above limits.	FMO has requested a root cause analysis to work towards a solution.
AFW	The client's management system requires improvement in order to manage elevated environmental and social risks associated with business expansion.	FMO recommended several actions to address the short and long term risks. We also used our leverage to require the company to engage an expert to monitor the new activity and to develop an integrated management system to address the risks posed by the expansion.
AFW	Delays in addressing gaps in past and future resettlement.	FMO used its leverage to encourage the lead lender and the client to address the gaps.
AFW	Slow progress in the management of key environmental and social risks in combination with high contextual risk.	FMO uses its leverage to ensure the key risks are addressed.
AFW	Improvements on housing for workers are delayed as a result of cash shortage for the overall project.	Given good progress with other key environmental and social management measures, FMO will press for investment in this part of the project as soon as the client's cash position improves.
AFW	Occupational health and safety practices are deemed below acceptable standards.	FMO supports the client in reinforcing occupational health and safety and environmental and social risk management more broadly.
AFW	Legacy issues related to past resettlement.	FMO supports the client in developing a multi stakeholder platform that helps different parties to come together and work towards a resolution.
AFW	A work place accident resulted in multiple fatalities.	An investigation was conducted by the client, and FMO supported in the identification of follow up actions to address root causes. FMO will continue to monitor the implementation of these actions.
AFW	Absence of a storm water management system	The client agreed to make this a priority and has agreed plans to close this gap.
Diverse sectors	A workplace accident resulted in multiple fatalities.	A full investigation was conducted by the client, and FMO supported in the identification of follow up actions to address improvements in the client's occupational health and safety management system. FMO will continue to monitor the implementation of these actions.
Diverse sectors	Long working hours. Increased exposure to health and safety risks.	FMO used its leverage to get labor and working conditions improved.
Diverse sectors	National labor law and regulation are deemed insufficient in protecting labor rights.	FMO is using its leverage to encourage the client to improve labor and working conditions beyond national requirements.

Industry	Description of the issue	FMO engagement with the client
Diverse sectors	The client's management system requires improvement to manage elevated environmental and social risks associated with business expansion.	The client has agreed to draft an action plan to bring its operations in line with international standards.
Diverse sectors	Delay in applying international resettlement standards.	Client has agreed to address the gaps with regards to international resettlement standards once the client's financial position improves.
Diverse sectors	Environmental and social risk management deemed insufficient.	FMO uses its leverage to establish a better information flow and achieve client agreement on actions needed.
Diverse sectors	More understanding is needed of the impact of future project developments related to surrounding communities.	An external consultant was engaged to do a follow up study.
Energy	Community engagement and benefit sharing are deemed insufficient.	FMO has supported the client with the engagement of a social expert to help improve community engagement and benefit sharing.
Energy	A number of serious accidents, including fatalities, occurred.	FMO will continue to engage to better understand the root cause of these accidents, and the adequacy of the company's health and safety management system.
Energy	Environmental and social risk management deemed insufficient.	FMO is working with the client to address the outstanding environmental and social and other operational issues.
Energy	Significant improvements deemed necessary with respect to several environmental and social risks.	The client has followed up on the recommended actions, and FMO continues to monitor the project closely.
Energy	Troubled relationship with part of the Indigenous Peoples community.	FMO supports the client in developing a multi stakeholder platform based on mutual trust and respect between the project and surrounding communities.
Energy	Client deemed to insufficiently meet requirements with respect to Indigenous Peoples.	FMO is seeking possibilities to increase leverage to get the requested actions implemented.
Energy	Environmental and social risk management requires improvement.	An external consultant provided guidance and training to the client's environmental and social team.
Energy	Civilians are disrupting project construction.	An external consultant was engaged to identify root causes for the opposition and work towards a solution.
Energy	A workplace fatality occurred.	FMO supports the client in the identification and implementation of follow up actions to address the root cause of the accident.
Energy	Impacts on biodiversity insufficiently identified and managed.	FMO supports the client to identify gaps in the environmental and social management system and more broadly address them.
FI	Environmental and social due diligence by the client is deemed insufficient.	FMO supports the client in improving its environmental and social risk management.
FI	An environmental and social policy has not been implemented consistently throughout the bank's portfolio and monitoring of end-clients is lagging.	FMO used its leverage to encourage the client to further develop its environmental and social management system.
Fund	Client related environmental and social resources reduced while the portfolio remained unchanged.	FMO uses its leverage to encourage the client to increase environmental and social resources. Meanwhile, FMO has increased monitoring of this client.
Fund	The client underestimated the elevated ESG risk exposure associated with a business expansion.	FMO supports the company's environmental and social team and monitor progress made towards the implementation of additional environmental and social assessments.
Fund	Delayed environmental and social risk assessment by the client.	A consultant has worked closely with our client to support communications about the current status of environmental and social risk management.
Fund	Insufficient reference to international standards in the fund's environmental and social management system.	FMO supports the fund manager to integrate environmental and social risk management with international standards.
Fund	Environmental and social risk management at a newly acquired facility deemed insufficient.	An external expert supports the client in developing and implementing an environmental and social management system.


MICROSCOPE



07

Consolidated Annual Accounts

Consolidated balance sheet

As at 31 December 2019

(before profit appropriation)	Notes	2019	2018
Assets			
Banks	(1)	64,626	54,642
Current accounts with State funds and other programs	(2)	1,194	494
Short-term deposits	(3)		
-of which: Amortized cost		446,708	391,635
-of which: Fair value through profit or loss		926,769	756,216
Interest-bearing securities	(4)		
-of which: Amortized cost		350,237	402,380
Derivative financial instruments	(5)	301,237	247,823
Loans to the private sector	(6)		
-of which: Amortized cost		4,334,109	4,085,022
-of which: Fair value through profit or loss		696,513	685,799
Equity investments	(8)		
-of which: Fair value through OCI		122,921	77,553
-of which: Fair value through profit or loss		1,756,644	1,504,427
Investments in associates	(9)	285,867	215,539
Current tax receivables		46,484	24,448
Other receivables	(10)	25,824	20,597
Property, plant and equipment	(11)	28,289	1,677
Intangible assets	(12)	17,585	13,505
Deferred income tax assets	(30)	6,986	8,357
Total assets		**9,411,993**	**8,490,114**
Liabilities			
Short-term credits	(13)	94,339	76,051
Current accounts with State funds and other programs	(14)	2,832	4,173
Derivative financial instruments	(5)	257,171	217,174
Debentures and notes	(15)	5,808,182	5,139,881
Wage tax liabilities		412	262
Accrued liabilities	(16)	22,983	10,086
Other liabilities	(17)	43,959	1,331
Provisions	(18)	49,440	54,547
Deferred income tax liabilities	(30)	5,638	2,801
Total liabilities		**6,284,956**	**5,506,306**
Shareholders' equity			
Share capital		9,076	9,076
Share premium reserve		29,272	29,272
Contractual reserve		2,379,350	2,261,694
Development fund		657,981	657,981
Fair value reserve		33,082	17,773
Actuarial result pensions		-13,974	-21,123
Translation reserve		-2,742	-6,758
Other reserves		32,162	32,162
Undistributed profit		2,707	3,570
Shareholders' equity (parent)		**3,126,914**	**2,983,647**
Non-controlling interests		123	161
Total shareholders' equity		**3,127,037**	**2,983,808**
Total liabilities and shareholders' equity	**(19)**	**9,411,993**	**8,490,114**
Contingent assets and liabilities:			
- Encumbered funds (single resolution fund)	(31)	389	-
- Effective guarantees issued	(31)	98,370	75,066
- Effective guarantees received	(31)	-211,194	-199,027
Irrevocable facilities	(31)	1,782,882	1,809,189

Consolidated profit and loss account

For the year ended 31 December 2019

(before profit appropriation)	Notes	2019	2018
Income			
Interest income from financial instruments measured at AC		322,735	298,099
Interest income from financial instruments measured at FVPL[1]		53,524	37,996
Interest expenses from financial instruments measured at AC		-136,758	-102,464
Interest expenses from financial instruments measured at FVPL		-24,283	-23,742
Net interest income	**(20)**	**215,218**	**209,889**
Fee and commission income		7,212	6,636
Fee and commission expense		-11,226	-10,757
Net fee and commission income	**(21)**	**-4,014**	**-4,121**
Dividend income	(22)	29,645	28,287
Results from equity investments	(23)	73,277	40,841
Results from financial transactions	(24)	-20,000	-22,239
Remuneration for services rendered	(25)	30,061	29,094
Gains and losses due to derecognition	(26)	3,916	14,980
Other operating income	(27)	1,695	589
Total other income		**118,594**	**91,552**
Total income		**329,798**	**297,320**
Operating expenses			
Staff costs	(28)	-90,250	-79,291
Administrative expenses	(29)	-32,195	-23,628
Depreciation and impairment of PP&E + intangible assets	(11), (12)	-7,809	-3,769
Other operating expenses		-165	-67
Total operating expenses		**-130,419**	**-106,755**
Impairments on			
Interest-bearing securities	(4)	-5	-18
Loans	(6),(7)	-91,038	-27,553
Loan commitments	(31)	-1,849	4,265
Guarantees issued	(31)	964	308
Total impairments		**-91,928**	**-22,998**
Results on associates			
Share in the result of associates	(9)	11,077	-1,696
Total result on associates		**11,077**	**-1,696**
Profit before taxation		**118,528**	**165,871**
Income tax	(30)	1,884	-14,738
Net profit		**120,412**	**151,133**
Net profit attributable to			
Owners of the parent company		120,363	150,821
Non controlling interest		49	312
Net profit		**120,412**	**151,133**

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

Consolidated statement of comprehensive income

For the year ended 31 December 2019

(before profit appropriation)	Notes	2019	2018
Net profit		**120,412**	**151,133**
Other comprehensive income			
Share of other comprehensive income of associates due to exchange differences		4,016	9,938
Income tax effect		-	-
Items to be reclassified to profit and loss	**(32)**	**4,016**	**9,938**
Fair value reserve of equity instruments at FVOCI		18,146	-245
Actuarial gains/losses on defined benefit plans	(18)	8,722	1,923
Income tax effect		-4,410	-1,733
Items not reclassified to profit and loss	**(32)**	**22,458**	**-55**
Total other comprehensive income, net of tax		26,474	9,883
Total comprehensive income		**146,886**	**161,016**

Total comprehensive income attributable to:			
Owners of the parent company		146,837	160,704
Non-controlling interests		49	312
Total comprehensive income		**146,886**	**161,016**

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2019

	Share capital	Share premium reserve	Contrac-tual reserve	Develop-ment fund	Available for sale reserve	Fair value reserve	Actuarial result pensions	Trans-lation reserve	Other reserves	Undis-tributed profit	Non-controlling interests	Total
Balance at 31, December 2017	**9,076**	**29,272**	**1,726,404**	**657,981**	**400,687**	**-**	**-21,369**	**-16,696**	**31,971**	**5,556**	**7,071**	**2,829,953**
Adjustments from adoption of IFRS 9	*-*	*-*	*388,039*	*-*	*-400,687*	*18,074*	*-*	*-*	*191*	*8,483*	*-*	*14,100*
Restated Balance at January 1, 2018	**9,076**	**29,272**	**2,114,443**	**657,981**	**-**	**18,074**	**-21,369**	**-16,696**	**32,162**	**14,039**	**7,071**	**2,844,053**
Exchange differences on associates and subsidiaries	-	-	-	-	-	-	-	9,938	-	-	-	9,938
Fair value reserve of equity instruments at FVOCI	-	-	-	-	-	-245	-	-	-	-	-	-245
Actuarial gains/ losses on defined benefit plans	-	-	-	-	-	-	1,923	-	-	-	-	1,923
Income tax effect other comprehensive income	-	-	-	-	-	-56	-1,677	-	-	-	-	-1,733
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**-**	**-301**	**246**	**9,938**	**-**	**-**	**-**	**9,883**
Changes in subsidiary Equis DFI Feeder L.P.[2]	-	-	-	-	-	-	-	-	-	-	-7,222	-7,222
Net profit	-	-	147,251	-	-	-	-	-	-	3,570	312	151,133
Dividends	-	-	-	-	-	-	-	-	-	-14,039	-	-14,039
Balance at December 31, 2018	**9,076**	**29,272**	**2,261,694**	**657,981**	**-**	**17,773**	**-21,123**	**-6,758**	**32,162**	**3,570**	**161**	**2,983,808**
Adjustments from adoption of IFRS 16 (net of tax)	-	-	-	-	-	-	-	-	-	-	-	-
Balance at January 1, 2019	**9,076**	**29,272**	**2,261,694**	**657,981**	-	**17,773**	**-21,123**	**-6,758**	**32,162**	**3,570**	**161**	**2,983,808**
Exchange differences on associates and subsidiaries	-	-	-	-	-	-	-	4,016	-	-	-	4,016
Fair value reserve of equity instruments at FVOCI	-	-	-	-	-	18,146	-	-	-	-	-	18,146
Actuarial gains/ losses on defined benefit plans	-	-	-	-	-	-	8,722	-	-	-	-	8,722
Income tax effect other comprehensive income	-	-	-	-	-	-2,837	-1,573	-	-	-	-	-4,410
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**-**	**15,309**	**7,149**	**4,016**	**-**	**-**	**-**	**26,474**
Changes in subsidiary Equis DFI Feeder L.P.[2]	-	-	-	-	-	-	-	-	-	-	-87	-87
Net Profit[1]	-	-	117,656	-	-	-	-	-	-	2,707	49	120,412
Dividends	-	-	-	-	-	-	-	-	-	-3,570	-	-3,570
Balance at December 31, 2019	**9,076**	**29,272**	**2,379,350**	**657,981**	**-**	**33,082**	**-13,974**	**-2,742**	**32,162**	**2,707**	**123**	**3,127,037**

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

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

Consolidated statement of cash flows

For the year ended 31 December 2019

	Notes	2019	2018
Operational activities			
Net profit		120,412	151,133
Adjustment for non-cash items:			
- Result of associates		-11,077	1,802
- Unrealised (gains) losses arising from changes in fair value[1]		-11,945	12,782
- Unrealised (gains) losses arising from changes in foreign exchange rates		-44,166	18,924
- Unrealised (gains) losses arising from other changes[2]		19,858	7,178
- Amortization of premiums/discounts debentures and notes		4,923	6,208
- Impairments		91,928	22,998
- Depreciation and impairment of PP&E and intangible assets	(11),(12)	7,809	3,769
- Income tax expense/(gain)		-1,884	14,738
Changes in:			
- Income taxes payable / receivable		-20,153	-62,909
- Loans		-345,187	-437,930
- Equity investments and investments in associates		-262,655	-126,855
- Other assets and liabilities[3]		79,357	119,453
- Short-term deposits > 3 months[3]		283,929	-261,630
- Short-term credits[3]		18,400	-50,377
Net cash flow from operational activities	**(33)**	**-70,451**	**-580,716**
Investment activities			
Purchase of interest-bearing securities	(4)	-	-54,826
Redemption of interest-bearing securities	(4)	54,505	18,976
Investments in PP&E and intangible fixed assets	(11),(12)	-20,970	-6,714
Disinvestments in PP&E and intangible fixed assets	(11),(12)	376	629
Net cash flow from investment activities	**(34)**	**33,911**	**-41,935**
Financing activities			
Proceeds from issuance of debt securities, debentures and notes	(15)	1,704,123	984,758
Redemption of debt securities, debentures and notes	(15)	-1,142,217	-1,006,646
Lease payments	(11)	-3,393	-
Dividend paid		-3,570	-14,039
Net cash flow from financing activities	**(35)**	**554,943**	**-35,927**
Net cash flow		**518,403**	**-658,578**
Cash and cash equivalents			
Net foreign exchange difference		15,091	-16,411
Banks and short term deposits at January 1		904,609	1,579,598
Banks and short term deposits at December 31	(36)	1,438,103	904,609
Total cash flow		**518,403**	**-658,578**
Operational cash flows from interest and dividends			
Interest received		350,697	317,235
Interest paid		-161,040	-129,493
Dividend received		29,645	26,172
Interest paid for lease liabilities		-185	-

1 Unrealized (gains) losses arising from changes in fair value related to fair value changes in loans to private sector, derivatives, equity investments, debentures and notes.

2 Unrealized (gains) losses arising from other changes relate to changes in accrual and amortizable fees of financial assets and liabilities.

3 Movement is excluding foreign exchange results. Foreign exchange results are included in unrealized gains (losses) arising from foreign exchange rates.

Accounting policies

Corporate information

The 2019 financial statements of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereafter referred to as 'FMO' or 'the company') were prepared by members of the Executive Committee and signed by all members of the Management Board and the Supervisory Board on March 16, 2020 and will be submitted for adoption in the General Meeting of Shareholders on April 23, 2020.

FMO was incorporated in 1970 as a public limited company with 51% of shares held by the Dutch State and 49% held by commercial banks, state unions and other members of the private sector. The company is located at Anna van Saksenlaan 71, The Hague, The Netherlands and is registered under ID 27078545 in the Chamber of Commerce. FMO finances activities in developing countries to stimulate private sector development. In addition, FMO provides services in relation to government funds and programs.

Financing and investing activities

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

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

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

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

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

Commercial fund management

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

Services in relation to government and public funding

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), Building Prospects (BP), Capacity Development Program (CD), Partnership Development Fund (PDF), Development Accelerator (DA), Fund Emerging Markets for Developing Countries (also called FOM-OS) and Dutch Fund for Climate and Development (DFCD).

FMO incurs a risk in MASSIF as it has an equity share of 2.17% (2018: 2.17%). 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 Dutch State. The economic risks related to these funds are predominantly taken by the Dutch government, and FMO has limited power over policy issues regarding these funds. FMO receives a remuneration fees for managing these funds. Therefore, with the exception of FMO's equity share in MASSIF, the funds' assets, results and liabilities are not included in the annual accounts. The segment information paragraph provides more detail on the loans and equity investments managed for the risk of the Dutch State.

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

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

In December 2018, the EC approved up to €75 million in guarantees and signed the contract for risk sharing facility NASIRA. The facility uses guarantees to allow banks to on-lend to under served entrepreneurs within the European neighborhood and Sub-Saharan Africa. It targets portfolios consisting of loans of young, female and migrant entrepreneurs including refugees, returnees and internally displaced people. The goal of these guarantees is to allow local banks to provide loans to groups they perceive as too risky. Risk sharing reduces the perceived and real risks of lending to vulnerable and under served parts of the population and enables financing for people who want to grow their business.

Significant accounting policies

Basis of preparation

The consolidated annual accounts (the 'annual accounts') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union and with Part 9 of Book 2 of the Dutch Civil Code for the financial period ended on December 31, 2019. These annual accounts are based on the 'going concern' principle.

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

- Equity investments, money market funds, commercial paper and all derivative instruments that are mandatory measured at fair value;
- The part of loans to the private sector which is measured mandatory at fair value (refer to business model assessment and contractual cash flow assessment in this chapter below)
- The carrying value of debt issued that qualifies for hedge accounting, is adjusted for changes in fair value related to the hedged risk;

Loans to the private sector and private equity investments (including FVOCI) are recognized on the balance sheet when funds are transferred to the customers' account. Other financial assets and liabilities are recognized on the same day that FMO becomes a party to the contractual terms and conditions of the financial instrument.

Reclassification

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year. Refer to underlying notes 11, 12, 20, 21, 26 and 27.

Group accounting and consolidation

The activities of Nuevo Banco Comercial Holding B.V., Asia Participations B.V., FMO Medu II Investment Trust Ltd. and Equis DFI Feeder L.P. consist of providing equity capital to companies in developing countries. FMO Investment Management B.V. carries out portfolio management activities for third party investment funds, which are invested in FMO's transactions in emerging and developing markets. Nedlinx B.V. is incorporated to finance Dutch companies with activities in developing countries. FMO has a 63% stake in Equis DFI Feeder L.P. and all other subsidiaries are 100% owned by FMO.

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., Equis DFI Feeder L.P. and Nedlinx B.V. are consolidated in these financial statements.

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 liable for all income tax liabilities for these subsidiaries.

Adoption of new standards, interpretations and amendments

Adopted

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

IFRS 16 - Leases

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Nature of the effect of IFRS 16

Prior to the adoption of IFRS 16, FMO only entered into operating leases where the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under prepayments and other liabilities, respectively.

FMO adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

Upon transition FMO recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases. Right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. This treatment was applied to all leases on a lease-by-lease basis.

FMO also applied the available transition relief, recognition exemptions and practical expedients wherein it:

- Only applied the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics instead of determining an incremental borrowing rate for every lease.
- Excluded initial direct costs from the measurement of right of use assets on transition.
- Applied the use of hindsight in determining which lease renewal options to include in assessing the lease term of right of use assets upon transition.
- Relied on an assessment of onerous contracts in order to determine whether any lease contracts give rise to an impairment on the related right of use asset.
- Has not separated non-lease components from lease components and instead account for all components as a lease.

Balance sheet impact - Increase in assets and liabilities	December 31, 2019	January 1, 2019
Property, Plant and Equipment - Right-of-use assets	23,424	15,352
Net impact on total assets	**23,424**	**15,352**
Other liabilities - Lease liabilities	23,509	15,352
Retained earnings	-85	-
Net impact on total liabilities and equity	**23,424**	**15,352**

Impact on profit (loss) for the year	December, 2019
Increase in depreciation and impairment of fixed assets	3,293
Increase in finance costs	185
Decrease in other operating expenses	-3,393
Decrease in profit for the year	85
Impact on other comprehensive income for the year	**-**

Summary of new IFRS 16 policies
Set out below are the new accounting policies of FMO upon adoption of IFRS 16, which have been applied from the date of initial application.

FMO assesses whether a contract is or contains a lease, at inception of a contract. FMO recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for leases of low value assets (value below EUR 5 thousand). For these leases, FMO recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

FMO recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of use assets are subject to impairment testing. Useful life for buildings is 10 years. Useful life for vehicles is 5 years and for office equipment ranges from 3 to 5 years.

At the commencement date of the lease, FMO recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by FMO and payments of penalties for terminating a lease, if the lease term reflects FMO exercising the option to terminate.

In calculating the present value of lease payments, FMO uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying value of the right-of-use asset.

FMO determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. FMO applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. After the commencement date, FMO reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew (e.g., a change in business strategy).

The following table shows the amounts recognised in the statement of financial position

	Building	**Office equipment**	**Vehicles**	**Total**
Operating lease commitments as at December 31, 2018	13,814	477	1,851	**16,142**
Weighted average incremental borrowing rate as at January 1, 2019	0.75%	1.00%	1.00%	
Discounted operating lease commitments at January 1, 2019	13,120	465	1,766	**15,351**
Lease liability as at January 1, 2019	13,120	465	1,766	**15,351**

IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments
The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. The interpretation has no impact on FMO.

Amendments to IAS 19 – Plan amendment, Curtailment or Settlement

In case of plan amendment, curtailment or settlement, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for re-measurement. Also these amendments include clarification of the effect of plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. This IAS 19 amendment is effective for annual periods beginning on or after 1 January 2019 and will have a minor impact when a plan amendment occurs and does not have an impact on financial statements of FMO.

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

The amendment clarifies that IFRS 9 is applicable to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Furthermore, the paragraph regarding interests in associates or joint ventures that do not constitute part of the net investment has been deleted. The amendment is expected to be effective starting from January 1, 2019. These amendments have no impact on FMO.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

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

Annual Improvements 2015-2017 Cycle

IFRS 3 Business combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 with early application permitted.

These amendments have no impact on the financial statements of FMO.

IFRS 11 Joint arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments have no impact on the financial statements of FMO.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after January 1, 2019 with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

These amendments have no impact on the financial statements of FMO.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

These amendments have no impact on the financial statements of FMO.

Issued but not yet adopted standards

Other significant standards issued, but not yet endorsed by the European Union and not yet effective up to the date of issuance of FMO's Annual Report 2019, are listed below.

Amendments to IAS 1 and IAS 8

The IASB has issued amendments of IAS 1 and IAS 8 to clarify the definition of material, specifically explaining obscuring, reasonable influence and primary users. The effective date for these amendments is for annual reporting periods beginning on January 1, 2020. FMO has adopted IFRS 9 Financial instruments in 2018 and has used various material estimates for that matter based on the current definition of material. In 2019 FMO will assess and incorporate the amendments to material into the valuation of all financial instruments. No early adoption has been performed by FMO.

Amendments to References to the Conceptual Framework in IFRS Standards

On March 28, 2018 IASB presented the revised Conceptual Framework for Financial Reporting. The Conceptual Framework is not a standard itself but can be used as general guidance for transactions / events where specific IFRS standards are not available. Main improvements in the revised Conceptual Framework contains the introduction of concepts for measurement and presentation & disclosures, guidance for derecognition of assets and liabilities. In addition definitions of an asset & liability and criteria for recognition have been updated. No early adoption has been performed by FMO for these amendments.

Amendments to IFRS 3 Business Combinations

On October 22, 2018 The IASB has issued narrow-scope amendments to IFRS 3 Business Combinations to improve the definition of a business. The amendments will help companies determine whether an acquisition made is a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the first annual reporting period beginning 2020. This amendment will have impact on future business acquisitions from FMO. As per December 31, 2019 FMO is not involved in any business combinations.

IFRS 17 Insurance Contracts

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

Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 Financial Instruments: Disclosures, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). The Board completed discussions and made tentative decisions related to the phase 2 of the reform in February 2020 (Phase 2 amendments) and expects to publish an exposure draft in April 2020. Tentative decisions are made regarding modification of a financial instrument made in the context of IBOR reform and provision of temporary relief for hedging relationships amended to reflect modifications that are required as a direct consequence of IBOR reform.

In January 2019, FMO started the BMR and IBOR ending project, a phased project with an expected end date of December 2021. FMO is preparing for the discount curve changes for EUR and USD derivatives (cleared interest rate swaps) later in 2020. Next to derivatives, impact is expected on valuations of other financial assets and liabilities mainly Loans to private sector and Debentures and Notes

The financial reporting impact relates to the hedge accounting impact of cleared and non-cleared derivatives discount curve change, the choice between cash compensation or compensating swaps. FMO expects the following transition that will impact hedge accounting:

- Discounting change of cleared derivatives (EUR and USD) in 2020;
- Discounting change for bilateral derivatives in 2021;
- Floating rate reference rate change for loans and derivatives in 2021.

The effective date of the amendments to the standards is for annual periods beginning on or after 1 January 2020, with early application permitted. The requirements must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. The Board tentatively decided that the effective date of the application of Phase 2 amendments is beginning on or after 1 January 2021, with earlier application permitted. No early adoption has been performed by FMO for these amendments.

Significant estimates, assumptions and judgments

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 loans to private sector, derivative financial instruments and equity investments based on generally accepted modeled valuation techniques;
- The determination of the ECL allowance for loans to private sector, loans commitments, guarantees given, interest bearing securities;
- The pension liabilities and determination of related deferred tax assets.

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

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

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 are reported using the closing exchange rate. Non-monetary assets that are not measured at cost denominated in foreign currencies are reported using the exchange rate that existed when fair values were determined.
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. When a gain or loss for non-monetary financial asset is recognized through FVOCI (fair value through other comprehensive income), any foreign exchange component of the gain or loss is also recognized through FVOCI.

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

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and when there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. FMO only applies offsetting on derivatives with a master netting agreement.

Fair value of financial instruments

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

Amortized cost and gross carrying amount

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

Gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Assets

Financial assets - classification

On initial recognition, a financial asset is classified as measured at amortized cost (AC), fair value through P&L (FVPL) or fair value through other comprehensive income (FVOCI)

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

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

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

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

For equity investments that are not held for trading an irrevocable election exists (on an instrument-by-instrument basis) to present subsequent changes in fair value in OCI.

Derivatives are mandatorily held at FVPL.

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

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

Business model assessment

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

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

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

Contractual cash flow assessment

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

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

Reclassification

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

Cash and cash equivalents (Banks and Short-term deposits)

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

Interest bearing Securities

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

Loans to private sector

Loans originated by FMO include:

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

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

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

Equity Investments

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

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

Investments in associates

Measurement and criteria

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

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

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

Impairment of investments in associates

Investments in associates are reviewed and analyzed at least on a semi - annual basis. A net investment in an associate is impaired or impairment losses occur where there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the net investment and the loss event has an impact on the estimated future cash flows from the net investment that can be reliably estimated. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is considered as the primary objective evidence of impairment, in addition to other observable loss events. FMO considers more than 10% difference between fair value and its cost as significant and greater than one year as prolonged.
When FMO decides to take an impairment on one of these investments, the impairment is recognized in the profit and loss account under 'Share in the results on associates'.

Property plant and equipment

Furniture and leasehold improvements

Property plant and equipment (PP&E) includes tangible assets such as buildings, vehicles, furniture, and office equipment.

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

Depreciation

Depreciation for furniture and leasehold improvement is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. Useful life for furniture is 5 years and 5 to 10 years for leasehold improvements.

These 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.

IFRS 16 leases: right-of-use assets

As per January 1 2019, FMO records the right-of-use assets for it's operational leases according to IFRS 16. Reference is made to 'IFRS 16 - Leases' section of this chapter. These assets consist of buildings, lease vehicles and office equipment.

Intangible assets

Software products

Expenditures directly associated with identifiable and unique software products or internally developed software, controlled by FMO and likely to generate economic benefits are recognized as assets. These assets include staff costs incurred to make these software products operable in the way management intended for these software products. These assets are recognized at cost less accumulated amortization and accumulated impairment losses. These assets generally have a definite useful life between 3 - 5 years.

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.

As from January 1, 2019 FMO has changed their assumption regarding the useful life of this internally developed software. As from 2019, FMO assesses the useful life of each new software individually while before 2019, useful life of 5 years was applied as assumption, which represented an average.

Amortization and impairment
Internally developed software is amortized on basis of the useful life on straight - line basis. Furthermore, these assets are tested for impairment when there is an indication of impairment, or annually in the case of software that is not yet ready for use. In case an asset is no longer in use, the asset is impaired.

Financial assets – Impairment

FMO estimates an allowance for expected credit losses for the following financial assets:

- Banks;
- Interest bearing securities;
- Loans to the private sector;
- Loan commitments and financial guarantee contracts issued (off balance items).

No impairment loss is recognized on equity investments. Specific impairments on loans guaranteed by the Dutch State are accounted for by FMO for uncovered amounts however these amounts can be eligible for compensation.

Impairment stages loans to the private sector

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

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

ECL measurement

The ECL model is primarily an expert based model and this model is frequently bench marked with other external sources if possible.

ECL measurement Stage 1 and Stage 2

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

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

Macro economic scenarios in PD estimates

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

The three scenarios applied are:

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

ECL measurement Stage 3

The calculation of the expected loss for Stage 3 is different when compared to the Stage 1 and Stage 2 calculation. Reason for this is that loan-specific impairments provide a better estimate for Stage 3 loans in FMO's diversified loan portfolio. The following steps are taken which serve as input for the IRC to decide about the specific impairment level:

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

Staging criteria and triggers

Financial instruments classified as low credit risk

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

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

All loans which have not had a significant increase in credit risk since contract origination are allocated to Stage 1 with an ECL allowance recognized equal to the expected credit loss over the next 12 months. The interest revenue of these assets is based on the gross amount.

