Pushing boundaries

additionality

ANNUAL REPORT 2007

FMO

Finance for *Development*

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FMO pushes development boundaries by offering our clients the finance they need, taking an extra step where commercial markets stop… this is additionality…

FMO's mission is based on the proven reality that without private enterprise there can be no sustainable growth and poverty alleviation in developing countries. Our entrepreneurial clients work in utilities, infrastructure, corporates and the (micro-)finance sector. Their energy and commitment is at the heart of lasting development impact. Our task is to facilitate their enterprise. We do that not only through access to long-term finance, but also by supporting them in embedding social and environmental standards. Building sound governance is another area where we can add value for them. Working in tandem with our global partner network, we reach out to private enterprises, directly or indirectly. By entering high-risk countries and markets, by providing tailor-made finance and mitigating risks, we aim to open up these areas so that other financial institutions and commercial banks can follow.

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Key figures

	Dutch GAAP[1]					IFRS[1]
	2002	2003	2004[2]	2005[3]	2006	2007
DEVELOPMENT IMPACT						
Development Impact Indicator (DII)[4]	-	-	-	390	570	798
made up of amount of new investments (€ x mln)	-	-	-	699	937	1,315
and Economic Development Impact Score (EDIS)	-	-	-	56	61	61
BALANCE SHEET (€ x mln)						
Net loans	829	848	902	1,010	1,130	1,316
Equity investments portfolio[5]	76	82	93	128	216	337
Shareholders' equity	675	733	784	950	1,083	1,182
Debt securities and debentures/notes	648	914	895	1,139	1,004	1,118
Total assets	1,458	1,748	1,845	2,329	2,306	2,685
Committed portfolio	1,904	1,877	1,991	2,409	2,735	3,403
of which are government funds[6]	160	201	247	350	519	638
PROFIT AND LOSS ACCOUNT (€ x mln)						
INCOME						
Net interest income	76	76	80	80	92	102
Income from equity investments[5]	3	7	16	11	81	79
Other income including services	16	22	30	43	29	18
Total income	**95**	**105**	**126**	**134**	**202**	**199**
EXPENSES						
Operating expenses	31	33	36	41	47	51
Operating profit before value adjustments	**64**	**71**	**90**	**93**	**155**	**148**
Value adjustments:						
• to loans and guarantees	46	39	33	-13	-8	27
• to equity investments	9	3	2	5	2	9
Total value adjustments	**55**	**42**	**35**	**-8**	**-6**	**36**
Share in the results of subsidiaries	-	-	-	0	4	4
Profit before tax	9	30	55	101	165	116
Taxes	-5	-9	-18	-28	-31	-11
Net profit	**5**	**21**	**37**	**73**	**134**	**105**
OTHER INFORMATION						
Average number of full-time employees (FTE)	192	196	197	203	224	236
Fully compensated CO_2 emissions (tons)	-	-	2,112	2,261	2,640	2,173

1) 2002-2003 are non-consolidated figures and have not been adjusted. 2004-2007 are consolidated. Because of the limited differences between consolidated and non-consolidated figures, the figures in the table are considered to be comparable. 2) Adjusted for comparative figures. 3) FMO and government funds committed portfolio 2005 and thereafter includes the fair value of equity investments. 4) The DII is calculated annually by multiplying the EDIS by the amount of new investments and dividing this figure by 100. See page 5 for more information. 5) Including associates. 6) The government funds include MASSIF, LDC Infrastructure Fund, NIMF, AEF and EIB.

The role of FMO

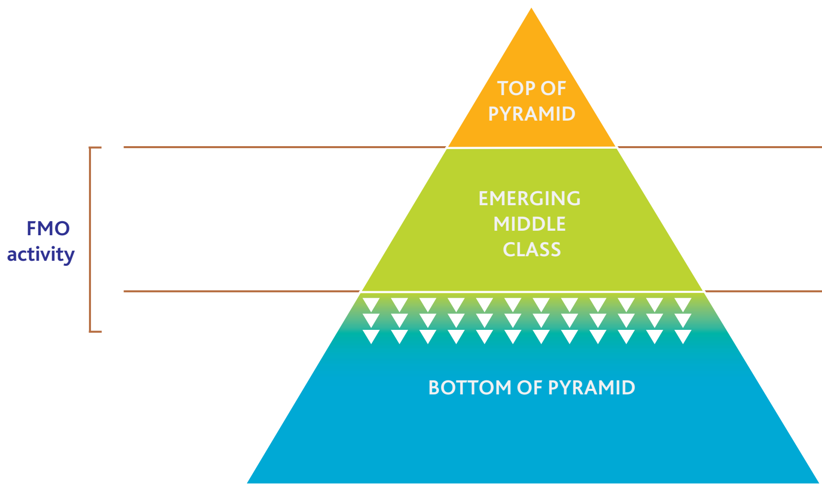
Our clients, private enterprises in developing countries and emerging markets, work in every sector that can contribute to sustainable development impact. These entrepreneurs generate power and communications. They build homes and roads. Our financial sector clients work with local entrepreneurs and with individuals who deposit their savings with them. Others produce goods for domestic use and export. Their activities contribute to improving prosperity in local communities.

Our clients and their customers come in every size – large, medium and (sometimes very) small businesses. They are new, expanding, growing or long-established. What these more than 500 private companies in developing countries have in common is us. They are all FMO clients. In turn, our clients serve millions of customers of their own. Our role is to help them continually improve their own businesses, products and services, and their economic, social and environmental impact, so that they can further expand and grow, in a sustainable way.

VISIONARY CLIENTS

What we have in common with all our clients is a commitment to growing a healthy private sector in developing countries. This is how lasting development impact is generated. In practice, these entrepreneurs create jobs. By employing people to manufacture products and services, they provide income and improve living standards. Higher living standards lead to demand for schools and healthcare. This is the basis of a viable local – and national – economy. What we bring to the table is more than the scarce long-term finance our clients need to grow their businesses. We are committed to minimizing negative environmental impacts – and, where possible, creating positive impact – and ensuring international labor standards are the norm. We support their transparency challenges so that governance becomes a day-to-day best practice. The deals we do with these visionary entrepreneurs are about more than money. FMO is not a charity. We finance against commercial rates and our social, environmental and governance conditions are tough. That is why we can safely say our clients are visionary. They commit to more than repayment. They commit to using their undoubted entrepreneurial skills to grow their businesses financially, transparently and in an environmentally and socially responsible way.

THE WORLD ECONOMIC PYRAMID



	Population (mln)	Growth	Purchasing power parity (US $)
TOP OF PYRAMID	800	low	>15,000
EMERGING MIDDLE CLASS	1,500	medium	1,500-15,000
BOTTOM OF PYRAMID	4,000	high	<1,500

MOVING TARGETS

FMO goes where our (potential) clients are. Through increasing liquidity worldwide and ongoing economic growth in a number of emerging markets, many of our 'traditional' target countries are attracting commercial finance for 'plain vanilla' financing/lower-risk segments. This is a welcome development. For FMO, it means we seek out new, higher-risk market niches; our size means that by definition we are a niche player. As a result, over the last few years we have moved strategically and purposefully into new markets and specifically into segments that are still too high risk for commercial players: mortgage banks providing housing finance to low(er)-income families, entrepreneurs looking for custom-made financing solutions, and, at the lower end of the market, the financial institutions serving small- and medium-sized businesses.

GOING THE EXTRA MILE

At FMO, we strive to go the extra mile. Our risk appetite is high; our strategy is long term. This means that we actively seek out investment projects that fulfill our additionality and catalyst aims. By 'additionality', we mean that FMO provides products, services or expertise that the client needs and wants but commercial players do not offer. We are also additional when we insist on risk mitigation through applying corporate governance best practices, environmental policies and social responsibilities as an integral part of the finance we offer to clients. As 'catalysts', FMO accepts a relatively high share of the risk involved, which in turn gives other financiers the space and confidence to invest. Our solid reputation acts as a hallmark, making it more likely that other investors will join us. In other words, we do not compete with commercial financiers. We give them the confidence to invest. Once they are willing to take over our investment role, we move on to other, higher-risk projects or even countries, or we fulfill different requirements for our existing clients.

POSITIVE IMPACT, GOOD RETURNS

FMO is only as good as our clients. If our clients are doing well, FMO thrives. By being financially sustainable ourselves, we can continue to support them. Experience tells us that, more often than not, good returns on investment in the long term go hand-in-hand with positive economic, social and environmental development impact, as well as good corporate governance. A project is unlikely to generate sustainable returns if these aspects are not incorporated. However, our clients do not always adhere to international standards from the outset. Our role also includes formulating and implementing action plans, assisting our clients in building up and maintaining social and environmental standards in the future. This is why development impact can only be measured as a potential score at the start of the project, and must be re-assessed to measure actual impact.

MEASURING DEVELOPMENT IMPACT

FMO evaluates actual development impact after five years or on exit from a project. This evaluation assesses the business success of the company and the impact it had on the local economy, community and environment. We also look at whether FMO benefited from the deal as well as at the quality of our own work. These evaluations are not a direct measure of our contribution to poverty alleviation. World Bank studies indicate that the positive effects generated by FMO financing do, in fact, contribute to poverty alleviation.

Though we aim for positive development impact, sometimes projects are not successful in one or more aspects. Evaluations help us to develop FMO's 'scorecard' and to predict the expected development impact of new projects. The Development Impact Indicator (DII) was created and implemented in 2005. The DII gives us an annual quantitative indication of development impact. We calculate this by multiplying the Economic Development Impact Score (EDIS) by the amount of new investments, and dividing this figure by 100. For 2007, the DII is 798, more than double the 2005 base value of 390. The DII currently only includes economic development impact; in 2008, we will integrate environmental and social development impact scores into our calculation. This will provide an even more accurate indication of the sustainability of the impact we make.

In measuring environmental and social impact, we make a distinction between direct investments and (indirect) investments in financial institutions. We developed a distinctive set of key indicators for each type of investment. For the direct investments, key indicators relate to things like exploitation and conservation of non-renewable resources, links up and down the production chain, labor relations and civil society stakeholders. For financial institutions, we measure support to the bank's clients in actively improving environmental and social performance; we also measure how many projects they finance with positive environmental or social impact.

Each FMO investment receives two scores from 0-99: one for environmental and one for social development impact. These indicators are measured at the beginning of our commitment, and then annually during monitoring, to check whether the expected positive impact has indeed materialized.

For more information on the DII and scorecard methodology, please visit our website: **www.fmo.nl**.

PARTNERS, NOT BRANCHES

Another way of giving our clients the best service we can, is to work closely with our global partners and those operating locally in our regions: Africa, Asia, Europe & Central Asia and Latin America & the Caribbean. As we have only one office, located in The Hague, we rely intentionally on our partner network. This is a deliberate choice. Our local partners can deal more directly with the economic, social and environmental conditions of the countries in which they work. They bring in their strong and lasting relationships with clients. It is this shared focus on client relationships and long-term commitment that enables FMO and our network of partners to serve the entrepreneurs who create lasting development impact.

FMO has an AAA rating from Standard & Poor's. The Dutch State is the majority shareholder (51%); Dutch commercial banks own a further 42%. The remaining 7% is held by employers' associations, labor unions, private companies and individuals.

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The global network of FMO

KEY GLOBAL PARTNERS

- Aureos
- Citibank
- DEG
- Proparco
- TCX Fund

DII: 189
Committed portfolio:
€859 million (25%)

EUROPE & CENTRAL ASIA – SELECTED PARTNERS

- Advent
- EBRD
- EFSE
- Euroventures Ukraine Fund
- Horizon Emerging Europe Growth Fund
- Procredit

DII: 175
Committed portfolio:
€776 million (23%)

ASIA – SELECTED PARTNERS

- ABN AMRO
- ADB
- Aga Khan Foundation for Economical Development
- DPF China
- ICICI (India)
- Standard Chartered Bank

DII: 201
Committed portfolio:
€766 million (23%)

LATIN AMERICA & THE CARIBBEAN – SELECTED PARTNERS

- Advent Latin American Private Equity Fund
- CAF
- Conduite Capital Partners
- DBA Corporate Finance
- LocFund
- Standard Bank

DII: 223
Committed portfolio:
€921 million (27%)

AFRICA – SELECTED PARTNERS

- Africinvest/Tuninvest Finance Group
- Afriland First Bank
- Aldwych International
- Artumas Group Inc.
- BoA/BMCE
- EAIF/GuarantCo
- Kingdom Zephyr Africa Management UK Ltd.
- Standard Bank

In 2007, the committed portfolio that is non-region specific amounted to €81 million (2%) with a DII of 10.