Significant increase in credit risk (Stage 2)

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

- The change in internal credit risk grade with a certain number of notches (see diagram below) compared to the internal rating at origination;
- The fact that the financial asset is 30 days past due or more (unless reasonable information and supportable information is available demonstrating that the client can service its debt);
- The application of forbearance. (refer to section 'Modification of financial assets')

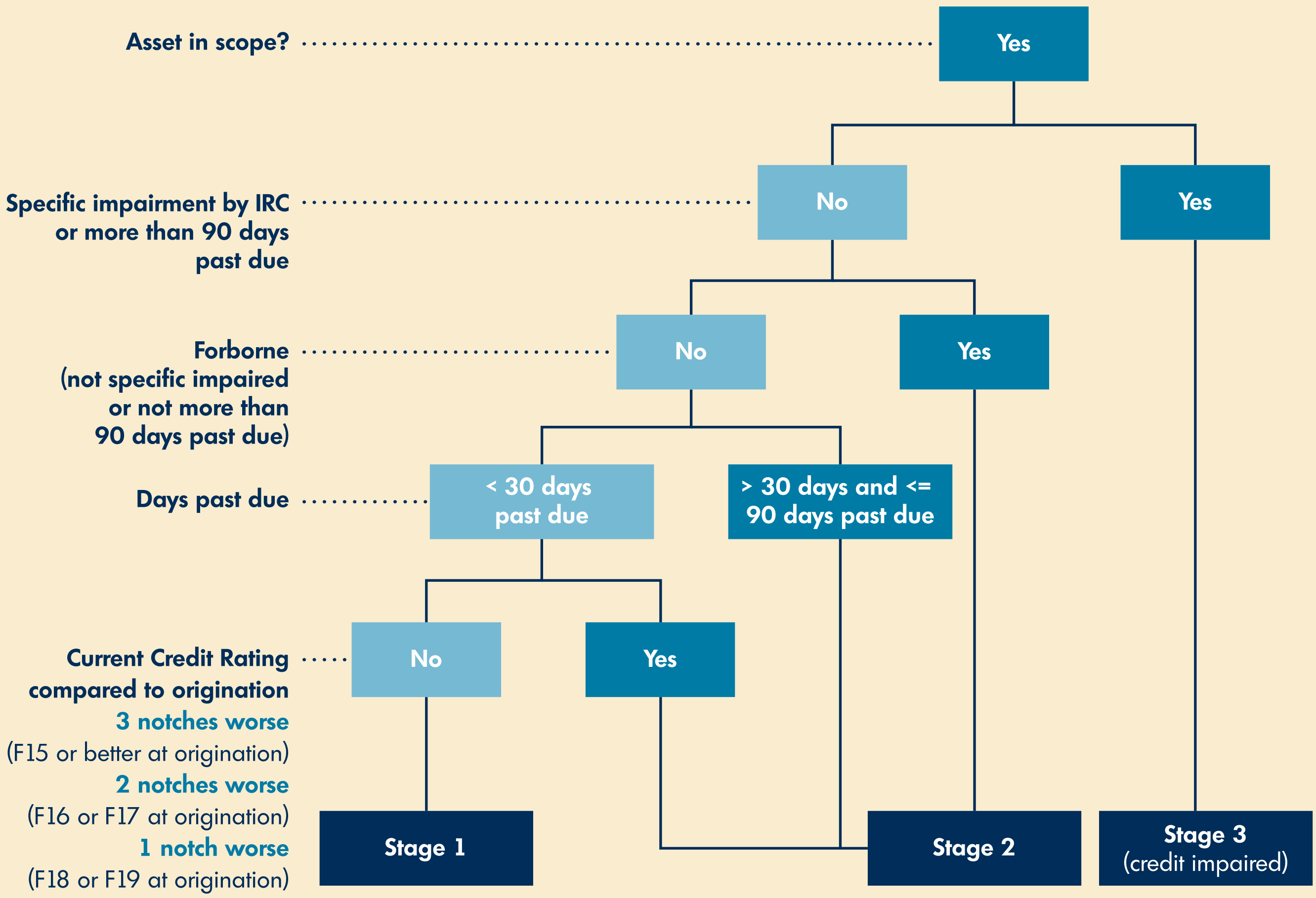
Definition of default - Stage 3 financial assets

A financial asset is considered in default when any of the following occurs:

- The client is past due more than 90 days on any material obligation to FMO, including fees (excluding on-charged expenses);
- FMO judges that the client is unlikely to pay its credit obligation to FMO due to occurrence of credit risk deterioration and the Investment Risk Committee (IRC) decides on a specific impairment on individual basis. The triggers for deciding on specific impairment include among others bankruptcy, days of past due, central bank intervention, distressed restructuring or any material adverse change or development that is likely to result in a diminished recovery of debt.

As per 2019, FMO has adjusted the Stage 3 definition and aligned this to the currently effective Basel definition of Default. This alignment is in line with market practices implemented by peers after implementation of IFRS 9 as per 2018. Comparatives for 2018 have not been restated as the impact on profit and loss statement is minor for loans which were more than 90 days past due and not specifically impaired.

The following diagram provides a high level overview of IFRS 9 staging triggers at FMO.



The table here below provides an overview how internal ratings are equivalent to external ratings.

Internal rating	Indicative external S&P rating
F9	BBB and higher ratings
F10	BBB-
F11	BB+
F12	BB
F13	BB-
F14	B+
F15	B
F16	B-
F17 and lower	CCC+ and lower ratings

Reversed staging

Reversed staging relates to criteria which trigger a stage transfer to Stage 1 for loans which are in Stage 3 or Stage 2. The following conditions must apply for a transfer to stages representing lower risk:

- Loans which are in stage 3 will revert to Stage 2 when the specific impairment is released by the IRC and there are no obligations past due for more than 90 days;
- Loans which are in stage 2 will only revert to stage 1 when internal ratings have improved to the zone lower than the minimum notch downgrade from origination that led to transition to stage 2, the forbearance probation period of minimum two years has passed and no material amounts are past due for more than 30 days.

Written-off financial assets
A write-off is made when a claim is deemed non - collectible, when FMO has no reasonable prospects of recovery after, among others, enforcement of collateral or legal enforcement with means of lawsuits. Furthermore, a write-off is performed when the loan is being forgiven by FMO. There are no automatic triggers, which would lead to a write-off of the loan; specific impaired loans are assessed on individual basis depending on their circumstances.

Write-offs are charged against previously booked impairments. If no specific impairment is recorded on basis of IRC decision making from the past, the write-off is included directly in the profit and loss account under 'Impairments'.

Modification of financial assets
In 2019, FMO enhanced the policy with criteria applied to determine derecognition and the events leading to recording of modification gain or loss in order to align the criteria more closely with the type of restructuring being carried out by FMO. The revised criteria make use of specific events-based triggers in order to determine whether a specific change in contractual terms gives rise to derecognition or modification instead of relying only on a quantitative threshold related to differences in net present value (NPV). Application of the revised criteria to the comparative figures for 2018 did not demonstrate any impact and as such the comparatives were not restated.

Modification of terms and conditions arise from lending operations where FMO enters into arrangements with their clients, which implies modifications to existing contractual cash flows or terms and conditions. Such arrangements are usually initiated by FMO when financial difficulty occurs or is expected with a borrower. The purpose of such an arrangement is usually to collect original debt over different terms and conditions from the borrower. Modifications may include extending the tenor, changing interest rate percentages or their timing, or changing of interest margin.

During the modification assessment, FMO will evaluate whether the modification event leads to a derecognition of the asset or to a modification accounting treatment. Generally loans that are sold to a third party or are written off lead to a derecognition. When existing debt is converted into equity, a derecognition of the debt will occur and recognized again on the balance sheet as equity. For modifications in interest percentages or tenor changes of existing amortized cost loans do not pass the SPPI test, the loan will also be derecognised and will be recognised as new loans on FMO's balance sheet according to the new classification.

When modification measures relate to changes in interest percentages or extensions of tenors and the loan is at amortized cost, FMO will recalculate the gross carrying amount of the financial asset by discounting the modified expected cash flows using the original effective interest rate and recognizes the difference in the gross carrying amount as a modification gain or loss under 'interest income related to financials assets at amortized cost'. However when the NPV of the original loan is substantially different than the NPV of the modified loan, the original loan is derecognized and re-recognized on the balance sheet. FMO considers a variance of greater than 10% as substantially different.

Modification of contractual terms versus forbearance
Forbearance is not an IFRS term, but relates to arrangements with clients which imply modifications to existing terms and conditions due to financial difficulties of the client. Financial difficulties include, among others, prospects of bankruptcy or central bank intervention. Forbearance must include concessions to the borrower such as release of securities or changes in payment covenants that implies giving away payment rights. Forbearance measures do not necessarily lead to changes in contractual cash flows.

Theoretically, modification of contractual cash flows or terms and conditions, does not necessarily apply to clients in financial difficulties or due to potential higher credit risk, however at FMO, a modification of the contractual terms is usually initiated when financial difficulty occurs or is expected. Therefore only in exceptional cases, changes in modifications of contractual terms not following from credit risk related triggers, will not lead to forbearance e.g. in case of an environmental covenant breach. At FMO, generally modifications will follow from financial difficulties of the borrower and will be classified as forborne assets.

Derivative instruments

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

Embedded derivatives
Part of the derivatives related to the asset portfolio concerns derivatives that are embedded in other financial instruments. Such combinations are known as hybrid instruments and arise predominantly from providing mezzanine loans and equity investments.

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

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

Treasury derivatives

FMO uses derivative financial instruments as part of its asset and liability management to manage exposures to interest rates and foreign currencies. FMO applies micro fair value hedge accounting to the funding portfolio with the purpose of mitigating exposure to interest rate risk (refer to hedge accounting paragraph in this section).

Furthermore, economic hedges are conducted to hedge items which do not fulfill the criteria of hedge accounting and are presented as 'Derivatives other than hedging derivatives'. Changes of market value for these derivatives are immediately recognized under profit or loss.

Definition Fair value hedges

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

Hedge accounting

FMO applies micro fair value hedge accounting when transactions meet the specified criteria. When a financial instrument is designated as a hedge, FMO formally documents the relationship between the hedging instrument(s) and hedged item(s). Documentation includes its risk management objectives and its strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. FMO only applies micro fair value hedge accounting on the funding portfolio. Changes in the fair value of these derivatives are recorded in the profit and loss account under results of financial transactions. Any changes in the fair value of the hedged liability that are attributable to the hedged risk are also recorded in the profit and loss account. If a hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the ‘unamortized fair value adjustment’) is amortized and included in net profit and loss over the remaining term of the original hedge. If the hedge item is derecognized, e.g. sold or repaid, the unamortized fair value adjustment is recognized immediately in profit and loss.

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

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

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

- There is an economic relationship between the hedged item and the hedging instrument, Economic relationship means that the hedging instrument and the hedged item must be expected to move in opposite directions as a result of a change in the hedged risk;
- The effect of credit risk does not dominate the value changes that result from that economic relationship. In other words, credit risk that can arise on both the hedging instrument and the hedged item in the form of counterparty’s credit risk or the entity’s own credit risk does not have a very significant effect on the fair value of the hedged item or the hedging instrument;

- The hedge ratio defined as the ratio between the amount of hedged item and the amount of hedging instrument shall not reflect an imbalance that would create hedge ineffectiveness. For a perfectly match of the underlying of the hedging instrument with the designated hedged risk, the hedge ratio would be 1:1 or less. The level of the hedge will be discussed by Treasury and Risk Management.

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

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

Further reference is made to Note 'Derivative financial instruments and hedge accounting'.

Rebalancing
Rebalancing is performed to align accounting with what has happened in the actual basis relationship, between the hedged item and hedging instrument by either altering one of them. Rebalancing only affects the expected relative sensitivity between the hedged item and the hedging instrument going forward, as ineffectiveness from past changes in the sensitivity will have already been recognized in profit or loss. FMO will rebalance a hedging relationship if that relationship still has an unchanged risk management objective but no longer meets the hedge effectiveness requirements regarding the hedge ratio.

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

Guarantees

Issued financial guarantee contracts are measured at the higher of

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

FMO applies the same methodology as loans to private sector for measurement of ECL allowance of guarantees. Refer to chapter 'Financial assets - impairment' in this section. Provisions resulting from guarantees are included in ‘Provisions’.

Financial liabilities

Debentures and notes

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

Debentures and notes can be divided into:

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

Debentures and notes measured at amortized cost

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

Debentures and notes eligible for hedge accounting

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

Provisions

Provisions are recognized when:

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

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

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.

This scheme is funded through payments to an insurance company determined by periodic actuarial calculations. The principal actuarial assumptions are set out in Note 18. All actuarial gains and losses are reported in shareholders' equity, net of applicable income taxes and are permanently excluded from profit and loss.

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

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

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

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

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

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

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

Taxation

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

The main temporary differences arise from the post-retirement benefits provision and the fair value movements on equity investments accounted for at FVOCI.

Shareholders' equity

Contractual reserve

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

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

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

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

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

Other reserves
The other reserves include the cumulative distributable net profits. Dividends are deducted from other reserves in the period in which they are declared.

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

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

Profit and loss

Net interest income: interest income and interest expenses

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

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

Interest income and interest expenses from financial instruments measured at FVPL reflect fair value gains and losses mainly related to the derivatives portfolio. Moreover, interest income from loans measured at FVPL are also recognized under 'Interest income from financial instruments measured at FVPL'.

Fee and commission income and expense

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

- *Fees that are an integral part of the effective interest rate of a financial instrument (IFRS 9)*
  These fees (such as front-end fees) are generally treated as an adjustment to the effective interest rate. When the facility is not used and the commitment period expires, the fee is recognized at the moment of expiration. However, when the financial instrument is to be measured at fair value subsequent to its initial recognition, the fees are recognized as interest-income;
- *Fees earned when services are provided (IFRS 15)*
  Fees charged by FMO for servicing a loan (such as administration fees and agency fees) are recognized as revenue when the services are provided. Portfolio and other management advisory and service fees are recognized in line with the periods and the agreed services of the applicable service contracts;
- *Fees that are earned on the execution of a significant act (IFRS 15)*
  These fees (such as arrangement fees) are recognized as revenue when the significant act has been completed.

Dividend income

Dividends are recognized in dividend income when a dividend is declared. The dividend receivable is recorded at declaration date

Results from equity investments

Gains and losses in valuation of FMO's equity investment portfolio are recognized under 'Results from equity investments'. These gains and losses include foreign exchange results of equity investments which are measured at fair value. As mentioned earlier, the foreign exchange results for equity investments, measured at fair value through OCI are recognized in the Shareholder's equity.

Results from financial transactions

Results from financial transactions include foreign exchange results (excluding foreign exchange results related to equity investments measured at fair value), valuation gains and losses related to derivatives, driven by changes in the market. Furthermore, the valuation gains and losses related to loans measured at fair value are recognized in the profit and loss immediately under 'Results from financial transactions.

Impairments

Financial assets of FMO and off-balance items are subject to impairments. For impairment methodologies and criteria, reference is made to relevant 'Financial Assets' paragraph in this section above.

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 has decided to present its operating segments based on servicing units instead of strategic sector to be more aligned with internal reporting towards the Management Board. Reference is made to the section 'Segment Information' for more details on operating segments

Notes to the consolidated annual accounts

Notes to the consolidated balance sheet: assets

1. Banks

	2019	2018
Banks	64,626	54,642
Balance at December 31	**64,626**	**54,642**

The cash on bank accounts can be freely disposed of.

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

	2019	2018
Current account MASSIF	-	264
Current account EIB	230	230
Current account Building Prospects	-	-
Current account Access to Energy Fund	568	-
Current account Land Use Facility	396	-
Balance at December 31	**1,194**	**494**

Current accounts can be freely disposed of.

3. Short-term deposits

	2019	2018
Collateral delivered (related to derivative financial instruments)	95,176	66,531
Dutch central bank	350,122	324,615
Mandatory reserve deposit with Dutch central bank	1,410	489
Call Deposits	-	-
Short term deposits measured at AC	**446,708**	**391,635**
Commercial paper	796,725	590,350
Money market funds	130,044	165,866
Short term deposits measured at FVPL	**926,769**	**756,216**
Balance at December 31	**1,373,477**	**1,147,851**

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

Fair value gain on money market funds and commercial paper portfolio recorded in the profit and loss amounts to €32 (2018: €93 loss). The amount attributable to change in credit risk is limited.

Short term deposits generally have a maturity of less than three months however a small portfolio of commercial paper has a longer maturity. Commercial paper with maturity of more than three months amounts to €0 (2018: €297,884).

4. Interest-bearing securities

This portfolio contains marketable bonds with fixed interest rates. All interest-bearing securities (credit quality of AA+ or higher) are classified as Stage 1. An amount of €68 (2018: €64) is calculated for the ECL of both asset classes as per December 31, 2019.

	2019	2018
Bonds (listed)	350,237	402,380
Balance at December 31	**350,237**	**402,380**

All interest-bearing securities are classified as amortized cost. The movements can be summarized as follows:

	2019	2018
Balance at January 1	402,380	361,298
Amortization premiums/discounts	33	-802
Purchases	-	54,826
Redemptions	-54,505	-18,976
Changes in ECL allowances	-	-18
Changes in accrued income	-231	95
Exchange rate differences	2,560	5,957
Balance at December 31	**350,237**	**402,380**

5. Derivative financial instruments and hedge accounting

Use of derivatives and hedge accounting

Derivatives are held for both economic hedging purposes and for hedge accounting. FMO uses derivatives for hedging purposes in the management of its asset and liability portfolios and structural risk positions. These risks are hedged with interest rate swaps, cross currency swaps and cross currency interest rate swaps. The objective of hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The objective of FMO hedging activities is to optimize the overall cost to the bank of accessing debt capital markets and to mitigate the risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS hedge accounting rules.

Derivatives that qualify for hedge accounting under IFRS are classified and accounted for in accordance with the nature of the instrument hedged and the type of IFRS hedge model that is applicable. FMO applies fair value hedge accounting to the funding portfolio with interest rate swaps as hedging instruments. To qualify for hedge accounting under IFRS, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the statement of profit or loss and recorded under the line results from financial transactions. If hedge accounting is applied under IFRS, it is possible that during the hedge a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the statement of profit or loss may be higher than would be expected from an economic point of view. With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; how-ever they do not represent amounts at risk.

For the year ended December 31, 2019, FMO recognized net gain for €0.3 million for hedge ineffectiveness on the micro fair value hedges (2018: €4.1 million net gain). The profit on the hedging instruments amounts to €46.7 million (2018: €10.2 million gain). The loss on hedged items attributable to the hedged risk amounts to €46.4 million (2018: €6.1 million loss). The result is mainly attributed to change of spreads between 3-month reference rates and Overnight-Index-Swap rates (OIS).

Micro fair value hedge accounting

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

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

December 31, 2019	Notional amount	Carrying amount Assets	Liabilities	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recorded in profit or loss	Line item in P&L that includes hedge ineffectiveness
Interest rate swaps	3,653,162	144,061	12,724	46,692	317	Results from financial transactions
December 31, 2018						
Interest rate swaps	2,633,664	75,221	6,965	10,210	4,057	Results from financial transactions

At December 31, 2019, FMO held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk.

Hedge of debentures and notes December 31, 2019			Maturity		
Risk category (interest rate)	**Less than 1 month**	**1-3 months**	**3 months - 1 year**	**1-5 years**	**more than 5 years**
Nominal amount (in millions of euro)	-	-	675.0	2,245.4	732.7
Average fixed interest rate (%)	-	-	0.5	1.3	2.6
Hedge of debentures and notes December 31, 2018					
Nominal amount (in millions of euro)	-	5.0	136.0	1,961.0	560.0
Average fixed interest rate (%)	-	1.8	2.8	1.7	3.7

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

December 31, 2019	Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item			
Balance sheet line item	**Liabilities**	**Assets**	**Liabilities**	**Change in fair value used for calculating hedge ineffectiveness**	**Accumulated amount remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses**
Debentures and notes	3,773,180	-	-	-46,375	-
December 31, 2018					
Debentures and notes	2,697,095	-	3	-6,153	-

Derivatives other than hedge accounting instruments

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

December 31, 2019		Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedge accounting instruments:				
·	Currency swaps	324,015	428	869
·	Interest rate swaps	1,745,060	34,159	44,255
·	Cross-currency interest rate swaps	3,061,803	116,801	197,625
Subtotal		**5,130,878**	**151,388**	**242,749**
Embedded derivatives related to asset portfolio		-	5,789	1,698
Total derivative assets (/liabilities) other than hedge accounting instruments		**5,130,878**	**157,177**	**244,447**

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

6. Loans to the private sector

These loans to the private sector include:

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

The movements of these loans can be summarized as follows:

	Loans measured at AC	Loans measured at FVPL	Total 2019
Balance at January 1, 2019	4,240,526	685,799	4,926,325
Disbursements	1,033,835	145,749	1,179,584
Conversion from loan to equity	-8,102	-11,110	-19,212
Repayments	-757,323	-113,463	-870,786
Write-offs	-7,640	-10,498	-18,138
Derecognized and/or restructured loans	35,513	612	36,125
Changes in amortizable fees	-4,618	-44	-4,662
Changes in fair value	-	-14,620	-14,620
Changes in accrued income	-103	2,888	2,785
Exchange rate differences	41,962	11,200	53,162
Balance at December 31, 2019	**4,574,050**	**696,513**	**5,270,563**
Impairment	-239,941	-	-239,941
Net balance at December 31, 2019	**4,334,109**	**696,513**	**5,030,622**

	Loans measured at AC	Loans measured at FVPL	Total 2018
Balance at January 1, 2018	3,777,197	608,382	4,385,579
Disbursements	1,285,450	88,113	1,373,563
Conversion from loan to equity	-	-4,814	-4,814
Repayments	-854,289	-81,345	-935,634
Write-offs	-18,308	-	-18,308
Derecognized and/or restructured loans	-56,520	56,520	-
Changes in amortizable fees	-2,762	105	-2,657
Changes in fair value	-	-9,828	-9,828
Changes in accrued income	5,840	4,935	10,775
Exchange rate differences	103,918	23,731	127,649
Balance at December 31, 2018	**4,240,526**	**685,799**	**4,926,325**
Impairment	-155,504	-	-155,504
Net balance at December 31, 2018	**4,085,022**	**685,799**	**4,770,821**

The contractual amount of assets that were written off during the period are still subject to enforcement activity. Recoveries from written off loans amount to €1,846 (2018:€3,613)

The following tables summarize the loans segmented by sector and areas of geography.

Loans segmented by sector			**2019**			
	Stage 1	**Stage 2**	**Stage 3**	**Fair value**	**Total 2019**	**2018**
Financial Institutions	1,751,417	131,199	4,007	270,202	2,156,825	2,013,628
Energy	1,109,218	261,229	66,544	137,241	1,574,232	1,453,960
Agribusiness	467,155	31,837	43,047	131,712	673,751	572,404
Multi-Sector Fund Investments	26,275	-	-	42,610	68,885	62,250
Infrastructure, Manufacturing and Services	279,503	77,573	85,105	114,748	556,929	668,579
Net balance at December 31	**3,633,568**	**501,838**	**198,703**	**696,513**	**5,030,622**	**4,770,821**

Loans segmented by geographical area			**2019**			
	Stage 1	**Stage 2**	**Stage 3**	**Fair value**	**Total 2019**	**2018**
Africa	1,049,620	130,106	17,647	139,813	1,337,186	1,197,322
Asia	769,022	49,262	15,918	194,601	1,028,803	991,434
Latin America & the Carribbean	912,293	139,017	112,230	95,259	1,258,799	1,256,423
Europe & Central Asia	824,248	134,888	52,908	161,532	1,173,576	1,094,037
Non - region specific	78,385	48,565	-	105,308	232,258	231,605
Net balance at December 31	**3,633,568**	**501,838**	**198,703**	**696,513**	**5,030,622**	**4,770,821**

	2019	**2018**
Gross amount of loans to companies in which FMO has equity investments	187,944	91,993
Gross amount of subordinated loans	273,685	300,356
Gross amount of non-performing loans (EBA definition)	524,104	416,836
Gross amount of loans covered by guarantees received	485,756	520,279

For definition and more details on non-performing loans, reference is made to section 'Credit Risk' within the Risk Management chapter.

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

Changes in Loans to the private sector at AC in 2019	Stage 1		Stage 2		Stage 3		Total	
	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance
At December 31, 2018	3,519,157	-30,582	442,675	-16,765	278,694	-108,157	4,240,526	-155,504
Additions	964,726	-10,171	57,879	-5,534	11,232	-1,166	1,033,837	-16,871
Exposure derecognised or matured/lapsed (excluding write offs)	-616,324	1,606	-94,149	408	-47,850	6,874	-758,323	8,888
Transfers to Stage 1	41,421	-3,933	-41,421	3,933	-	-	-	-
Transfers to Stage 2	-205,110	2,401	205,110	-2,401	-	-	-	-
Transfers to Stage 3	-69,765	1,042	-50,486	2,858	120,251	-3,900	-	-
Modifications of financial assets (including derecognition)	-597	-	159	-	27,849	-11,938	27,411	-11,938
Changes in risk profile not related to transfers		7,570		-7,539	-	-69,655	-	-69,624
Amounts written off	-	-	-	-	-7,640	7,640	-7,640	7,640
Changes in amortizable fees	-5,441	-	31	-	792	-	-4,618	-
Changes in accrued income	4,753	-	4,619	-	-8,476	-	896	-
Foreign exchange adjustments	33,273	-457	2,648	-187	6,040	-1,888	41,961	-2,532
At December 31, 2019	**3,666,093**	**-32,524**	**527,065**	**-25,227**	**380,892**	**-182,190**	**4,574,050**	**-239,941**

Changes in Loans to the private sector at AC in 2018	Stage 1		Stage 2		Stage 3		Total	
	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance
At January 1, 2018	3,112,742	-29,821	464,729	-18,910	199,726	-102,052	3,777,197	-150,783
Additions	1,217,916	-11,624	55,136	-3,669	12,398	-296	1,285,450	-15,589
Exposure derecognised or matured/lapsed (excluding write offs)	-706,066	5,954	-115,451	2,264	-32,772	9,566	-854,289	17,784
Transfers to Stage 1	102,937	-4,921	-102,937	4,921	-	-	-	-
Transfers to Stage 2	-209,885	2,071	220,871	-5,107	-10,986	3,036	-	-
Transfers to Stage 3	-58,237	1,931	-84,449	4,523	142,686	-6,454	-	-
Modifications of financial assets (including derecognition)	-26,161	695	-	-	-30,359	5,547	-56,520	6,242
Changes in risk profile not related to transfers	-	5,824	-	-72	-	-33,047	-	-27,295
Amounts written off	-	-	-	-	-18,308	18,308	-18,308	18,308
Changes in amortizable fees	-3,528	-	730	-	36	-	-2,762	-
Changes in accrued income	2,464	-	-4,588	-	7,964	-	5,840	-
Foreign exchange adjustments	86,975	-691	8,634	-715	8,309	-2,765	103,918	-4,171
At December 31, 2018	**3,519,157**	**-30,582**	**442,675**	**-16,765**	**278,694**	**-108,157**	**4,240,526**	**-155,504**

Total impairments on loans in the consolidated profit and loss account

	2019	2018
Additions and reversals loans FMO portfolio	-96,121	-31,794
Guaranteed part additions and reversals loans guaranteed by the State	3,237	628
Recoveries (writen - off loans)[1]	1,846	3,613
Balance at December 31	**-91,038**	**-27,553**

1 Recoveries from written-off loans have been reclassified from 'Other operating income'. Comparative amount of €3,613 has been adjusted as per December 31, 2018.

7. ECL allowances - assessment

According to IFRS 9, FMO calculates ECL allowances for Interest bearing Securities, Loans at private sector at AC (including off balance loan commitments) and Guarantees Given to customers. The movement in ECL allowances for each of these items is presented in their relevant notes.

In order to demonstrate the sensitivity of the SICR criteria, the tables below present the distribution of stage 2 impairments by the criteria that triggered the migration to stage 2 versus stage 2 impairments triggered by the 30 day past due backstop.

December 31, 2019

ECL allowance Stage 2 - Trigger assessment	Loans to private Sector	Guarantees	Loan Commitments	Total
More than 30 days past due	-43	-	-853	-896
Forbearance	-5,646	-	-525	-6,171
Deterioration in credit risk rating	-19,538	-483	-1,709	-21,730
Total	**-25,227**	**-483**	**-3,087**	**-28,797**

December 31, 2018

ECL allowance Stage 2 - Trigger assessment	Loans to private Sector	Guarantees	Loan Commitments	Total
More than 30 days past due	-203	-	-	-203
Forbearance	-7,519	-	-	-7,519
Deterioration in credit risk rating	-9,043	-297	-435	-9,775
Total	**-16,765**	**-297**	**-435**	**-17,497**

The table show the values of the IMF GDP forecasts used in each of the economic scenarios for the ECL calculations for 2019 and 2020. The upside and downside scenario calculations are derived from the base case scenario, adjusted based on an indicator of public debt to GDP in emerging markets.

IMF GDP % Growth Forecasts	2019	2020
Turkey	0.4	3.0
India	7.4	7.0
Georgia	4.8	4.8
Argentina	-1.6	-1.3
Nigeria	2.3	2.5
Uganda	6.1	6.2
Bangladesh	7.1	7.4
Ghana	7.6	5.6
Armenia	4.8	4.8
Costa Rica	3.3	2.5

The following tables outline the impact of multiple scenarios on the ECL allowance

December 31, 2019	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector	Guarantees	Bonds and Cash	Total
ECL Scenario:						
Upside	222,318	5%	11,035	77	4	11,116
Base case	248,376	50%	123,107	1,046	35	124,188
Downside	288,068	45%	128,199	1,401	31	129,631
Total			**262,341**	**2,524**	**70**	**264,935**

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

Refer to our 'Accounting policies' chapter on macro-economic scenarios on PD estimates.

8. Equity investments

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

	Equity measured at FVOCI	Equity measured at FVPL	2019
Net balance at January 1, 2019	77,553	1,504,427	1,581,980
Purchases and contributions	27,223	269,370	296,593
Conversion of loans to equity	-	11,312	11,312
Return of Capital (including sales)	-	-89,173	-89,173
Impairments	-	-	-
Write-offs	-	-	-
Changes in fair value	18,145	60,708	78,853
Net balance at December 31, 2019	**122,921**	**1,756,644**	**1,879,565**

	Equity measured at FVOCI	Equity measured at FVPL	Total 2018
Net balance at January 1, 2018	77,798	1,425,465	1,503,263
Purchases and contributions	-	296,090	296,090
Conversion of loans to equity	-	4,814	4,814
Return of Capital (including sales)	-	-167,300	-167,300
Impairments	-	-	-
Write-offs	-	-4,268	-4,268
Changes in fair value	-245	-50,374	-50,619
Net balance at December 31, 2018	**77,553**	**1,504,427**	**1,581,980**

The following table summarizes the equity investments segmented by sector:

	2019	2018
Financial Institutions	480,936	378,075
Energy	265,709	216,357
Agribusiness	122,670	127,913
Multi-Sector Fund Investments	678,424	617,725
Infrastructure, Manufacturing and Services	331,826	241,910
Net balance at December 31	**1,879,565**	**1,581,980**

FMO has designated three investments as shown in the following table as equity investments at FVOCI. The FVOCI designation was made because the investments are expected to be held for long-term strategic purposes.

	Fair value at December 31, 2019	Dividend income recognized during 2019	Fair value at December 31, 2018	Dividend income recognized during 2018
TCX Investment Company	29,276	-	23,451	-
The Currency Exchanged Fund N.V.	83,050	-	43,551	-
Seed Capital	10,595	-	10,551	-
Balance at December 31	**122,921**	**-**	**77,553**	**-**

None of these strategic investments were disposed of during 2019, and there were no transfers of any cumulative gain or loss within equity relating to these investments. The change in fair value for The Currency Exchanged Fund N.V. is mainly driven by capital increase.

9. Investments in associates

The movements in the carrying amounts of the associates are summarized in the following table.

	2019	2018
Net balance at January 1	215,539	207,482
Purchases and contributions	58,075	3,251
Conversion from loans to equity	-	-
Return of capital (including sales)	-2,840	-3,330
Share in net results	11,077	-1,802
Exchange rate differences	4,016	9,938
Net balance at December 31	**285,867**	**215,539**

All investments in associates from FMO are measured based on the equity accounting method.

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

In 2016 FMO signed an agreement to set up an investment vehicle, Arise B.V., together with Norfund and Rabobank. This investment vehicle is set up to invest in African financial institutions. FMO's initial commitment amounts to US$211 million. As of 31 December 2019 our remaining commitment towards Arise B.V. amounts to US$23 million.

The following table summarizes the associates segmented by sector.

	2019	2018
Financial Institutions	241,354	191,862
Energy	37,789	14,499
Infrastructure, Manufacturing and Services	-	1,528
Multi-Sector Fund Investments	6,724	7,650
Net balance at December 31	**285,867**	**215,539**

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	226,712	104,958
Total liabilities	3,518	56,950
Total income	124	12,568
Total profit/loss	14,282	-4,522

10. Other receivables

	2019	2018
Receivables related to equity disposals	7,508	6,224
Taxes and social premiums	1,037	1,006
To be declared on State guaranteed loans	3,264	894
Transaction fee receivables and prepayments	14,015	12,473
Balance at December 31	**25,824**	**20,597**

11. Property, plant and equipment

Property, plant and equipment (PP&E) includes tangible assets which are used by FMO. These assets include buildings, office equipment and vehicles which are rented by FMO from third parties. These leases have been recognized on the balance sheet following the implementation of IFRS 16 as per January 1, 2019

Furthermore, PPE includes furniture owned by FMO and expenses related to leasehold improvements.

In prior reporting years, intangible assets were also recorded under this line item, however as per 2019 intangibles are now presented on a separate line item. Comparatives as per December 31, 2018 have been restated. Refer to note 'Intangible assets'.

	Furniture	Leasehold improvement	Right use-of-assets	Total
Cost at December 31, 2018	10,380	218	-	10,598
Accumulated depreciation at December 31, 2018	-8,820	-101	-	-8,921
Balance at December 31, 2018	**1,560**	**117**	**-**	**1,677**
Adjustments from adoption of IFRS 16	-	-	*15,353*	*15,353*
Cost at January 1, 2019	**1,560**	**117**	**15,353**	**17,030**
Investments	33	3,965	11,364	15,362
Depreciation	-475	-81	-3,293	-3,849
Divestments cost	-760	-208	-	-968
Accumulated depreciation on divestments	584	130	-	714
Balance at December 31, 2019	**942**	**3,923**	**23,424**	**28,289**
Cost at December 31, 2019	9,653	3,972	26,717	40,342
Accumulated depreciation at December 31, 2019	-8,711	-49	-3,293	-12,053
Balance at December 31, 2019	**942**	**3,923**	**23,424**	**28,289**

Right-of-use assets consists of operational leases and include building, vehicles and office equipment. Following the implementation of IFRS 16, these leases have been recognized on the balance sheet as per January 1, 2019. Refer to the 'Accounting policies' section for more information and transition disclosure.

	Buildings	Office equipment	Vehicles	Total right-of-use assets	Lease liabilities
January 1, 2019	13,121	466	1,766	**15,353**	15,353
Additions	10,285	268	811	**11,364**	11,364
Depreciation	-2,346	-132	-815	**-3,293**	-
Finance costs	-	-	-	**-**	185
Payments	-	-	-	**-**	-3,393
December 31, 2019	**21,060**	**602**	**1,762**	**23,424**	**23,509**

The following table presents the maturity breakdown of the leases

	< 1 year	1-5 years	>5 years	Total
Buidlings	2,316	9,305	9,516	21,137
Office Equipment	125	396	82	603
Vehicles	739	1,030		1,769
Total	**3,180**	**10,731**	**9,598**	**23,509**

12. Intangible assets

Intangible assets include expenditures associated with identifiable and unique software products or internally developed software, controlled by FMO. For internally developed software, only expenses related to development phase are capitalized. Expenses related to research phase are immediately recognized in the P&L under 'Temporary Staff Expenses'.

In prior years, intangible assets were recorded under 'Property Plant and Equipment'. As per December 2019, comparatives have been adjusted. The change is related to presentation and does not impact the accounting treatment

	ICT software	Internally developed software	Total
Cost at December 31, 2018	5,562	17,365	22,927
Accumulated amortization at December 31, 2018	-3,357	-6,065	-9,422
Balance at December 31, 2018	**2,205**	**11,300**	**13,505**
			-
Cost at January 1, 2019	2,205	11,300	13,505
Investments	824	8,174	8,998
Amortization	-920	-3,040	-3,960
Accumulated depreciation on divestments	181	565	746
Impairment	-234	-1,470	-1,704
Balance at December 31, 2019	**2,056**	**15,529**	**17,585**
			-
Cost at December 31, 2019	6,152	24,069	30,221
Accumulated amortization at December 31, 2019	-4,096	-8,540	-12,636
Balance at December 31, 2019	**2,056**	**15,529**	**17,585**

Impairment relates to software which is not in use anymore.

Notes to the consolidated balance sheet: liabilities

13. Short-term credits

	2019	2018
Collateral received (related to derivative financial instruments)	94,339	76,051
Balance at December 31	**94,339**	**76,051**

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

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

	2019	2018
Current account MASSIF	110	-
Current account Building Prospects	1,117	11
Current account Access to Energy Fund	-	89
Current account Development Accelarator	1,592	4,073
Current account DFCD	13	-
Balance at December 31	**2,832**	**4,173**

15. Debentures and notes

Debentures and notes includes issued debt instruments in various currencies under FMO's Debt Issuance Programmes. In addition, a subordinated note of €175 million is also included in the Debenture and Notes. Under IFRS this note is classified as financial liability, but for regulatory purposes it is considered as Tier 2 capital. This note was issued on December 8, 2015 with a maturity of five years. The note is issued at 99.28% of the aggregated nominal amount at a fixed coupon rate of 1.5%. The note is non-convertible and can be called on first call date or the call date can be extended for another five years.

The movements can be summarized as follows:

	2019	2018
Balance at January 1	5,139,881	5,123,146
Amortization of premiums/discounts	4,923	6,208
Proceeds from issuance	1,704,123	984,758
Redemptions	-1,142,217	-1,006,646
Changes in fair value	46,375	6,099
Changes in accrued expense	18,007	4,352
Exchange rate differences	37,090	21,964
Balance at December 31	**5,808,182**	**5,139,881**

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

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

	2019	2018
Debentures and notes under hedge accounting	3,773,180	2,697,095
Debentures and notes valued at AC	2,035,002	2,442,786
Balance at December 31	**5,808,182**	**5,139,881**

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

	2019	2018
Debentures and notes under hedge accounting	3,646,496	2,605,045
Debentures and notes valued at AC	2,011,031	2,451,277
Balance at December 31	**5,657,527**	**5,056,322**

16. Accrued liabilities

	2019	2018
Other accrued liabilities	22,983	10,086
Balance at December 31	**22,983**	**10,086**

17. Other liabilities

	2019	2018
Costs related to guarantees	279	322
Payments to third parties	14,774	-
Lease liabilities	23,509	-
Other liabilities	5,397	1,009
Total other liabilities	**43,959**	**1,331**

Lease liabilities arise from IFRS 16 implementation as per January 1, 2019. For a breakdown of the lease liabilities, reference is made to Note 'Property, Plant and Equipment'

18. Provisions

The amounts recognized in the balance sheet are as follows.

	2019	2018
Pension schemes	39,588	45,876
Allowance for loan commitments	6,274	4,485
Allowance for guarantees	2,092	3,009
Other provisions	1,486	1,177
Balance at December 31	**49,440**	**54,547**

The movements in allowance for loan commitments and liabilities for guarantees are set out in 'Off - balance sheet information' section.

Pension schemes

FMO's pension schemes cover all its employees. The pension schemes are defined benefit plans and are mostly based on average-pay-schemes. FMO has a contract with a well established insurer, in which all nominal pension obligations are guaranteed.

The amounts recognized in the balance sheet are as follows:

	2019	2018
Present value of funded defined benefit obligations	270,013	220,941
Fair value of plan assets	-230,425	-175,065
Liability in the balance sheet	**39,588**	**45,876**

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

	2019	2018
Present value at January 1	220,941	200,777
Service cost	13,287	11,333
Interest cost	4,882	4,017
Actuarial (gains)/losses due to changes in financial assumptions	39,740	-12,295
Actuarial (gains)/losses due to changes in demographic assumptions	-10,767	-2,914
Actuarial (gains)/losses due to experience assumptions	5,070	22,993
Benefits paid	-3,140	-2,970
Present value at December 31	**270,013**	**220,941**

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

	2019	2018
Fair value at January 1	-175,065	-154,464
Expected return on plan assets	-3,877	-3,104
Employer contribution	-10,540	-9,616
Plan participants' contributions	-1,318	-1,143
Actuarial (gains)/losses due to changes in financial assumptions	-45,491	9,125
Actuarial (gains)/losses due to changes in demographic assumptions	-	3,592
Actuarial (gains)/losses due to experience assumptions	2,726	-22,425
Benefits paid	3,140	2,970
Fair value at December 31	**-230,425**	**-175,065**

The actuarial gain on the pension liability amounts to €8,722 (2018: €1,923 gain) and is mainly due to updated career merit rates, individual turn over rates and indexation assumptions.

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

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

	2019	2018
Balance at January 1	45,876	46,313
Annual expense	13,729	11,819
Contributions paid	-11,295	-10,333
Actuarial gains/losses	-8,722	-1,923
Balance at December 31	**39,588**	**45,876**

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

	2019	2018
Current service cost	14,042	12,049
Net interest cost	1,005	913
Subtotal	**15,047**	**12,962**
Contribution by plan participants	-1,318	-1,023
Total annual expense	**13,729**	**11,939**

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

	2019 (%)	2018 (%)
Discount rate	1.2	2.2
Expected pension indexation for active participants	1.3	1.7
Expected pension indexation for inactive participants	0.3	0.6
Wage inflation	1.5	1.5
Future salary growth	0.7-4.0	0.5-3.5

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

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

	Increase (+0.5%)	Decrease (-0.5%)
Discount rate	-33,842	-39,739
Increase indexation for active participants	5,107	-4,410
Future salary growth	877	-953

Other provisions

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

	2019	2018
Balance at January 1	1,177	275
Addition	1,486	1,177
Release	-	-
Paid out	-1,177	-275
Balance at December 31	**1,486**	**1,177**

19. Shareholders' equity

Share capital

The authorized capital amounts to €45,380, consisting of A shares of €22.69 each, which are held by the Dutch State, and B shares of €22.69 each as well, which are for held by commercial banks and private investors. The Dutch State holds 51% of the total shares of FMO, while commercial banks and private investors hold the remaining 49%. 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 Dutch State, after settlement of the contractual return to the shareholders.

	2019	2018
AUTHORIZED SHARE CAPITAL		
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
Balance at December 31	**45,380**	**45,380**
ISSUED AND PAID-UP SHARE CAPITAL		
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
Balance at December 31	**9,076**	**9,076**

Share premium reserve

Share premium reserve is sole contributed by Shareholders of A shares on the transfer to the company of investments administrated on behalf of the State at the time of the financial restructuring and amounts to €29,272 (2018: €29,272).

Contractual reserve

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

Development fund

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

Fair value reserve

Total fair value reserve

	2019	2018
Balance at January 1	17,773	18,074
Total other comprehensive income (net of tax)	15,309	-301
Balance at December 31	**33,082**	**17,773**

Actuarial result pensions

Actuarial gains/losses on defined benefit plans

	2019	2018
Balance at January 1	-21,123	-21,369
Gains/losses during the period	7,149	246
Balance at December 31	**-13,974**	**-21,123**

Translation reserve

	2019	2018
Balance at January 1	-6,758	-16,696
Change	4,016	9,938
Balance at December 31	**-2,742**	**-6,758**

Other reserves

Retained earnings	2019	2018
Balance at January 1	32,162	32,162
Dividend	-	-
Balance at December 31	**32,162**	**32,162**

Non-controlling interests

Equis DFI Feeder L.P.	2019	2018
Balance at January 1	161	7,071
Fair value changes	-99	-815
Changes in subsidiary	12	-6,407
Share in net profit	49	312
Balance at December 31	**123**	**161**

Notes to the consolidated profit and loss account

20. Net interest income

Interest income

	2019	2018
Interest on loans measured at AC	319,440	294,697
Interest on interest-bearing securities	3,295	3,402
Total interest income from financial instruments measured at AC	**322,735**	**298,099**
Interest on loans measured at FVPL	56,264	45,252
Interest on short-term deposits	29,419	18,276
Interest on derivatives related to asset portfolio	-32,159	-25,532
Total interest income from financial instruments measured at FVPL	**53,524**	**37,996**
Total interest income	**376,259**	**336,095**

Included in the interest income on loans is €8,872 (2018: €13,206) related to specific impaired loans (calculated on amount net of impairment) for which adjustments to the interest income has been added.

Interest expense

	2019	2018
Interest on debentures and notes hedged	-46,336	-37,890
Interest on debentures and notes not hedged	-88,236	-62,384
Interest on short-term credits	-549	43
Interest expenses related to banks (assets)[1]	-1,451	-2,233
Interest on leases	-185	-
Total interest expense from financial instruments measured at AC	**-136,757**	**-102,464**
Interest on derivatives	-24,283	-23,742
Total interest expense from financial instruments measured at FVPL	**-24,283**	**-23,742**
Total interest expense	**-161,040**	**-126,206**

1 Interest expense is related to Cash and balances held at Central Bank. Overnight deposit rates at central banks are negative in the Eurozone, implying interest expense on assets. In Annual Report 2018, this amount was presented as negative income under Interest income. Comparatives have been adjusted accordingly for 2018.

21. Net fee and commission income

	2019	2018
Prepayment fees	859	1,288
Front-end fees for FVPL loans	641	1,173
Administration fees	2,321	2,058
Other fees (like arrangement, cancellation and waiver fees)[1]	3,391	2,117
Total fee and commission income	**7,212**	**6,636**
Custodian fees and charges for the early repayment of debt securities	-1,107	-844
Guarantee fees related to unfunded risk participants[2]	-10,119	-9,913
Total fee and commission expense	**-11,226**	**-10,757**
Net fee and commission income	**-4,014**	**-4,121**

1 Fees income related to guarantees given have been reclassed from line item 'interest income for loans at AC. Comparatives have been restated for 2018

2 Fees expenses related to guarantees received have been reclassed from line item interest income for loans at AC. Comparatives have been restated for 2018

22. Dividend income

	2019	2018
Dividend income direct investments	25,606	24,400
Dividend income fund investments	4,039	3,887
Total dividend income	**29,645**	**28,287**

23. Results from equity investments

	2019	2018
Results from equity investments:		
Unrealized results from capital results	50,113	-1,690
Unrealized results from FX conversions - capital results	775	4,153
Unrealized results from FX conversions - cost price	24,098	40,003
Net unrealized results	**74,986**	**42,466**
Results from sales, distributions:		
Realized results	9,950	91,202
Release unrealized results	-11,659	-92,827
Net results from sales, distributions and write-offs	**-1,709**	**-1,625**
Total results from equity investments	**73,277**	**40,841**

24. Results from financial transactions

	2019	2018
Result on valuation of hedged items	-46,375	-6,153
Result on valuation of hedging instruments	46,692	10,210
Result on hedge accounting	**317**	**4,057**
Result on sale and valuation of derivatives not under hedge accounting	-13,304	-15,035
Result on sale and valuation of embedded derivatives related to asset portfolio	-2,005	5,109
Result on sale and valuation of loans at FVPL	-12,961	-16,477
Result on financial instruments mandatory at FVPL	**-28,270**	**-26,403**
Foreign exchange results	7,922	246
Other	31	-139
Total result from financial transactions	**-20,000**	**-22,239**

The main driver for 2019 of €13,304 million is decrease of the USD curve by 1% across tenors (compared to 2018), leading to decrease in value of the Overlay swaps (where FMO pays fixed and receives floating USD)

25. Remuneration for services rendered

	2019	2018
Funds and programs managed on behalf of the State:		
- MASSIF	10,896	10,895
- Building Prospects	8,095	8,220
- Access to Energy Fund	2,216	2,165
- FOM OS	200	300
- Capacity Development Program	-	337
- Syndication fees, remuneration from directorships and others	8,654	7,177
Total remuneration for services rendered	**30,061**	**29,094**

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

26. Gains and losses due to derecognition

Gains and losses due to derecognition arise from loans measured at amortized cost, where modification of contractual terms and conditions have been triggered due to financial difficulties. Refer to 'Modification of financial assets' section in the 'Accounting Policies'.

Prior to 2019, these results were not presented separately but included under 'Impairments on loans'. Presentation changes are related to reclassification within the profit and loss statement and do not lead to changes in accounting treatment. Comparatives for 2018 have been therefore adjusted accordingly.

	2019	2018
Gains and losses due to derecognition	3,916	14,980

27. Other operating income

	2019	2018
Other operating income[1]	1,695	589
Total other operating income	**1,695**	**589**

1 As per December 31, 2019 recoveries related to written - off are presented under Impairments on loans. Comparative amount of €3.613 is reclassified to Impairments on loans as per December 31, 2018

28. Staff costs

The number of FTEs at December 31, 2019 amounted to 580 (2018: 508 FTEs). All FTEs are employed in the Netherlands except for 4 FTEs, which are employed in foreign offices.

	2019	2018
Salaries	-50,473	-44,123
Social security costs	-6,854	-6,148
Pension costs	-13,729	-11,819
Temporaries	-10,809	-5,763
Travel and subsistence allowances	-5,203	-4,811
Other personnel expenses	-3,182	-6,627
Total staff costs	**-90,250**	**-79,291**

29. Administrative expenses

	2019	2018
IT expenses	-6,421	-3,910
Advisory costs	-14,940	-8,061
Other operational expenses	-10,834	-11,657
Total administrative expenses	**-32,195**	**-23,628**

These expenses consist primarily of services from third parties and other operational expenses. The remuneration paid to the Supervisory Board is included in these expenses. At December 31, 2019, the Supervisory Board consisted of six members (2018: six). The members of the Supervisory Board were paid a total remuneration of €138 (2018: €125).

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 (2018: Ernst & Young Accountants LLP) to the company and its subsidiaries.

Fee charged by auditors	**2019**	**2018**
Statutory audit of annual accounts	-720	-587
Other assurance services	-490	-122
Total	**-1,210**	**-709**

30. Income taxes

Income tax by type

	2019	**2018**
Current income taxes	1,681	-14,185
Deferred income taxes	203	-553
Total income tax	**1,884**	**-14,738**

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

		2019	**2018**
Profit before taxation		118,528	165,871
Income taxes at statutory rate of 25% (2018: 25%)		-29,632	-41,390
Increase/decrease resulting from:			
-	Settlement with local withholding taxes	716	3,785
-	Non-taxable income (participation exemption facility)	29,189	18,874
-	Tax adjustments to prior periods	1,681	4,664
-	Other	-70	-671
Total income tax		**1,884**	**-14,738**
Effective income tax rate		-1.6%	-8.9%

Current income tax

FMO paid €20,356 (2018: €42,810) to tax authorities. The remaining current income tax receivable amounts to €46,484 (2018: €24,448). Per year end 2019 there were no unused tax losses and the unused tax credits amount to €2,575 (2018: €0).

Deferred tax

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

	2019	**2018**
Deferred tax assets		
Pension provision	3,095	2,911
Actuarial gains and losses on defined benefit plans	3,872	5,446
Operational leases	19	-
Total deferred tax assets	**6,986**	**8,357**
Deferred tax liabilities		
Fair value movements equity investments	-5,638	-2,801
Total deferred tax liabilities	**-5,638**	**-2,801**
Net balance at December 31	**1,348**	**5,556**

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

Off-balance sheet information

31. Irrevocable and contingent liabilities

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

Furthermore, the contingencies include an irrevocable payment commitment (IPC) to the Single Resolution Board (SRB) in Brussels. In April 2016, the SRB provided credit institutions with the option to fulfill part of their obligation to pay the annual ex - ante contributions to the Single Resolution Fund (SRF) through IPCs.

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

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

	2019	2018
Contingent liabilities		
Encumbered funds (single resolution fund)	389	-
Effective guarantees issued	98,370	75,066
Less: provisions, amortized costs and obligations for guarantees (presented under other liabilities/provisions)	-2,371	-3,331
Total guarantees issued	**95,999**	**71,735**
Total contingent liabilities	**96,388**	**71,735**
Effective guarantees received	211,194	199,027
Total guarantees received	**211,194**	**199,027**

Nominal amounts for irrevocable facilities is as follows:

		2019	2018
Irrevocable facilities			
Contractual commitments for disbursements of:			
-	Loans	832,434	830,686
-	Grants	880	1,734
-	Equity investments and associates	647,789	642,606
-	Contractual commitments for financial guarantees given	301,779	334,163
Total irrevocable facilities		**1,782,882**	**1,809,189**

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

Movement financial guarantees[1] in 2019	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance
At January 1, 2019	339,120	-1,511	67,708	-297	2,401	-1,201	409,229	-3,009
Additions	131,775	-583	19,492	-270	-	-	151,267	-853
Exposures matured (excluding write-offs)	-159,120	299	-993	34	-234	-	-160,347	333
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	1,033	-	56	-	769	-	1,858
Foreign exchange adjustments	-	-305	-	-6	-	-110	-	-421
At December 31, 2019	**311,775**	**-1,067**	**86,207**	**-483**	**2,167**	**-542**	**400,149**	**-2,092**

1 Financial guarantees represent EUR 98,370 classified as contingent liabilities and EUR 301,779 classified as irrevocable facilities

Movement financial guarantees in 2018	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance
At January 1, 2018	126,806	-581	67,189	-265	4,652	-2,326	198,647	-3,172
Additions	223,715	-888	4,796	-	-	-	228,511	-888
Exposures matured (excluding write-offs)	-11,401	65	-6,305	32	-223	-	-17,929	97
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	2,028	-2,028	-2,028	2,028	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-100	-	1,947	-	-748	-	1,099
Foreign exchange adjustments	-	-7	-	17	-	-155	-	-145
At December 31, 2018	**339,120**	**-1,511**	**67,708**	**-297**	**2,401**	**-1,201**	**409,229**	**-3,009**

The movement in nominal amounts for loan commitments and ECL allowances is as follows:

Movement of loan commitments in 2019	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
At January 1, 2019	624,659	-4,051	69,559	-434	11,674	-	705,892	-4,485
Additions	466,409	-2,361	3,901	-1,280	97	-	470,407	-3,641
Exposures derecognised or matured (excluding write-offs)	-362,051	2,851	-17,206	89	-6,922	-	-386,179	2,940
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-43,868	371	43,868	-371	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	43	-	-1,077	-	-	-	-1,034
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-40	-	-14	-	-	-	-54
At December 31, 2019	**685,149**	**-3,187**	**100,122**	**-3,087**	**4,849**	**-**	**790,120**	**-6,274**

Movement of loan commitments in 2018	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
ECLs as at January 1, 2018	855,620	-6,746	38,894	-1,756	547	-	895,061	-8,502
Additions	369,733	-2,342	44,607	-332	550	-	414,890	-2,674
Exposures derecognised or matured (excluding write-offs)	-571,714	5,262	-31,798	842	-547	-	-604,059	6,104
Transfers to Stage 1	17,720	-872	-17,720	872	-	-	-	-
Transfers to Stage 2	-40,104	2	40,104	-2	-	-	-	-
Transfers to Stage 3	-6,596	-	-4,528	-	11,124	-	-	-
Changes to models and inputs used for ECL calculations	-	820	-	15	-	-	-	835
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-175		-73	-	-	-	-248
At December 31, 2018	**624,659**	**-4,051**	**69,559**	**-434**	**11,674**	**-**	**705,892**	**-4,485**

Related party information

FMO defines the Dutch State, its subsidiaries, associates, Government funds, the Management Board (MB) and Supervisory Board (SB) as related parties.

Dutch State

The Dutch State holds 51% of FMO's share capital. The remaining 49% is held by commercial banks and other private investors. In 2005 FMO received its last contribution to the development fund from the Dutch State. FMO has a guarantee provision from the State, which is detailed in section 'additional information'.

FMO stimulates the development of small and medium Dutch-sponsored enterprises in selected emerging markets through the 'Faciliteit Opkomende Markten'. This facility is a joint initiative with the Dutch government. The Dutch State acts as a guarantor for 80% to 95% of the outstanding loans. As of 1 July 2016, the mandate of this facility has been transferred to the 'Rijksdienst voor Ondernemend Nederland' (RVO). After the transfer only existing loans in the portfolio and pipeline were serviced. These loans are included in the consolidated annual accounts under 'Loans to the private sector'.

FMO manages several government funds and programs at the risk and expense of the Dutch State. Below is a description of the various funds and programs:

1. *MASSIF:* FMO manages the MASSIF fund on behalf of the Dutch government. MASSIF reaches out to end-beneficiaries through financing local financial intermediaries and institutions that can contribute to their development. FMO has a 2.17% (2018: 2.17%) stake in this fund. For 2019, FMO received a fixed remuneration for services provided of €10,896 (2018:€10,895). In 2019, no transfers related to loan and equity investments were conducted from MASSIF to FMO. This is in line with the transfer policy, agreed with the Dutch government.

2. *Building Prospects:* 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, Building Prospects decreases risk for other financiers. As a result, additional private funds are attracted. For 2019, FMO received a fixed remuneration for services rendered of €8,095 (2018: €8,220) in accordance with the subsidy order. In 2019, no loans and no private equity investments were transferred from Building Prospects to FMO.

3. *Access to Energy Fund (I and II):* The Access to Energy Fund is jointly initiated by the Dutch government and FMO in 2007 to support private sector projects aimed at providing long-term access to energy services in Sub-Saharan Africa. Through this fund, FMO provides risk and concessional financing through equity, local currency loans, subordinated debt and grants to facilitate projects that generate, transmit or distribute sustainable energy. In 2017, the Access to Energy Fund II committed US$55.6 million to Climate Investor One, an investment vehicle with three interlinked funds that invest in projects during their whole lifetime. For 2019, FMO received a fixed remuneration for services rendered of €2,216 (2018: €2,165). In 2019, no loans and no private equity investments were transferred from the Access to Energy Fund to FMO.

4. *FOM OS* The program finances private sector companies with a strong focus on food security and water. For 2019, FMO received a fixed remuneration of €200 (2018: €300). The program has been closed for new commitments at the request of the Ministry of Foreign Trade and Development Corporation as per June 30, 2014.

5. Capacity Development Program: The Capacity Development Program invests in inclusive projects, focusing particularly on the themes of climate change and gender. For 2019, FMO received no remuneration for the services provided (2018: €337).

6. Partnership Development Facility: The Partnership Development Facility (PDF) was established in 2016 by the Dutch government and FMO. The facility is open for early stage projects in the food, water and energy climate segments in countries that are relevant for the local and Dutch economy. The main themes of the facility are food security and climate adaptation. For 2019, FMO received a reimbursement for travel costs and staff expenses of €483 (2018: €1,034)

7. Development Accelerator: The Development Accelerator (DA) was established in 2017 by the Dutch government and FMO. The facility is open for early stage projects in the food, water, education, health, and climate segments in low- and middle-income countries. The goal is to contribute to sustainable cities, climate mitigation and adaptation in order to contribute to the achievement of the Sustainable Development Goals and strengthening opportunities for the Dutch business community. For 2019, FMO received a reimbursement for travel costs and staff expenses of €1,834 (2018: nil).

8. *Dutch Fund for Climate and Development :* In 2019, the Dutch State awarded a tender to manage the €160 million Dutch Fund for Climate and Development (DFCD) to the consortium of FMO, Stichting SNV Nederlandse Ontwikkelingsorganisatie (SNV), Stichting Het Wereld Natuur Fonds-Nederland (WWF), and Coöperatief Climate Fund Managers U.A. (through Climate Investor Two). FMO is the lead partner in the DFCD consortium and is responsible for the management of the DFCD's €55 million Land Use Facility. The Land Use Facility (LUF) provides growth financing, including equity, debt and grants, to companies active in agroforestry, sustainable land use and climate resilient food production. In 2019, the Dutch State provided an initial €13.75 million disbursement for the Land Use Facility, which will start to be deployed in 2020.

In our role of fund manager for the assets under management we hold current account positions with State funds. The balances of those current account positions are disclosed under Note 2 and Note 14

A part of our loan portfolio €16,417 (2018: €29,857) is funded under the FOM program from the Dutch State and recognized in our consolidated balance sheet (under Loans to the private sector). The credit risk of these loans is covered by Dutch State for 80%-95%. We refer to the section Guarantee provisions in the Agreement between the Dutch State and FMO of November 16, 1998 in the section 'Additional Information'. The results due to addition and release of specific impairments follow the accounting policy for Loans to the private sector.

Subsidiaries

The consolidated subsidiaries Nuevo Banco Comercial Holding B.V., Asia Participations B.V., FMO Medu II Investment Trust Ltd. and Equis DFI Feeder L.P. are used for intermediate holding purposes. The subsidiary FMO Investment Management B.V. carries out portfolio management activities for third party investment funds which are invested in FMO's transactions in emerging and developing markets. Nedlinx B.V. has the focus on financing activities to Dutch SME companies investing abroad.

The transactions during the year are summarized in Note C of the Company balance sheet.

Associates

In line with our investment activities we hold stakes directly in private equity companies or indirectly via fund structures. Investments are treated as associates in case the applicable criteria in accordance with our accounting policies are met.

We refer to the significant accounting policies and Note 'Investments in associates' for transactions during the year.

Remuneration of the Management Board

General

FMO's remuneration policy for the Management Board aims to offer a competitive remuneration allowing to attract, motivate and retain capable directors with sufficient knowledge and experience in international development finance. The remuneration policy is aligned with the mission of FMO, the corporate values, the strategy, the risk appetite as well as with the expectations of the various stakeholders. The remuneration policy for fixed salary and variable compensation (not applicable for FMO) is based on a market median, composed of two equal proportions of a private sector benchmark (Dutch Financial sector) and a public sector benchmark, taking into account the principles as applied by the State of the Netherlands as majority shareholder of FMO. The private sector benchmark is based on the median of the Dutch Financial sector for comparable management positions. Public sector benchmark for fixed salary is based on the "Wet Normering Topinkomens", where a cap is applied on fixed remuneration. Employment arrangements for other components of the remuneration (e.g. pension) are aligned with arrangement applicable to other FMO employees.

In principle, with effect from 2017, employment contracts of members of the Management Board are awarded for a definite period of time (with exception of internal appointments). In the event the employment contract is terminated before the expiry date, the maximum severance payment will amount one year's salary, unless the board member resigns voluntary or the termination is the result of his or her actions.

The remuneration policy for the Management Board will be reviewed periodically (every 3-4 years) and amendments will be subject to approval of the AGM.

During the Annual General Meeting of 2019, a few elements of the remuneration policy have been adjusted in order to create alignment with updated regulations and with policies applicable to the rest of the staff of FMO. In summary, the following items have been amended:

- Discontinuation of the profit-sharing scheme (for Management Board members, already effective from 1 January 2016 and for the entire FMO staff as from 1 January 2017);
- For commuting in The Netherlands, members of the Management Board may also opt for a lease car, a NS business card or a fixed gross Mobility allowance;
- Discontinuation of individual Pension allowance and Mortgage Allowance for all employees joining FMO as from 1 January 2016. (Grandfathering existing allowances granted before 1 January 2016, applicable to one of the current Management Board members);
- Alignment of the applicable notice period.

Remuneration package

The total remuneration consists of a fixed salary (including holiday allowance), a pension arrangement and other benefits. A summary of the employment arrangements and amounts constituting the total remuneration per Management Board member in 2019 are provided below.

Fixed salary remuneration

As per 1 January 2018, the maximum salary caps applicable to the Management Board members have increased with 2.5% (in conformity with the collective labor agreement, CLA Banks, of that date).

During 2019 the fixed remuneration for the CEO was equal to the maximum cap of €282 per year. For the other members of the Management Board this cap is set at €240 and for Directors a salary cap of €207 is applied. The remuneration level of members of the Management Board is based on the median, composed of two equal proportions of a private benchmarks and a public benchmark. For the CEO applies an absolute cap for the fixed remuneration of €282 per annum (2019). For the other members of the Management Board this cap amounts to €240 and €207 for the second echelon (Directors).

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

Variable compensation

Members of the senior management (Management Board members, Executive Committee members and Directors) and other members of the Identified staff are not entitled to any form of variable income (e.g. individual bonuses). On December 31, 2019 the Management Board consisted of three statutory members (2018: three). The members of the Management Board have no options, shares or loans related to the company.