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Management Board

ARTHUR ARNOLD (1946), *CHIEF EXECUTIVE OFFICER*

Arthur Arnold was appointed as CEO and Chairman of the Management Board on January 1, 2005. Prior to joining FMO, he was President and CEO of the World Council of Credit Unions for five years. From 1992-2000, he served the Rabobank Group as Director of Investment Banking and Chairman of the Management Board of Rabobank International. Prior to Rabobank, he worked for ABN AMRO Bank for 24 years in management positions across the globe. Arthur Arnold will step down as CEO and Chairman of the Management Board on October 1, 2008.

Letter from the CEO

Dear stakeholders in FMO,

It has been another extraordinary year – for our clients and partners, for the developing countries and emerging markets we operate in and, therefore, for FMO. For the first time in 2007, we exceeded the €1 billion milestone, committing €1.3 billion in new investments, raising our total investment portfolio to €3.4 billion. We realize that the remarkable growth that we've enjoyed over the last five years is due first and foremost to the dynamics and potential of the private sector. And it is happening almost everywhere, including Africa.

Can this continue? In 2007, a major crisis broke out in the North. For the first time in history, however, it seems so far hardly to have affected growth in the South. Compare this to the devastating effects on developing countries and regions of earlier crises in the nineties or the beginning of this century. The world is changing dramatically and, to a large extent, for the better. Billions of people in the South are less dependent on what is happening in the North.

For FMO, 2007 was definitely about quality. Our multiple bottom line once again showed excellent results, including a net profit of €105 million in 2007, leading to a further strengthening of our capital base to a record level of almost €1.2 billion. Highly gratifying, of course, but no guarantee of future success. We believe that judging FMO's performance should always cover a longer period of time. After all, we are in the long-term business. For the first time, therefore, our results show last year's performance against five years previously. There is no separate sustainability report for FMO – it is all there, mainstream in our results – people, planet and profit. We walk the talk, whatever the climate.

And there is a lot of talk. Development finance is a highly emotive business; how often do you see the heart-rending images of suffering mothers and babies? And how often do you see positive images of the tens of thousands of successful entrepreneurs working to build development impact in their local communities? There is no lack of good intentions. We see commissions, reports – all very useful in their own way. But the reality is that people in emerging countries can't wait. They cannot put development on the back burner until the next report is published or until politicians can agree on what action to take next, if ever. Our many different entrepreneurial clients want action and they want it

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NANNO KLEITERP (1953), *CHIEF INVESTMENT OFFICER*

Nanno Kleiterp has been responsible for FMO's risk-bearing profile as Chief Investment Officer since 2000. From 1987-2000, he held a number of positions within FMO, including Manager Small- and Medium-sized Enterprises, Regional Manager Latin America and Chief Finance Officer. Prior to FMO, he gained extensive experience in private-sector development while working in Nicaragua, Mexico and Peru. Nanno Kleiterp has been appointed CEO and Chairman of the Management Board as of October 1, 2008.

NICO PIJL (1951), *CHIEF RISK & FINANCE OFFICER*

Nico Pijl was appointed Chief Risk & Finance Officer in 2005. From 1986-2005, he held a variety of positions within FMO, including Chief Portfolio Officer, Regional Manager Latin America & the Caribbean and later Asia. Prior to FMO, he worked for six years at the World Bank and three years for the United Nations in West Africa.

now. That is why FMO has changed in recent years. No one at FMO thinks we know it all or can do it all. What we do know is that the old way – almost neo-colonial in its mindset – is a thing of the past.

At FMO we constantly work on the three characteristics that determine our future. We show guts (we innovate, as evidenced by our newest offshoot, The Currency Exchange Fund (TCX), as well as our success with housing, micro-financing and mezzanine initiatives), we stick to a business approach (no charity – we can only continue our work through successful clients) and we commit to cooperation (clients come first, partners and colleagues are our equals). Only then can we continue to be successful in positioning ourselves as the entrepreneurial development bank.

Ownership and work, allowing and enabling people to determine their own destiny: that's what private sector development is all about. It is the only way to create sustainable growth for all people. That's what we believe is alleviating poverty. Let's walk the talk.

This is the last time I will be writing the FMO CEO message. I am proud to hand over FMO to my colleague, Nanno Kleiterp, on October 1, 2008, after almost four years of leading this great institution. For the first time in FMO's history, a successor will come from within FMO.

My gratitude goes to all our stakeholders – clients, partners, shareholders, colleagues, the Works' Council and our Supervisory Board. But special thanks goes to the wonderful team at FMO for making my tenure so exciting and fulfilling. I am in debt to you all. This is not a one-man job. You are the source of my inspiration.

In December last year, I was privileged to chair the conference on financial sector development in Africa, organized by FMO. Rather than defining the program, we asked the 150 participants from all over the region to raise the issues confronting them, and to discuss them among themselves. The remark of one client sums up what FMO is doing: 'You made us feel it was *our* conference'.

Thank you all,

Arthur Arnold
CEO

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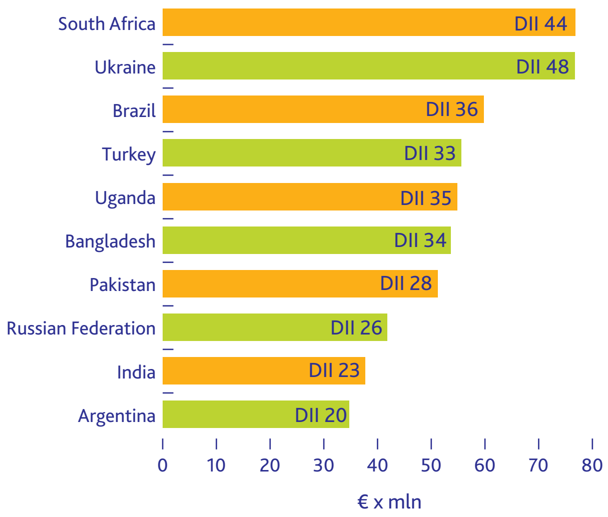
Report of the Management Board

In 2007, FMO made significant progress on all its 2010 strategic targets, so much so that some have already been achieved. We have a total now of 504 actual clients, compared to 453 at the start of the year; in 2007, we committed well over €1.3 billion in new investment capital to them.

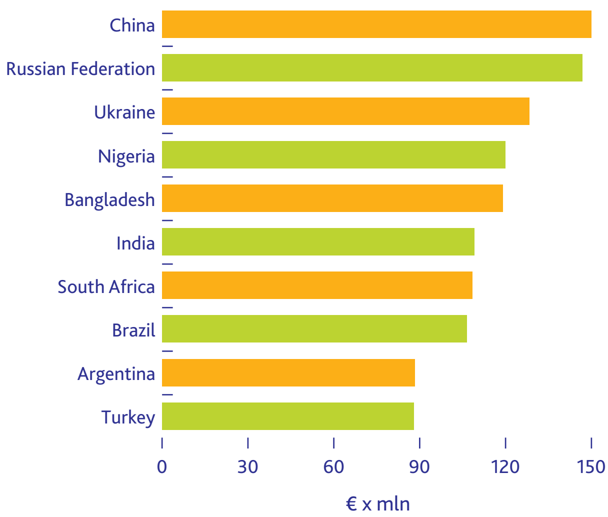
Substantial growth in 2007 enabled us to:

- realize a much higher economic development impact by achieving a DII of 798 compared to the 2010 target of 588. This increase was achieved through our efforts to identify and close both more and higher-scoring deals;
- increase our committed portfolio by 24% to €3.4 billion (2006: €2.7 billion), in spite of the drop in value of the US dollar, almost reaching our 2010 target of €3.6 billion;
- slightly increase the share of our investment portfolio in low-income countries to 36% (2006: 35%), supported by a dedicated focus on housing finance;
- maintain a balanced distribution over all four FMO regions, as geographic spread helps mitigate risk related to over-concentration on individual regions: Africa 27% (2006: 26%), Asia 23% (2006: 22%), Europe & Central Asia 25% (2006: 26%), Latin America & the Caribbean 23% (2006: 26%). The category 'global' is new, for the reason that we invest more and more in global projects and funds. At the end of 2007, we had investments of €81 million in funds such as TCX, LocFund, Procredit and Aureos, making up 2% of the total portfolio;
- increase the share of riskier equity and mezzanine investments to 42% (2006: 35%), well on our way to the 2010 target of 50%. Significant strides have been made in explaining the advantages of mezzanine to (prospective) clients;
- maintain the share of government funds and facilities at 21% of total portfolio, still on our way to reaching the 25% target for 2010; government funds have maintained their share in a period of strong portfolio growth;
- increase local currency financing to 17% (2006: 13%) of total portfolio, bringing the 20% envisaged for 2010 within reach. This is exclusive of our investment in the TCX Fund;
- through 'One FMO', continue to transform ourselves from an organization of professionals to a professional organization, structured and compliant according to internationally accepted banking standards. Often, FMO's reputation acts as a catalyst in

TOP 10 NEW CONTRACTS WITH DII



TOP 10 COUNTRIES IN PORTFOLIO



giving confidence to other potential investors; our clients can also use that reputation as a cachet, not only financially, but also on governance issues. Both are reasons why we aim for the additional certainty offered by Dutch Central Bank supervision. In 2007, FMO finalized all the necessary steps and met all requirements to acquire full bank status. The expectation that this would be granted in 2008 has become a reality in the meantime; FMO was granted a license as per March 14, 2008.

For financial performance, so essential to our own continuity, please see the dedicated section on pages 46-47.

Since we have, or will have, achieved most of our 2010 targets during 2007-2008, a decision was made to start work on a new strategy in 2008 with new ambitions for the period 2009-2012. This new strategy will be presented to the Supervisory Board in the last quarter of 2008 and shared with our stakeholders.

International benchmarking

In October 2007, FMO was a key player in the Common Approach to Corporate Governance ratified by 31 Development Finance Institutions (DFIs). This is a milestone in client service. As finance is often the result of partnerships, clients have to adhere to each investor's individual governance requirements. Now, by agreeing a common standard on governance, the client will have less paperwork and legal advisory fees.

In the reporting year, we integrated and implemented IFC Performance Standards for all our financing procedures. These standards are now accepted as the more ambitious international benchmark for environmentally and socially responsible project finance.

FMO was also active in the Consultative Group to Assist the Poor (CGAP). This consortium of more than 30 public and private funding organizations, including development agencies, private foundations and international financial institutions, works to expand the poorest people's access to financial services.

For more information, please visit:

IFC Performance Standards:	**www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards**
CGAP:	**www.cgap.org**

HOW FMO WORKS

As a niche player, we recognize we cannot be everything to everyone. By continually reinforcing our partner networks, deepening client relationships and building our track record in specific sectors and products, we are better able to understand what our clients want and to find those deals that will generate the most development impact. We aim to use the same euro as often as possible, enabling us to assist more and more entrepreneurs.

WHAT OUR CLIENTS WANT

Our goal is always to structure our (finance) packages according to the client's needs and interests. We can build those packages from a full range of financial products and services, including loans, equity and a wide variety of combinations that mix elements of both, such as mezzanine. Moreover, Dutch government funds allow us to focus on specific sectors and countries. These funds are aimed at small- and medium-sized enterprises (SMEs) and infrastructure in less and least developed countries.

WHERE WE WORK

In 2007's high liquidity climate (signs suggest that 2008 will be less buoyant in this respect) FMO had to constantly rethink its presence in those emerging markets where growth is attractive and considered low risk. As a long-term partner, our primary role is not to look for the 'quick wins' or 'easy investments'. Working in close cooperation with global and local partners, we push boundaries, enter markets and sectors where risks as well as opportunities for development return are high. This is what makes FMO different; our role is to go where other banks cannot go – yet. And, if the current climate changes, then we will be there, ready to fill the gap left by hasty exits by commercial investors. We have done it before. We will do it again.

MANAGING MARKET CHALLENGES

Getting the most out of every euro is not as easy as it sounds. One of the biggest

PRODUCT OVERVIEW

	Sectors		
	FINANCE	INFRASTRUCTURE	TRADE & INDUSTRY
FMO A	Loans • Guarantees • Equity & Mezzanine • Syndicated loans		
Funds & Facilities	MASSIF	LDC Infrastructure Fund Access to Energy Fund	NIMF* • FOM
Programs	Capacity Development • Financial Institutions Program		

* Active until June 30, 2007.

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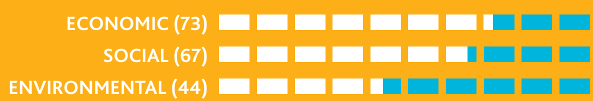
Supporting financial innovation in Mongolia's rural communities

Mongolia is a sparsely populated country where 40% of its 2.6 million inhabitants live below the US $20-a-month poverty line. Banking services rarely extend beyond the capital city of Ulaanbaatar (population 1 million), leaving over half of the population with restricted access to financial services.

XacBank is Mongolia's second-largest provider of micro-finance services and specializes in providing loans to micro-entrepreneurs from as little as US $27. While this figure may seem low, these loans play an important role in the economic development of Mongolia's rural community. In its first transaction in Mongolia, FMO provided an amortized loan equivalent to US $10 million in Tögrög (Mongolia's local currency), which aims to enable XacBank to attract future long-term funding. This loan is proof of FMO's belief in extending local currency credit where other commercial banks are often still unwilling.