In FMO's view, variable compensation should never constitute an incentive for the conduct of directors that is aimed at their own interest, or for taking risks that do not fit within the mission and established strategy of the company, or that leads to 'rewarding' behavior of failing directors upon discharge. Therefore, FMO does not provide variable compensation to senior management.

Pension arrangements

For pensionable salary up to the applicable threshold, which for 2019 amounted to €108, a defined benefit, average-pay pension scheme applies with a conditional indexation arrangement. The nominal pension obligations are guaranteed by our pension insurer. The participant contribution consists of 3.5% of the actual pension base.

Effective from 1 January 2015, no pension is accrued for tax purposes for the proportion of income in excess of €108 (2019). In alignment with the general practice in the Netherlands, FMO has compensated the employees concerned for this diminution. In 2019 one of the Management Board members received an individual fixed Allowance for retirement.

Other benefits

The other benefits consist accident and disability insurance, appropriate expense allowances and the use of a company car, NS business card or mobility allowance. The company has also taken out a directors' and officers' liability insurance on behalf of the Management Board members. The members of the Management Board have no options, shares or loans related to the company. Acceptance of ancillary positions requires the explicit approval of the Supervisory Board.

The members of the Management Board have no options, shares or loans related to the company. Acceptance of ancillary positions requires the explicit approval of the Supervisory Board.

Tenure

All members of the Management Board are appointed for a period of 4 years, which can be renewed. One of the board members, Mrs Broekhuizen, has been internally re-appointed for a second term and has an employment contract for an indefinite period of time, the other two serve in their first term of appointment and have an employment contract for a definite period of time.

Remuneration ratio's

There are no employees at FMO who have a fixed remuneration more than the CEO. In accordance with the GRI Standards, the ratio between the total fixed remuneration of the highest-paid individual, the CEO, and the median of the rest remained 0.29 (2018: 0.29). Or in other words the highest-paid individual received a total fixed remuneration of 3.5 times the amount paid to the Median of (the rest of) the total staff population. Compared to what is seen in the financial sector in the Netherlands this ratio is relatively low.

The total remuneration of the Management Board in 2019 amounts to €978 (2018: €867) and is specified as follows:

Remuneration of the Management Board

	Fixed remuneration	Allowance for retirement	Other short term employee benefits	Pension	Total 2019
Peter van Mierlo	282	-	19	35	336
Linda Broekhuizen	253	32	24	43	352
Fatoumata Bouaré	240	-	21	29	290
Total	**775**	**32**	**64**	**107**	**978**

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

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

Except for pensions of €107 (2018: €76) all components above are short term employee benefits.

Remuneration of Supervisory Board

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

	Remuneration 2019 1)	Committees 2019 2)	Total 2019	Total 2018
Pier Vellinga	28.9	3.3	32.2	31.3
Alexandra Schaapveld	19.3	3.2	22.5	21.9
Thessa Menssen 3)	19.3	5.5	24.8	21.9
Dirk-Jan van den Berg 4)	19.3	5.0	24.3	23.2
Koos Timmermans	19.3	4.5	23.8	23.2
Farah Karimi 5)	8.6	1.4	10.0	3.7
Total	**114.7**	**22.9**	**137.6**	**125.2**

1 As per January 1, 2019 the remuneration of SB has increased by 2.5%

2 As from July 1, 2019 an Impact Committee has been installed

3 Thessa Menssen is appointed as the chair of the Impact Committee as per July 1, 2019

4 Dirk - Jan van den Berg is a member of the Impact Committee as per July 1, 2019

5 Farah Karimi stepped down as member of the SB as per June 11, 2019

The remuneration policy for the Supervisory Board will be reviewed periodically, taking into account the principles as applied by the State of the Netherlands as majority shareholder. Amendments will be subject to the approval of the AGM. The members of the Supervisory Board have no shares, options, or loans related to the company.

Subsequent events

There has been no significant subsequent event between the balance sheet date and the date of approval of these accounts which should be reported by FMO.

The current COVID-19 outbreak most likely impacts the global economy and FMO's financial performance. Impact is mainly expected on our Debt and Equity portfolios. Given the uncertainties, ongoing developments and measures taken by governments around the globe, FMO cannot estimate the quantitative impact in an accurate and reliable way at this point in time.

Notes to the consolidated statement of comprehensive income

32. Other comprehensive income

Other comprehensive income	2019	2018
Items to be reclassified to profit and loss		
Exchange differences on translating foreign operations	4,016	9,938
Income tax effect	-	-
Total to be reclassified to profit and loss	**4,016**	**9,938**
Items not reclassified to profit and loss	-	
Fair value reserve of equity instruments at FVOCI:	-	
· Unrealized results during the year	17,498	-3,884
· Foreign exchange results	648	3,639
Total Fair value reserve of equity investments at FVOCI	*18,146*	*-245*
Actuarial gains/losses on defined benefit plans	8,722	1,923
Income tax effect	-4,410	-1,733
Total not reclassified to profit and loss	**22,458**	**-55**
Total other comprehensive income at December 31	**26,474**	**9,883**

Tax effects relating to each component of other comprehensive income

Tax effects relating to each component of other comprehensive income	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	4,016	-	4,016
Fair value reserve of equity instruments at FVOCI	18,146	-2,837	15,309
Actuarial gains/losses on defined benefit plans	8,722	-1,573	7,149
Balance at December 31, 2019	**30,885**	**-4,410**	**26,474**

	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	9,938	-	9,938
Fair value reserve of equity instruments at FVOCI	-245	-56	-301
Actuarial gains/losses on defined benefit plans	1,923	-1,677	246
Balance at December 31, 2018	**11,616**	**-1,733**	**9,883**

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.

33. 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.

34. Net cash flow from investing activities

The net cash flow from investing activities includes the movements in the investment portfolio, such as the interest-bearing securities. The movements in PP&E assets are also included in the cash flow from investing activities.

35. 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.

36. Banks and short term deposits

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

Cash position maturity bucket < 3 months	**2019**	**2018**
Banks	64,626	54,642
Short term deposits measured at AC	446,708	391,635
Short term deposits measured at FVPL	926,769	756,216
-of which > 3 months	-	-297,884
Banks and short term deposits < 3 months	**1,438,103**	**904,609**

Cash and cash equivalents include banks, short term deposits at AC and a part of short term deposits at FVPL, which consists of commercial paper with a maturity of less than three months. For breakdown of short term deposits, reference is made to Note 3.

Segment information

Segment reporting by operating segments

The Management Board sets performance targets, approves and monitors the budgets prepared by servicing units. Since 2018, our Management Board steers on servicing units instead of strategic sectors, implying a change in segment reporting in comparison to prior years.

FMO's strategic sectors represent the economic sectors in which FMO operates. The three strategic sectors are Agribusiness Food & Water, Financial Institutions and Energy, which represent economic sectors. FMO's Management Board steers on the following six servicing units: Agribusiness, Food & Water, Financial Institutions and Energy, Private Equity, Partnership for impact and Other. In 2019, two transactions are identified which are reallocated to a different servicing unit.

FMO presents the results of the operating segments using a financial performance measure called underlying profit. Underlying profit excludes the EUR/USD currency effects related to the results from equity investments, since all fair value changes including currency effects are now recorded in the profit and loss account instead of shareholder's equity since the adoption of IFRS 9. In FMO's view the underlying profit is more relevant for understanding financial performance.

Underlying profit as presented below is an alternative performance measure. A reconciliation of the underlying net profit to the net profit as reported under the statement of profit and loss is performed in the table here below.

December 31, 2019	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Interest income	139,289	131,997	66,529	2,500	552	35,392	376,259
Interest expenses	-35,655	-40,961	-18,279	-39,410	-547	-26,189	-161,041
Net fee and commission income	2,339	-5,329	-1,042	768	-	-750	-4,014
Dividend income	-	-	-	29,645	-	-	29,645
Results from equity investments	-	-	-	48,402	-		48,402
Results from financial transactions	1,417	-8,793	-7,938	347	-	-5,033	-20,000
Remuneration for services rendered	6,493	5,406	2,850	8,470	6,643	199	30,061
Gains and losses due to derecognition	1,569	2,383	-37	-	-	1	3,916
Other operating income	2,159	-	-	-	-	-464	1,695
Total underlying income	**117,611**	**84,703**	**42,083**	**50,722**	**6,648**	**3,156**	**304,923**
Operating expenses	-33,265	-27,881	-22,958	-30,434	-9,180	-6,701	-130,419
Total operating expenses	**-33,265**	**-27,881**	**-22,958**	**-30,434**	**-9,180**	**-6,701**	**-130,419**
Impairments on loans and guarantees	-3,298	-43,191	-42,880	-2,163	-39	-357	-91,928
Total impairments	**-3,298**	**-43,191**	**-42,880**	**-2,163**	**-39**	**-357**	**-91,928**
Profit before results from associates and taxation	81,048	13,631	-23,755	18,125	-2,571	-3,902	82,576
Share in results from associates	-	-	-	11,077	-	-	11,077
Taxation	-15,954	-2,683	4,676	14,660	506	768	1,973
Underlying net profit	**65,094**	**10,948**	**-19,079**	**43,862**	**-2,065**	**-3,134**	**95,626**
Currency effect equity investments	-	-	-	24,786	-	-	24,786
Net profit under IFRS	**65,094**	**10,948**	**-19,079**	**68,648**	**-2,065**	**-3,134**	**120,412**

December 31, 2018	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Interest income	121,748	123,853	63,116	4,135	604	22,639	336,095
Interest expenses	-29,539	-31,116	-14,030	-30,896	-413	-20,212	-126,206
Net fee and commission income	719	-4,898	830	-258	-	-514	-4,121
Dividend income	-	-	-	28,287	-	-	28,287
Results from equity investments	-	-	-	-3,308	-	-	-3,308
Results from financial transactions	-5,187	-9,445	-1,798	5,085	-	-10,894	-22,239
Remuneration for services rendered	6,268	6,435	2,638	8,584	5,096	73	29,094
Gains and losses due to recognition	84	12,579	2,317	-	-	-	14,980
Other operating income	-	-	-	-	-	589	589
Total underlying income	**94,093**	**97,408**	**53,073**	**11,629**	**5,287**	**-8,319**	**253,171**
Operating expenses	-26,687	-22,626	-18,895	-24,574	-7,989	-5,984	-106,755
Total operating expenses	**-26,687**	**-22,626**	**-18,895**	**-24,574**	**-7,989**	**-5,984**	**-106,755**
Impairments on loans and guarantees	-3,645	-1,387	-16,790	-979	-27	-170	-22,998
Total impairments	**-3,645**	**-1,387**	**-16,790**	**-979**	**-27**	**-170**	**-22,998**
Profit before results from associates and taxation	63,761	73,395	17,388	-13,924	-2,729	-14,473	123,418
Share in results from associates	-	-	-	-1,696	-	-	-1,696
Taxation	-11,642	-13,401	-3,175	11,145	498	2,643	-13,932
Underlying net profit	**52,119**	**59,994**	**14,213**	**-4,475**	**-2,231**	**-11,830**	**107,790**
Currency effect equity investments	-	-	-	43,343	-	-	43,343
Net profit under IFRS	**52,119**	**59,994**	**14,213**	**38,868**	**-2,231**	**-11,830**	**151,133**

Segment assets December 31, 2019	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Loans to the private sector	2,177,296	1,785,504	951,245	38,383	19,495	58,699	5,030,622
Equity investments and investments in associates	-	-	-	2,165,432	-	-	2,165,432
Other assets	670,472	549,824	292,924	678,639	6,003	18,077	2,215,939
Total assets	**2,847,768**	**2,335,328**	**1,244,169**	**2,882,454**	**25,498**	**76,776**	**9,411,993**
Contingent liabilities – Effective guarantees issued	50,545	47,825	-	-	-	-	98,370
Assets under management (loans and equity investments) managed for the risk of the state	164,548	229,816	143,551	429,057	-	5,363	972,335

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

Information about geographical areas

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

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

December 31, 2019	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Income	109,728	79,066	55,422	8,299	77,283	329,798
Share in the results of associates	4,814	1,066	-31	5,228	-	11,077
Total revenue	**114,542**	**80,132**	**55,391**	**13,527**	**77,283**	**340,875**

December 31, 2018	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Income	74,368	95,261	34,731	14,573	78,387	297,320
Share in the results of associates	182	-3,683	-	1,805	-	-1,696
Total revenue	**74,550**	**91,578**	**34,731**	**16,378**	**78,387**	**295,624**

Disaggregation of revenue

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

	Operating segments						
December 31, 2019	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Primary geographical areas							
Africa	2,344	2,940	1,531	3,924	2,623	115	13,477
Asia	1,609	1,123	689	1,811	1,514	34	6,780
Latin America & Caribbean	921	599	307	813	991	20	3,651
Europe & Central Asia	1,080	357	98	730	833	19	3,117
Non-region specific	539	387	225	1,192	682	11	3,036
Total remuneration for services rendered	**6,493**	**5,406**	**2,850**	**8,470**	**6,643**	**199**	**30,061**

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

Segment reporting of funds managed for the risk of the Dutch State

FMO and funds managed for the risk of the Dutch State

Apart from financing from its own resources, FMO provides loans, guarantees and equity investments from special government funds, within the conditions and objectives of these facilities. The funds consist of subsidies provided under the General Administrative Law Act and other official third parties. In case of MASSIF, FMO has an equity stake of 2.17% (2018: 2.17%). In section 'Related parties', the arrangements between the Dutch State and FMO regarding these funds and programs is described in detail.

Loans and equity managed for the risk of the Dutch State

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

	2019 Gross exposure	2018 Gross exposure
Loans	538,855	490,081
Equity investments	446,836	399,988
Total	**985,691**	**890,069**

Loans managed for the risk of the Dutch State

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

	2019 Gross exposure	2018 Gross exposure
MASSIF	204,279	199,879
Building Prospects	274,175	246,758
Access to Energy Fund	54,900	35,232
FOM OS	5,501	8,212
Total	**538,855**	**490,081**

Equity investments managed for the risk of the Dutch State

The equity investments have been made by the following funds.

	2019 Gross exposure	2018 Gross exposure
MASSIF	250,167	254,423
Building Prospects	126,195	94,905
Access to Energy Fund	70,474	50,660
Total	**446,836**	**399,988**

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 provides a breakdown of the carrying amounts of the financial assets and financial liabilities by category as defined by balance sheet heading.

December 31, 2019	FVPL - mandatory	FVPL- designated	Fair value hedging instruments	FVOCI- equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
Financial assets measured at fair value							
Short-term deposits	926,769	-	-	-	446,708	-	1,373,477
Derivative financial instruments	157,177	-	144,060	-	-	-	301,237
Loans to the private sector	696,513	-	-	-	-	-	696,513
Equity investments	1,756,644	-	-	122,921	-	-	1,879,565
Total	**3,537,103**	**-**	**144,060**	**122,921**	**446,708**	**-**	**4,250,792**
Financial assets not measured at fair value							
Banks	-	-	-	-	64,626	-	64,626
Current accounts with state funds and other programs	-	-	-	-	1,194	-	1,194
Interest-bearing securities	-	-	-	-	350,237	-	350,237
Loans to the private sector	-	-	-	-	4,334,109	-	4,334,109
Current tax receivables	-	-	-	-	46,484	-	46,484
Other receivables	-	-	-	-	25,824	-	25,824
Total	**-**	**-**	**-**	**-**	**4,822,474**	**-**	**4,826,474**
Financial liabilities measured at fair value							
Derivative financial instruments	244,447	-	12,724	-	-	-	257,171
Total	**244,447**	**-**	**12,724**	**-**	**-**	**-**	**257,171**
Financial liabilities not measured at fair value							
Short-term credits	-	-	-	-	94,339	-	94,339
Debentures and notes	-	-	-	-	2,035,002	3,773,180	5,808,182
Current accounts with state funds and other programs	-	-	-	-	2,832	-	2,832
Accrued liabilities	-	-	-	-	22,983	-	22,983
Other liabilities	-	-	-	-	43,959	-	43,959
Total	**-**	**-**	**-**	**-**	**2,199,115**	**3,773,180**	**5,972,295**

December 31, 2018	FVPL - mandatory	FVPL- designated	Fair value hedging instruments	FVOCI- equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
Financial assets measured at fair value							
Short-term deposits	756,216	-	-	-	-	-	756,216
Derivative financial instruments	172,602	-	75,221	-	-	-	247,823
Loans to the private sector	685,799	-	-	-	-	-	685,799
Equity investments	1,504,427	-	-	77,553	-	-	1,581,980
Total	**3,119,044**	**-**	**75,221**	**77,553**	**-**	**-**	**3,271,818**
Financial assets not measured at fair value							
Banks	-	-	-	-	54,642	-	54,642
Current accounts with state funds and other programs	-	-	-	-	494	-	494
Interest-bearing securities	-	-	-	-	402,380	-	402,380
Loans to the private sector	-	-	-	-	4,085,022	-	4,085,022
Current tax receivables	-	-	-	-	10,192	-	10,192
Other receivables	-	-	-	-	20,597	-	20,597
Total	**-**	**-**	**-**	**-**	**4,573,327**	**-**	**4,573,327**
Financial liabilities measured at fair value							
Derivative financial instruments	210,209	-	6,965	-	-	-	217,174
Total	**210,209**	**-**	**6,965**	**-**	**-**	**-**	**217,174**
Financial liabilities not measured at fair value							
Short-term credits	-	-	-	-	76,051	-	76,051
Debentures and notes	-	-	-	-	2,442,786	2,697,095	5,139,881
Current accounts with state funds and other programs	-	-	-	-	4,173	-	4,173
Accrued liabilities	-	-	-	-	10,086	-	10,086
Other liabilities	-	-	-	-	1,331	-	1,331
Total	**-**	**-**	**-**	**-**	**2,534,427**	**2,697,095**	**5,231,522**

Fair value of financial assets and liabilities

Fair value hierarchy

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

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

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

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

Valuation processes

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

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

Valuation techniques

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

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

1. Recent broker / price quotations;
2. Discounted cash flow models;
3. Option-pricing models.

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

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

FMO uses internal valuation models to value all (derivative) financial instruments. Due to model imperfections, there are initial differences between the transaction price and the calculated fair value. These differences are not recorded in the profit and loss at once, but are amortized over the remaining maturity of the transactions.

The table below presents the carrying value and estimated fair value of FMO's financial assets and liabilities, not measured at fair value.

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

Financial assets-liabilities not measured at fair value	**2019**		**2018**	
At December 31	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Short term deposits at AC	446,708	446,708	391,635	391,635
Banks	64,626	64,626	54,642	54,642
Interest-bearing securities	350,237	355,823	402,380	406,561
Loans to the private sector at AC	4,334,109	4,533,256	4,085,022	4,167,007
Financial assets not measured at fair value	**5,195,681**	**5,400,413**	**4,933,679**	**5,019,845**
Short-term credits	94,339	94,339	76,051	76,051
Debentures and notes	5,808,182	5,791,673	5,139,881	5,128,431
Financial liabilities not measured at fair value	**5,902,521**	**5,886,012**	**5,215,932**	**5,204,482**

The valuation technique we use for the fair value determination of these financial instruments is the discounted cash-flow method. The discount rate we apply is a spread curve based on the average spread of the portfolio. The fair value calculation is mainly based on level 3 inputs.

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

December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets mandatory at FVPL				
Short-term deposits	926,769	-	-	926,769
Derivative financial instruments	-	295,449	5,788	301,237
Loans to the private sector	66,647	-	629,866	696,513
Equity investments	7,726	-	1,748,918	1,756,644
Financial assets at FVOCI				
Equity investments	-	-	122,921	122,921
Total financial assets at fair value	**1,001,142**	**295,449**	**2,507,493**	**3,804,084**
Financial liabilities mandatory at FVPL				
Derivative financial instruments	-	255,473	1,698	257,171
Total financial liabilities at fair value	**-**	**255,473**	**1,698**	**257,171**

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

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

Movements in financial instruments measured at fair value based on level 3	Derivative financial instruments	Loans to the private sector	Equity investments and associates	Total
Restated Balance at January 1, 2018	734	590,405	1,466,775	2,057,914
Total gains or losses				
-In profit and loss (changes In fair value)	3,890	-6,206	-36,280	-38,596
-In other comprehensive income (changes in fair value)	-	-	-245	-245
Purchases /disbursements	-	88,113	283,387	371,500
Sales/repayments	-	-81,344	-152,417	-233,761
Write-offs	-		-	-
Accrued income	-	4,906	-	4,906
Exchange rate differences	-	23,025	-4,268	18,757
Derecognition and/or restructuring FVPL versus AC	-	56,520	-	56,520
Conversion from loans to equity	-	-4,814	-	-4,814
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
Balance at December 31, 2018	**4,624**	**670,605**	**1,556,952**	**2,232,181**
Total gains or losses				
-In profit and loss (changes In fair value)	1,075	-20,359	45,509	26,225
-In other comprehensive income (changes in fair value)	-	-	17,496	17,496
Purchases /disbursements	-	101,268	296,294	397,562
Sales/repayments	-	-113,463	-85,734	-199,197
Write-offs	-	-10,498	-	-10,498
Accrued income	-	1,965	-	1,965
Exchange rate differences	89	10,845	18,461	29,395
Derecognition and/or restructuring FVPL versus AC	-	613	-	613
Conversion from loans to equity	-	-11,110	11,312	202
Transfers into level 3	-	-	19,275	19,275
Transfers out of level 3	-	-	-7,726	-7,726
Balance at December 31, 2019	**5,788**	**629,866**	**1,871,839**	**2,507,493**

Type of debt investment	Fair value at December 31, 2019	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Loans	106,163	Discounted cash flow model	Based on client spread	A decrease/increase of the used spreads with 1% will result is a higher/lower fair value of approx €1m.
	210,877	ECL measurement	Based on client rating	An improvement / deterioration of the Client Rating with 1 notch wil result 1% increase/ decrease
	64,976	Credit impairment	n/a	n/a
Debt Funds	247,849	Net Asset Value	n/a	n/a
Total	**629,865**			

Type of equity investment/ associate	Fair value at December 31, 2019	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity based on the significant unobservable inputs
Private equity fund investments	940,265	Net Asset Value	n/a	n/a
Private equity direct investments	100,995	Recent transactions	Based on at arm's length recent transactions	n/a
	423,825	Book multiples	Depends on the book value of the underlying investment (range 1.0 – 2.5)	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of €42 million.
	311,426	Earning Multiples	Depends on several earnings related data such as EBITDA (range 1.4 - 12.4)	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €31 million.
	22,737	Discounted Cash Flow (DCF)	Based on discounted cash flows	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €2 million.
	55,157	Put option	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 €6 million.
	17,434	Firm offers	Based on offers received from external parties	n/a
Total	**1,871,839**			

Transfers between levels 1 and 2

There were no material transfers between levels 1 and 2.

Transfers from levels 1 and 2 to level 3

There were no material transfers between level 1 and 2 to level 3.

Risk management

This chapter provides an overview of FMO's risk governance and risk management approach. The sections describe the key risk domains relevant for FMO and developments throughout 2019. Together with the quantitative Pillar 3 disclosures - available on FMO's website - it constitutes FMO's Pillar 3 disclosure.

Risk governance

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

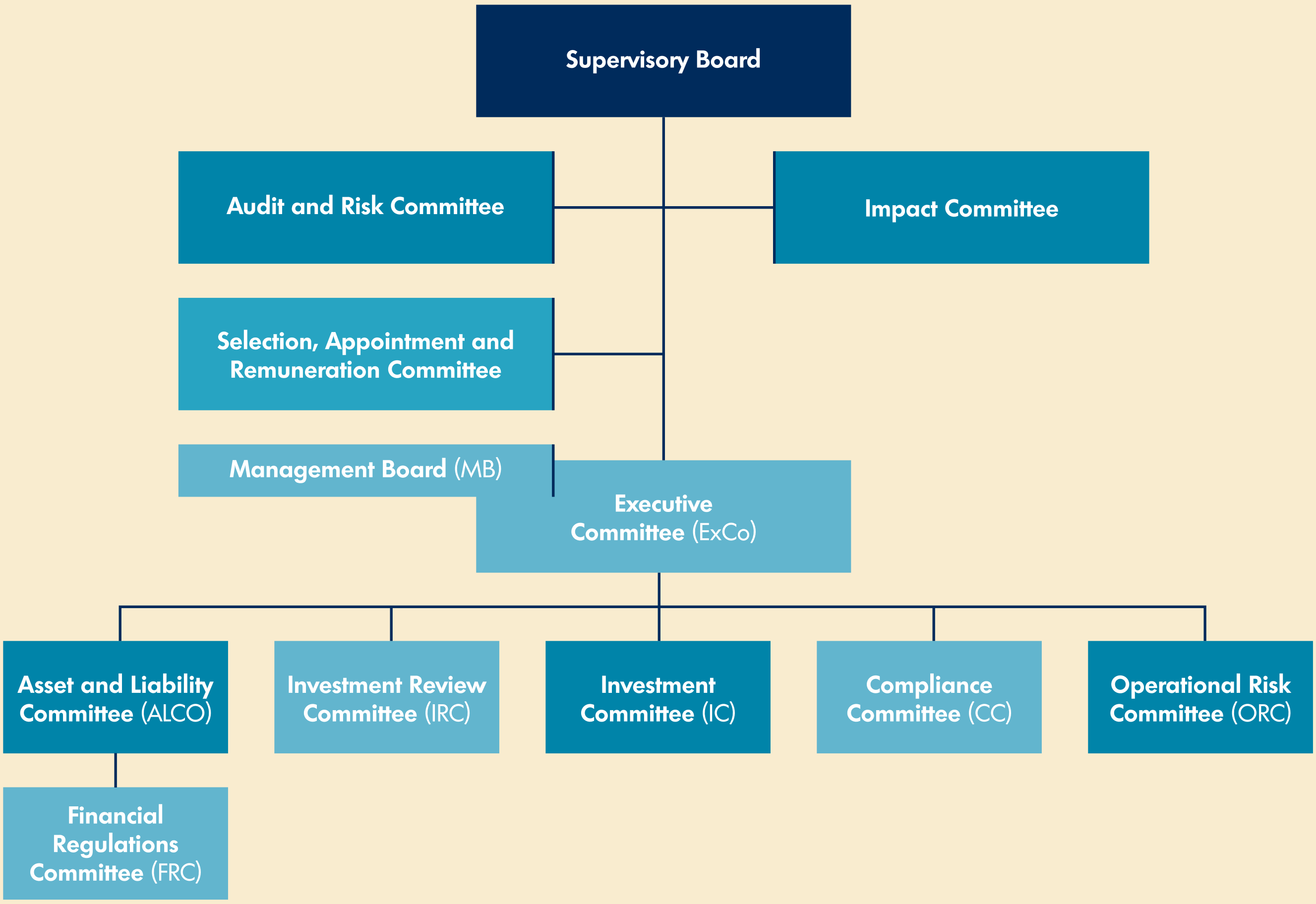
The risk management framework is based on the principle of “three lines of defense”, where the first line of defense (Investment Department and supporting functions) is being balanced by the second line of defense (Risk), and the third line (Internal Audit) that perform independent assessments whether risks are adequately managed.

FMO has a two-tier board structure in place, consisting of a Supervisory Board and a Management Board. The Supervisory Board (SB) appoints the members of the Management Board and supervises its activities. The SB advises the Management Board and approves the annual budget, the strategic development and the risk appetite. Each SB member has specific expertise in FMO’s primary areas of operation. The SB members are appointed in the Annual Meeting of Shareholders.

The Management Board (MB) comprises of three statutory directors; the Chief Executive Officer (CEO), the Chief Investment Officer (CIO), and the Chief Risk and Finance Officer (CRFO). The MB is accountable for compliance with relevant legislation and regulations.

The MB installed the Executive Committee (ExCo) in 2019. The Executive Committee (ExCo) is responsible for the daily management of the bank, with a mandate that includes the preparation and execution of strategies and plans, culture transformation, projects and stakeholder management. The ExCo members consists of three MB members and a subset of FMO directors.

The Management Board has established risk committees to assist it in fulfilling its oversight responsibilities regarding the risk appetite of FMO, the risk management framework and the governance structure that supports it. The main risk committees are shown in the figure and described below.



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

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

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

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

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

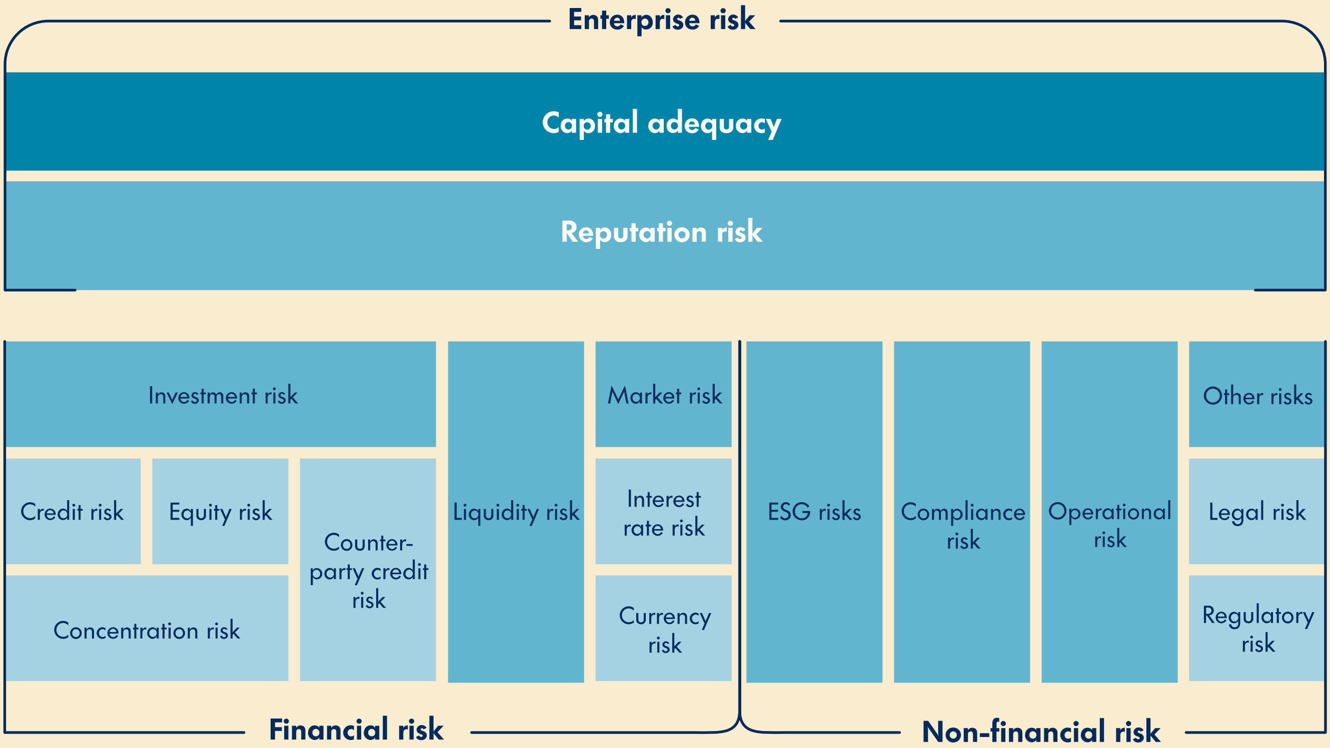
The Compliance Committee (CC). The CC is delegated by the MB to take decisions on compliance related matters and issues based on proposed solutions. The CC is chaired by the CRFO and meets at least four times per year. If it is required, the CC can escalate decisions to the MB. CC is responsible for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

Risk appetite and taxonomy

The Risk Taxonomy defines the main risk types and risk subtypes FMO is exposed to in the pursuit of its objectives. This common set of risk categories, types and subtypes facilitates the structuring of other elements of the risk management framework, such as the Risk Appetite and Risk Policies.

The Risk Appetite defines appetite bandwidths, alert and tolerance levels for main risk types and subtypes. The Risk Appetite Framework (RAF) is reviewed by the Management Board and approved by the Supervisory Board on an annual basis. If necessary, it can be revised on a semi-annual basis, particularly in case of material developments or a change in the strategic goals.

The risk appetite, governance, and monitoring metrics for each risk domain are described in more detail in the sections below.



Developments

In 2019, many improvements have been made to FMO's risk management and internal control framework, and more are planned for 2020. A program was started to strengthen our risk governance by consistently applying the principle of three lines of defense. We revisited our Risk Taxonomy for 2020 to accommodate our focus on the main risk types and we adopted the ORX taxonomy for operational risk. New policies were implemented, addressing model risk, tax risk and data quality. A new Governance, Risk & Compliance tool was implemented to support centralized monitoring and testing of key controls, registration of risk events and tracking of risk-related actions.

Pillar 3 disclosure

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

Market discipline and transparency in the publication of solvency risks are important elements of the Basel III rules for Pillar 3. Central to these publications is information on the solvency and the risk profile of a bank, providing disclosures on such matters as its capital structure, capital adequacy, risk management, and risk measurement, in line with the objective of IFRS 9. The objective of FMO's disclosure policies is to ensure maximum transparency in a practical manner. The consolidation scope for prudential reporting is equal to the accounting scope for FMO. FMO was granted the Solo Waiver for prudential reporting based on Article 7 and therefore only reports figures related to CRR on a consolidated basis.

Capital adequacy

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

Risk appetite and governance
FMO maintains a strong capital position by means of an integrated capital adequacy planning and control framework. Capital adequacy metrics are calculated by Risk and regularly reviewed by the ALCO and senior management.

FMO uses both regulatory capital ratios and an internal economic capital ratio to determine its capital position. The regulatory ratios (Total Capital Ratio and CET1 Ratio) are calculated based on the standardized approach of the CRR and take credit, market, operational and credit valuation adjustment risks into account. The internal ratio (Economic Capital Ratio) is based on an economic capital model in which the most important element is credit risk. Other risks in FMO's economic capital framework are operational, market, credit value adjustment, interest rate risk, reputation risk and the risks of conducting fund management activities under FMO Investment Management B.V (FIM).

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

Developments
FMO's Total Capital Ratio decreased from 25.5% at year-end 2018 to 22.5% at year-end 2019, which is well above the SREP minimum and the other regulatory requirements. Given that FMO has no additional tier 1 and limited tier 2 capital, the Total Capital ratio is more restrictive than the CET-1 ratio. The capital ratio decreased in 2019 primarily due to the implementation of the EBA Guideline on exposures to be associated with high risk (EBA/GL/2019/01) which caused an increase in risk weighted assets. An additional driver was the volume of new production and the resulting increase in the investment portfolio. The growth in FMO's eligible capital due to the addition of profit partially compensated the above effects. Please see more details on the methodology used for calculating the capital ratios in the sections below. The Economic Capital Ratio decreased from 16.0% to 14.7% mainly due to increase in the investment portfolio and to a major credit risk internal model review that took place during 2019 (refer to the credit risk section).

FMO's profitability may come under pressure due to the recent COVID-19 crisis, which full blown consequences are yet to be assessed. Portfolio growth may be lower as expected due to limited demand following economic slowdown. It is likely that NPLs and provisioning levels will increase and fair value of the private equity (PE) portfolio will be adjusted downward, which will have direct impact on FMO's P&L. As a consequence, FMO's capital ratios may be downwardly adjusted. FMO is closely monitoring the latest developments and is preparing mitigation actions for various scenarios.

Regulatory capital
Under the CRR/CRD-IV banks are required to hold sufficient capital to cover for the risks they face. FMO reports its capital ratio to the Dutch Central Bank (DNB) on a quarterly basis according to the standardized approach for all risk types. Per December 31, 2019, FMO's available qualifying capital equals €2,929 € (2018: €2,877) which makes FMO well prepared to absorb potential losses.

	December, 2019	December 31, 2018
IFRS shareholders' equity	3,126,914	2,983,647
Tier 2 capital	175,000	175,000
Regulatory adjustments:		
-Interim profit not included in CET 1 capital	-62,419	-30,062
-Other adjustments (deducted from CET 1)	-233,152	-173,589
-Other adjustments (deducted from Tier 2)	-77,285	-77,790
Total capital	**2,929,058**	**2,877,206**
Of which Common Equity Tier 1 capital	2,831,343	2,779,996
Risk weighted assets	**12,994,098**	**11,297,598**
Of which:		
-Credit and counterparty risk	10,317,068	8,977,048
-Foreign exchange	2,115,779	1,723,354
-Operational risk	506,198	515,514
-Credit valuation adjustment	55,053	81,682
Total capital ratio	22.5%	25.5%
Common Equity Tier 1 ratio	21.8%	24.6%

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

FMO performs an annual Internal Capital Adequacy Assessment Process (ICAAP) in which it assesses the capital adequacy considering all material risk types, stress testing and future regulation. As part of the Supervisory Review and Evaluation Process (SREP), DNB sets the minimum capital requirements. For 2020, The Dutch Central Bank has set a prudential requirement for FMO in terms of total capital at 16.8% and CET1 of 13.3%. The total prudential requirement consists of the total SREP capital ratio (13.3%), the combined buffer requirement (2.5%) and a Pillar 2 Guidance (1%).

The combined buffer requirement applicable to FMO comprises of the capital conservation buffer and the institution specific countercyclical buffer (currently insignificant). As of 2019, the capital conservation buffer has been fully recognized at 2.5%.

The Pillar 2 guidance (P2G) determines the adequate level of capital to be maintained above the existing capital requirements in order to have sufficient capital buffer to withstand stressed situations (derived from the adverse scenario of the supervisory stress tests). The P2G is a non-binding requirement and no automatic restrictions on distributions of dividends or bonuses are imposed. Nevertheless, credit institutions are expected to comply with P2G.

FMO's regulatory target capital ratio incorporates the fully phased-in capital requirement by DNB supplemented with

- (i) a management buffer, and
- (ii) a dynamic FX buffer. The dynamic FX buffer is in place to cover variations in the regulatory capital ratio following changes in the EUR/USD exchange rate that are not covered by the structural hedge. This structural hedge functions as a partial hedge against an adverse effect of the exchange rate on the regulatory capital ratios. Further information regarding the structural hedge is provided in the currency risk section.

Economic capital

In addition to regulatory capital, for Pillar 2, FMO applies an economic capital (EC) model. Economic capital is calculated using a conservative confidence interval of 99.99%. This level is chosen to support a AAA rating, and the bank’s actual growth is steered to ensure that this will remain the case. The economic capital model differs in two elements from the regulatory capital ratios. First, the EC model captures risks that are not covered under Pillar 1: reputational risk, interest rate risk in the banking book (IRRBB) and the risks of conducting fund management activities under FMO Investment Management B.V (FIM). Second, the EC model applies an internal model approach for credit risk resulting from FMO’s emerging market loan portfolio. FMO’s portfolio is invested in emerging markets, which results in a profile with higher credit risk exposure than generally applies to credit institutions in developed economies. The internal model is more risk sensitive, leading to a higher capital requirement than the standardized approach. The most important parameters for calculating credit risk capital requirements are the probability of default and loss given default calculated using FMO's internal credit risk rating. Please refer to the credit risk section for more information regarding the internal credit risk rating system.

	Dec 31, 2019	Dec 31, 2018
Pillar 1		
Credit risk emerging market portfolio (99.99% interval)	1,459,620	1,251,389
Credit risk treasury portfolio	12,423	16,703
Market risk	169,262	137,868
Operational risk	40,496	41,241
Credit valuation adjustment	4,404	6,535
Total pillar 1	**1,686,205**	**1,453,736**
Pillar 2		
Interest rate risk in the banking book	76,467	75,865
Reputation risk	75,950	71,870
Economic capital (pillar 1 & 2)	**1,838,622**	**1,601,471**
Available capital		
Total Capital	3,279,807	3,154,938
Surplus provisioning (capped at 0.6% RWA)	91,153	42,113
Total available capital	**3,370,960**	**3,197,051**
EC - Risk weighted assets (internal model)	22,982,782	20,018,387
EC - Total capital ratio	**14.7%**	**16.0%**

Leverage ratio

The leverage ratio represents a non-risk-adjusted capital requirement. Since 2014, the CRR/CRD IV rules required that credit institutions calculate, monitor and report on their leverage ratios, defined as tier 1 capital as a percentage of total exposure. FMO's leverage ratio equals 28.5% (2018: 31.1%) which is far above the minimum requirement of 3% proposed by European authorities.

Reputation risk

Definition

Reputation risk is the risk of damage to FMO's reputation as a result of any event. Reputation risk overarches the categories of financial and non-financial risks and is a secondary risk which manifests itself from one of the underlying risk types. Thus, reputation risk is also managed via the primary risks which could develop into reputation risk issues.

Risk appetite and governance

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

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

Developments

FMO continued the storytelling campaign that was launched in 2018, where FMO presents its mission around the tagline 'Doing makes the difference'. New stories were shared to explain the importance of FMO's mandate, its motivation and challenges to external stakeholders. The aim is to create a better understanding of the delicacy and complexity of FMO's work and how it deals with inherent dilemmas.

In 2019, FMO focused on transparency and stakeholder engagement with respect to human rights practices. The publication of the Human Rights Report was well received by stakeholders, leading to more knowledge about the FMOs human rights approach. As a member of the Dutch Banking Sector Agreement, FMO was subject to potential negative press coverage when some NGOs accused banks of not taking sufficient measures to protect human rights. FMO delivered input for a formal response of NVB to the NGOs. Through intense stakeholder engagement, the NGOs refrained from publication. FMO has set up an agenda with engagement activities to keeps close ties with the NGOs involved in monitoring banks' practices.

Financial Risk

Investment risk

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

Credit risk

Definition

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

Risk appetite and governance

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

Management of credit risk is FMO's core business, both in the context of project selection and project monitoring. In this process, a set of investment criteria per sector and product is used that reflects minimum standards for the required financial strength of FMO's clients. This is further supported by credit risk models that are used for risk quantification, the IFRS9 expected credit loss, and the determination of economic capital use per transaction. The lending process is based on formal and strict procedures. Funding decisions depend on the risk profile of the client and financing instrument. For credit monitoring, FMO's clients are subject to annual reviews at a minimum. FMO also monitors clients that are labelled as Reason for Concern through a quarterly Watch List process to proactively manage loans before they become non-performing. For distressed assets, the Special Operations department actively manages workout and restructuring.

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

Developments

In 2019, FMO implemented a model to substantiate the expected credit loss (ECL) of defaulted or stage 3 loans, using the net present value (NPV) of (contractual) remaining cash flows, including interest and principal past due, on facility level. The respective model incorporates a four-scenario probability-weighted approach to the NPV. Moreover, the loss given default (LGD) models for all the client types were reviewed as a triennial process and externally validated leading to their calibration with historical observed losses. In addition, the probability of default (PD) models for all the client types were calibrated as an annual process leading to more proximity of predicted defaults with historical default rates.

Exposures and credit scoring

The following table shows FMO's total gross exposure to credit risk per year-end. The exposures, including derivatives, are shown gross, before impairments and the effect of mitigation using third-party guarantees, master netting, or collateral agreements. Regarding derivative financial instruments, only the ones with positive market values are presented. The maximum exposure to credit risk increased during the year to €8,777 as of year-end 2019 (2018: €8,165). There was a decrease in short term deposits at the Dutch Central Bank accompanied by a decrease in FMO’s credit exposure from loans to the private sector in emerging markets, which moved from €5,017 to €5,372.

Maximum exposure to credit risk, including derivatives	**2019**	**2018**
On-balance		
Banks	64,626	54,642
Current accounts with State funds and other programs	1,194	494
Short-term deposits		
-of which: Amortized cost	95,176	66,531
-of which: Fair value through profit or loss	926,769	756,216
Interest-bearing securities	350,305	402,380
Short-term deposits – Dutch central bank	351,532	325,104
Derivative financial instruments	301,237	247,823
Loans to the private sector		-
-of which: Amortized cost	4,627,637	4,288,609
-of which: Fair value through profit or loss	742,888	727,886
Current tax receivables	50,484	24,448
Other receivables	25,824	20,597
Deferred income tax assets	6,986	8,357
Total on-balance	**7,544,658**	**6,923,087**
Off-balance		
Contingent liabilities (guarantees issued)	98,370	75,066
Irrevocable facilities	1,135,093	1,166,583
Total off-balance	1,233,463	1,241,649
Total credit risk exposure	**8,778,121**	**8,164,736**

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

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

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

The majority of our gross loan portfolio (82%) remains in the F11 to F16 ratings categories. Overall the credit quality of FMO’s loan portfolio had counteracting changes in 2019, with the proportion of the portfolio rated F17 or worse rising from 8% to 11%, and the portion of the portfolio rated F13 or better increasing from 49% to 54%. This was due both to worsened economic conditions, implying country rating deteriorations and reducing combined conservatism in FMO’s credit risk models. These ultimately affected the distribution of client ratings more to the extremes.

Credit quality analysis

Loans to the private sector at amortized cost at December 31, 2019 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Fair value	Total	%
F1-F10 (BBB- and higher)	366,815	9,706	-	3,732	380,253	7.1
F11-F13 (BB-,BB,BB+)	2,066,085	113,684	-	339,254	2,519,023	46.9
F14-F16 (B-,B,B+)	1,224,431	242,040	94,248	301,565	1,862,284	34.7
F17 and lower (CCC+ and lower)	54,303	166,690	289,635	98,337	608,965	11.3
Sub-total	**3,711,634**	**532,120**	**383,883**	**742,888**	**5,370,525**	**100.0**
Less: amortizable fees	-45,542	-5,055	-2,990	-	-53,587	
Less: ECL allowance	-32,524	-25,227	-182,190	-	-239,941	
Plus: FV adjustments	-	-	-	-46,375	-46,375	
Carrying amount	**3,633,568**	**501,838**	**198,703**	**696,513**	**5,030,622**	

Loans to the private sector at amortized cost at December 31, 2018 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Fair value	Total	%
F1-F10 (BBB- and higher)	117,087	12,271	-	895	130,253	2.6
F11-F13 (BB-,BB,BB+)	1,844,692	111,888	-	360,429	2,317,009	46.2
F14-F16 (B-,B,B+)	1,582,796	235,828	93,830	259,965	2,172,419	43.3
F17 and lower (CCC+ and lower)	16,654	86,442	187,121	106,597	396,814	7.9
Sub-total	**3,561,229**	**446,429**	**280,951**	**727,886**	**5,016,495**	**100.0**
Less: amortizable fees	-42,073	-3,754	-2,256	-	-48,083	
Less: ECL allowance	-30,580	-16,767	-108,157	-	-155,504	
Plus: FV adjustments	-	-	-	-42,087	-42,087	
Carrying amount	**3,488,576**	**425,908**	**170,538**	**685,799**	**4,770,821**	

Apart from its on-balance finance activities, FMO is also exposed to off-balance credit-related commitments. Guarantees, which represent contingent liabilities to make payments if a customer cannot meet its obligations to third parties, carry similar credit risks as loans. Most of the guarantees are quoted in US Dollars. Guarantees on export facilities are collateralized by the underlying letters of credit, and therefore carry less credit risk than direct uncollateralized borrowing. The following table shows the credit quality and the exposure to credit risk of the financial guarantees for the period.

Financial guarantees[1]		2019			2018
Indicative counterparty credit rating scale of S&P	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
F1-F10 (BBB- and higher)	33,473	7,156	-	**40,629**	**28,808**
F11-F13 (BB-,BB,BB+)	192,706	72,057	-	**264,763**	**166,210**
F14-F16 (B-,B,B+)	57,984	6,994	-	**64,978**	**198,715**
F17 and lower (CCC+ and lower)	27,612	-	2,167	**29,779**	**15,496**
Sub-total	**311,775**	**86,207**	**2,167**	**400,149**	**409,229**
ECL allowance	-1,067	-483	-542	**-2,092**	**-3,009**
Total	**310,708**	**85,724**	**1,625**	**398,057**	**406,220**

1 1) Financial guarantees represent €98,370 classified as contingent liabilities and €301,779 classified as irrevocable facilities as per Note 'Irrevocable and contingent liabilities'

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

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

Loans commitments			2019			2018
Indicative counterparty credit rating scale of S&P	**Stage 1**	**Stage 2**	**Stage 3**	**Other [1)]**	**Total**	**Total**
F1-F10 (BBB- and higher)	21,919	-	-	-	21,919	**-**
F11-F13 (BB-,BB,BB+)	425,585	51,282	-	4,133	481,000	**356,806**
F14-F16 (B-,B,B+)	231,130	3,004	-	38,181	272,315	**413,878**
F17 and lower (CCC+ and lower)	6,515	45,836	4,849	-	57,200	**60,002**
Total nominal amount	**685,149**	**100,122**	**4,849**	**42,314**	832,434	**830,686**
ECL allowance	-3,187	-3,087	-	-	-6,274	**-4,485**
Total	**681,962**	**97,035**	**4,849**	**42,314**	826,160	**826,201**

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

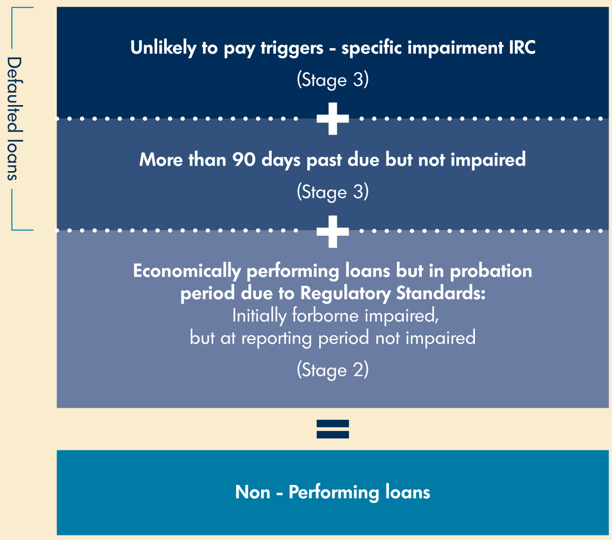
Non-Performing Loans

Non-Performing Loans (NPL) are defined when any of the following occur:

- When FMO judges that the client is "unlikely to pay" its credit obligation to FMO and IRC decides on a specific impairment on a loan (Stage 3);
- Loans with interest, principal or fee payments that are past due for more than 90 days (Stage 3);
- Forborne exposures which are economically performing but are still in probation (curing) period due to Regulatory Standards (Stage 2). Probation period before returning to performing status is one year;
- Additional forbearance measures are applied for forborne performing loans which have exited the NPL probation (Stage 2);
- Performing forborne loans which have exited the NPL probation period have past due amounts for more than 30 days (Stage 2);
- One of the loans is classified as non - performing due to criteria mentioned above, all loans of the client will be identified as non - performing (Stage 2).

FMO's NPL ratio increased from 8.4% to 9.8% as a result of several factors, but primarily new NPLs and relatively few write-offs.

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



New NPLs cannot be attributed to a specific factor or country, and the vintage years range from 2009 to 2019. Overall, NPLs remain concentrated in the Industry, Manufacturing and Services (IMS) sector, although its share in total NPLs reduced from 53% of NPLs to 42%. Activities in the IMS sector were terminated during 2017 following a strategic reorientation. The share in NPLs of FMO's existing focus sectors Energy and Agri increased to 31% and 25% respectively, while the share of the FI sector remained low and is only 2%. Overall, the NPL ratio for current focus sectors increased from 4.5% to 6.5%. Geographically, NPLs remained concentrated in India, although its share in total NPLs decreased from 25% to 22%. During 2019, FMO incurred several new NPLs in Argentina, which now makes up 19% of total NPLs. NPL levels in FMO's portfolio partially reflect long recovery periods, which are inherent in FMO's markets.

Among the NPLs, the loans with interest and/or principal payments that are past due more than 90 days amount to 6.6% (2018: 4.1%) of the gross loan portfolio that is caused by several reasons, mostly due to some new large NPLs and relatively few write-offs. Past due information related to FMO's portfolio loans and receivables are presented in the table below. This categorization does not apply to financial assets other than loans, including interest-bearing securities and short-term deposits.

Loans past due and impairments 2019	Stage 1	Stage 2	Stage 3	Fair Value	Total
Loans not past due	3,687,277	512,658	111,047	650,788	4,961,770
Loans past due:					
-Past due up to 30 days	24,357	1,897	-	8,864	35,118
-Past due 30-60 days	-	-	-	-	-
-Past due 60-90 days	-	12,511	-	5,058	17,569
-Past due more than 90 days	-	5,054	272,836	78,178	356,068
Subtotal	**3,711,634**	**532,120**	**383,883**	**742,888**	**5,370,525**
Less: amortizable fees	-45,542	-5,055	-2,990	-	-53,587
Less: ECL allowance	-32,524	-25,227	-182,190	-	-239,941
Less: FV adjustments	-	-	-	-46,375	-46,375
Carrying amount	**3,633,568**	**501,838**	**198,703**	**696,513**	**5,030,622**

Loans past due and impairments 2018	Stage 1	Stage 2	Stage 3	Fair Value	Total
Loans not past due	3,561,229	430,595	103,306	662,310	4,757,440
Loans past due:					
-Past due up to 30 days	-	-	8,112	-	8,112
-Past due 30-60 days	-	-	-	-	-
-Past due 60-90 days	-	-	43,388	-	43,388
-Past due more than 90 days	-	15,834	126,145	65,576	207,555
Subtotal	**3,561,229**	**446,429**	**280,951**	**727,886**	**5,016,495**
Less: amortizable fees	-42,073	-3,754	-2,256	-	-48,083
Less: ECL allowance	-30,580	-16,767	-108,157	-	-155,504
Less: FV adjustments	-	-	-	-42,087	-42,087
Carrying amount	**3,488,576**	**425,908**	**170,538**	**685,799**	**4,770,821**

The table below presents the distribution of Stage 3 loans according to regions and sectors. As with non- performing loans, impairments are highest in the IMS sector. Geographically there is an elevated level of impairments in Latin America, due to a large impairment for an Agribusiness client in Argentina.

Stage 3 - ECL distributed by regions and sectors

December 31, 2019	Financial Institutions	Energy	Agribusiness	Infrastructure, Manufacturing, Services	Total
Africa	-	30,165	-	8,661	38,826
Asia	-	21,228	-	15,686	36,914
Latin America & the Caribbean	1,127	4,249	61,946	19,440	86,762
Europe & Central Asia	204	2,934	3,035	13,515	19,688
Non-region specific	-	-	-	-	-
Total	**1,331**	**58,576**	**64,981**	**57,302**	**182,190**

Stage 3 - ECL distributed by regions and sectors

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

Modified financial assets

Changes in terms and conditions usually include extending the maturity, changing the interest margin and changing the timing of interest payments. When the terms and conditions are modified due to financial difficulties, these loans are qualified as forborne. Refer to paragraph related to 'Modification of financial assets' in Accounting Policies section

The watch-list process and the Credit department review modified loans periodically. When a loan is deemed no longer collectible, it is written off against the related loss allowance. In 2019, FMO’s write-offs equaled to €18 million due to 3 loans (2018: €18 million) corresponding to 0.3% (2018: 0.4%) of FMO's portfolio.

The following table provides a summary of FMO’s forborne assets, both classified as performing and not, as of December 31, 2019.

December 31, 2019	Performing	*of which: performing but past due > 30 days and <=90 days*	*of which: performing forborne*	Non Performing	*of which: non performing forborne*	*of which: impaired*	Sub Total	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	Carrying value
Loans to the private sector (Amortised Cost)	**4,216,428**	-	67,189	**411,189**	87,688	224,605	**4,627,637**	-53,587	-239,941	-	**4,334,109**
Loans to the private sector (Fair value)	**629,973**	-	34,087	**112,915**	78,573	-	**742,888**	-	-	-46,375	**696,513**
Total	**4,846,401**	**-**	**101,276**	**524,104**	**166,261**	**224,605**	**5,370,525**	**-53,587**	**-239,941**	**-46,375**	**5,030,622**

December 31, 2018	Performing	*of which: performing but past due > 30 days and <=90 days*	*of which: performing forborne*	Non Performing	*of which: non performing forborne*	*of which: impaired*	Sub Total	*Less: amortizable fees*	*Less: ECL allowance*	*Plus: fair value adjustments*	Carrying value
Loans to the private sector (Amortised Cost)	**3,993,615**	-	106,460	**294,995**	117,879	280,951	**4,288,610**	-48,083	-155,505	-	**4,085,022**
Loans to the private sector (Fair value)	**606,045**	-	30,743	**121,841**	94,598	-	**727,886**		-	-42,087	**685,799**
Total	**4,599,660**	**-**	**137,203**	**416,836**	**212,477**	**280,951**	**5,016,496**	**-48,083**	**-155,505**	**-42,087**	**4,770,821**

The following table shows the movement of gross carrying amount and ECL impact of Stage 2 and Stage 3 loans which were modified during 2019.

December 31, 2019	Post - modification Gross outstanding amount	Post - modification Corresponding ECL	Pre - modification Gross outstanding amount	Pre - modification Corresponding ECL
Restored loans since forbearance and now in Stage 1	-	-	-	-
Loans that reverted to Stage 2/3 once restored	7,186	-181	7,052	-195

There were no Stage 2 and Stage 3 loans, modified during 2019 which were restored to Stage 1 after modification.

The table below includes Stage 2 and Stage 3 assets for which terms and conditions were modified during 2019 with the related net modification profit.

	2019
Amortised cost of financial assets modified during the period	7,186
Net modification result	96

Credit risk mitigation

As per December 31, 2019, the total carrying value of the FMO's loan portfolio is €5,031; of which €500 is guaranteed by either the Dutch government or highly rated guarantors, of which the following table shows a breakdown of guarantee amounts received and carrying values of guaranteed loans per credit ranking of the guarantors.

Guarantor credit ranking based on rating scale S&P	2019 Amount of guarantees received	2019 Guaranteed loans - carrying amount	2018 Amount of guarantees received	2018 Guaranteed loans - carrying amount
Dutch State	15,218	18,146	25,244	30,094
AA- and higher ratings	182,265	417,231	40,523	54,198
A+ to A-	-	-	133,139	374,881
BBB+ to B-	28,929	65,426	25,365	61,106
CCC+ and lower ratings	-	-	-	-
Total	**226,412**	**500,803**	**224,271**	**520,279**

Equity risk

Definition

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

Risk appetite and governance

FMO has a long-term view on its equity portfolio, usually selling its equity stake within a period of 5 to 10 years. FMO can accommodate an increase in the average holding period of its equity investments and thereby wait for markets to improve again to realize exits. The equity portfolio consists of both direct or co-investments, primarily in the financial institutions and energy sectors, and indirect investments in private equity funds. The two types of investments require different risk assessments and selection criteria. The Private Equity department is responsible for assessing opportunities and performing extensive due diligence before investment decisions are made. Equity investments are approved by the Investment Committee in terms of specific customer as well as country risk. The IRC assesses the valuation of equity investments on semi-annual and annual basis. Diversification across geographical area, sector and equity type across the total portfolio is evaluated before new investments are made. The performance of the equity investments in the portfolio is periodically analyzed during the fair value process. Based on this performance and the market circumstances, exits are pursued in close cooperation with the co-investing partners.

The risk of building an equity portfolio has two main components:

1.Negative value adjustments due to currency effects (EUR/USD and USD/Local FX), negative economic developments in Emerging Markets (EM) and specific investee related issues (e.g. bad management, adverse changing market circumstances). This would negatively affect the profitability of FMO.

2. Liquidity of the portfolio –in case FMO is not able to liquidate(part) of its maturing equity portfolio by creating sufficient exits for its direct and co- investment portfolio. This is also reflected in the fund portfolio where some fund managers have to hold longer to their portfolio due to the lack of good exit opportunities. This requires FMO to maintain good portfolio management and not too add too many new investments in case the exits are not happening as otherwise the portfolio could grow too fast in comparison to FMO's own equity position.

Developments

In 2019 the market was characterized by the negative impact of the US – China trade war, economic crisis in Argentina and Turkey, and continued strength of the USD versus the EUR. Commercial funding is still not flowing to the frontier emerging markets – being FMO's focus markets – so liquidity stays limited in these markets. The high depreciation of some major emerging markets' currency in 2019 resulted in difficult market circumstances. The prices for commodities did not fully recover and in combination with uncertainty created by the trade war, world growth rates are in a down-ward trend.

In 2019 our committed equity portfolio grew to €2,813 million (€2,440 million in 2018). In line with our ambition, the percentage of direct investments versus fund investments grew from 40 % to 44 %. However, there was limited growth in the underlying values of equity investments mainly due to challenging market conditions in countries where FMO operates. Overall, the return of our portfolio was +6.9% (€81.3 million) consisting €29.6 million in dividends and €73.3 million in underlying value growth.

Exposures

The total outstanding equity portfolio at December 31, 2019, amounts to €2,165 (2018: €1,798) of which €988 (2018: €897) is invested in investment funds.

Equity portfolio including Associates distributed by region and sector

December 31, 2019	Financial Institutions		Energy		Agribusiness		Multi-Sector Fund Investments		Infrastructure, Manufacturing, Services		Total	
	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds
Africa	325,075	26,280	75,734	13,075	31,426	11,078	-	274,155	127,509	-	559,744	324,588
Asia	167,706	23,140	40,997	103,091	24,763	10,321	-	255,925	55,529	-	288,995	392,477
Latin America & the Caribbean	93,669	-	-	24,972	20,352	3,609	-	69,582	23,423	-	137,444	98,163
Europe & Central Asia	3,625	4,285	-	11,312	3,288	17,833	-	72,687	42,316	-	49,229	106,117
Non-region specific	37,003	41,507	23,258	11,060	-	-	-	12,799	83,050	-	143,311	65,366
Total	**627,078**	**95,212**	**139,989**	**163,510**	**79,829**	**42,841**	**-**	**685,148**	**331,827**	**-**	**1,178,723**	**986,711**

Equity portfolio including Associates distributed by region and sector

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

Concentration risk

Definition

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

Risk appetite and governance

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

Developments

Overall economic conditions in emerging markets were modest in 2019, with economic growth continuing in most markets. However, some of the markets experienced strong head winds due to specific circumstances. In Latin America several countries were going through an economic crisis. Being an important market for FMO, especially the developments in Argentina were intensively monitored. After a contraction of 2.5% in 2018, the economy of Argentina further worsened with an expected decline of 3.1% in 2019, according to the International Monetary Fund. Argentina is currently reforming its economy in order to comply with the largest IMF program in the country's history ($57 billion).

Additionally, presidential elections of October 2019 have caused turmoil in the market, marked by a strong currency depreciation after the results of the primary elections, tightened capital controls and severe downgrades by external rating agencies. A default or debt restructuring of the country is possible and this is reflected in the country's rating of F19 (2018: F15). At the end of 2019, FMO had 20 clients in Argentina, with a total loan exposure of €303 milion. Some of these clients are facing difficulties due to recent events. Developments on the mid- and long term are difficult to predict since the new administration was only recently elected. Other relevant economies in the Latin American region that are in contraction are Nicaragua (exposure of €114 million) and Ecuador (€126 million).

Next to the crisis in Latin America, economic and political conditions were turbulent in Turkey. According to the latest IMF outlook, Turkey fell into a recession in 2018 and it is projected to grow by just 0.2% in 2019. Various events occurred over the course of 2019, such as local elections in March where the ruling AKP party lost in several key municipalities and a military offensive against Kurdish militants in northeast Syria. At the end of 2019, FMO had 28 clients in Turkey with a total loan exposure of €405 million. Overall FMO's portfolio in Turkey remains stable, with two non- performing loans, of which one is attributed to client-specific circumstances unrelated to the current economic crises.