Housing needs are often unmet in developing countries; for this reason, at least 30% of FMO's loan will be dedicated to mortgage provision. FMO is committed to extending credit to mortgage lenders in this sector, in order to stimulate home ownership and improve quality of life.



'Made-to-measure' finance

While effective portfolio management is high priority in view of FMO's own continuity requirements, it is our job to take and manage risks. As a result, many clients, including supported micro-finance institutions, serve lower-income groups. Government funds help us to serve high-risk low-income countries better. FMO invests and finances from two sources – for our own account (FMO A) and through the managed government funds – MASSIF, Least Developed Countries (LDC) Infrastructure Fund and Access to Energy Fund (AEF) – dedicated to specific sectors in poorer or least-developed countries.

There is some crossover in the product range available through FMO A and the government funds. But however a contract is financially structured, we will always aim to approach the structure from the client's perspective. This means our goal is to construct the best mix of products, which can range from straight lending (senior debt) through equity and guarantees to mezzanine and government funds, and increasingly in local currency.

challenges we face in today's high liquidity conditions is early exit. This means the company has become attractive to commercial players. For example, we were able to sell 50% of our participation in the Nigerian Access Bank to private investors much earlier than expected. This is a positive development, and can generate even better financial returns than anticipated on initial investment. But it poses a clear dilemma for FMO. However good the profit, finding the right re-investment opportunities with the right client takes considerable time, time when the 'euro' is not put to work.

FINDING THE RIGHT SOLUTION

In recent years, demand for equity has grown considerably. Starter entrepreneurs and already successful businesses looking for expansion are the main client groups that

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want equity. They are looking for knowledgeable risk-sharing investors with a long-term appetite. (Potential) clients recognize the possible advantages of an equity partner such as FMO, as we bring more to the table than finance alone. Often, our participation acts as a catalyst for other investors who would normally avoid higher-risk projects. Preceding an equity position is an investment plan, market analysis, due diligence and the long-term commitment of the client. Shareholders, management and co-financiers all have to agree. In order to use our scarce capital as efficiently as possible, from the start a clear exit strategy is part of negotiations and structure. Equity can offer a win-win result for both the client and FMO. We offer scarce, high-risk finance against potentially high returns. Equally important is that scarcity means that we can leverage our willingness to participate to set solid social, economic and governance conditions.

PARTNERING UP

Our partner network plays a vital role in identifying clients in need of equity. We work both directly and indirectly. Direct investment in private companies is generally with local partners and entrepreneurs or through co-investment with local and private equity and/or mezzanine funds. We aim to ensure the participation and leading role of other experienced private investors by taking a minority interest of between 5% and 20% of the equity. We also facilitate the establishment of local, regional or sector-specific funds. Africinvest, a financial sector fund, is one example (see below). Indirect investment is through participation in local and international private equity funds. In deciding on direct or indirect investment, we weigh the advantages for the client. Through our funds, we are able to reach smaller companies; there is often specific sector knowledge in the particular region. Proximity to potential clients is another factor. In addition, we believe there is real long-term benefit in supporting the growth of local, specialist private equity know-how.

TAILORING MEZZANINE

When straight equity is a step too far for the entrepreneur, we can offer clients other so-called quasi-equity structures, known as mezzanine finance. Increasingly, FMO is recommending such structures to clients in emerging markets. The benefits, especially for family-owned companies, are that mezzanine provides equity-like financing without requiring existing shareholders to give up ownership or voting rights as straight equity participations would require. Mezzanine funds are already operating in China and South Africa, and FMO has been instrumental in establishing these new funds, including a second fund for China to be launched in early 2008. Furthermore, with demand for this type of finance growing rapidly in Africa, we are

Funding for under-developed African financial sector

In 2007, FMO invested €20 million in the Africinvest Financial Sector Fund, created to support the development of young financial institutions across Africa. The Fund will particularly focus on countries with an under-developed financial sector, post-conflict and lower-income countries. Financial sector development is a pre-requisite for economic and social development impact. The Fund will contribute to the development of start-up companies and SMEs in particular, which will lead to job creation and improved standards of living.

Through MASSIF, FMO has made 100% of the investment – this is unique. The management of the Fund will be carried out through Africinvest Capital Partners, a private equity investment manager initiated by FMO and Tuninvest. Several local African partners will support the management of the Fund.

In line with MASSIF criteria, the Fund focuses on a sector that has very limited access to capital; with FMO's 100% participation, it is clear that the Fund could not otherwise exist. Additional investors are, however, expected in the future. Moreover, FMO will play an active role in the Investment Committee, help source transactions through its partner network in Africa, and provide Capacity Development to improve training and expertise for investee companies.

ECONOMIC (69)
SOCIAL (47)
ENVIRONMENTAL (44)

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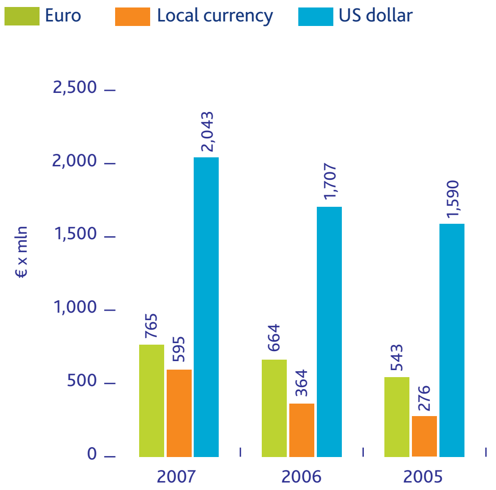
PORTFOLIO IN EUROS, LOCAL CURRENCIES AND US DOLLARS



The TCX Fund

Growing demand coupled with our conviction that access to local currency can enhance positive development impact in all regions led to a milestone in 2007. The launch of The Currency Exchange Fund N.V. (TCX), a large and innovative fund to develop local currency products in developing countries worldwide, took place in September. It is the result of cooperation between international partners led by FMO. TCX will start up with a transaction capacity of US $1.6 billion for long-term local currency financing. The creation of TCX is a clear example of additionality. Our goal here was to push boundaries so that other institutions and investors could follow our catalyst role.

participating in the Vantage Risk Capital Fund for South African and sub-Saharan African markets.

In line with strategic targets, the share of equity and mezzanine investments was expanded in all our regions. In 2007, 42% (2006: 35%) of the investment portfolio was in equity and/or mezzanine.

LOCAL CURRENCY

Most companies operating in local markets in developing countries earn their income in local currency. But they often depend on imported technology and inputs, for which foreign currency loans are needed. This results in a currency mismatch, which can have extremely painful consequences and lead to bankruptcy. FMO has offered local currency finance for over 20 years, specifically through MASSIF, the government fund, and in the form of equity from our own funding base. In recent years, demand for local currency has increased significantly. Often local banks are not in a position to manage currency mismatches. And foreign banks do not have the facilities to offer local currency loans on longer tenors, as this requires complex and expensive currency risk management. However, this is part of FMO's core business. And we are convinced that local currency products will become increasingly important in the future. We envisage that 20% of our portfolio will be made up of local currency financing by 2010. The dedicated TCX Fund (see sidebar) was an initiative in 2007 to increase client access to local currency products. Although started by FMO and a number of partners, the Fund is independent. Our investment in TCX is not part of our 20% local currency portfolio target.

At year-end 2007, local currency financing represented 17% (2006: 13%) of the total portfolio.

WORKING WITH CLIENTS

We try to keep a well-diversified portfolio and avoid concentrations of clients in regions, countries, sectors and/or types of products. However, we do have specific focus areas. This means that working with our global and local partners, we actively look for clients in the higher-risk emerging markets. We target clients in the financial sector, including (micro-) finance institutions, in infrastructure, including energy and water, and second-tier companies. Our deal teams, which include risk management, legal, social and environmental specialists, do all they can to provide clients with the means to make a success of their investments. FMO is not a charity, so all (potential) finance and investment transactions are on commercial terms. All potential contracts follow the same basic process:

1. identifying clients with sound investment plans, often with or through a global or local partner;
2. appraising the plan for financial soundness and multiple bottom line impact. All appraisals include the client's potential positive or negative effect on social, environmental and governance conditions. These are recorded on the so-called FMO scorecard. Appraisal further includes an evaluation of the client's perception of these components and their willingness

SPREAD OF COMMITTED PORTFOLIO INCLUDING FUNDS

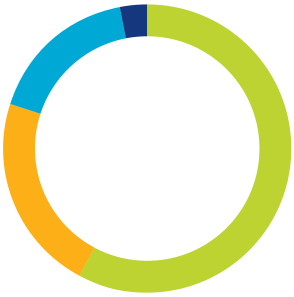
FUNDING

- FMO A (79%)
- FOM (2%)
- MASSIF (11%)
- NIMF (1%)
- LDC Infrastructure (7%)

*EIB (0%) & AEF (0%)**

* Although investments were made through these funds, the amounts add up to less then 1% of the total spread.

SECTORS



- Finance (58%)
- Infrastructure (22%)
- Trade & Industry (17%)
- Others (3%)

PRODUCTS

- Loans (51%)
- Mezzanine (21%)
- Equity (21%)
- Guarantees (7%)

Sector focus – housing finance

Finance for adequate housing has been flagged as a key weapon in alleviating poverty – one of the primary Millennium Development Goals. But the problem continues to grow, also through rapid urbanization. FMO is actively working on projects for all income segments, drilling down as far as possible into the 'pyramid'.

Tenor is often the greatest obstacle to finance. In the reporting year, FMO committed to a number of housing finance projects that will enable partners and clients to offer mortgages at longer tenors. MASSIF has also been deployed extensively for this purpose. Recently, a €5.7 million MASSIF loan was made to South Africa's National Urban Reconstruction and Housing Agency (NURCHA), a non-profit organization aimed at providing bridge and construction finance to smaller contractors in the low-cost housing sector. With support from MASSIF in the form of a seven-year housing finance facility in local currency, FMO has helped XacBank in Mongolia to stabilize its funding base for home loans (see page 13). During the reporting year, the housing portfolio grew from €117 million (2006: 4% of the total committed portfolio) to €199 million (2007: 6%).

and ability to address them. We will only proceed with a transaction if the client is committed to ultimate compliance with international standards;

3. preparing the financing proposal for approval by relevant FMO Committees and Management Board. As far as possible, financing structures are tailored specifically to the client's needs and will usually include more than one financial product or service, also based on the multiple bottom line preconditions. By the time a proposal has reached the approval stage, it has already been reviewed and scored against these preconditions;
4. once approved, the contract is prepared and must incorporate social, environmental and governance requirements. In those cases where the client is unequipped to meet these requirements on signing, an action plan is developed. Contracts include clear terms and conditions;
5. monitoring – based on the scorecard, progress is monitored throughout the lifetime of the investment. We will step in if action plans are not pursued according to contract;
6. evaluating impact – impact does not occur overnight. It takes time. Evaluations are carried out after five years, or on exit from a transaction.

WHEN IT DOES NOT WORK OUT

While proposals that do not meet multiple bottom line requirements rarely reach the approval stage, it can happen that approved financing is not made available. Weighing current social and environmental factors against potential impact can be a 'deal-breaker'. Just one example here:

in 2005, FMO was asked by an international bank, which also signed the Equator Principles, to co-finance the expansion of a palm oil plantation. With this bank, we analyzed the environmental and social status. During our visit, we raised issues such as living conditions for staff and health and safety at work there. In addition, the location was in a sensitive environmental area. Assessments were made and action plans formulated to reduce negative impact. The entrepreneur was willing to take action, but his legal advisors recommended removal of the environmental covenants as they were reason for default. Concerned about his credit standing, the entrepreneur asked FMO to drop a number of these covenants, offering to pay penalties in case of non-compliance. As we cannot compromise on environmental and social components, in 2007 we had to decline participation despite over a year of intense effort by our people. In spite of its commitment to the Equator Principles, the international bank financed the deal alone.

GOVERNMENT FUNDS

FMO manages a number of Dutch government funds. They enable us to play a pioneering role in fragile and post-conflict countries, and to take first steps in sectors with a high impact on the bottom of the pyramid. The funds are:

- MASSIF contributes to the development of financial services for small businesses and micro-entrepreneurs by increasing financial resources available to them and by strengthening the financial intermediaries that service these groups.
- Least Developed Countries (LDC) Infrastructure Fund provides long-term financing for (public-private) projects in energy, telecoms, transportation, water, environmental and social infrastructure projects.
- Access to Energy Fund (AEF) contributes to improving access to affordable and sustainable energy services for the world's rural poor. Sub-Saharan Africa is a particular target area.

In addition:

- The Facility Emerging Markets (FOM): through an 80% to 95% guarantee by the Dutch government, FMO supports investments by Dutch enterprises in developing countries, especially SMEs.

CAPACITY DEVELOPMENT

In addition to support through finance, we increasingly enable clients – especially in

COMMITTED PORTFOLIO PER INCOME GROUP IN 2007

	Lower income		Lower-middle income		Upper-middle income		Total all income groups	
	€ x mln	%	€ x mln	%	€ x mln	%	€ x mln	%
FMO A	787	23	1,315	39	582	17	2,684	79
FOM	2	0	44	1	35	1	81	2
MASSIF	202	6	139	4	21	1	362	11
LDC Infrastructure	223	7	-	-	-	-	223	7
NIMF	7	0	37	1	-	-	44	1
EIB	6	0	-	-	-	-	6	0
AEF	3	0	-	-	-	-	3	0
Total	**1,230**	**36**	**1,535**	**45**	**638**	**19**	**3,403**	**100**

COMMITTED PORTFOLIO PER INCOME GROUP IN 2006

	Lower income		Lower-middle income		Upper-middle income		Total all income groups	
	€ x mln	%	€ x mln	%	€ x mln	%	€ x mln	%
FMO A	652	24	959	35	545	20	2,156	79
FOM	3	0	25	1	31	1	59	2
MASSIF	130	5	127	5	12	0	269	10
LDC Infrastructure	203	8	-	-	-	-	203	8
NIMF	9	0	31	1	-	-	40	1
EIB	7	0	-	-	1	0	8	0
AEF	-	-	-	-	-	-	-	-
Total	**1,004**	**37**	**1,142**	**42**	**589**	**21**	**2,735**	**100**

Client focus – SME and micro-finance

Besides targeting large companies and corporates, we remain committed to facilitating SME growth, including micro-enterprises. So, we proactively seek to work with financial institutions whose aim is to reduce the size of the bottom of the pyramid, and enable informal sector entrepreneurs to escape from it, or to graduate to the formal sector. We have many clients working in this field. With partner Triodos Facet, we have developed a toolkit that helps micro-finance institutional clients improve the often labor-intensive monitoring of environmental and social components in their lending activities. These range from child labor to health and safety. Using the toolkit, institutions in Peru, Bolivia and Cambodia are already analyzing environmental and social aspects of their clients' business processes. Response has been enthusiastic, with one client offering lower interest rates to borrowers who participate as risk is reduced. In 2007, we offered training on the toolkit in the Ukraine and Kenya. In 2008, the toolkit will be available to our clients on our website.

During the reporting year, the MASSIF committed portfolio increased from €269 million (of which €143 million in micro-finance) to €362 million (of which €275 million in micro-finance) confirming FMO's pioneering role in the field of micro-finance. More than 10% of all finance across our regions is invested in SME and micro-finance.

the financial sector – to improve upon their operational capabilities. The 'Capacity Development' (CD) program facilitates the transfer of know-how and skills that help clients improve their businesses. Often, this service is incorporated into financial structures so that we can offer a full 'package', especially as our social, environmental and governance requirements are high. During the reporting year, our now regionally allocated Capacity Development specialists signed 65 new contracts for an amount of €11.4 million. Disbursements in 2007 amounted to €5.5 million (2006: €4.8 million). Although the IBTA program was discontinued in 2006, we still disbursed €1.9 million in 2007.

NEW CONTRACTS PER REGION IN 2007 (€ x mln)

Region	FMO A	MASSIF	LDC Infrastructure	FOM	AEF	Total
Africa	252	71	46	-	-	369
Asia	243	31	1	8	3	286
Europe & Central Asia	267	16	-	21	-	304
Latin America & the Caribbean	298	35	-	4	-	337
Global	12	7	-	-	-	19
Total	**1,072**	**160**	**47**	**33**	**3**	**1,315**

NEW CONTRACTS PER PRODUCT IN 2007 (€ x mln)

Product	FMO A	MASSIF	LDC Infrastructure	FOM	AEF	Total
Loans	562	92	12	-	3	669
Mezzanine	244	12	21	33	-	310
Equity	153	56	14	-	-	223
Guarantees	113	-	-	-	-	113
Total	**1,072**	**160**	**47**	**33**	**3**	**1,315**

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Next to CD, we offer the Financial Institutions Sustainability Support Program (FIP). We help our clients to address environmental and social policy issues and opportunities; in 2007, we trained over 50 people from over 35 institutions. Our specialists also provided individual support to almost 30 (micro-) finance institutions (MFIs). In 2007, the FIP created a special methodology tailored to the specific needs of MFIs. Through this new methodology, 60 people from 35 MFIs were reached.

ORGANIZATIONAL FOCUS

At FMO, we recognize that saying we are client focused can come across as something of an over-used cliché. But it is true. We have to be client focused if we are to achieve our mission and ensure our own continuity into the future. Our organization must be geared to that client focus, so we have now consolidated our mid office for greater efficiency in managing transactions. We have also restructured our risk management approach as a means to reinforcing support to our regional investment teams, freeing them up to concentrate on our clients.

With full support from mid and back offices, our 'front office' has been more fully equipped to achieve FMO's strategic targets. The 'deal team' concept has been streamlined according to client relationship. Within the regions, our teams are now dedicated either to existing clients or to new clients. The rationale behind this focus is that new clients require a different approach from existing clients.

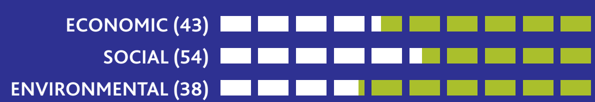
Last but not least, we have made our internal processes compliant with Dutch Central Bank requirements, making our organization comparable to any reputable bank. This process culminated in March 2008 when FMO was granted the bank license.

Mozambique community benefits from mining project

In 2007, Irish company Kenmare Resources Plc started commercial production at its titanium-bearing mineral sands mine in the Moma district of Mozambique. FMO has provided over US $50m in long-term aggregate funding for the development of the project.

In the Moma district, 93% of people live below the poverty line; it is therefore critical that the project generates opportunities for people in the region. The mine is already contributing significantly to local income through direct employment. Kenmare intends to provide further benefits through a social development plan aimed at creating long-term sustainable economic opportunities for local communities.

Kenmare Moma Development Association (KMAD), a partnership between the mine and various NGOs, is responsible for implementation. The plan has already led to various initiatives, including a project to produce broilers, eggs, horticultural products and cashew nuts, a training program for local farmers, a sewing cooperative and an agricultural system for ecologically-sound farming. By September 2007, the total revenue of participating small-scale enterprises was over US $12,000, while 120 local people had taken advantage of the opportunities the program offers. FMO's Capacity Development program is being used to assist KMAD implementing its plan. FMO is contributing a maximum of US $99,000 to the total project costs.



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Serving local communities

MANAGING RISK

FMO has a high-risk appetite. In management terms, this appetite means risk must be a core competence within the organization. In addition, risk management forms a key component in service to clients. FMO cannot successfully manage its own risk without understanding that of our clients.

In recent years, FMO has increasingly been organized around identifying, managing and mitigating financial, environmental and social risk. And not only from FMO's own perspective. Increasingly, the challenge is also in understanding, evaluating and offering support on mitigating our clients' risks when they enter into contracts with FMO. The risk managers' aim is to work from the client's risk profile so that our deal teams can offer solutions that match that profile – this is additionality. By approaching clients from this perspective, knowing what solutions will mean in their balance sheet, FMO works on client-focused mitigation at base level. One result, due in part also to the current global economic climate, is a very low default rate. The Special Operations Unit, tasked with managing potential defaulting and/or distressed clients, has seen a significant fall in its caseload. However, we cannot be complacent.

Our clients are demanding new products and financing structures. We meet those demands. However, products in local currencies bring a new set of complex risk factors into the overall management. By integrating best banking practice into our risk management operations, we can offer our clients greater transparency and support. In 2007, this thinking led to a restructuring of the Risk Management department into two specialist teams – the risk service center and the treasury service center. Through this split in accountabilities and expertise, the risk managers are able to concentrate on the client side of the business, with treasury managing FMO's own positions and seeking professional market solutions to accommodate the new range of – often local-currency based – products.

Our social and environmental risk management is handled in a dedicated way. Our seven environmental and social specialists have been assigned specific regions to bring them closer to the business and to mitigate the geographic context that can generate risk more effectively. By working closely with clients on these risk factors, usually through developing action plans with them, we strive to add considerable value for them.

For a full overview of FMO's identified risk categories and their mitigation, please see pages 86-97.

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MANAGING ENVIRONMENTAL AND SOCIAL RISK

At FMO, in line with World Bank categorization, we classify all potential new projects according to A (highest) to C (lowest) risk categories. FMO uses the 'scorecard' methodology to assess every project's potential environmental and social risk, as well as its potential development impact. In 2007, we moved individual environmental and social specialists to our investment deal teams. This means they work with the client from the start of the due diligence. As soon as due diligence is underway, we classify our new contracts according to an A-C categorization:

- Category A: potential adverse environmental or social impacts are significant and likely to be irreversible or unprecedented (e.g. mining).
- Category B: potential adverse environmental or social impacts are real but site-specific, reversible and can be mitigated (e.g. extension of existing industrial plants, telecoms networks etc.).
- Category C: potential adverse environmental or social impacts are negligible (e.g. software company).

In 2007, 64 of the 76 direct investments fell into the B category – a clear majority. For this reason, we subdivide clients into B+ and B deals. An environmental and social specialist handles B+ deals, while the investment officer takes care of the B category.

Once the risk profile of a project is established, we assess the risk score including the level of risk management and compliance with our investment criteria. From this, we allocate an environmental risk factor and a social risk factor on a scale of 0-99, set out in the FMO scorecard and updated annually. Average scores of lower than 33 imply a non-willingness by the client to comply on at least one aspect; 66 or higher indicates full compliance.

If a project does not comply yet with the IFC Performance Standards, we prepare action plans with our clients. These are formulated by the environmental and social specialists at the front office. They are then checked by our environmental and social analysts in IMR, our Investment, Mission and Review department, and subsequently during annual monitoring. The risks scores are also updated as part of the annual monitoring process to measure our clients' progress in improving their risk profiles, and to check if the expected positive impact of our investment has actually occurred.

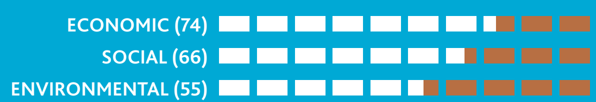
A full explanation can be found on FMO's website: **www.fmo.nl**.

Long-term financing in Argentina's agricultural sector

Agriculture is the mainstay of the Argentinean economy, generating significant employment, export revenues and tax income for the country. Nidera, founded in 1920, is a Dutch/Argentinean family-owned agribusiness that is active in the procurement, conditioning and export of grains, oilseeds and their byproducts, supported by the operation of elevators, oilseed crushing plants, and the manufacture and bottling of edible oils. Nidera is also a leading distributor of agricultural products in South America and has its own Research & Development and production program for agronomic seeds. The company contributes to economic and social development in rural areas by trading goods for export and employing over 1,000 people.

Following changes in the regulations for pre-export finance facilities, FMO played an important role in the negotiation and refinancing of an existing loan to Nidera. FMO provided a €36 million loan as part of a syndicated long-term loan worth a total US $180 million.

Long-term financing under these conditions presents a high risk for potential lenders. Funding is therefore scarce, giving FMO the opportunity to play a valuable role in extending credit. The long-term loan is structured to pre-finance the company's export receivables. Nidera can therefore increase its turnover and profit from the globally increased commodities market.



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FMO PEOPLE

In terms of our people, culture and mindset, FMO can safely say it has achieved one of its primary goals – to transform from an organization of professionals into a professional organization. The 251 full- and part-time employees based in The Hague have worked consistently and with determination to achieve this goal, with formal bank status as recognition.

Like all organizations, FMO aims to recruit and retain the best professionals in different fields of expertise. Knowledge is at the heart of all our activities. The challenge is to deploy that knowledge within the organization so that the interests of clients and FMO's own continuity are top of mind at all times. This client focus has driven significant changes in how FMO is organized. During the reporting year, the mid office was consolidated to further support our activities. FMO has combined certain control functions in one department (Audit, Compliance and Control) in order to perform these functions in the most effective and efficient way. Our regional deal teams have been expanded by allocating specialists with specific social, environmental and governance expertise. This requires new ways of working together, finding a new balance between the need for a knowledge-based approach and the need for highly structured processes; and the balance between generalist versus specialist know-how, especially given the re-allocation of investment teams to existing and new clients.

Participating in the business

By law in the Netherlands all organizations with more than 50 personnel must have a Works' Council in place. At FMO, the Works' Council is rather more than a regulatory requirement. The elected members, representing a key stakeholder group – our people – have a voice and can influence how FMO manages and organizes its ongoing professionalization. The Works' Council acts as an advisory and sounding board for senior management. In 2007, a new Council was elected. During the reporting year issues relating to strategy, organizational change, culture and working processes, compensation and benefits, and issues relating to the achieving bank status were priority topics. There were six formal meetings and a number of informal discussions and meetings.