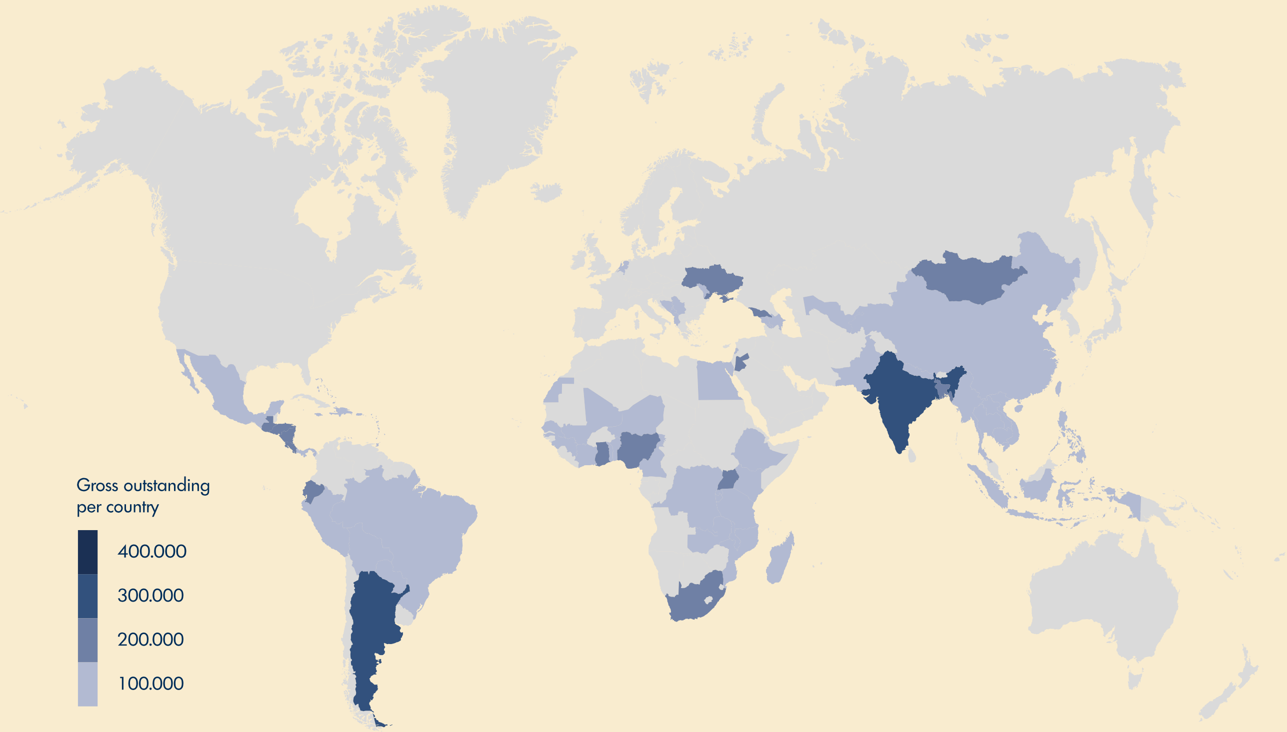
The developments in both Turkey and Argentina are closely monitored by FMO's Investment departments, Credit and the IRC.

Country, regional and sector exposures

Country risk arises from country-specific events that adversely impact FMO's exposure in a specific country. Within FMO, country risk is broadly defined. It includes all relevant factors that have a common impact on FMO's portfolio in a country such as economic, banking and currency crises, sovereign defaults and political risk events.

To ensure diversification within FMO's emerging market portfolio across regions, a country limit framework is in place to minimize concentration risk from the perspective of the portfolio as a whole. Country limits range from 8% to 22% of FMO's capital, depending on the country rating, where FMO sets higher limits in less risky countries. The assessment of the country rating (F-rating scoring in line with internal credit risk rating) is based on a benchmark of external rating agencies and other external information. In 2019, FMO has reviewed its country risk framework, based on a peer analysis and discussions with external parties. It was found that FMO was overly conservative regarding assigning country ratings, hence a less conservative approach is now applied. Consequently, the ratings of various countries were upgraded by one notch.

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



In general, the loan portfolio remains well diversified across different countries. The single largest country exposure is under 10% of the total loan book. The three largest country exposures in the loan book at the end of 2019 were India, Turkey and Argentina, together 22% of the total exposure. Following the rating downgrades of S&P, Moody's and Fitch, Argentina has now an internal rating of F19 (2018: F15). The ratings of India and Turkey did not change throughout the year. The loan portfolio in Argentina increased with €125 million due to new transactions across different sectors. Other noteworthy changes in country ratings are upgrades of Georgia to F12 (2018: F13), Armenia to F13 (2018: F14), Ghana to F15 (2018: F16) and Ukraine to F16 (2018: F17).

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

Indicative external rating equivalent	2019 (%)	2018 (%)
F9 and higher (BBB and higher ratings)	4.5	5.3
F10 (BBB-)	8.5	7.6
F11 (BB+)	3.4	-
F12 (BB)	6.5	3.5
F13 (BB-)	10.5	13.8
F14 (B+)	26.3	29.9
F15 (B)	20.1	14.8
F16 (B-)	11.2	17.0
F17 and lower (CCC+ and lower ratings)	9.0	8.1
Total	**100.0**	**100.0**

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

Gross exposure of loans distributed by region and sector

	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
December 31, 2019						
Africa	406,122	622,533	141,149	31,848	212,289	1,413,941
Asia	512,229	352,552	63,610	-	190,426	1,118,817
Latin America & the Caribbean	522,356	480,201	261,775	-	118,264	1,382,596
Europe & Central Asia	637,970	222,727	225,877	37,269	95,769	1,219,612
Non-region specific	114,345	13,338	66,358	-	41,518	235,559
Total	**2,193,022**	**1,691,351**	**758,769**	**69,117**	**658,266**	**5,370,525**
December 31, 2018						
Africa	362,631	550,786	79,364	26,189	234,851	1,253,821
Asia	438,442	366,025	43,038	-	218,354	1,065,859
Latin America & the Caribbean	542,839	444,813	208,260	-	134,683	1,330,595
Europe & Central Asia	616,430	146,243	197,183	36,398	136,580	1,132,834
Non-region specific	89,337	19,698	75,061	-	49,290	233,386
Total	**2,049,679**	**1,527,565**	**602,906**	**62,587**	**773,758**	**5,016,495**

Single and group risk exposures

Regarding single and group risk exposures, FMO has set stringent internal limits where the maximum loss possible for one single client or group is set as a percentage of FMO’s shareholders’ equity. At year-end, all exposures are well within these limits. These internal single and group risk limits are set to be more stringent than the regulatory limits such as the ones foreseen under the CRR norm of 25% of eligible capital.

Counterparty credit risk

Definition

Counterparty credit risk in the treasury portfolio is the risk that FMO will suffer economic losses because a counterparty fails to fulfill its financial or other contractual obligations from open positions in the portfolio.

Risk appetite and governance

The main responsibility of FMO’s Treasury department is to fund the core business of FMO and to efficiently and effectively mitigate risks in line with the Treasury’s mandate. The main goal of the treasury portfolio is to maintain a liquidity buffer such that FMO can serve its liquidity needs in both on- going business and in stressed circumstances. FMO’s Treasury department does not have its own trading book and does not actively take open positions in the pursuit of profits. FMO aims to balance between keeping losses within its limited risk tolerance and supporting FMO's business strategy, thereby minimizing credit risk and concentration risk in the treasury portfolio, derivative portfolio, and several bank accounts.

The Treasury department is responsible for day-to-day counterparty risk management. Risk is the 'second line of defense' and responsible for assessing, quantifying, and monitoring counterparty risk daily. Limit excesses and material findings are reported to the ALCO on a monthly basis, together with recommended mitigations and/or actions. The Risk Department is also responsible for updating related policies and processes and for setting up limits, including minimum credit rating requirements, exposure limits, as well as transaction limits. The policies, processes, relevant parameters, and limits are reviewed and approved by the ALCO annually.

Developments

FMO has followed developments since 2018 for the Brexit Action Plan and in addition, FMO set up a companywide project in early 2019 that captures the full impact of changes and discontinuation of Benchmark interest rates, such as Libor and Eonia. For more details please refer to the section 'Legal Risk'.

Exposures

Counterparty risk exposures in FMO's treasury portfolios originate from short-term investments (deposits, investment in money market funds, CPs, and collaterals related to transacted derivatives), interest-bearing securities (bonds), and transacted derivatives for hedging purpose. The tables below show outstanding positions as of 31 December.

Overview interest-bearing securities based on rating scale S&P

At December 31	2019	2018
AAA	274,222	246,336
AA- to AA+	76,015	156,044
Total	**350,237**	**402,380**

Geographical distribution interest-bearing securities

At December 31	2019 (%)	2018 (%)
Finland	18	3
France	6	5
Germany	28	32
Netherlands	29	43
Philippines	6	5
Sweden	9	8
Supra-nationals	4	4
Total	**100**	**100**

Overview short-term deposits

At December 31	S&P rating (short-term)	2019	2018
Dutch central bank		351,532	325,104
Financial institutions	A-1	874,328	635,925
	A-2	17,573	20,956
	A-3	-	-
	Unrated	-	-
Money market funds	A-1+	130,044	165,866
Municipality		-	-
Total		**1,373,477**	**1,147,851**

Supra-nationals are international organizations or unions in which member states delegate part of their national powers to a collective decision making body. As per year-end 2019, the largest exposure in this category is to the European Investment Bank (EIB).

FMO mitigates its counterparty credit risk through various means. Minimum requirements of credit quality are set for counterparties of treasury activities. Netting and collateral agreements are also utilized to reduce counterparty credit risk originating from derivative transactions. FMO has Credit Support Annexes (CSAs) with all derivative counterparties. Additionally, part of the derivative portfolio, particularly EUR and USD interest rate swaps, is cleared through central counterparties, as required by the European Market Infrastructure Regulations (EMIR).

Derivative financial instruments distributed by rating, based on rating scale S&P

	2019		2018	
	Net exposure	**CSA (%)**	**Net exposure**	**CSA (%)**
AA- to AA+	-		-	
A to A+	58,414	100	79,845	100
BBB	-		-	
Central cleared	25,853	100	12,427	100
Total	**84,267**	**100**	**92,272**	**100**

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

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

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

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

	(a)	(b)	(c)=(a)-(b)	(d)		(e)=(c)-(d)
				Related amounts not offset in the balance sheet		
December 31, 2019	**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	301,237	-	301,237	-	-	-
FINANCIAL LIABILITIES						
Derivatives	-257,171	-	-257,171	-		
Total	**44,066**	**-**	**44,066**	**-**	**-816**	**46,580**

	(a)	(b)	(c)=(a)-(b)	(d)		(e)=(c)-(d)
				Related amounts not offset in the balance sheet		
December 31, 2018	**Gross amounts recognized in balance sheet**	**Gross amount of financial assets/ liabilities offset in the balance sheet**	**Net amount presented in the balance sheet**	**Financial instruments (including non-cash collateral)**	**Cash collateral[1)]**	**Net amount**
FINANCIAL ASSETS						
Derivatives	247,823	-	247,823			
FINANCIAL LIABILITIES						
Derivatives	-217,174	-	-217,174			
Total	**30,649**	**-**	**30,649**	**-**	**9,519**	**21,130**

Liquidity risk

Definition
Liquidity risk is defined as the risk for FMO not being able to fulfill its financial obligations due to insufficient availability of liquid means.

Risk appetite and governance
FMO’s risk appetite is to maintain adequate liquidity buffers to fulfill FMO’s current and future financial obligations. The appetite follows a similar rationale as for capital and it is aimed to maintain enough liquidity to ensure FMO would never need to fall back on the guarantee provided by the Dutch State to our investors. To realize this ambition, minimum liquidity requirements apply as prescribed by the regulator.

FMO’s Liquidity Risk Policy Framework is built on four Pillars.

1. Minimum liquidity buffer under stress
2. Maturity matched funding
3. Diversified funding
4. Meet regulatory requirements

Based on these four pillars. FMO’s risk appetite levels are defined for a 7-month minimum survival period under stress, a liquidity coverage ratio (LCR) to exceed 135%, a Net Stable Funding Ratio (NSFR) to exceed 110%, and restrictions on failed funding periods and cost of wholesale funding above peers. Additional thresholds such as matching funding and liquidity in specific currencies are also in place for managing and monitoring the risk profile of the bank. These monitoring metrics are delegated to Director Risk and Director Treasury and are subject to a formal sign- off procedure and reported to the ALCO. The ALCO is also responsible to approve the Liquidity Risk Policy.

FMO traditionally has a conservative liquidity policy and funding strategy that is well suited to its business. Stress tests are conducted on FMO’s liquidity position on weekly basis to ensure this conservative position is maintained. For the annual Internal Liquidity Adequacy Assessment Process (ILAAP), FMO performs additional stress tests including a severe stress scenario provided by DNB and includes reverse stress testing. A continuous review is performed on the liquidity position, FMO’s assumptions, internal expectations and external market conditions to ensure that FMO’s liquidity planning is accurate.

The Liquidity Contingency Plan sets out FMO’s strategy for addressing liquidity needs in the case of a crisis, ensuring that various sources of emergency liquidity are available to meet all current and future financial obligations, whilst avoiding excessive funding costs, incurring unacceptable losses and significantly changing the business profile. The liquidity sources include a long-term bond portfolio and a portfolio of short-term instruments such as cash, Money Market Funds, Commercial Paper (CP) and Treasury Bills. The long-term bonds and CP can be used as collateral in repurchase agreements to obtain short-term cash from the Dutch Central Bank or from commercial parties.

Developments
FMO reviewed its 2019-2022 funding strategy to increase diversification across funding sources and instruments. Moreover, the Sustainability Bonds Framework was also updated to include new categories for green and social projects and to allow FMO to issue Green Bonds, Social Bonds or Sustainability Bonds. As a result of this, in February 2019, FMO issued its first green bond, a 5-year fixed rate US$500 mln transaction, having previously pioneered the Sustainability Bond market with three EUR-denominated, and one SEK- denominated, sustainability bond issuances. The transaction was characterized by high quality and diverse orderbook supported by strong demand from green motivated investors. Bank treasuries took 51% of allocations, followed by central banks and official institutions (31%), asset managers (15%), insurance and pension funds (2%) and private banks (1%). The proceeds will be mainly allocated to Renewable and Energy Efficiency projects contracted in 2018.

Over the past few years, FMO has established a key role in local currency frontier markets and is keen to continue issuances in 2020, fostering capital markets development in line with its mandate. In total, FMO issued approximately US$250 mln equivalent funding in local currency transactions during 2019. Among these funding transactions were a number of deals that were new to FMO and, in some cases, new to the whole market. Examples of the currencies for which FMO was able to find investor interest are the Haitian Gourde, the Guatemalan Quetzal and the Uzbekistani Soum.

Regarding liquidity risk management, FMO made steps to improve the internal monitoring and forecasting tools, leading to a more efficient liquidity management.

Liquidity position
Throughout the course of 2019, FMO's liquidity position has been compliant with internal and regulatory metrics.

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

Categorization of principal cash flows per maturity bucket

December 31, 2019	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
Assets						
Banks	64,626	-	-	-	-	64,626
Current accounts with State funds and other programs	-	-	-	-	1,194	1,194
Short-term deposits						
-of which: Amortized cost	351,532	-	-	-	95,176	446,708
-of which: Fair value through profit or loss	927,675	-	-	-	-	927,675
Interest-bearing securities	49,854	26,880	222,175	60,270	-	359,179
Derivative financial instruments	49,735	48,960	85,704	36,615	-	221,014
Loans to the private sector						
-of which: Amortized cost	210,701	578,738	2,532,199	1,208,601	-	4,530,239
-of which: Fair value through profit or loss	55,203	60,928	374,078	253,378	-	743,587
Equity investments						
-of which: Fair value through OCI	-	-	-	-	122,921	122,921
-of which: Fair value through profit or loss	-	-	-	-	1,756,644	1,756,644
Investments in associates	-	-	-	-	285,867	285,867
Current tax receivables	46,484	-	-	-	-	46,484
Other receivables	25,823	-	-	-	-	25,823
Property, plant and equipment	-	-	-	-	28,289	28,289
Intangible assets	-	-	-	-	17,585	17,585
Deferred income tax assets	-	-	-	-	6,986	6,986
Total assets	**1,781,633**	**715,506**	**3,214,156**	**1,558,864**	**2,314,662**	**9,584,821**
Liabilities and shareholders' equity						
Short-term credits	-	-	-	-	94,339	94,339
Current accounts with State funds and other programs	2,832	-	-	-	-	2,832
Derivative financial instruments	36,862	8,349	98,370	77,771	-	221,352
Debentures and notes	509,182	758,623	3,601,706	890,063	-	5,759,574
Wage tax liabilities	412	-	-	-	-	412
Accrued liabilities	22,983	-	-	-	-	22,983
Other liabilities	21,244	2,386	10,731	9,598	-	43,959
Provisions	-	-	-	-	49,440	49,440
Deferred income tax liabilities	-	-	-	-	5,638	5,638
Shareholders' equity	-	-	-	-	3,127,037	3,127,037
Total liabilities and shareholders' equity	**593,515**	**769,358**	**3,710,807**	**977,432**	**3,276,454**	**9,327,566**
Liquidity gap 2019	**1,188,118**	**-53,852**	**-496,651**	**581,432**	**-961,792**	**257,255**

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Categorization of principal cash flows per maturity bucket

December 31, 2018	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
Assets						
Banks	54,642	-	-	-	-	54,642
Current accounts with State funds and other programs	-	-	-	-	494	494
Short-term deposits						
-of which: Amortized cost	325,091	-	-	-	66,544	391,635
-of which: Fair value through profit or loss	528,153	231,340	-	-	-	759,493
Interest-bearing securities	19,544	35,695	211,528	135,500	-	402,267
Derivative financial instruments	27,722	21,488	133,611	31,016	-	213,837
Loans to the private sector						
-of which: Amortized cost	219,497	498,966	2,312,089	1,105,188	-	4,135,740
-of which: Fair value through profit or loss	29,374	34,302	350,922	267,479	-	682,077
Equity investments						
-of which: Fair value through OCI	-	-	-	-	77,553	77,553
-of which: Fair value through profit or loss	-	-	-	-	1,504,427	1,504,427
Investments in associates	-	-	-	-	215,539	215,539
Current tax receivables	24,448	-	-	-	-	24,448
Other receivables	20,597	-	-	-	-	20,597
Property, plant and equipment	-	-	-	-	1,677	1,677
Intangible assets	-	-	-	-	13,505	13,505
Deferred income tax assets	-	-	-	-	8,357	8,357
Total assets	**1,249,068**	**821,791**	**3,008,150**	**1,539,183**	**1,888,096**	**8,506,288**
Liabilities and shareholders' equity						
Short-term credits	-	-	-	-	76,051	76,051
Current accounts with State funds and other programs	4,173	-	-	-	-	4,173
Derivative financial instruments	31,158	19,550	64,779	77,801	-	193,288
Debentures and notes	30,748	1,123,126	3,343,957	640,405	-	5,138,236
Wage tax liabilities	262	-	-	-	-	262
Accrued liabilities	10,086	-	-	-	-	10,086
Other liabilities	1,331	-	-	-	-	1,331
Provisions	-	-	-	-	54,547	54,547
Deferred income tax liabilities	-	-	-	-	2,801	2,801
Shareholders' equity	-	-	-	-	2,983,808	2,983,808
Total liabilities and shareholders' equity	**77,758**	**1,142,676**	**3,408,736**	**718,206**	**3,117,207**	**8,464,583**
Liquidity gap 2018	**1,171,310**	**-320,885**	**-400,586**	**820,977**	**-1,229,111**	**41,705**

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

Contractual maturity of contingent liabilities and irrevocable facilities

December 31, 2019	< 3 months	3-12 months	1-5 years	>5 years	Total
Contingent liabilities	-	-	68,444	29,926	98,370
Irrevocable facilities	2,331	34,122	496,189	1,250,240	1,782,882
Total off-balance[1)]	**2,331**	**34,122**	**564,633**	**1,280,166**	**1,881,252**

December 31, 2018	< 3 months	3-12 months	1-5 years	>5 years	Total
Contingent liabilities	0	10,161	45,044	19,861	75,066
Irrevocable facilities	81,988	669,092	674,525	383,584	1,809,189
Total off-balance1)	**81,988**	**679,253**	**719,569**	**403,445**	**1,884,255**

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

FMO complies with DNB's Pillar 2 liquidity requirements methodology for Less Significant Institutions (LSIs) which have been applied from the supervisory review and evaluation process (SREP). The liquidity requirements are a survival period of at least 6 months based on internal stress testing methodology, a Net Stable Funding Ratio (NSFR) of 100% and a specific Liquidity Coverage Ratio (LCR) requirement of 100%. FMO's internal liquidity appetite levels include a safety cushion over and above these minimum requirements as described in the section above.

Following the risk appetite, FMO's liquidity position has been well above regulatory requirements and internal appetite levels throughout 2019. Per reporting date, FMO has a survival period of 48 months (2018: over 9 months), an LCR of 252% (2018: 965%) and a NSFR of 119.6% (2018: 112%).

FMO's major liquidity exposures are in EUR and USD currencies. However, some transactions are denominated – and may be settled - in local currencies. These exposures are specifically hedged using financial instruments to minimize liquidity and settlement risks.

Funding and sustainability bonds

Treasury aims to ensure good market access by diversifying FMO's funding sources. The result of this is a balanced funding mix in terms of geography, instrument and maturity.

Eurodollar (i.e. USD investors outside the United States) constitute key markets for FMO. Treasury has identified USD and EUR as strategic funding markets. Other markets to attract funding include Australia, Sweden and local frontier currencies. Typical investors in FMO paper, either through public or private issues, are hold to maturity investors. A final important factor to note about FMO funding, except for our Tier II issuance, is that it is plain vanilla; it is all senior unsecured funding. The liquidity profile of our funding notes is therefore very straightforward.

Thematic bonds are an important part of FMO's funding strategy, that accounts for about 30% of the total capital market issuances as of December 2019. The FMO Sustainability Bonds Framework was updated in December 2018 in order to issue Green Bonds, Social Bonds or Sustainability Bonds to support FMO's Strategy. In February 2019, FMO has issued its first US$500 mln Green Bond maturing by 20 February 2024.

Market risk

Market Risk is the risk that the value and/or the earnings of the bank decline because of unfavorable market movements. At FMO, it encompasses interest rate risk and currency risk.

Interest rate risk in the banking book

Definition

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

Risk appetite and governance

FMO has no trading book and all assets (loans and investments) are part of the banking book. FMO's policy is to match assets and liabilities within set boundaries. As the loan portfolio is more granular, loans are pre-funded and new funding is obtained periodically and matched to the asset portfolio in terms of expected maturity and interest rate sensitivity. Interest rate risk arises from the residual tenor mismatch, mismatch in fixed rate assets funded by floating rate liabilities, and differences in reference rates or currencies resulting in basis risk. FMO has little optionality in its portfolio and has no material exposure to rates-driven prepayment risk. The volatility of the market value of assets and liabilities over the holding period due to interest rate movements is of lesser concern as these are held until maturity.

Interest rate risk management falls under the responsibility of the ALCO. The day-to-day management of interest rate risk, particularly quantification and monitoring, is delegated to Risk Management. Treasury department acts as the first line of defense and is responsible for daily transacting activities. Interest rate risk is monitored using earnings-based metrics and value-based metrics.

Earnings-based methods capture short-term effects of interest rate re-fixing or re-pricing that may impact net interest incomes. The metrics below are used for this purpose.

- The interest rate gap provides a static overview of the full balance sheet's repricing and refinancing characteristics. The gap is monitored over different time buckets where limits are in place both per bucket and on cumulative level, for all currencies (aggregate and currency-by-currency).
- Earnings-at-Risk (EaR) provides a dynamic projection of net interest income sensitivity to yield curve shocks. FMO monitors EaR on a 2-year forward looking basis and applies different scenarios simultaneously that allow for identification of basis risk as well.

Economic value methods capture changes in net present values of assets, liabilities and off-balance sheet items to changes in yield curves. Value-based metrics measure long-term effects of interest rate changes over the full tenor of the balance sheet. The following economic value metrics are calculated:

- Basis Point Value (BPV) provides the change in market value of assets, liabilities and interest-rate risk sensitive off-balance items for a one basis point change in yield curves. Limits are in place for the whole balance sheet, and for main currencies (EUR and USD) separately.
- Equity Value at Risk (EVaR) provides changes in the economic value of the shareholder's equity given certain shifts in yield curves. The impacts of both a 200 basis-points parallel shift and a 200 basis-points gradual shift are reported.

The interest rate gap and BPV exposure are monitored on weekly basis against limits set by the ALCO. Limits are defined dynamically to accommodate a 200 basis-points shock within 5% of shareholder's equity. The EVaR limit is defined in the Risk Appetite Framework and set at 5% of shareholder's equity. The EaR is used for monitoring purposes only and thresholds are defined based on 5% of projected net interest income.

Developments

No material developments occured in 2019. The Benchmark reform and discontinuation of LIBOR is closely monitored by FMO's BMR & IBOR ending project. FMOs interest rate position will be affected by the transition of contract reference rates and in the valuation of derivatives. FMO is closely monitoring this transition and will take appropriate actions to ensure that the impact on interest rate risk is not material.

Exposures

The limits with respect to interest rate risk were not breached in 2019. The following table summarizes the interest re-pricing characteristics for FMO's assets and liabilities.

Interest re-pricing characteristics

December 31, 2019	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
Assets						
Banks	64,626	-	-	-	-	64,626
Current accounts with State funds and other programs	-	-	-	-	1,194	1,194
Short-term deposits						
-of which: Amortized cost	446,708	-	-	-	-	446,708
-of which: Fair value through profit or loss	926,769	-	-	-	-	926,769
Interest-bearing securities	46,295	24,846	217,442	59,786	1,868	350,237
Derivative financial instruments[1]	79,142	109,287	62,654	3,105	47,049	301,237
Loans to the private sector						-
-of which: Amortized cost	1,847,317	1,331,809	692,762	401,839	60,382	4,334,109
-of which: Fair value through profit or loss	292,700	211,020	109,766	63,670	19,357	696,513
Equity investments						-
-of which: Fair value through OCI	-	-	-	-	122,921	122,921
-of which: Fair value through profit or loss	-	-	-	-	1,756,644	1,756,644
Investment in associates	-	-	-	-	285,867	285,867
Current tax receivables	-	-	-	-	46,484	46,484
Other receivables	-	-	-	-	25,824	25,824
Property, plant and equipment	-	-	-	-	28,289	28,289
Intangible assets	-	-	-	-	17,585	17,585
Deferred income tax assets	-	-	-	-	6,986	6,986
Total assets	**3,703,557**	**1,676,962**	**1,082,624**	**528,400**	**2,420,450**	**9,411,993**
Liabilities and shareholders' equity						
Short-term credits	94,339	-	-	-	-	94,339
Current accounts with State funds and other programs	-	-	-	-	2,832	2,832
Derivative financial instruments1	181,315	10,937	24,656	4,618	35,645	257,171
Debentures and notes	1,110,742	751,707	2,981,528	919,354	44,851	5,808,182
Wage tax liabilities	-	-	-	-	412	412
Accrued liabilities	-	-	-	-	22,983	22,983
Other liabilities	-	-	-	-	43,959	43,959
Provisions	-	-	-	-	49,440	49,440
Deferred income tax liabilities	-	-	-	-	5,638	5,638
Shareholders' equity	-	-	-	-	3,127,037	3,127,037
Total liabilities and shareholders' equity	**1,386,396**	**762,644**	**3,006,184**	**923,972**	**3,332,797**	**9,411,993**
Interest sensitivity gap 2018	**2,317,161**	**914,318**	**-1,923,560**	**-395,572**	**-912,347**	

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

Interest re-pricing characteristics

December 31, 2018	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
Assets						
Banks	54,642	-	-	-	-	54,642
Current accounts with State funds and other programs	-	-	-	-	494	494
Short-term deposits						-
-of which: Amortized cost	391,635	-	-	-	-	391,635
-of which: Fair value through profit or loss	756,216	-	-	-	-	756,216
Interest-bearing securities	17,460	35,695	211,528	135,500	2,197	402,380
Derivative financial instruments[1]	-615,701	-1,431,140	1,725,010	545,591	24,063	247,823
Loans to the private sector						-
-of which: Amortized cost	1,653,597	1,325,039	684,131	363,217	59,038	4,085,022
-of which: Fair value through profit or loss	272,739	218,547	112,838	59,908	21,767	685,799
Equity investments						-
-of which: Fair value through OCI	-	-	-	-	77,553	77,553
-of which: Fair value through profit or loss	-	-	-	-	1,504,427	1,504,427
Investment in associates	-	-	-	-	215,539	215,539
Current tax receivables	-	-	-	-	24,448	24,448
Other receivables	-	-	-	-	20,597	20,597
Property, plant and equipment	-	-	-	-	1,677	1,677
Intangible assets	-	-	-	-	13,505	13,505
Deferred income tax assets	-	-	-	-	8,357	8,357
Total assets	**2,530,588**	**148,141**	**2,733,507**	**1,104,216**	**1,973,662**	**8,490,114**
Liabilities and shareholders' equity						
Short-term credits	76,051	-	-	-	-	76,051
Current accounts with State funds and other programs	-	-	-	-	4,173	4,173
Derivative financial instruments[1]	255,039	243,092	-313,859	2,732	30,170	217,174
Debentures and notes	1,940,285	245,975	2,286,840	640,572	26,209	5,139,881
Wage tax liabilities	-	-	-	-	262	262
Accrued liabilities	-	-	-	-	10,086	10,086
Other liabilities	-	-	-	-	1,331	1,331
Provisions	-	-	-	-	54,547	54,547
Deferred income tax liabilities	-	-	-	-	2,801	2,801
Shareholders' equity	-	-	-	-	2,983,808	2,983,808
Total liabilities and shareholders' equity	**2,271,375**	**489,067**	**1,972,981**	**643,304**	**3,113,387**	**8,490,114**
Interest sensitivity gap 2018	**259,213**	**-340,926**	**760,526**	**460,912**	**-1,139,725**	

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

Currency risk

Definition

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

Risk appetite and governance

FMO offers loans and attracts funding in a wide range of currencies. This is done to provide financing in the currency best fitting FMO's clients and to reduce currency risks on their side. To ensure proper diversification, FMO attracts funding in different currencies, both on-shore and off-shore, including emerging market and frontier market currencies which contribute to FMO's goal to develop local currency markets.

FMO has limited appetite for currency risk. Exposures are hedged through matching currency characteristics of assets with liabilities, or through derivative transactions such as cross-currency swaps and FX forwards conducted with either commercial parties or with The Currency Exchange Fund (TCX Fund N.V.). Most currency exposures are hedged to US dollars on a micro-hedge basis, whereby the US dollar position is managed on a portfolio basis accordingly. FMO does not take any active positions in any currency for purpose of making a profit. Each individual currency is managed within a strict position limit and an overall appetite level is set at 1% of shareholder’s equity for the total open position across all currencies. Both the individual and overall open positions are monitored by Risk Management on a daily basis. Additionally, FMO maintains a deliberately unhedged foreign currency position for the purpose of structural hedge which is reported by Risk Management to the ALCO monthly. Please refer to structural hedge sub-section for further details.

Developments

No material developments occurred in 2019.

Exposures

Individual and total open currency positions were within risk appetite in 2019. The table below illustrates that the currency risk sensitivity gap per December 2019 is almost completely part of FMO's equity investments and investments in associates.