Works' Council members: Rianne Heijboer (Chairman), Willem van Leeuwen (Secretary), Georges Beukering, Tom van Duijn, Els Vegter-van Veggel, Karin Verstralen, Guus Werners.

The way we are now organized has taken some years to complete. It is an achievement that fits well with the FMO mindset and culture. FMO is not a standard financial institution. Our people must know and understand the challenges facing our clients, many of whom are in the least developed countries. They must have considerable financial knowledge to structure the tailor-made solutions that meet client demand for long-term finance and investment. They must be committed to the multiple bottom line rather than to financial viability alone. They must be able to empathize with the needs of local communities and other stakeholders. This is the FMO mindset.

In additionality terms, while we offer a competitive package to our people, the often huge financial rewards available in the commercial market are not part of the equation. The rewards at FMO are to some extent maybe less tangible, but potentially much more satisfying; by providing an alternative to the traditional banking sector, we offer the assurance that efforts, commitment and expertise can make a significant difference to the lives of many people. At the same time, there is a modest bonus system in place. A substantial proportion of awarded bonuses are based on team achievements – in 2007, 56% (2006: 45%) of employees gained team recognition; 22% (2006: 25%) of personnel received an individual bonus. Based on the results of 2007, all personnel received profit-related rewards through a profit-sharing scheme.

THE FMO TEAM

Our focus is international. As a result, we are

EMPLOYEE RATIOS AND NUMBERS

	2006	2007
NUMBER OF EMPLOYEES		
Number of employees at year-end	242	251
Number of FTEs at year-end	232	240
Average number of employees	233	247
Average number of FTEs	224	236
EMPLOYEES PER KEY BUSINESS AREA AT YEAR-END		
Commercial	114	118
Support	80	81
Corporate	31	33
Senior management (Directors)	14	16
Senior management (Board)	3	3
TURNOVER EMPLOYEES		
Inflow (new employees)	39	37
Outflow (departures)	22	28
EMPLOYMENT TYPE AT YEAR-END		
Full time	169	175
Part time	73	76
DIVERSITY AT YEAR-END		
Total female employees	93	99
Total male employees	149	152
Total female employees in senior management*	2	3
Total male employees in senior management*	15	16
Total non-Dutch nationality employees	14	18
Total Dutch employees	228	233
TRAINING AND DEVELOPMENT		
Out-of-pocket costs for training and development (€)	789,000	690,000
Out-of-pocket costs for training and development per FTE (€)	3,522	2,911
Absenteeism (excluding pregnancy leave) (%)	2.50	2.21

* Senior management comprises Management Board members and Directors (responsible for department policy, people and targets).

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ORGANIZATIONAL STRUCTURE

MANAGEMENT BOARD FMO

DIRECTORATES

INVESTMENT	CORPORATE	RISK MANAGEMENT & FINANCE
Chief Investment Officer	*Chief Executive Officer*	*Chief Risk & Finance Officer*
Nanno Kleiterp (1953)	Arthur Arnold (1946)	Nico Pijl (1951)
Directors	*Directors*	*Directors*
Private Equity Yvonne Bakkum (1966) **Financial Markets** Erik van Dijk (1972)	**Human Resources** Jan-Thijs Both (1961) **Corporate Affairs** Philip Rogaar (1970) **Audit, Compliance & Control** Joan Melis (1963) **ICT** Rolf Daalder (1961)	**Investment & Mission Review** George Meltzer (1954) **Special Operations** Roel Messie (1961) **Legal Affairs** Jeannette Franken (1967) **Finance** Melchior de Bruijne (1974) **Risk Management** Frank Gosselink (1964) **Mid Office** Angelica Ortiz de Haas (1970)
Africa Ruurd Brouwer (1967) **Asia** Wim Wienk (1953) **Europe & Central Asia** Huub Cornelissen (1956) **Latin America & the Caribbean** Jacco Knotnerus (1967)		

Organization by region

Manager Business Development *(new client focus)*		Manager Business Development *(existing client focus)*		
(Sr) Investment Officer	Environmental & Social Specialist	(Sr) Investment Officer	CD Officer	Portfolio Analyst

increasingly recruiting new FMO people from different countries so that they can add their knowledge and, at the same time, contribute to an international mindset and culture. In 2007, the FMO team comprised 15 nationalities (2006: 12). We have made an effort to increase our gender balance in general as well as in management positions, partly by using the services of recruiters specialized in female personnel. At year-end, we had 251 (2006: 242) employees representing growth of 4%; 40% is female (2006: 38%). However, this comparatively sound gender balance is not reflected in senior management (of the 19 members of the management board and directors, 16 are male), with a slight deterioration from the situation in 2006 (15 out of 17). While these ratios are very much in line with the financial sector in the Netherlands, we continue to work to achieve better balance. The possibility to create and maintain a healthy work-life balance is important for FMO staff and we aim to facilitate flexible working times. Of our total team, 175 (2006: 169) work full time and 76 (2006: 73) part time. Absenteeism is down to 2.2% (2006: 2.5%).

TRAINING AND SKILL DEVELOPMENT

We aim to offer our people the best possible training while giving them opportunities to gain practical experience in various areas of our business, with a targeted focus on development banking. All FMO people can create a Personal Development Plan. This plan is based on regular performance reviews and individual programs for career development. Increasingly, FMO is structuring its own dedicated training programs, focused on gaining specific skills. This is a shift from 2006 emphasis on more expensive external ICT training and Management Development Programs. General training efforts target key business components, such as social, environmental and governance awareness. All new employees follow a one-day induction program. In 2006, we initiated Introducing Development Banking (IDB) as part of the FMO Academy offering. This is a program involving 20 to 25 days of training spread over three years. In 2007, 24 (2006: 24) FMO people began this program. The Advanced Development Banking (ADB) program was launched in the reporting year. A group of 145 FMO employees in total attended one or more of the 14 ADB modules or Capita Selecta events.

MANAGEMENT DEVELOPMENT

Continuity and retention of know-how are crucial in a knowledge-based organization – and this need will only grow as we launch proactive knowledge management in 2008. A Management Development Program is in place both to retain professional expertise and skills, management competencies and the transfer of know-how, and to stimulate greater interaction between management and between managers and personnel. In 2007, four new directors were appointed of whom three through internal promotion; eight new (middle) managers were appointed during 2007 of whom only three were new joiners.

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Renewable energy in rural Laos

ECONOMIC (55)
SOCIAL (75)
ENVIRONMENTAL (83)

Just 48% of Laos' population has access to the electricity grid, and the figure is much lower in rural areas. While the Lao government has committed to providing 90% of rural areas with electricity by 2020, the centralized systems cannot be relied on to deliver power to remote, sparsely populated areas. Sunlabob is a solar energy organization, which aims to make sustainable energy affordable to the rural poor, while still being commercially viable. Sunlabob sells and rents solar panels and water-saving installations to power and serve homes in isolated communities. It also provides training and support via a broad service network.

FMO, together with Triodos Bank, has provided a US $4 million loan to Sunlabob in local Lao currency (KIP) from the Access to Energy Fund. FMO and Triodos are the first foreign financial institutions to offer a long-term facility in local currency in Laos. A further US $400,000 was provided in Capacity Development funds to cover equipment training, systems improvement and consultancy services.

The project fulfills FMO's strategy: long-term, local currency financing is a focus area for FMO, as is sustainable energy. Development impact is high: 4,500 homes, offices and community buildings now have access to energy, and over 100 direct jobs have been created. By 2015, the project aims to bring energy to at least 50,000 people, which will create more indirect jobs as a result of increased productivity.

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WORKING WITH PARTNERS AND CLIENTS AROUND THE WORLD

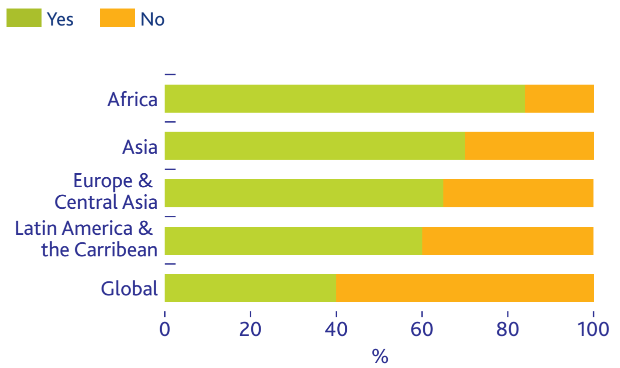
What do our clients want? How can we stay close to them, especially as we have made a well-considered choice to concentrate our expertise at a single location, The Hague in the Netherlands? These are the top-of-mind challenges for FMO's organization and people.

For FMO, our partner network around the world is the key to staying close to clients. They know what clients want. They are able to pick up on trends. Through our close cooperation, we can then respond and even anticipate changing client needs. What is clear is that needs are similar around the world. At the same time, our clients often identify with their region. Countries within the same geographical area can be highly diverse in development position and economic growth. But there are interrelationships through trade, language and culture.

REGIONAL MODEL

We believe we can better understand individual client requirements if we understand the broader regional reality in which they operate. So FMO has organized its business model according to four regions: Africa, Asia, Europe & Central Asia (ECA) and Latin America & the Caribbean (LAC). Serving each region are dedicated teams of financial, environmental and social specialists. This approach means we can bring even more expertise to creating solutions for clients based on deeper understanding of their needs, challenges and the region where they operate. In 2007, we introduced a further refinement in our client approach. Dedicated teams now work with existing and new clients. There are a number of reasons for this focus. By better managing our knowledge and understanding of existing clients, we will be better equipped to maintain long-standing, mutually beneficial relationships with them.

ACTION PLANS PER NEW CLIENTS 2007



New clients require a different approach. By dedicating teams to them, we hope to develop relationships that will prove even more advantageous to all parties in the future.

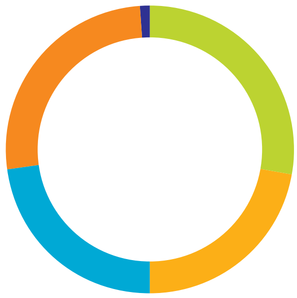
TARGETING ADDITIONALITY

Despite the recent liquidity crisis in the North, during 2007 high liquidity has been a major factor in all four regions, with early repayments presenting a continued challenge for FMO. This has led us to rethink our target economies, moving into higher-risk countries, such as Somalia. In Asia, India and China continue to be growth engines, generating investment in neighboring countries. This has resulted in higher economic growth all over Asia, with ensuing higher living standards for many. In these countries, we have moved up the risk chain and down the market, focusing on deprived segments through micro-finance and mid-tier companies that lack access to investment capital. At the same time, we are preparing the ground for implementing our mezzanine strategy in the Asia region.

In Mexico and Argentina, both upper-middle income countries, we have been pursuing additionality for some time now through investing in less attractive, high-risk sectors. In Argentina, we are increasingly working with clients in the agriculture sector. In Europe, many Balkan countries are more stable politically and attracting increased commercial investment. In response, we have been diversifying into new markets, such as the Caucasus, and higher-risk products, such as mezzanine.

Financial institutions and infrastructure have continued to be focus sectors in all regions, with an increased concentration on housing finance in 2007. Part of our 2010 strategy, creating access to affordable housing is top priority in all regions. It is one of the key means to alleviate poverty and to stimulate movement up the pyramid (see diagram page 4).

NEW CONTRACTS PER REGION 2007



- Africa (28%)
- Asia (22%)
- Europe & Central Asia (23%)
- Latin America & the Caribbean (26%)
- Global (1%)

COMMITTED PORTFOLIO PER REGION

- Africa (27%)
- Asia (23%)
- Europe & Central Asia (25%)
- Latin America & the Caribbean (23%)
- Global (2%)

Africa

Compared to five years ago, much of Africa continues to be both economically strong and politically stable. This, and the increased appetite of investors to invest in Africa, led to healthy competition for the 'easy' African deals. So we shifted our activities to higher-risk countries and companies, in accordance with our additionality principles. We therefore actively support start-up project developers, for example in the housing or energy sector, and subsequently finance their projects. This is additionality in its purest form: without FMO's assistance, the developers would not exist and would not generate any spin-off impact, such as creating jobs. Through our early involvement, we can also put in place best practices in the environmental, social and corporate governance fields.

ENVIRONMENTAL & SOCIAL RISK CATEGORIZATION

Category A – 14% (No. of clients: 7)
Category B – 39% (No. of clients: 19)
Financial Institutions – 47% (No. of clients: 23)
Category C – 0% (No. of clients: 0)

In 2007, we made active progress on our strategic goals for 2010:

- focus on affordable housing projects;
- focus on infrastructure, especially (renewable) energy projects;
- focus on West Africa – currently the most business-unfriendly part of the region;
- doubled our targets in SME finance;
- concentrate on intensifying existing partnerships.

In doing so, in 2007 we realized more activities in Africa than ever before. More contracts, more disbursements: more development impact. We signed 57 new contracts (2006: 40), with a contract value of €369 million and a DII of 223 (2006: 125); 27% (2006: 26%) of the committed portfolio was in Africa. Environmental development impact scored 38, while social development impact scored 43; we also signed 39 action plans to raise social and environmental standards in our client companies.

Our strategic focus is long term. We see an abundance of opportunities throughout Africa. We also see the lack of partners that can turn these opportunities into bankable projects. So sometimes we must first help create enterprises that can turn opportunities into bankable projects, and only then can we finance the projects. We helped set up Aldwych, a company specializing in power project development. To date, the company has structured several power projects across Africa. It has now itself become an interesting investment opportunity for commercial players. And we are dedicated to following this partner wherever it goes in pursuit of energy projects.

This fulfills many of our strategic objectives: our additionality is clear, since the company would not exist without FMO's involvement. The company's expansion offers an opportunity to grow our portfolio and deliver value on a project-by-project basis. One of our strategic focuses is infrastructure and, more specifically, energy. Last but not least, through Supervisory Board involvement in the company, we have a level of control over its compliance with IFC Performance Standards.

High liquidity in some of our traditional markets, and a renewed focus on Africa by hedge funds and private equity players, force us to rethink our mission. The Nigerian banking system has developed incredibly quickly. Where FMO was the first to finance the new generation of banks, such as GTBank, Zenith Bank and Access Bank, we now see that our added value in the traditional banking sector is decreasing rapidly. Without an additionality role to play, we will not engage in transaction. Instead, we must diversify into new markets using new, innovative products. In some cases, we seek out new clients in new markets; in others, existing clients offer opportunities

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New lease of life for South African power station

The 600MW Kelvin power station in Johannesburg was in financial trouble following underperformance. Moreover, poor maintenance led to frequent unplanned power outages and low availability. With Kelvin providing over 10% of all energy capacity in the region, the plant needed to be made functional, efficient and profitable again.

In line with FMO's strategy, we co-founded Aldwych, a company that is able to source, develop and manage power projects in Africa. This allowed FMO to make a 20% equity investment in Kelvin with an experienced partner, and to deploy its expertise in social and environmental management. The other equity investors are local partners, most of whom have local infrastructure experience and some of whom are representing previously disadvantaged groups. The proceeds are being used to restructure the balance sheet, refurbish the power station and improve its environmental performance.

FMO has introduced IFC Performance Standards at Kelvin. Social labor risks, which were significant contributors to the plant's underperformance, have been mitigated through employing a new and experienced management team, coupled with incentive plans and training programs. It is expected that with FMO's investment and expertise, the plant will once again supply affordable energy that is vital to the growing South African economy.

ECONOMIC (47)
SOCIAL (64)
ENVIRONMENTAL (46)

NEW CONTRACTS 2007

Product	€ x mln	%	Economic DI
Loans	132	36	79
Mezzanine	131	35	79
Equity	58	16	37
Guarantees	48	13	28
Total	**369**	**100**	**223**

Focus 2008

- maintain our focus on 2007 goals: infrastructure, Access 2010, housing and partnerships;
- bank the unbankable, or turn opportunities into bankable transactions;
- continue to build on our long-term strategy;
- grow mezzanine portfolio.

for expansion into different, often higher-risk, countries. We are looking forward to expanding our business in countries such as Congo DRC, Rwanda, Sierra Leone and Sudan.

In Africa, as elsewhere, our partner network makes it possible for us to create even more value for our clients. Our focus now is to intensify existing partnerships and build on our partners' expertise. Together with Emerging Africa Infrastructure Fund, Proparco, DEG, Standard Bank, Citibank and Tuninvest, we aim to increase efficiency, share risk and support small, local corporates. When opportune, we try to enter into constructive discussion with Chinese investors, especially in the mining industry; ideally, we would aspire to partner with them to raise social and environmental standards in the future.

Local currency has become the big talking point of 2007, especially with the birth of TCX. The spin-off has been better than expected, with new global players taking local currency risk, such as Tanzanian shillings, onto their books. Strategically, not only local currency but also mezzanine have been deployed successfully. Our mezzanine portfolio grew substantially. The deals have acted as a catalyst for other banks to invest and to participate in our client companies.

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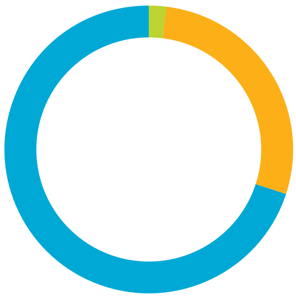
Asia

Many Asian countries export to economic powerhouses India, China and South Korea, increasing South-South investment. Meanwhile, the influx of direct foreign investment in the region continues to grow. The recent credit crisis has encouraged international investors to look for new opportunities in emerging markets, such as India and China. Despite this, there is still an important role for FMO to play in Asia. Increased liquidity in the region has led to FMO's strategic shift towards mezzanine finance. At the same time, the credit crisis has led to increased demand: banks and potential investors are temporarily nervous of taking risks so they are focusing on top-tier companies even more than previously.

ENVIRONMENTAL & SOCIAL RISK CATEGORIZATION



Category A – 2% (No. of clients: 1)
Category B – 28% (No. of clients: 12)
Financial Institutions – 70% (No. of clients: 30)
Category C – 0% (No. of clients: 0)

In 2007, our strategic objectives in Asia were to:

- focus on India, China, Indonesia and the Mekong region;
- increase share of mezzanine funding;
- increase local currency funding (also through MASSIF);
- implement Capacity Development, especially to the Mekong region and micro-finance funds in India.

In 2007, 23% (2006: 22%) of the portfolio was in Asia. We signed 46 new contracts (2006: 42) with a contract value of €286 million, reaching a DII of 175 (2006: 141); this high figure is the result of a selective market approach and a high volume of transactions. Environmental development impact scored 45, while social development impact scored 49. In order to mitigate environmental and social risks and to improve the skills of our clients in that respect, we signed 30 social and environmental action plans.

Our focus in Asia in 2007 has increasingly been on growing client interest in mezzanine financing. We aim to strengthen the solvency of clients so that they become eligible for funding by the local banking community or are able to make a so-called Initial Public Offering. As such, we are indirectly playing a role in mobilizing local savings for local entrepreneurs. This strategy allows us to target mid-tier companies, which still have difficulty accessing finance. We believe this client group can best be served through partners, as local knowledge is crucial. If needed, we set up dedicated funds; in other cases, we join initiatives taken by established partners. As a result, mezzanine funds have been initiated in the major Asian growth markets. In addition to the fund set up in China in 2005, we will be launching a second there in early 2008. A mezzanine fund approved in 2007 in India will be implemented in 2008. We are working on a partnership with the initiators of a mezzanine fund for South-East Asia. In the reporting year, 23% of new commitments were in mezzanine finance.

Our 'Access 2010' initiative is aimed at the Mekong region. We have been working with financial institutions targeting lower-income groups in Cambodia, Laos and Vietnam. With partners, we assisted ACLEDA bank, a long-term client from Cambodia, in its expansion into Laos. We also extended finance to a local company in Laos that is working successfully to bring solar-powered energy to rural areas. This is a groundbreaking transaction as it is one of the few direct foreign investments to a private sector company into Laos, catering specifically to the local market.

In Indonesia we were successful in launching and completing a syndicated facility with partner ABN AMRO. The client is one of the

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NEW CONTRACTS 2007

Product	€ x mln	%	Economic DI
Loans	182	64	113
Mezzanine	66	23	40
Equity	28	10	16
Guarantees	10	3	6
Total	**286**	**100**	**175**

Focus 2008

- promote mezzanine in China, Indonesia and India, actively generating co-financing opportunities;
- increase share of mezzanine to 30% of new commitments;
- continue Access 2010 initiatives in the Mekong region;
- actively target micro-finance in India;
- promote local currency financing throughout the region;
- integrate housing finance into Asia's overall strategy.

major non-bank financial institutions; its primary client group is small entrepreneurs. Our leading role here enhanced comfort for international banks, that had withdrawn following the financial crisis in 1998, to re-start lending to Indonesian companies.

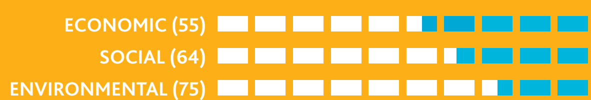
Local currency funding is a special focus area. We extended this type of financing to banks specializing in SME and mortgage finance in Bangladesh, Pakistan, Mongolia and Sri Lanka. We are currently in the contracting stage in Afghanistan. Using MASSIF, we have also sponsored three equity funds in India specifically geared towards micro-finance institutions. This has generated considerable additional funding from other investors.

FMO is actively offering Capacity Development facilities in Asia, with a specific focus on financial sector clients. Through training courses – such as the Asset Liability Management course in Bangladesh, India and Mekong countries – we give our clients access to state-of-the-art technical and managerial skills. External directors – experienced bankers with a proven track record – assist our clients in improving governance and implementing modern business practices.

From waste to fertilizer: recycling in Bangladesh

Approximately 3,000 tons of waste is produced daily in Dhaka, Bangladesh's capital city, of which a major part is organic and much is dumped illegally. The Dutch company World Wide Recycling B.V. (WWR), together with Waste Concern Consultants, a Bangladeshi company, has embarked on a waste recycling project in Dhaka: WWR Bio Fertilizer Bangladesh Ltd. (WWR Bio). The project aims to compost 700 tons of waste per day, at several locations around Dhaka, with total project costs of around €13 million. The first plant will start operational activities in mid-2008 and has a daily capacity of 130 tons. In 2007, FMO approved an investment worth almost €6 million, part of which was provided in local currency via the LDC Infrastructure Fund. As a result, Triodos Innovation Fund and the local bank DBBL have provided significant further investment.

The project creates jobs for over 400 people, mostly in collection of waste and production of enriched compost. Taking the organic component out of the waste system will improve hygiene conditions (and therefore quality of life), and increase the value of recyclable components like plastic. The compost produced is a high-quality additive to fertilizer and reduces the need to import it. Environmental impact is positive: greenhouse gas emissions will be reduced, waste dumping decreased and soil quality improved. WWR Bio is the first composting project globally to be approved under the Clean Development Mechanism of the Kyoto Protocol. It aims to reduce CO_2 emissions by approx. 89,000 tons per year when fully operational.



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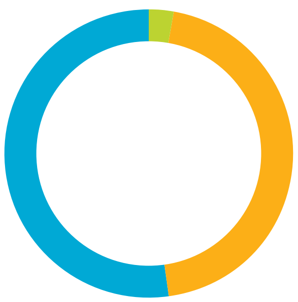
Europe & Central Asia

Our activities in Europe & Central Asia (ECA) are growing rapidly, with even higher growth rates in the financial sector. This is also reflected in the rapid growth of the ECA portfolio, especially in our financial institutions client group. High liquidity continues to be a challenge in ECA, and we are reducing our activities in countries like Croatia. We stopped operations in new EU entrants Bulgaria and Romania, as their economies are strengthening and risk is comparatively low for investors. In Russia and Ukraine, interest rates have increased by 50-140 basis points since the credit crisis. Although the risk has increased, these countries are still attractive for commercial investors. FMO is now targeting high-risk countries like Kazakhstan, which have been most affected by the crisis, and smaller countries in Central Asia and the Caucasus. We are also exploring local currency opportunities across the region. Environmental and social issues that are typical to the region mainly relate to production facilities dating back 20 years or more.

ENVIRONMENTAL & SOCIAL RISK CATEGORIZATION



Category A – 3% (No. of clients: 1)
Category B – 45% (No. of clients: 17)
Financial Institutions – 52% (No. of clients: 20)
Category C – 0% (No. of clients: 0)

In 2007, we made significant progress on our strategic goals to 2010:

- continue Access 2010 focus on Albania, Serbia, Moldova and Balkan countries in general;
- grow share of corporates in the portfolio;
- increase equity participations and mezzanine financing;
- work with our partners to meet Know Your Customer (KYC) requirements.

With €305 million in new contracts, ECA has exceeded its financial targets for 2007 and had a 25% (2006: 26%) share of FMO's overall portfolio. We have signed 44 (2006: 58) new contracts and 25 social and environmental action plans. Our overall DII in ECA is 189 (2006: 169), while the environmental development impact score is 40 and the social development impact score is 41. With reduced focus on Croatia, Bosnia and Macedonia, we have been concentrating our efforts on Albania, Serbia and Moldova where we closed three deals during the reporting year. We also executed four small deals (equity and debt) via the MASSIF fund. Mezzanine remains a focus for 2008.

Our risk-sharing facility with Citibank is a global partnership; but it has been particularly successful in ECA where the bank's extensive presence opens up opportunities for us. In partnership, we executed three deals for clients. Our corporate portfolio has also increased due to six deals made with partners like DEG and Citibank.