Currency risk exposure (at carrying values)

December 31, 2019	EUR	USD	INR	GEL	Other	Total
Assets						
Banks	41,831	15,672	5,101	12	2,010	64,626
Current accounts with State funds and other programs	1,194	-	-	-	-	1,194
Short-term deposits						
-of which: Amortized cost	445,823	-	-	-	885	446,708
-of which: Fair value through profit or loss	-	926,769	-	-	-	926,769
Interest-bearing securities	251,692	98,545	-	-	-	350,237
Derivative financial instruments1	789,864	-209,130	-255,392	-55,846	31,741	301,237
Loans to the private sector						
-of which: Amortized cost	521,130	3,077,423	303,591	138,926	293,039	4,334,109
-of which: Fair value through profit or loss	113,791	521,079	57,787	-	3,856	696,513
Equity investments						
-of which: Fair value through OCI	10,595	112,326	-	-	-	122,921
-of which: Fair value through profit or loss	274,819	1,227,427	116,250	-	138,148	1,756,644
Investments in associates	-	285,867	-	-	-	285,867
Current tax receivables	46,484	-	-	-	-	46,484
Other receivables	16,909	7,538	1	-	1,376	25,824
Property, plant and equipment	28,289	-	-	-	-	28,289
Intangible assets	17,585	-	-	-	-	17,585
Deferred income tax assets	6,986	-	-	-	-	6,986
Total assets	**2,566,992**	**6,063,516**	**227,338**	**83,092**	**471,055**	**9,411,993**
Liabilities and shareholders' equity						
Short-term credits	72,140	22,199	-	-	-	94,339
Current accounts with State funds and other programs	2,832	-	-	-	-	2,832
Derivative financial instruments1	-716,416	2,076,851	144,529	-76,009	-1,171,784	257,171
Debentures and notes	1,824,061	2,347,883	-	171,929	1,464,309	5,808,182
Wage tax liabilities	564	-	-	-	-152	412
Accrued liabilities	-46,964	1,720	263	-	67,964	22,983
Other liabilities	28,754	15,141	-	-	64	43,959
Provisions	41,839	6,805	69	-	727	49,440
Deferred income tax liabilities	5,638	-	-	-	-	5,638
Shareholders' equity	3,127,037	-	-	-	-	3,127,037
Total liabilities and shareholders' equity	**4,339,485**	**4,470,599**	**144,861**	**95,920**	**361,128**	**9,411,993**
Currency gap 2019		**1,592,917**	**82,477**	**-12,828**	**109,927**	
Currency gap 2019 excluding equity investments and investments in associates		**-32,707**	**-33,773**	**-12,828**	**-28,217**	

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

Currency risk exposure (at carrying values)

December 31, 2018	EUR	USD	SEK	INR	Other	Total
Assets						
Banks	32,980	15,384	2	4,232	2,044	54,642
Current accounts with State funds and other programs	494	-	-	-	-	494
Short-term deposits						-
-of which: Amortized cost	391,661	-26	-	-	-	391,635
-of which: Fair value through profit or loss	-	756,216	-	-	-	756,216
Interest-bearing securities	275,165	127,215	-	-	-	402,380
Derivative financial instruments[1]	1,436,244	-1,279,012	323,390	-135,486	-97,313	247,823
Loans to the private sector						-
-of which: Amortized cost	447,947	3,090,290	-	183,630	363,155	4,085,022
-of which: Fair value through profit or loss	109,512	514,093	-	60,041	2,153	685,799
Equity investments						-
-of which: Fair value through OCI	10,551	67,002	-	-	-	77,553
-of which: Fair value through profit or loss	285,137	1,062,602	-	25,170	131,518	1,504,427
Investments in associates	1,529	214,010	-	-	-	215,539
Current tax receivables	24,448	-	-	-	-	24,448
Other receivables	8,792	11,425	-	2	378	20,597
Property, plant and equipment	1,677	-	-	-	-	1,677
Intangible assets	13,505	-	-	-	-	13,505
Deferred income tax assets	8,357	-	-	-	-	8,357
Total assets	**3,047,999**	**4,579,199**	**323,392**	**137,589**	**401,935**	**8,490,114**
Liabilities and shareholders' equity						
Short-term credits	71,373	4,678	-	-	-	76,051
Current accounts with State funds and other programs	4,173	-	-	-	-	4,173
Derivative financial instruments[1]	-417,605	1,251,058	-113,765	127,429	-629,943	217,174
Debentures and notes	1,802,944	1,983,374	433,563	-	920,000	5,139,881
Wage tax liabilities	407	-	-	-	-145	262
Accrued liabilities	19,148	-7,865	-	191	-1,388	10,086
Other liabilities	253	1,034	-	-	44	1,331
Provisions	47,853	5,488	-	5	1,201	54,547
Deferred income tax liabilities	2,801	-	-	-	-	2,801
Shareholders' equity	2,983,808	-	-	-	-	2,983,808
Total liabilities and shareholders' equity	**4,515,155**	**3,237,767**	**319,798**	**127,625**	**289,769**	**8,490,114**
Currency gap 2018		**1,341,432**	**3,594**	**9,964**	**112,166**	
Currency gap 2018 excluding equity investments and investments in associates		**-2,182**	**3,594**	**-15,206**	**-19,352**	

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

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

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

	December 31, 2019		December 31, 2018	
Change of value relative to the euro[1)]	Sensitivity of profit & loss account	Sensitivity of shareholders' equity[2)]	Sensitivity of profit & loss account	Sensitivity of shareholders' equity[2)]
USD value increase of 10%	148,059	11,233	127,333	6,700
USD value decrease of 10%	-148,059	-11,233	-127,333	-6,700
SEK value increase of 10%	-	-	359	-
SEK value decrease of 10%	-	-	-359	-
INR value increase of 10%	8,248	-	996	-
INR value decrease of 10%	-8,248	-	-996	-
GEL value increase of 10%	-1,283	-	-	-
GEL value decrease of 10%	1,283	-	-	-

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

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

Structural Hedge

FMO maintains a deliberately unhedged foreign currency position for purpose of managing the volatility of the capital ratio (structural hedge). These foreign currency positions stem from the private equity investments, and act as a hedge against an adverse effect of the exchange rate on the regulatory capital ratios. A depreciation of FMO's reporting currency (Euro) can significantly affect the capital ratio since FMO's assets - and hence also the risk weighted assets - are mainly denominated in foreign currencies. The long open position in the equity portfolio thereby functions as a partial hedge for FMO's regulatory capital ratios. In addition, the uncertainty in the size and the timing of the cash flows for equity investments makes micro- hedging less effective, hence these positions are better fit for use as a capital ratio hedge. With respect to equity investments, the expected returns in local currencies are assessed in terms of their sufficiency to compensate for the currency risk.

Article 352(2) of the CRR allows DNB to authorize, on an ad-hoc basis, the exclusion of FX positions taken deliberately by firms to hedge against the adverse effect of exchange rates on capital ratios where those positions are of a non-trading or structural nature (i.e. the waiver), where properly substantiated and justified. As of 2019, FMO does not have a waiver for its structural hedge positions under Article 352(2) of the CRR.

Non-Financial Risk

Environmental, social and governance risks

Definition

Environmental & Social (E&S) risk refers to potential adverse impacts of the FMO investments on the environment, the employees and workers, the communities, and other stakeholders. Corporate Governance (G) risks refers primarily to risk to client business and – as a result- to FMO.

Risk appetite and governance

FMO has an appetite for managed risk in our portfolio. Our clients operate in difficult markets, in countries where regulations on ESG are less institutionalized. We accept that when we first start working with a client, the ESG performance may be below our standards. In addition to impacts on the environment, employees and workers, communities and other stakeholders, ESG risks can result in non-compliance with applicable regulation, NGO and press attention, reputation damage and financial loss where such risk adversely affects operational and financial performance.

As part of the investment process, FMO screens all clients on ESG risk and categorizes them according to the ESG risk that their activities represent. FMO assesses in detail clients with an A or B+ ESG risk category to identify ESG impact and risks and to assess the quality of existing risk management and mitigation measures. Due diligence also includes an analysis of contextual and human rights risk. In case of gaps in ESG risk management, FMO works with clients to develop and implement an Action Plan to avoid adverse ESG impacts and/or to improve ESG risk management over time. Key ESG risk items are tracked during the tenor of the engagement. FMO's ESG risk management support to clients is an important part of development impact ambitions.

In addition, for clients with an A or B+ ESG category, FMO monitors client performance on key ESG risk themes (against the IFC Performance Standards) using the ESG Performance Tracker (ESG-PT). The ESG-PT keeps track of key ESG risks and client performance level, enabling FMO to have a portfolio-wide view of its ESG risks.

Developments internal

An update to the methodology for tracking ESG performance has been approved and a new ESG Performance Tracker is being developed, addressing some key issues in the existing system. Historic data will be migrated and we will keep reporting ESG performance using the ESG target.

Human rights training for E&S staff was completed in Q3 2019, the human rights trainers provided all E&S teams with human rights coaching and mentoring at sector and transaction level. This has further improved our knowledge and experience on the topic and enabled us to identify a range of sector specific human rights issues that we developed further due diligence guidance on. The human rights project ended in 2019. Furthermore, FMO finalized and launched its Human Rights Defenders Approach, which is now available at FMO's website.

Developments external

The European Commission has set up a technical expert group on sustainable finance (TEG) to assist it particularly in the development of a unified classification system for sustainable economic activities, an EU green bond standard, methodologies for low-carbon indices, and metrics for climate-related disclosure. The TEG consists of members from civil society, academia, business and the finance sector, as well as additional members and observers from EU and international public bodies. The TEG published its technical report on EU taxonomy in June 2019.

In December 2019, an agreement was reached on the framework for sustainable investments and the European Commission published the European Green Deal. At the same time, the Dutch Central Bank and European Banking Authority started to share their first expectations on how banks should manage their ESG risks and climate risk in particular.

The Commission's Action Plan on sustainable finance is part of broader efforts to connect finance with the specific needs of the European and global economy related to sustainable development. Based on the insights to date, the EU sustainable finance package and related publications may influence FMO's green definitions, ESG practice, disclosures and (climate-) risk management.

In October, a Working Group by the EBF and UNEP Finance Initiative started with the objective to develop a guideline for implementation of the EU Taxonomy by banks. By participating in the working group, FMO has the ability to learn from experts in the field and develop guidelines that take into consideration the angle of bilateral banks and developing markets.

Compliance risk

Definition

Compliance Risk is the risk of failure to comply with laws, regulations, rules, related self-regulatory organization, standards and codes of conduct applicable to FMO's services and activities.

Risk appetite & governance

FMO's standards and policies and good business practices foster acting with integrity. FMO is committed to its employees, clients and counterparties, adhering to high ethical standards. FMO has a Compliance framework which entails identifying risks, designing policies, monitoring, training and providing advices. FMO has policies on topics such as know your customer (KYC) & sanctions, anti-bribery and corruption, conflicts of interest, internal fraud, private investments, privacy and speak-up. FMO also regularly trains its employees in order to raise awareness by means of e.g. face-to-face trainings and mandatory compliance related e-learnings. Employees are also encouraged to speak up in case of suspected integrity violations conducted by an FMO employee. Management is periodically informed via the Compliance Committee or when required on an ad-hoc basis, on integrity related matters at client or employee level. In case of violations, management will take appropriate actions. The governance of compliance also entails the following key risks:

KYC & sanctions
FMO's KYC procedure includes screening of clients on compliance with applicable anti-money laundering, terrorist financing and international sanctions laws and regulations. Due diligence is performed on clients, which includes checks such as verifying the ultimate beneficial owners of the client we finance, identifying politically exposed persons, and screening against mandatory international sanction lists. These checks are also performed regularly during the relationship with existing clients. Following the DNB onsite inspection in 2018, FMO set up a FEC Enhancement Plan (FEC EP) . In 2019 FMO started with execution of the FEC EP which consisted of a.o. conducting the Systematic Integrity Risk Assessment (SIRA) and enhancing the know your customer (KYC) policy and procedures. The updated KYC policy and procedures have been implemented. Part of the FEC EP consists of remediation of the customer KYC files and bringing them in line with the updated policy. FMO has not been able to achieve the interim target on number of remediated customer KYC files. However additional actions, based on lessons learnt, are undertaken to further improve the FEC EP. The progress of the FEC EP is closely monitored by the Management Board and reported to DNB.

It cannot always be prevented that a client is involved or alleged to be involved in illicit acts (e.g. corruption). If such an event occurs, FMO will initiate a dialogue with the client to understand the background in order to be able to assess the severity. When FMO is of the opinion that no improvement by the client will be achieved (e.g. awareness, implementing controls) or the risk to FMO's reputation is unacceptably high, FMO can invoke legal clauses in the contract to terminate the client relationship.

General Data Protection Act (GDPR)
As from 2016 FMO is implementing improved policies, procedures and controls in order to adhere to the GDPR Regulation. In 2017 a GDPR project started addressing data protection of personal data processed of employees, clients and other stakeholders.

Corruption
Corruption is a global problem, requiring a global response. FMO is guided by the OECD Convention on Combating Bribery and the UN Convention against Corruption, and is dedicated to fight corruption and bribery not only to adhere to the law, but also because such acts undermine sustainable development and the achievement of higher levels of economic and social welfare. Good governance, fair business practices and public trust in the private sector is necessary to unlock the full potential of an economy and its citizens. Corruption can be best prevented collaborative and FMO actively supports the Transparency International's Netherlands branch and the International Chamber of Commerce in order to share best practices and stimulate the dialogue between Dutch corporates on best practices in doing international business.

Developments
In 2019 one customer integrity related incident occurred outside FMO's risk appetite and has been reported to DNB. The incident is being addressed appropriately to make sure that it does not reoccur. No significant integrity incidents related to FMO employees have been reported. Over the course of the year there were two data leaks which required reporting to the Dutch Data Protection Authority.

Operational risk

Definition
FMO defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Risk appetite and governance
Operational risks are not actively sought and have no direct material upside in terms of return/income generation, yet operational risk events are inherent in operating a business. Operational risk events can result in non-compliance with applicable (internal and external) standards, financial losses or misstatements in the financial reports, and reputational damage. Operational risk events– including those related to information security and personal data breach – are identified and assessed, and mitigating controls are evaluated and, where applicable, implemented. FMO has defined risk appetite levels for operational incidents (P&L impact) and misstatements in financial reporting (P&L impact). In 2019, the following risk appetite indicators have been included: % overdue high priority self-identified management actions, % of key monitoring controls performed on schedule, compliance with mandatory controls in the current version of SWIFT Customer Security Framework and Severity Data Breaches GDPR in current year.

FMO has in place an operational risk framework that supports and governs the process of identifying, measuring, monitoring, reporting and mitigating operational risks, and that aims for keeping the risks within the operational risk appetite. Operational risks are managed and monitored in accordance with the 'three lines of defense' governance principle. Management of the first line of defense is primarily responsible for managing (embedded)risks in the day-to-day business processes. The first line acts within the risk management framework and supporting guidelines defined by specialized risk departments and committees, the second line of defense. Internal Audit in its role of the third line of defense provides independent assurance on the effectiveness of the first and second lines.

Operational risk control self-assessments are conducted annually in order to identify inherent operational risks, controls, and residual operational risks. The strategy and business/strategic objectives are also reviewed annually by the Directors in a risk perspective. Based on these Risk and Control Self Assessments, the Directors sign an internal In Control Statement at the year-end, which sets the foundation for the management declaration in the Annual Report. Despite all preventive measures, operational risk events cannot always be eliminated. FMO, however, systematically collects risk event information and analyses such events in order to take appropriate actions. Furthermore, operational risks resulting from new products or activities are assessed in FMO's Product Approval and Review Process. No risk events outside FMO's risk appetite have been reported.

(Information) Security

Operational risk management also encompasses the domains of Information Security and business continuity management. Information is one of the bank's most valuable assets. In recognition of the importance of protecting the bank's information and its associated assets, such as systems and infrastructure, FMO has established a structured information security approach to ensure the confidentiality, integrity and availability of information. This approach defines the organizational framework, responsibilities and information security directives that apply to FMO, its vendors and third parties with whom the bank exchanges information. Business continuity management ensures organizational resilience of the FMO organization and the ability to respond effectively to threats, thus safeguarding stakeholders' interests and the organization's reputation.

Developments

FMO's Management Board supports the ambition to further develop the maturity of the second line oversight function. In 2019, FMO has improved the operational risk framework by, among others, designing a Bank Risk Policy. FMO's information security policy has also been updated and relevant process and ICT controls are further enhanced. Operational risk and information security awareness trainings were rolled out in order to raise operational risk and information security awareness in the three lines of defense. It was also assessed how operational risk, including information security, framework can be further improved. This resulted in implementing a Governance Risk and Compliance ('GRC') tool to support monitoring and testing key operational risk controls.

Other risks

Legal risks

Definition

Legal risk is defined as the risk of a counterparty (client, supplier, stakeholder or otherwise) not being liable to meet its obligations under law or FMO being liable at law for obligations not intended or expected, caused by lack of awareness or misunderstanding of, ambiguity in, or indifference to the way law and regulation apply to business, relationships, processes, products and services, leading to financial or reputational loss.

Risk appetite and governance

Given the specific nature of legal risks that can occur, no risk appetite metrics are assigned to this risk type. Instead, the most relevant developments on this risk type are included in the risk appetite report on a quarterly basis. FMO's Legal team is responsible for the review of the legal aspects of FMO's contracts with its clients and for mitigating legal risks arising from FMO's businesses and operations. The members of the team are qualified in a variety of jurisdictions and competent to provide expert and professional advice on a wide range of legal areas. Where applicable, the team seeks external expertise, particularly for legal analyses in emerging market jurisdictions in which FMO operates, or in the event of particularly complex matters. Members of the team also serve on several cross-departmental committees, enabling them to address legal risks at an early stage and share their knowledge where needed.

Developments

Brexit. Following the adoption of the Withdrawal Agreement, the United Kingdom has left the European Union. It is considered now a 'third country'. A 'hard Brexit' has been avoided, and a transition period is envisaged until 31 December 2020. During this transition period, the equivalence of UK regulations is assessed, including legislation on financial services. Whether any risks for FMO materialize (such as the inability to clear trades through UK-based clearing houses), will depend on the outcome of these negotiations.

LIBOR / new Benchmark Regulation. The London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR) and other interest rates or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reforms. The administration and/or methodology of these benchmarks may change. As a result, they may perform differently than in the past, may disappear entirely, or there could be other consequences which cannot be predicted. In June 2016, the European Union adopted the Benchmark Regulation on indices (such as LIBOR and EURIBOR) used in the European Union as benchmarks in financial contracts. It became effective as of 1 January 2018 and it provides that a supervised entity which uses a benchmark is required to have in place a "robust written" contingency plan to cover the eventuality of the benchmark no longer being available or being subject to material change. The potential elimination of the LIBOR benchmark raises various concerns, such as the risk of LIBOR becoming unrepresentative before appropriate fallback clauses are in place for existing and future financial contracts that are based on LIBOR, and the compliance with the replacement benchmark rates.

Regulatory risk

Definition

FMO defines two types of regulatory risks. Regulatory compliance risk is defined as the risk that FMO does not operate in accordance with applicable regulations, and future regulation risk is the risk that a change in regulations will impact the viability of the business strategy of FMO.

Risk appetite and governance

FMO is subject to banking laws and government regulation in the Netherlands. DNB has broad administrative power over many aspects of the banking business including liquidity, capital adequacy, permitted investments, ethical issues and anti-money laundering. Changes in banking regulation may adversely affect FMO's operations or profitability. To ensure that FMO adheres to existing financial and prudential regulation and to assess the impact on the business strategy, FMO has in place the Financial Regulation Committee (FRC). FMO is closely monitoring the process of translating Basel standards into European legislation, providing feedbacks to EC and EBA consultations and incorporates the latest available information in terms of capital planning.

Developments

In December 2017, the Basel Committee on Banking Supervision published the finalization of the Basel III reforms (BCBS 424). An important element for FMO is a change in the treatment of private equity exposures under the new standardized approach for credit risk. FMO's private equity exposures would no longer receive a 150% risk weight but they would fall under one of three categories: speculative equity (400% risk weight), equity holdings under national legislated programs (100% risk weight), and all other equity exposures (250% risk weight). The exact impact of the new standard will depend on the translation into European legislation. The standard is expected to become mandatory per January 2022 with a five-year phase-in period.

In May 2019, the European Council adopted a comprehensive legislative package of reforms to CRR, CRD IV, the BRRD and the SRMR (the "EU Banking Reforms"), including measures to increase the resilience of EU institutions and enhance financial stability. Most of the rules will start applying in mid-2021. The most relevant reform for FMO is the requirement to apply a look through for investments in equity and debt funds. In short, investments in Collective Investment Undertakings (CIUs, or Funds) are no longer automatically labelled as 'high risk' with a 150% risk weight. Instead, risk weights will be determined using the look-through approach (LTA) or mandate-based approach (MBA) which requires an institution to look at the funds underlying investments and calculate the risk weights based on funds actual investments and leverage. A project is underway to apply this requirement. Other changes in the EU Banking Reforms will only have minor impacts to FMO, primarily due to adjusted reporting requirements.

In January 2019, the BCBS published the final standard on the capital requirements for market risk (BCBS 457). Although FMO does not have a trading book portfolio, the revised standards affect the capital requirements for FMO's foreign exchange position in the banking book. The capital requirements for foreign exchange positions will increase with a multiplication factor of 1.2 under the simplified alternative approach. In case a sensitivity-based approach needs to be implemented, the capital requirements will depend on the type of currency and the correlation between the currencies. The final CRR-2 provided only a reporting requirement for market risk and the final standard is expected to come into effect in January 2022.

In January 2019 the European Banking Authority (EBA) published a guideline (EBA/GL/2019/01) specifying which types of exposures are to be associated with particularly high risk. The guideline requires institutions that apply the standardized approach for credit risk to label exposures with a particular high risk if these exposures show structural differences not reflected in the existing flat risk weights. Applying the criteria in the guideline, FMO has determined that all subordinated debt exposures, and all project finance with a client rating worse than F13 (BB-) will be labelled as high risk items. In accordance with the Guideline, FMO applies the higher risk weights as of July 1, 2019, which resulted in a 1.2% decrease in FMO's total capital ratio.

In June 2019, in accordance with the EBA Guidelines on Management of Non-Performing and Forborne Exposures (EBA/GL/2018/06), FMO submitted an NPE (non-performing exposure) Strategy and Operational Plan to the Dutch Central Bank. This was required as FMO's NPE ratio was above the 5.0% threshold at the end of 2018.

Company annual accounts

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.

Inter company accounts with subsidiaries consist of current accounts. These current accounts are freely disposal. Low credit risk exemption is applied due to limited credit risk and expected credit loss is not calculated.

Reference to the consolidated annual accounts

As mentioned above, the accounting policies applied in the annual accounts correspond with the consolidated annual accounts. Furthermore, the consolidated annual accounts have a limited consolidation scope and accordingly the notes to the balance sheet and profit and loss account are almost similar in both the company annual accounts and the consolidated annual accounts. In these cases, reference is made to the disclosure notes and information provided in the consolidated annual accounts. For the mandatory disclosure notes and those notes with larger discrepancies, the information is included in the notes to the company's annual accounts.

Estimates and assumptions

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

Company balance sheet

As at 31 December 2019

(before profit appropriation)	Notes	2019	2018
Assets			
Banks	(A)	60,087	35,811
Current accounts with State funds and other programs	(2)	1,194	494
Short-term deposits	(3)		
-of which: Amortized cost		446,708	391,635
-of which: Fair value through profit or loss		926,769	756,216
Interest-bearing securities	(4)		
-of which: Amortized cost		350,237	402,380
Derivative financial instruments	(5)	301,237	247,823
Loans to the private sector	(6)		
-of which: Amortized cost		4,334,109	4,085,022
-of which: Fair value through profit or loss		696,513	685,799
Equity investments	(B)		
-of which: Fair value through OCI		122,921	77,553
-of which: Fair value through profit or loss		1,732,334	1,487,917
Subsidiaries	(C)	22,604	37,457
Investments in associates	(9)	285,867	215,539
Intangible assets	(12)	17,585	13,505
Property, plant and equipment	(11)	28,289	1,677
Current tax receivables		46,484	24,448
Other receivables	(D)	31,919	27,428
Deferred income tax assets	(30)	6,986	8,357
Total assets		**9,411,843**	**8,499,061**
Liabilities			
Short-term credits	(13)	94,339	76,051
Current accounts with State funds and other programs	(14)	2,832	4,173
Derivative financial instruments	(5)	257,171	217,174
Debentures and notes	(15)	5,808,182	5,139,881
Wage tax liabilities		412	262
Accrued liabilities	(16)	22,881	10,063
Other liabilities	(17)	44,033	10,462
Provisions	(18)	49,440	54,547
Deferred income tax liabilities	(30)	5,638	2,801
Total liabilities		**6,284,928**	**5,515,414**
Shareholders' equity			
Share capital		9,076	9,076
Share premium reserve		29,272	29,272
Contractual reserve		2,379,350	2,261,694
Development fund		657,981	657,981
Fair value reserve		33,082	17,773
Actuarial result pensions		-13,974	-21,123
Translation reserve		-2,742	-6,758
Other reserves		32,162	32,162
Undistributed profit		2,708	3,570
Total shareholders' equity		**3,126,915**	**2,983,647**
Total liabilities and shareholders' equity	**(E)**	**9,411,843**	**8,499,061**
Contingent assets and liabilities:			
- Encumbered funds (single resolution fund)	(31)	389	-
- Effective guarantees issued	(31)	98,370	75,066
- Effective guarantees received	(31)	-211,194	-199,027
Irrevocable facilities	(31)	1,782,342	1,809,189

Company profit and loss account

For the year ended 31 December 2019

(before profit appropriation)	Notes	2019	2018
Income			
Interest income from financial instruments measured at AC		322,735	289,117
Interest income from financial instruments measured at FVPL[1]		53,524	37,996
Interest expenses from financial instruments measured at AC		-136,724	-102,464
Interest expenses from financial instruments measured at FVPL		-24,283	-23,742
Net interest income		**215,252**	**200,907**
Fee and commission income		7,212	5,708
Fee and commission expense		-11,226	-844
Net fee and commission income	**(21)**	**-4,014**	**4,864**
Dividend income	(22)	29,553	28,251
Results from equity investments	(23)	64,553	38,997
Results from financial transactions	(24)	-19,990	-23,086
Remuneration for services rendered	(25)	28,502	28,048
Gains and losses due to recognition	(26)	3,916	14,980
Other operating income	(27)	1,695	589
Total other income		**108,229**	**87,779**
Total income		**319,467**	**293,550**
Operating expenses			
Staff costs	(28)	-89,255	-78,385
Administrative expenses	(29)	-31,913	-23,516
Depreciation and impairment of fixed assets	(11), (12)	-7,809	-3,769
Other operating expenses		-164	-67
Total operating expenses		**-129,141**	**-105,737**
Impairments on			
Interest-bearing securities	(4)	-5	-18
Loans	(6),(7)	-91,038	-27,553
Loan commitments	(31)	-1,849	4,265
Guarantees issued	(31)	964	308
Total impairments		**-91,928**	**-22,998**
Share in the result of subsidiaries		8,939	2,370
Share in the result of associates	(9)	11,077	-1,802
Total result on associates and subsidiaries		**20,016**	**568**
Profit before taxation		**118,414**	**165,383**
Income tax	(30)	1,949	-14,561
Net profit		**120,363**	**150,821**

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

Notes to the company annual accounts

Notes to the company balance sheet

The company annual accounts of FMO should be read in conjunction with the consolidated annual accounts including the risk management, segment information and the notes to the consolidated accounts. The FMO company annual accounts is, due to the limited investments activities of our consolidated subsidiaries, predominantly the same as the consolidated annual accounts. Therefore, for the notes to the specific items of the balance sheet and the profit & loss accounts we refer to the consolidated annual accounts to the 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. Banks

	2019	2018
Banks	60,087	35,811
Balance at December 31	**60,087**	**35,811**

The cash on bank accounts can be freely disposed of.

B. Equity investments

	Equity measured at FVOCI	Equity measured at FVPL	Total 2019	Total 2018
Balance at January 1	77,553	1,487,917	1,565,470	1,485,716
Purchases and contributions	27,223	269,234	296,457	295,238
Reclassification from loans	-	11,312	11,312	4,814
Sales	-	-87,868	-87,868	-166,662
Impairments	-	-	-	-
Write-offs	-	-	-	-4,268
Changes in fair value	18,145	51,739	69,884	-49,368
Balance at December 31	**122,921**	**1,732,334**	**1,855,255**	**1,565,470**

C. Subsidiaries

	2019	2018
Balance at January 1	37,457	35,088
Purchases and contributions	-	-
Share in other comprehensive income	-	-
Share in net results	8,939	2,369
Return of Capital	-23,792	-
Balance at December 31	**22,604**	**37,457**

The investments in subsidiaries consist of the following interests in the share capital of:

1. Asia Participations B.V.: 100%;
2. FMO Investment Management B.V.: 100%;
3. FMO Medu II Investment Trust Ltd.: 100%;
4. Nuevo Banco Comercial Holding B.V.: 100%;
5. Equis DFI Feeder L.P.: 63%
6. NedLinx B.V.: 100%.

The following table summarizes the carrying amount of the subsidiaries.

	2019	2018
Asia Participations B.V.	17,534	9,051
FMO Investment Management B.V.	4,442	4,226
FMO Medu II Investment Trust Ltd.	23	2,867
Nuevo Banco Comercial Holding B.V.	396	13,770
Equis DFI Feeder L.P.	209	7,543
Balance at December 31	**22,604**	**37,457**

D. Other Receivables

	2019	2018
Receivables related to equity disposals	7,509	6,224
Taxes and social premiums	1,037	1,007
To be declared on State guaranteed loans	3,264	894
Accrued management fees State funds	-	-
Transaction fee receivables and prepayments	13,603	12,167
Intercompany receivables from subsidiaries	6,506	7,136
Balance at December 31	**31,919**	**27,428**

E. Shareholders' equity

Share capital

The authorized capital amounts to €45,380, consisting of A shares of €22.69 each, which are held by the Dutch State, and B shares of €22.69 each as well, which are for held by commercial banks and private investors. The Dutch State holds 51% of the total shares of FMO, while commercial banks and private investors hold the remaining 49%. The voting rights for A shares and B shares are equal.

In addition, the shareholders' 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 Dutch State, after settlement of the contractual return to the shareholders.

Authorized share capital	2019	2018
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	2019	2018
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
Balance at December 31	**9,076**	**9,076**

Share premium reserve

Share premium reserve is sole contributed by Shareholders of A shares on the transfer to the company of investments administrated on behalf of the State at the time of the financial restructuring and amounts to €29,272 (2018: €29,272).

Contractual reserve

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

Development fund

This special purpose reserve contains the annual budgetary allocations made by the Dutch State to finance the portfolio of loans and equity investments.

Other reserves

	Retained earnings	Share in other comprehensive income of subsidiaries	Total
Balance at January 1, 2018	32,162	-	32,162
Gains/losses during the period	-	-	-
Balance at December 31, 2018	**32,162**	**-**	**32,162**
Gains/losses during the period	-	-	-
Balance at December 31, 2019	**32,162**	**-**	**32,162**

Legal Reserves

Pursuant to Dutch reporting requirements in Part 9 of Book 2 of the Dutch Civil Code the table below reflects the legal reserves included in the total Shareholders's equity of €3,127,037. Legal reserves are not freely attributable to any shareholders. These reserves include fair value reserve, actuarial reserve and translation reserve.

	2019	2018
Fair value reserve	33,082	17,773
Actuarial result pensions	-13,974	-21,123
Translation reserve	-2,742	-6,758
Balance at December 31	**16,366**	**-10,108**

Proposal for appropriation of profit

A company net profit of €120,363 was recorded in 2019. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €117,656 to the contractual reserve. Therefore the 2019 profit is not completely distributable. The distributable element of the net profit amounts to €2,707 (2018: €3,570). The Management Board and the Supervisory Board propose distributing a sum of €2,707 (2018: €3,570) as cash dividend equaling €6.77 per A and B share (2018: €8.92 per A and B share). This proposal for dividend distribution can be withdrawn if FMO's economical and financial conditions deteriorate significantly in the period up to the moment of distribution of the dividend. This reservation is the result of the recommendation of the European Central Bank on January 10, 2019 and adopted by the Dutch Central Bank.

Subsequent events

There has been no significant subsequent event between the balance sheet date and the date of approval of these accounts which would be reported by FMO.