Despite buoyant economies across the region, FMO faces several challenges in ECA. Both clients and other investors are unaware of some of our products and service offerings. While we work based on client demand, we are aware that many of our clients are unfamiliar with the potential advantages of mezzanine financing. Spreading the word is part of our task in the region. Moreover, banks in both our European and Central Asian countries sometimes have little knowledge of local currency lending by foreign institutions. In some countries, such as Serbia, lending in local currency by foreign parties is even prohibited by the central bank. Where possible, we make the most of these challenges to promote additional offerings that other financiers do not provide, such as currency swaps in Albania.

At first sight, our KYC requirements could be mistaken for a customer focus program.

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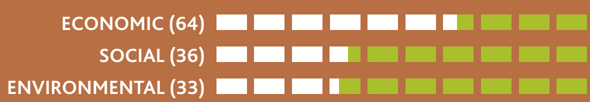
Extending long-term credit to Kazakhstan's entrepreneurs

FMO has arranged and financed a large portion of a US $207 million long-term loan to ATF Bank, currently Kazakhstan's fifth largest bank. Together with its oil and gas reserves, banking is a fundamental part of the country's economy and FMO is not alone in wanting to encourage investment in this stable emerging market.

This particular loan, however, has a significantly longer tenor than those of other lenders. The high risk normally associated with long-term credit is mitigated by ATF's proven track record coupled with its long-standing relationship with FMO, who was one of the founding investors in ATF. As a result of this loan, ATF is further improving its existing environmental and social financing procedures, by formalizing the process of screening its client companies. The second half of 2006 saw ATF's assets double from US $3.6 billion to US $8.1 billion. Such growth over a short period could threaten the bank's stability. To overcome this, ATF committed to an in-house training scheme, which encourages experienced employees to share their knowledge with new recruits.

ATF's banking practices now encompass all sectors of the market from corporate banking to retail. Its extensive network of branches spreads beyond the country's larger cities into smaller communities. This new loan will enable ATF to provide lines of credit to local enterprises.



NEW CONTRACTS 2007

Product	€ x mln	%	Economic DI
Loans	138	45	83
Mezzanine	74	24	49
Equity	45	15	27
Guarantees	48	16	30
Total	**305**	**100**	**189**

Focus 2008

- maintain focus on equity and mezzanine;
- increase local currency financing;
- maintain work with partners EBRD, Citibank and DEG.

Rather, they mean we dig deep into how a company is governed, how transparent it is. Sometimes, the KYC program reveals a lack of transparency; in severe cases, this means we cannot go through with a deal. Besides corporate governance challenges, adhering to international social and environmental standards is not always a priority in ECA companies. Environmental and social legislation, although adequate in most countries, is not always applied, especially to old factories left over from the communist period. This represents a dilemma, often for both FMO and the client. There is sometimes a gap between national legislation and the performance standards we apply – this must be bridged. Production facilities in Russia and Ukraine are, in the main, being quickly modernized, though some are currently very out-of-date from an environmental perspective. In addition, energy efficiency has yet to be adopted in many ECA countries. In 2007, however, we provided our first energy-efficient credit line in Russia together with partner EBRD – a milestone in the region. In the financial sector in particular, we are taking steps to put Capacity Development programs in place to mitigate social and environmental risks amongst others. Clients in countries such as Ukraine have been offered training programs to help them manage these risks. The program is scheduled for 2008.

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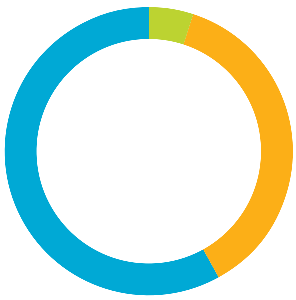
Latin America & the Caribbean

In 2007, liquidity remained high in Latin America & the Caribbean (LAC) and there was much short- to medium-term investment from commercial banks. Due to substantial prepayments, we were required to manage our portfolio more proactively. We have increased our focus on target sectors and clients that have most difficulty attracting funding but offer the most direct and positive effects on alleviating poverty. In poor – especially rural – areas of the region, SMEs and micro-entrepreneurs have trouble accessing finance; infrastructure is badly needed; agricultural production is an important driver of job-creation and income; and individuals find it hard to buy and maintain houses. That is why, in LAC, we target the financial sector, with an emphasis on housing and micro-finance, infrastructure and agriculture.

ENVIRONMENTAL & SOCIAL RISK CATEGORIZATION



Category A – 5% (No. of clients: 2)
Category B – 37% (No. of clients: 16)
Financial Institutions – 58% (No. of clients: 25)
Category C – 0% (No. of clients: 0)

Our strategic goals during the reporting year in LAC were to:

- strengthen our additionality role through increased focus on infrastructure, micro-finance and second-tier companies;
- enter new markets and penetrate new sectors and higher-risk products in existing markets;
- manage the portfolio proactively to counteract early repayments.

In 2007, we exceeded development impact targets by achieving a DII of 201 (2006: 135). There were two drivers: firstly, we signed 46 (2006: 34) new contracts with a value of €337 million, resulting in a 23% share (2006: 26%) in FMO's overall portfolio. Secondly, our focus on specific target sectors and their higher risk translates into greater potential for development impact. Our environmental development impact scored 44, while our social development impact scored 45. In order to mitigate social and environmental risk, we signed 25 action plans.

In LAC, agribusiness has been increasing in importance over the past two years. Currently, we support several soy bean crushers and traders in Argentina and Brazil, fruit and vegetable companies in Central America, as well as sugar and fishmeal in Peru. We aim to diversify our agriculture portfolio by entering new countries and sub-sectors. In additionality terms, this is an ideal niche for FMO: climate change, seasonality, risk of diseases and adverse weather make agriculture a high-risk sector, that prevents commercial banks from investing. Even many of the larger and well-established companies have difficulty obtaining long-term finance for expansion; FMO can, and does, provide this. In some other cases we have been successful in offering large syndicated facilities to our clients. In 2007, the most notable were in Brazil (telecoms) and Argentina (soy). In Argentina, we also closed an international syndicate for a micro-finance client in this emerging sector.

A proactive approach to clients also means moving towards higher-risk products like mezzanine. In LAC in 2007, 11% of the portfolio was in mezzanine; our aim is to more than double this percentage by 2010. We organized training seminars on mezzanine finance. We have also identified partners in Peru and Central America with whom we will pursue mezzanine investment opportunities in 2008.

Capacity Development has furthermore been used effectively in Central America for technical assistance in risk management, corporate governance and more. Currently, we work with several financial institutions in the region, helping them drive operational efficiency. Capacity Development is a useful tool when it comes to sharing expertise: corporate

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NEW CONTRACTS 2007

Product	€ x mln	%	Economic DI
Loans	215	64	128
Mezzanine	37	11	22
Equity	78	23	48
Guarantees	7	2	3
Total	**337**	**100**	**201**

Focus 2008

- increase focus on SME and micro-finance, housing and consumer finance;
- diversify portfolio in agriculture sector and increase our internal knowledge base;
- increase mezzanine portfolio.

banks wanting to move into consumer finance may benefit from assistance in providing savings accounts, credit cards, mortgages and small loans. All these services require different administrative processes and risk management systems. Micro-finance institutions with ambitions to attract corporate clients also need to develop different ways of working.

For 2008, our challenges are also our drivers for change and development. As a result of the sub-prime crisis in the USA, long-term finance has recently become scarcer throughout the region. This further strengthens FMO's financial additionality. Mezzanine and agriculture require different mindsets; we are building that expertise. In combination with our available capital, we aim to achieve the desired results for both our clients and our own continuity. Moreover, we will maintain our focus on the financial sector and infrastructure. We have considerable expectations of further growth in the use of syndicated products. While championing proactivity, we are also demand-driven; we listen to our clients' needs and respond to them. To this end, we have established a regional board of advisors comprising a number of individuals from client companies and partners. Through open discussions with them and their feedback, we believe we can further improve the way we work for our clients.

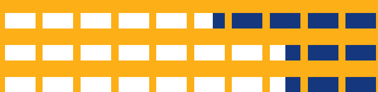
Dual benefits from natural resources

The agricultural sector in Belize plays an important role in the country's economy. The production of sugar is one of the main industries in the sector, representing 20% of all major exports.

FMO has provided a total of approx. US $15 million to Belize Co-generation Energy Limited (Belcogen), a subsidiary of Belize Sugar Industries Limited (BSI), a Caribbean sugar producer. The Belcogen project requires an estimated total investment of US $54 million, including US $19 million equity from BSI, with the additional loan funds being provided by other financiers such as the Caribbean Development Bank. Belcogen was created to build, own and operate a commercial power generation plant using bagasse as a renewable fuel. Bagasse is a combustible fiber residue produced during the processing of sugar cane, which is used to co-generate electricity and steam needed for the sugar extraction process. The ultimate aim of the project is to use bagasse as a cost-effective means of generating renewable power from sustainable resources.

Electricity generated by Belcogen's plant will be sold to the national grid distributor and will meet 20% of the nation's demand. The project will reduce the level of imported power from Mexico, stabilize electricity tariffs, reduce foreign exchange outflows, provide additional employment in the area, support technology transfer to Belize and improve efficiency in Belize's sugar processing industry.

ECONOMIC (56)
SOCIAL (75)
ENVIRONMENTAL (75)



development

KEY FIGURES

	2006	2007
BALANCE SHEET (€ x mln)		
Net loans	1,130	1,316
Equity investments portfolio	216	337
Shareholders' equity	1,083	1,182
Debt securities and debentures/notes	1,004	1,118
Total assets	2,306	2,685
Committed portfolio	2,735	3,403
of which are government funds	519	638
PROFIT AND LOSS ACCOUNT (€ x mln)		
INCOME		
Interest income	142	162
Interest expenses	-50	-60
Net interest income	**92**	**102**
Income from equity investments	81	79
Other income including services	29	18
Total income	**202**	**199**
EXPENSES		
Operating expenses	47	51
Operating profit before value adjustments	**155**	**148**
Value adjustments:		
• to loans and guarantees	-8	27
• to equity investments	2	9
Total value adjustments	**-6**	**36**
Operating profit after value adjustments	**161**	**112**
Share in the results of subsidiaries	4	4
Profit before tax	**165**	**116**
Taxes	-31	-11
Net profit	**134**	**105**
RATIOS AT YEAR-END (%)		
Shareholders' equity/Total assets	47.0	44.0
Return on shareholders' equity:		
• Profit before tax	15.2	9.8
• Net profit	12.4	8.9
Net profit/Total assets	5.8	3.9
Operating expenses/Income	23.3	25.6
Value adjustments to loans/Total gross outstanding loans	11.6	10.6
OTHER INFORMATION		
Average number of full-time employees (FTE)	224	236
Fully compensated CO_2 emissions (tons)	2,640	2,173

RESULTS

FMO has come a long way since 2002; we start with a look at our 2007 results from a six-year perspective. The 'historical overview' table shows the metamorphosis that FMO has undergone over the past six years.

The relative share of Africa has increased by 50%, and is now, with a 27% share of the total committed portfolio, solidly our largest region. The share of mezzanine and equity in the portfolio has increased by almost 70%. Both capital gains and profit have increased significantly since six years ago. In 2002, FMO had only just begun to think about sustainability; now EDIS and DII are main determinants of the FMO strategy. The level of annual commitments has tripled over the past six years. We have been able to strengthen our role as innovator and catalyst, especially in poor, low-income countries, due to the government funds. Their share of the committed portfolio almost tripled, from 8% in 2002 to 21% of the portfolio in 2007. From barely breaking even in 2002, profitability has reached unprecedented levels. By accumulating profit and strengthening our capital base, we are in a position to follow an ambitious growth path without further government capital injections.

HISTORICAL OVERVIEW

	2002	2003	2004	2005	2006	2007
Share in Africa (%)	18	21	23	26	26	27
Share mezzanine and equity (%)	25	27	28	32	35	42
Committed portfolio (€ x mln)	1,904	1,877	1,991	2,409	2,735	3,403
Local currency (%)	10	10	10	11	13	17
New contracts (€ x mln)	437	550	605	699	937	1,315
Net profit (€ x mln)	5	21	37	73	134	105
Result sale of equity (€ x mln)	3	7	14	9	74	73
Government funds (incl. FOM) of committed portfolio (%)	8	12	14	16	21	21
Shareholders' equity (€ x mln)	675	733	784	950	1,083	1,182

Financial results

In a challenging economic environment, FMO was able to maintain our standards on development impact and to continue our focus on increasing deal flow. This resulted in a record amount of newly contracted finance: €1,315 million (2006: €937 million). This sound performance was also reflected in the 24% growth of our committed portfolio to €3,403 million (2006: €2,735 million). Net profit amounted to €105 million (2006: €134 million), driven primarily by results on equity participations and a growth in interest income. The positive result on income was counteracted by a more normalized level in 'value adjustments' (the International Financial Reporting Standards (IFRS) term used for 'provisioning'), after historically low value adjustments in 2005 and 2006 because of net releases.