The current COVID-19 outbreak most likely impacts the global economy and FMO’s financial performance. Impact is mainly expected on our Debt and Equity portfolios. Given the uncertainties, ongoing developments and measures taken by governments around the globe, FMO cannot estimate the quantitative impact in an accurate and reliable way at this point in time.

EY
Building a better working world

Combined independent auditor's report on the 2019 financial statements and sustainability information

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

We have summarized the main conclusions and main features of our audit and review of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO or the Company) below. The full text of the independent auditor's report, which includes the assurance report on sustainability information, has been included in the following pages.

Summary

Financial statements	Sustainability information
Unqualified opinion on financial statements	Unqualified opinion on green investments (% of total volume) and the materiality matrix Unqualified conclusion on sustainability information
Materiality • Materiality of EUR 31 million • 1% of shareholders' equity	**Materiality** • Professional judgment for qualitative information • Specific materiality levels for each quantitative element of the sustainability information in scope
Key audit matters • IFRS 9 impairment of loans to the private sector • Valuation of equity investments at fair value • Reliability and continuity of the information technology and systems	**Key assurance matter** • Green investments (% of total volume)

Building a better working world

Combined independent auditor's report on the 2019 financial statements and sustainability information

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

Our conclusions

We have audited the financial statements 2019 of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO or the Company) based in The Hague, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of FMO as at 31 December 2019 and of its result and its cash flows for 2019 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 2019 and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code

We have reviewed the sustainability information for the year 2019 of FMO. A review is aimed at obtaining a limited level of assurance. Furthermore, we have audited the green investments (% of total volume) and the materiality matrix for the year 2019. The scope of our engagements is described in the section Our Scope.

Based on our procedures performed, nothing has come to our attention that causes us to believe that the accompanying sustainability information does not present, in all material respects, a reliable and adequate view of the policy and business operations with regard to corporate social responsibility and the thereto related events and achievements for the year 2019, in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI), core option, and the applied supplemental reporting criteria as disclosed in the chapter 'How we report' of the annual report.

In our opinion, the green investments (% of total volume) and the materiality matrix 2019 have been prepared, in all material respects, in accordance with the applied supplemental reporting criteria as disclosed in the chapter 'How we report' of the annual report.

Based on the procedures performed required by Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720, 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

Basis for our conclusions

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

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

Our independence

We are independent of FMO in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence)" and other relevant independence regulations in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagements. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics)".

Our scope

Our engagements scope

The annual report consists of the financial statements and other information, including Reports by the Executive Committee and Supervisory Board, that provides altogether an overview of the policy, activities, events and performances related to both the financial position and the sustainable development of FMO during reporting year 2019. The following information in the annual report has been in scope for our assurance engagements:

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2019
- The following statements for 2019: the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2019
- The company profit and loss account for 2019
- The notes comprising a summary of the accounting policies and other explanatory information

The sustainability information comprise:

- Reasonable assurance – green investments (% of total volume) as disclosed on page 15 and the materiality matrix as presented on page 12 of the annual report;
- Limited assurance - The sustainability information in 'At a glance', 'About this report', 'External environment', 'Our value creation model', 'Our investment process', 'Our strategy', 'Our performance', 'Our commitments' and 'How we report'.

The other information comprise:

- At a glance
- Report of the Executive Committee
- Report of the Supervisory Board
- Corporate Governance
- How we report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720 concerning our obligation to report about the Report of the Executive Committee and other information.

Reporting criteria

The financial statements and the sustainability information need to be read and understood together with the reporting criteria. FMO is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The absence of an established practice on which to draw, to evaluate and measure sustainability information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

The reporting criteria used for the preparation of the financial statements and the sustainability information are presented below.

Consolidated financial statements	International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code
Company financial statements, report by the board of management and report of the supervisory board	Part 9 of Book 2 of the Dutch Civil Code
Sustainability information	Sustainability Reporting Standards of the Global Reporting Initiative (GRI), core option, and the applied supplemental reporting criteria as disclosed in the chapter 'How we report' of the annual report

Materiality

General

The scope of our assurance procedures is influenced by the application of materiality. Our assurance engagements aim to provide assurance about whether the financial statements and the sustainability information are free from material misstatement. Misstatements may arise due to fraud or errors. 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	€31 million (2018: €29 million)
Benchmark used	1% of shareholders' equity (2018: 1% of shareholders' equity)
Additional explanation	FMO's shareholders' equity and solvency, and the ability to invest in and provide financing to companies in developing countries, are key indicators for the users of its financial statements. We applied, consistent with 2018, 1% of shareholders' equity for the audit of the 2019 financial statements.

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

We agreed with the supervisory board that misstatements in excess of €750,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Sustainability information

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

We agreed with the supervisory board that misstatements which are identified during the review and which in our view must be reported on quantitative or qualitative grounds, would be reported to them.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Non-compliance with laws and regulations may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executives, directors (including internal audit, compliance and risk management) and the supervisory board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic and legal specialists. In our risk assessment we considered the risk of bribery and corruption as FMO is providing loans to clients in multiple jurisdictions.

We evaluated the design and the implementation of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in Note 5, 6, 7, 8, 9, 18 and 30 to the financial statements. We have also used data analysis to identify and address high-risk journal entries.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes, inspection of internal audit and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyer's letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Our focus on going concern

In order to identify and assess the risks of going concern and to conclude on the on the appropriateness of management's use of the going concern basis of accounting, we consider 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 a company to cease to continue as a going concern.

Scope of the group audit

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. FMO is structured based on the sectors: Financial Institutions, Energy, Agribusiness, Food & Water, Private Equity, Partnership for impact and Other. FMO operates in the following four geographical markets: Africa, Asia, Europe & Central Asia, Latin America & the Caribbean. As FMO obtains its revenues from customers in developing countries, no revenues are derived from FMO's country of domicile, the Netherlands. Because we are ultimately responsible for the opinion, we are 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 based on size and risk. Our group audit focused on the stand-alone financial information of FMO. This resulted in a coverage of 98.3% of profit before taxation and 99.7% of total assets. By performing these procedures we have been able to obtain sufficient and appropriate audit evidence about FMO's financial information to provide an opinion on the consolidated financial statements.

Teaming and use of specialists

We ensured that the audit team at group level included the appropriate skills and competences which is needed for the audit of a listed client in the banking industry. We included specialists in the areas of IT audit, forensics and income tax and have made use of our own experts in the areas of valuations of ECL provisions, direct equity investments, fair value loans, derivatives, hedge accounting and pensions.

General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- 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

Our key audit and assurance matters

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

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

The key audit matter IFRS 9 adoption which was included in our last year's auditor's report, is not considered a key audit matter for this year as it related to a one off event. We adjusted the key assurance matter on impact measurement to the green investments (% of total volume) due to the increased level of assurance we are providing for these green investments.

Building a better working world

Impairment of loans to the private sector	
Risk or matter	At 31 December 2019, FMO reported loans to the private sector measured at amortized cost of €4.3 billion including a provision of €240 million for expected credit losses. The timing and measurement of expected credit losses require significant estimates and management's judgment in setting assumptions in respect of: • Allocation of loans to stages 1, 2 or 3 • Accounting interpretations and modelling assumptions used to build the model to calculate the expected credit loss (ECL) • Completeness and accuracy of data used to calculate the ECL • Inputs and assumptions used to estimate the impact of multiple macro-economic scenarios to calculate the ECL for stages 1 and 2 • Measurement of individually assessed provisions for stage 3, including the assessment of multiple recovery scenarios • Accuracy and adequacy of financial statement disclosures Due to the significance of the loans to the private sector and the related estimation uncertainty of expected credit losses, we consider the measurement of the provision for expected credit losses a key audit matter. Reference is made to the "Significant estimates, assumptions and judgements" section, note 6 "Loans to the private sector", note 7 "ECL allowances - assessment" and "Credit risk" section under Risk Management Chapter to the financial statements.
How our audit addressed the matter	We tested the design and where applicable the operating effectiveness of key controls across the processes relevant to the ECL calculation prepared by FMO. This included the allocation of loans into stages, model governance, data accuracy and completeness, credit monitoring, multiple economic scenarios, individual provisions, journal entries and disclosures. We performed an overall assessment of the ECL provision levels by stage to determine if they are reasonable considering FMO's portfolio, risk profile, credit risk management practices and macroeconomic environment. We considered trends in the economy and industries to which FMO is exposed. We challenged the criteria used to allocate loans to stage 1, 2 or 3 in accordance with FMO's policy. We tested loans in stage 1, 2 and 3 and verified whether they were allocated to the appropriate stage. With the support of our modelling specialists, we tested assumptions, inputs and formulas used in the ECL model. This included the appropriateness of model design and formulas used and recalculating the Probability of Default, Loss Given Default and Exposure at Default in this model. Further, we assessed the selected macro-economic scenarios used.

How our audit addressed the matter (continued)	We examined a selection of loans to assess the expected credit loss provision for stage 3 loans. We applied professional judgment in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that are potentially more sensitive to developing economic and political trends. For selected loan exposures we recalculated individually assessed provisions and challenged the recovery scenarios and probability weightings assigned. We assessed the completeness and accuracy of the disclosures for compliance with EU-IFRS.
Key observations	We are satisfied that expected credit loss provisions are reasonable and in compliance with IFRS 9 and concur with the related disclosures in the financial statements.

Valuation of equity investments at fair value	
Risk or matter	Equity investments amount to €1.9 billion as at 31 December 2019. These equity investments are measured at fair value with the corresponding fair value change recognized through profit and loss except for 3 strategic equity investments through other comprehensive income. The valuation of investments is inherently subjective - most predominantly for the level three equity investments since these are valued using inputs other than quoted prices in an active market. Key inputs used in the valuation of individual level 3 equity investments are, amongst others, net asset values for the fund investments and comparable recent transaction prices, comparable book and earnings multiples and discounted cash flows for the direct investments. Certain aspects of the accounting for fair values on equity investments require significant judgment, such as the assessment of the reliability of recent available information, determining the appropriate peer group for establishing multipliers, and the income based models where the value is significantly affected by input data that cannot be verified by external market data. Due to the significance of equity investments at fair value and the related estimation uncertainty, we consider the valuation of these equity investments a key audit matter. Reference is made to section "Equity investments" in the Significant accounting policies, note 8 "Equity investments" and related disclosures of "Equity risk" within section Financial risk management and "Fair value of financial assets and liabilities" in the notes to the financial statements.
How our audit addressed the matter	Our audit approach included testing both the effectiveness of internal controls where applicable around FMO's valuation process for equity investments as well as substantive audit procedures. Our substantive audit procedures comprised, amongst others, of an assessment of the methodology and the appropriateness of the valuation models and inputs used to value fund and direct investments.

Valuation of equity investments at fair value	
How our audit addressed the matter (continued)	We involved internal valuation specialists to assess market related information for the valuation of a sample of direct investments (level 3), and to assess whether the valuations were within a pre-defined range. We assessed the accuracy of key inputs and assumptions driving the valuation. This included the assessment of the appropriateness of comparable market multiples, adjusted for comparability differences such as size and liquidity, and the assessment of the reasonability of the expected cashflows, risk free rates and credit spreads. We examined a selection of the fund investments to assess the appropriate application of net asset value statements received from these fund managers. We assessed the clerical accuracy of the fair value calculations. For listed equity investments (level 1) we agreed the year-end valuation to external data sources. We assessed whether all new information available between balance sheet date and the date of the financial statements relevant for the 2019 fair value was properly included in the valuations. We assessed the completeness and accuracy of the disclosures for compliance with EU-IFRS.
Key observations	We are satisfied that the fair value of the equity investments is within the pre-defined range and concur with the related disclosures in the financial statements.

Reliability and continuity of the information technology and systems	
Risk or matter	FMO is dependent on the IT infrastructure for the continuity and reliability of its business processes and financial reporting. FMO continues to invest 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 a key audit matter. Reference is made to "(Information) Security" section under Risk Management Chapter to the financial statements.
How our audit addressed the matter	As part of our audit procedures we have assessed the changes in the IT systems and IT infrastructure. We tested the reliability and continuity of electronic data processing within the scope of the audit of the 2019 financial statements. For that purpose, we have included IT auditors in our team. Our procedures included testing of controls with regards to IT systems and processes relevant for financial reporting. Amongst others, we tested the IT general controls related to logical access and change management and application controls embedded in FMO's key processes.
Key observations	The tests of controls performed provided sufficient appropriate evidence for the purposes of our audit.

For the assurance procedures concerning the sustainability information in scope, we identified the following key assurance matter:

Green investments (% of total volume)	
Risk or matter	The green investments as percentage of total volume was 34% as at 31 December 2019. FMO developed their own criteria based on existing frameworks to determine if an investment is considered green. The suitability of these criteria, the consistent application of these criteria, and transparent disclosure in the annual report are of significant importance. Due to the significance of the green investments as percentage of total volume and the level of judgment in the development of own criteria, we consider the measurement of the green investment (% of total volume) a key assurance matter. Reference is made to the "Key Figures table" and "Our performance" chapter section SDG 13 – Climate action" and "How we Report" chapter in the annual report.
How our assurance engagement addressed the matter	We assessed the suitability of the applied criteria through inspecting the reporting criteria and evaluating FMO's criteria benchmark analysis with external frameworks. We assessed consistent application of the criteria by testing the appropriateness of green labelling and performed testing procedures on accurate amounts of green investments (% of total volume). We assessed the disclosure of the green investments in the report, including its reporting criteria and methodology.
Key observations	The green investments (% of total volume) including its reporting criteria and the methodology are disclosed sufficiently transparent in the "Key Figures", 'our performance' and 'how we report' chapters of the annual report.

Unaudited corresponding information

No audit has been performed on the green investments (% of total volume) for the periods before 2019. The green investments (% of total volume) was part of the review of the sustainability information for the periods before 2019.

Limitations to the scope of our review of the sustainability information

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

Calculations to determine the impact and footprint data as included in the annual report are mostly based on external sources. The sources used are explained in the document 'FMO Impact Model Methodology version March 2019' on www.fmo.nl/development-impact. We have not performed procedures on the content of these external sources, other than evaluating the suitability and plausibility of these external sources used. The references to other external sources or websites in the sustainability information, with the exception of the methodology for green investments (% of total volume) and the impact model, both available at https://www.fmo.nl/impact/how-we-measure-impact, are not part of the sustainability information as assured by us. We therefore do not provide assurance on this information.

Report on other legal and regulatory requirements

Engagement

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

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements we provided the following services:

- Regulatory reporting: We issued auditor's reports and reports of factual findings following the audit of the prudential statements prepared by management for the Dutch Central Bank, consisting of Financial Reporting (FinRep), Common Reporting (CoRep) and Interest rate risk reporting.
- Capital market transactions: We issued comfort letters and/or consent letters in relation to (updated) programs and/or transactions.
- State funds: We issued opinions on the reporting sets of the State Funds prepared in accordance with the specific requirements as set out by the Dutch State.

Responsibilities of the Management Board and the Supervisory Board

The Management Board (hereafter: management) is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code and for the preparation of the other information, including the Report by the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Management is also responsible for the preparation of reliable and adequate sustainability information in accordance with the Sustainability Reporting Standards of the GRI and the applied supplemental reporting criteria, including the identification of 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 chapter 'How we report' of the annual report.

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

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

The supervisory board is responsible for overseeing the reporting process of FMO.

Our responsibilities

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

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

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

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

Amsterdam, 16 March 2020

Ernst & Young Accountants LLP

signed by W.J. Smit

Annex to the combined independent auditor's report

Work performed
We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagements, in accordance with the Dutch Standards on Auditing and the Dutch assurance standards, ethical requirements and independence requirements.

Our audit to obtain reasonable assurance about the financial statements (consolidated and company) included amongst others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or errors, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

- Our review to obtain limited assurance about the sustainability information included amongst others:
- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues and the characteristics of the entity
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates by management
- Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatements, whether due to fraud or errors. Designing and performing further procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These further review procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate and local level responsible for the sustainability strategy, policies and results
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information
  - Obtaining assurance information that the sustainability information reconciles with underlying records of the company
  - Reviewing, on a limited test basis, relevant internal and external documentation
  - Performing an analytical review of the data and trends

Work performed

However, future events or conditions may cause the company to cease to continue as a going concern

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Reconciling the relevant financial information with the financial statements
- Evaluating the consistency of the sustainability information with the information in the annual report which is not included in the scope of our review
- Evaluating the overall presentation, structure and content of the sustainability information
- Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used

In addition to the procedures mentioned above, for the green investments (% of total volume) and the materiality matrix, we designed and performed further audit procedures responsive to the risks identified, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the green investments (% of total volume) and materiality matrix 2019 are misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. These further audit procedures included the following procedures:

- Obtaining a more detailed understanding of systems and reporting processes, including obtaining an understanding of internal control relevant to our assurance engagement but not for the purpose of expressing an opinion on the effectiveness of FMO's internal control
- Evaluating the design and implementation of the relevant internal controls during the reporting year.
- Conducting more in-depth analytical procedures and substantive testing procedures on the relevant data.
- Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the green investments (% of total volume) and the materiality matrix.

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

Work performed

Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

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

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the assurance procedures and significant findings, including any significant findings in internal control that we identify during our assurance engagements. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in 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.

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 €120,363k was recorded in 2019. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €117,656k to the contractual reserve. Therefore the 2019 profit is not completely distributable. The distributable element of the net profit amounts to €2,707k (2018: €3,570k). The Management Board and the Supervisory Board propose distributing a sum of €2,707k (2018: €3,570k) as cash dividend equaling €6.67 per A and B share (2018: €8.92 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 and adopted by the Dutch Central Bank.

Guarantee provisions in the Agreement State-FMO of November 16, 1998

Article 7: Maintenance obligations in the event of depletion of General Risks Reserve (GRR) fund and inadequate cover for exceptional operating risks

7.1 To determine whether FMO has grounds for invoking the maintenance obligation (the ‘State’s Maintenance Obligation’) as referred to in Article 7.2.1, the losses incurred by FMO as referred to in Article 7.2.2, as shown by the annual accounts drawn up for the relevant year in accordance with generally accepted accounting principles and in conformity with Part 9 of Book 2 of the Netherlands Civil Code and duly adopted by the competent corporate body, shall first be charged to the GRR fund.

7.2.1 The State undertakes vis-à-vis FMO to defray losses on its operations pursuant to Article 3.1 and 3.2 of this Agreement, as determined in Article 7.2.2, to the extent that such risks have not been covered by specific value adjustments and/or compensation and/or insurance benefits received or yet to be received, provided that:

a) the amount of such losses exceeds the size of the GRR fund as at December 31 of the year in which these losses were incurred; and

b) the inadequacy of the cover for general value adjustments under the GRR fund is due to abnormal operating risks, such as unforeseen political difficulties in, or transfer problems with, particular countries or the collapse of the world economy or a regional economy.

7.2.2 The parties shall consult together to determine the magnitude of such losses. Should they fail to agree, FMO’s auditors and an auditor designated by the State shall make a reasonable and equitable calculation of the losses in accordance with generally accepted accounting principles.

7.3 If the circumstances arise as described in Article 7.2.1, under a) and b) and FMO requests the State to fulfill its obligations as referred to in Article 7.2, this shall give rise to a claim against the State, which shall be duly acknowledged by the State, on the first business day of the first financial year following the date of the request. Such request shall be in writing.

Article 8: Other financial security obligations

8.1 Without prejudice to the other provisions in this Agreement, the State shall prevent situations arising in which FMO is unable to meet the following (comprehensive enumerated) commitments on time: FMO's commitments in respect of:

(i) loans raised in the capital market;

(ii) short-term funds raised on the money market with maturities of two years or less;

(iii) swap agreements involving the exchange of principal and payment of interest;

(iv) swap agreements not involving the exchange of principal but with interest payment;

(v) foreign 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 of the Agreement State-FMO of November 16, 1998 consists of the share capital of €9,076k; share premium reserve of €29,272k and the contractual reserve. On December 31, 2019 the fund amounted to €2,417,698k (2018: €2,300,042k).

GRI general disclosures

In the overview below we explain terms and topics that are included in the materiality matrix. We distinguish between topics within our own organization and external topics (via our investments), and we have listed which departments are responsible for management of the topics.

Topic / Subtopic	GRI Disclosure 103-1 Definition and boundary of material topic
1. Development impact through responsible investing	The positive indirect social, economic, and environmental influence on local economies achieved through FMO's responsible investment process.
1a. Inclusive development	Investing in projects with the specific aim of expanding access to goods, services and livelihood opportunities that are commercially viable with the specific aim of expanding services to people at the Base of the Pyramid (people living on less than USD 8 per day in purchasing power parity or lacking access to basic goods, services, and income). FMO's definition of inclusive development also targets women, youth, and smallholder farmers.
1b. Environmentally sustainable development	Investing in projects with a focus on renewable energy and resource efficiency (water, materials, waste) in response to climate change and resource scarcity.
1c. Early stage and innovative projects	Investing in high-risk, early stage, and innovative projects with potentially high development impact. Early stage investments focus on making projects bankable and getting them past the development phase. Innovation includes new methods, ideas or products aimed to bring essential goods, services and opportunities to those currently underserved (Base of the Pyramid).
1d. Mobilizing public and private capital	Maximizing the flow of finance to FMO's client(s) by mobilizing third-party funds.
1e. Financial additionality	Providing financial services only where the market can or does not do the same, or otherwise does not provide on an adequate scale or on reasonable terms.
1f. Alleviating root causes of migration	Supporting business activities and related jobs in conflict-ridden countries, thereby improving the prospects of local communities and alleviating migratory pressures.
1g. Support Dutch business opportunities in developing countries	Supporting Dutch businesses by facilitating investments in and export to emerging markets and developing countries.
2. Financial sustainability and risk appetite of FMO	The extent to which FMO's financial model results in long-term profitability within the boundaries of its risk appetite and capital requirements.
3. Transparency & accountability of FMO's activities	Ensuring accountability by reporting on activities and performance in a transparent way.
4. Environmental footprint of FMO's investments	Any harmful effect on the environment caused by business activities financed by FMO, either directly or via intermediaries.
4a. Greenhouse gas emissions	Any harmful effect on climate change caused by greenhouse gas emissions from business activities financed by FMO.
4b. Water scarcity	Any harmful effect on water availability from business activities financed by FMO.
4c. Pollution and waste	Any harmful effect on air, land and water quality caused by waste and other contaminants from business activities financed by FMO.
4d. Biodiversity loss	Any harmful effect on habitat loss, degradation and fragmentation, or through invasive alien species, overexploitation, hydrological changes and nutrient loading from business activities financed by FMO.
4e. Deforestation and land use change	Any harmful effect caused by the removal of a forest or stand of trees where the land is thereafter converted to a non-forest use from business activities financed by FMO. Examples of deforestation include conversion of forestland to farms, ranches, or urban use.
5. Business integrity of FMO	Ensuring high standards of business conduct in FMO and the value chain through anti-money laundering, anti-bribery, and anti-corruption procedures, remuneration of FMO management and ethical behavior of FMO's employees.
6. Promote ESG best practices	The support and active promotion of ESG best practices by organizing seminars, training and conferences for clients, peers and industry stakeholders to enable knowledge-sharing.
7. Human rights	Human rights impacts in the value chain. Human rights include freedom of expression, labor rights, land rights, and other civil, political, economic, social and cultural rights. Human rights topics are included in FMO's ESG risk management processes. FMO recognizes that businesses have a responsibility to respect human rights and redress any harm of human rights resulting from their activities and direct or indirect business relationships.

Topic / Subtopic	GRI Disclosure 103-1 Definition and boundary of material topic
7a. Good labor practices and decent work conditions	Providing a healthy and safe work environment; training and education, fair/living wages, freedom of association and collective bargaining, appropriate working hours; and protection from child/forced/compulsory labor and discrimination.
7b. Local stakeholder engagement	Informing and consulting communities and civil society, including human rights and environment defenders, on the business activities, ensuring they can express their opinions freely and have access to a grievance mechanism.
7c. Land & livelihood	Protecting legitimate rights to land, forest, fisheries and associated livelihoods, especially in projects that entail land acquisition and/or involuntary resettlement
7d. Community health, safety, and security	Protecting community health, safety and security. Business activities and infrastructure projects may expose local communities to increased risks and adverse impacts related to worksite accidents, hazardous materials, spread of diseases, or interactions with private security personnel.
7e. Indigenous peoples	Minimizing negative impacts on indigenous populations, fostering respect for their human rights, dignity and culture, and promoting development benefits in culturally appropriate ways. Indigenous peoples may be particularly vulnerable to the adverse impacts associated with project development, including risk of impoverishment and loss of identity, culture, and natural resource-based livelihoods.
7f. Cultural heritage	Protecting cultural heritage from adverse impacts of project activities and supporting its preservation. Cultural heritage encompasses properties and sites of archaeological, historical, cultural, artistic, and religious significance. It also refers to unique environmental features and cultural knowledge, as well as intangible forms of culture embodying traditional lifestyles that should be preserved for current and future generations.
7g. Non-discrimination	Preventing discrimination against vulnerable segments of the population such as minorities, women, youth and people with disabilities. Non-discrimination concerns inclusion of vulnerable people in the consultation process as well as access to project benefits or products and services offered by FMO's clients.
8. Client satisfaction	The extent to which FMO's products and services meet or exceed client expectations.
8a. Local presence FMO	The availability of local office staff to FMO clients and other key stakeholders to enable more frequent, face-to-face and real-time engagement.
8b. Networks & external relations	The access to FMO's network of select banks, development finance institutions, private investors, business organizations, knowledge institutes and civil society.
8c. Knowledge transfer	The knowledge transferred from FMO to its clients through providing e.g. technical expertise, trainings, events and publications.
8d. Product offering	The range of financial product offering such as loans, local currency loans, equity, and trade guarantees.
9. Responsible taxation of FMO's investments	The contribution to a healthy tax environment in which compliance and trust from both tax payers such as FMO's clients, tax authorities and governments exist.
10. Environmental impact of FMO's operations and business travel	Any harmful effects on the environment that follow from FMO's operations.
11. Employee engagement at FMO	The degree to which employees get inspiration from their work. Engaged employees gain energy from their work, are proud of the work they do, and experience their work as meaningful.
12. Role in public debate	The involvement in formal discussions on sustainable development which are open to the public.
13. Data protection and privacy	The protection of confidential data and compliance with privacy regulations through systems and procedures.
14. Animal welfare	Any harmful effect on the health and well-being of animals that are affected from business activities financed by FMO.

List of abbreviations

AC	Amortized cost	EIB	European Investment Bank
AEF	Access to Energy Fund	EMIR	European Markets Infrastructure Regulation
AFC	Africa Finance Corporation	EONIA	Euro OverNight Index Average
AFS	Available for sale	EU	European Union
AIFMD	Alternative Investment Fund Managers Directive	EURIBOR	Euro Interbank Offered Rate
ALCO	Asset and Liability Committee	EVaR	Equity Value at Risk
ARC	Audit and Risk Committee	ExCo	Executive Committee
AWS	Alliance for Water Stewardship	FAO	Food and Agriculture Organization
BOP	Base of the Pyramid	FEC	Financial Economic Crime
BRRD	Bank Recovery and Resolution Directive	FMO	Financierings-Maatschappij voor Ontwikkelingslanden N.V.
BMR	Benchmark Regulations	FMO IM	FMO Investment Management B.V.
BPV	Basis point value	FPIC	Free prior and informed consent
CC	Compliance Committee	FRC	Financial Regulation Committee
CD	Capacity Development	FOM	Faciliteit Opkomende Markten
CEO	Chief executive Officer	FOM - OS	Fund Emerging Markets for Developing Countries
CET-1	Comment Equity Tier 1	FVOCI	Fair value through other comprehensive income
CFI	Center for Financial Inclusion	FVPL	Fair value through profit or loss
CFM	Climate Fund Managers	FX	Foreign exchange
CG	Corporate governance	GAAP	Generally Accepted Accounting Principles
CIO	Chief Investment Officer	GCF	Green Climate Fund
CIP	Clearance in Principle	GHG	Greenhouse gas
CIU	Collective Investment Undertakings	GDP	Gross Domestic Product
CP	Commercial Paper	GDPR	General Data Protection Regulation
CRD	Capital Requirements Directive	GRI	Global Report Initiative
CRFO	Chief Risk and Finance Officer	GRR	General Risk Reserves
CRR	Capital Requirements Regulation	GWh	Gigawatt-hours
CSA	Credit Support Annex	IAS	International Accounting Standards
CTI	Cost to income	IASB	International Accounting and Standards Board
C&M	Classification and measurement	IBOR	Interbank Offered Rate
D&I	Diversity and inclusion	ICAAP	Internal Capital Adequacy Assesment Process
DA	Development Accelerator	IDB	Inter-American Development Bank
DBA	Dutch Banking Sector Agreement	IDFC	International Development Finance Club
DEG	Deutsche Investitions- und Entwicklungsgesellschaft	IFC PS	IFC Performance Standards
DFCD	Dutch Fund for Climate and Development	IFRIC	International Financial Reporting Interpretations Committee
DFI	Development Finance Institutions	IFRS	International Financial Reporting Standards
DNB	Dutch Central Bank	IC	Investment Committee
E&S	Environmental and social	IIRC	International Integrated Reporting Council
EAD	Exposure at default	ILAAP	Internal Liquidity Adequacy Assesment Proess
EaR	Earnings at Risk	IMF	International Monetary Fund
EBA	European Banking Authority	IMS	Infrastructure, Manufacturing and Services
EBF	European Banking Federation	IRRBB	Interest Rate Risk in the banking book
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization	IRC	Investment Review Committee
EC	European Commission	KPIs	Key performance indicators
ECL	Expected Credit Loss	KYC	Know Your Customer
EDFI	European Development Financial Institutions	LCR	Liquidity Coverage Ratio
EDGE	Economic Dividends from Gender Equality	LDCs	Least developed countries

LIBOR	London Interbank Offered Rate	PP&E	Property, plant and equipment
LGD	Loss given default	P2G	Pillar 2 Guidance
LTA	Look-through approach	RAF	Risk Appetite Framework
L&R	Loans and receivables	RVO	Rijksdienst voor Ondernemend Nederland
MB	Management Board	SB	Supervisory Board
MBA	Mandate-based approach	SDG	Sustainable Development Goals
MDB	Multilateral Development Banks	SIC	Standard Interpretations Committee
MoU	Memorandum of understanding	SIRA	Systematic Integrity Risk Assessment
NBFI	non-banking financial institution	SPPI	Solely payments of principal and interest
NCML	National Collateral Management Limited	SREP	Supervisory Review and Evaluation Process
NAV	Net Asset Value	SRM	Single Resolution Mechanism
NGO	Non - governmental Organization	S&P	Standard and Poors
NPE	Non performing exposures	TCFD	Task Force for Climate-related Financial Disclosure
NPL	Non performing loans	TEG	Technical expert group
NPS	Net Promotor Score	UN	United Nations
NPV	Net present value	UNEP	United Nations Environment Programme
NSFR	Net Stable Funding Ratio	USD	US dollar
NVB	Nederlande Vereniging van Banken	tCO_2eq	1 tonne of CO_2 equivalent
OCI	Other comprehensive income	TWG	IFI Technical Working Group
OIS	Overnight - index - swap	UNEP	UN Environmental Programme
ORC	Operational Risk Committee	UNGPs	United Nations Guiding Principles on Business and Human Rights
PCAF	Carbon Accounting Financials	Wft	Dutch Financial Supervision Act
PD	Probability of default	WWF	World Wide Fund for Nature
PDF	Partnership Development Fund		
PE	Private equity		

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.

The reports made in this document are for information purposes only and is not, in particular, intended to confer any legal rights to anyone reading this annual report.

Cautionary statement regarding forward-looking statements

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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Colophon

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Reporting scope This integrated annual report covers activities that took place or had an effect on the reporting year.

FMO publishes its integrated annual report on 23 March 2020. The annual shareholders' meeting is in April. The report is audited by an external auditor. Please read EY's auditor's report for detailed information on the scope of their work. Previous reports are available on reporting.fmo.nl