COMMITMENTS

In 2007, FMO significantly exceeded the high level of new commitments made in 2006. Our strong efforts to increase deal flow and operational efficiency, coupled with a continuing favorable economic climate, resulted in an exceptional number of new commitments being signed in 2007 for €1,315 million (2006: €937 million), of which €209 million was on account of government funds.

OUTSTANDING PORTFOLIO

Despite further devaluation of the US dollar – the largest currency in our portfolio with 63% of the gross outstanding portfolio – FMO excluding government funds achieved a substantial growth of 19% (2007: €2,034 million; 2006: €1,707 million). The share of the US dollar-denominated portfolio is gradually decreasing in favor of more local currency projects. FMO was also affected by a high number of early repayments (€115 million) due to ongoing positive global economic growth and high liquidity in the commercial banking and investment markets.

INCOME

Total net income remained stable at €199 million. In 2007, FMO again recorded a high result from the sale of equity participations amounting to €73 million (2006: €74 million). This clearly reflects the growth in FMO's equity portfolio, which has gradually and carefully expanded since 2000. Although equity can be higher risk, there is also a potential for higher returns. Strong partnerships, careful selection processes and a qualitative review process are in place to mitigate these risks.

Net interest income increased from €92 million to €102 million due to the growth of the portfolio and increase in interest margins of the treasury portfolio.

Due to a negative, not US dollar-related, foreign exchange result and a loss on the sale of interest-bearing securities, results from financial transactions decreased considerably compared to 2006 (2007: -€10 million; 2006: -€1 million).

Besides finance activities from our own resources, FMO manages special government funds for which we receive remuneration. The income from remuneration for services rendered amounted to €23 million (2006: €23 million). Remuneration is calculated, among others, on the basis of disbursements and level of the outstanding portfolio.

OPERATING EXPENSES

Operating expenses increased by 9% from €47 million to €51 million. The growth in operating expenses slowed down substantially compared to 2005 (14%) and 2006 (15%), due to improvements in operational efficiency and lack of one-off incidental costs. The primary reason for growth in 2007 has been the enormous growth in production (40%) and committed portfolio (24%). The actual cost/income ratio in the reporting year amounted to 26% (2006: 23%). In 2007, the average number of FTEs amounted to 236 (2006: 224).

VALUE ADJUSTMENTS

FMO recognizes weaknesses and expected losses not just by applying risk classifications, but also by making, where necessary,

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counterparty-specific value adjustments on its portfolio. In 2002, value adjustments had to be made due to the crisis in Argentina. Since then, the benign economic climate and a continued focus on strong risk management led to a sharp reduction in new value adjustments, while past value adjustments could often be released. After three years of net releases, a historically low infected portfolio of 6% resulted in 2007 (2006: 7%). This implies that we do not expect significant releases in the future. We do, however, have a growing amount of group-specific value adjustments (2007: €31 million, 2006: €21 million), due to the absence of new counterparty-specific value adjustments and an increasing outstanding portfolio.

Total additions (group- and counterparty-specific) for loans and guarantees amounted to €26 million (2006: €9 million net release). Impairments on equity investments were €9 million in 2007 (2006: €2 million).

BALANCE SHEET

Led by the growth of our portfolio, total assets increased by 16% from €2,306 million to €2,685 million. Portfolio growth was financed by an extension of long- and short-term liabilities. Short-term credits increased by €200 million because FMO had the opportunity to attract short-term funding with a relatively low interest rate. Furthermore, our Treasury department attracted €143 million in additional funding under the Global Medium-Term Note (GMTN) program.

FMO's equity grew to €1,182 million, putting us comfortably above the €1 billion threshold that we surpassed for the first time in 2006. The equity was increased by the net profit of €105 million. The 'Available For Sale' (AFS) reserve decreased by €2 million to €22 million, despite the increase in the fair value of the equity portfolio. This was caused by a decrease in the value of interest-bearing securities.

TREASURY

Our Treasury department is responsible for providing sufficient liquidity while limiting currency and interest risk. The percentage of US dollar-denominated portfolio is still high, although it decreased in 2007 to 63%. However, effects on net profit and equity are mitigated since the US dollar-denominated part of our investment portfolio is funded in the same currency.

FMO's GMTN program is an important source of funding. In 2007, eight new notes were issued on attractive terms totaling €267 million; 20 contracts totaling €124 million were redeemed. The GMTN loans are predominantly converted into variable-rate US dollar funding by means of interest currency swaps. In addition, derivatives are taken in order to control interest rate and currency risk. FMO's AAA rating from Standard & Poor's based on Dutch government guarantees to facilitate funding, supports our sourcing from capital markets.

The financial figures are based on FMO's audited annual accounts 2007 on which KPMG has issued an unqualified opinion (see page 71).

The Netherlands Civil Code

FMO complies fully with section 2.391 of the Netherlands Civil Code, as follows:

- The financial accounts with explanatory notes are shown, together with the auditor's report (pages 69-131).
- The Report of the Management Board deals specifically with:
  - the uncertainties which characterize the markets in which FMO operates and the tools available and used to deal with them (pages 12-21);
  - the position as per December 31, 2007, and the factors which have contributed thereto (pages 10-11);
  - the financial, social, environmental and governance results, and the most important factors affecting them (pages 44-50);
  - a summary of the risk-management objectives and policies (pages 23-24);
  - the investment portfolio per region (pages 32-41);
  - human resources and personnel-related issues (pages 25-29).
- Risk management objectives and policies are covered in detail in the explanatory notes, financial risk management section, accompanying the annual accounts (pages 86-97).
- The remuneration of the Management and Supervisory Boards (pages 62-63).
- The Corporate Governance Code of Conduct as it applies to FMO (pages 64-67).

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Lending environmental, social and corporate governance support

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Development impact

Our people, planet and poverty alleviation database has grown over the past five years, and our analytical framework improves every year. For the first time, the structure of this report follows these developments.

ENVIRONMENTAL AND SOCIAL DEVELOPMENT IMPACT

Environmental and social results are less well developed and tangible than the financial results. Still, our five-year reporting experience illustrates that measuring and reporting performance results both in better understanding of business opportunities and risk, and ultimately in value creation for both our clients and our own organization.

The environmental and social risk impact on our clients' projects and our portfolio is an inherent part of our risk management. On page 24 we explain how we manage these risks.

Direct investments, or companies, score both in terms of social development impact (SDI) and environmental development impact (EDI), somewhat higher than financial institutions (see page 5 for methodology). FMO has limited direct influence on financial institutions and their active involvement in their clients' environmental and social policies. Our influence is strengthened through the Financial Institutions Program (FIP – see page 21). With this program we are frontrunners in providing guidance and follow-up to our customers. Our influence on companies is more directly linked to their specific activities.

SDI scores are on average slightly higher than EDI scores. Comparatively speaking, social issues have a higher visibility and carry a higher risk for companies in terms of performance. Consequently, these issues tend to be more readily addressed. SDI scores are also positively influenced because, through our FIP, we have made several new facilities available to MFIs, which offer products and services with a high social impact.

While the overall SDI and EDI scores average around 45, the average scores vary significantly between regions. The attention being paid to social and environmental aspects grows with development. At the same time, the historical context, and by extension the starting position, is very important.

Africa scores lowest in both SDI and EDI. The concentration of poor and fragile countries on this continent is highest. The base is a (very) low one. This explains why African clients have the highest share of clients with action plans. Also for ECA, the base is low, but for different reasons. Pre-1990 sustainability aspects did not feature highly in communist countries. Although a lot has been accomplished, 18 years later the consequences are still felt by all. Step by step bad old habits are replaced by new ones. Modernization takes time, because it affects the whole way of living and working. Cleaning up is expensive.

Asia scores show that fast growth is not detrimental to social and environmental policies. To the contrary, there seems to be a direct correlation between economic growth and better performance. This is exactly what, on a different scale, our internal evaluation results confirm.

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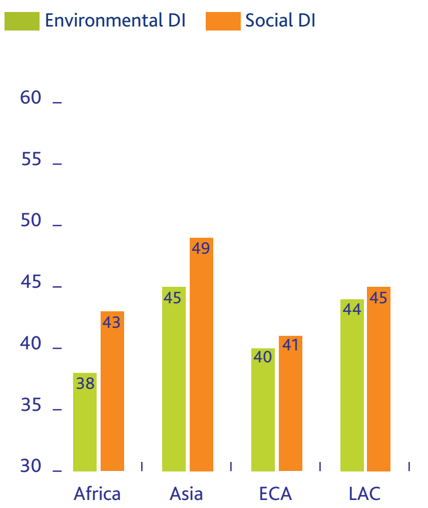
Annual client/partner satisfaction survey

Each year, we conduct a satisfaction survey amongst our clients and partners in order to monitor how we are performing against our clients' expectations. The 2007 survey was conducted in December. The response rate doubled from 109 in 2006 to 220 in 2007. It shows that our clients are loyal and that both our clients and partners are very satisfied with FMO and our staff. FMO is considered to be a long-term partner, and our employees to be knowledgeable. At the same time, the survey confirms last year's results regarding FMO's perceived bureaucracy. Our processes and procedures are sometimes viewed as limiting our flexibility.

On average, clients and partners scored their satisfaction with FMO at 8.1 (on a scale of 1-10), down slightly from 8.4 in 2006.

This year's survey focused on our clients' awareness of the FMO product range. More specifically, we asked our clients and partners about their familiarity with our local currency financing, the focus on mezzanine and our environmental and social expertise. The outcome shows varying levels of product awareness, and there is room for improvement. We will act on this feedback in 2008, especially since the clients that are currently receiving these niche products are very satisfied. This confirms our belief that these specialized products add value in and to the market.

AVERAGE ENVIRONMENTAL AND SOCIAL DEVELOPMENT IMPACT SCORES



In 2008, environmental and social impact scores will be included in the DII. The combined assessment of economic, environmental and social impact will provide us with an even better insight into how well we succeed in fulfilling our role as a 'driver for change'. Ultimately, this is an on-going learning process. By continuously improving our tools and the dialogue with our clients, we want to remain at the forefront of the movement towards inclusive economic development.

Our internal footprint

Compared to our indirect environmental footprint (i.e. that of our own clients) our own direct footprint is relatively insignificant. We therefore only report on our own direct environmental footprint on our website. Our self-assessment of the GRI guidelines (G3) is also shown on our website: **www.fmo.nl**.

ECONOMIC DEVELOPMENT IMPACT

On page 5 we explain how we measure development impact, through five-yearly evaluations and annual DII and EDIS scoring.

The DII of new contracts signed in 2005 was 390. By applying the same criteria in 2007, we achieved a DII of 798, more than double the 2005 score. While the much improved DII is mostly due to the large increase in the volume of new commitments, quality of development impact has not been sacrificed in the process. The EDIS increased from a base level of 56 in 2005 to 61 in both 2006 and 2007. For further details on our development impact assessment methodology and our procedures for safeguarding the developmental relevance of new commitments, see **www.fmo.nl**.

In 2007 we evaluated the actual development impact of our projects for the sixth time; this means that we now benefit from a growing body of evidence. Main results from evaluating and analyzing our 2002 commitments include:

- From a development perspective, a larger proportion of investments have been successful than ever before. We have become more successful in selecting economically viable projects. Clearly, economic success is a precondition for generating broader sustainable development impact. When economies are growing and thriving, both good development and business outcomes are made possible.
- In general, when our clients make positive development outcomes, FMO benefits as well. However, the proportion of projects through which FMO achieved good results has actually declined compared to earlier evaluations. Part of the explanation is that some of our clients, thanks to good performance, were able to refinance their business from commercial sources, leaving FMO with lower revenues than expected.
- EDIS and DII (that measure potential development impact) appear to be good predictors of actual impact. While some clients, for example through business failure, do not achieve the originally expected benefits, this is compensated by investments that exceed their initially expected development impact.

Full evaluation results are reported in our Annual Evaluation Review, which will be published in 2008, alongside this Annual Report, on our website: **www.fmo.nl**.

KPMG ASSURANCE ON THE REPORT OF THE MANAGEMENT BOARD

To the readers of the FMO Annual Report 2007

INTRODUCTION

We have been engaged by Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) to review the Report of the Management Board 2007 (further referred to as The Report) on pages 10-50. The Report is the responsibility of the company's Management Board. Our responsibility is to issue an assurance report on The Report.

CONTEXT AND SCOPE

In The Report, FMO reports about the state of affairs within the company and the strategy and policy pursued. Our engagement was designed to provide limited assurance on whether the information in The Report is fairly stated in accordance with section 2:391 of the Netherlands Civil Code. We do not provide any assurance on the feasibility of the targets, expectations and ambitions of FMO. For the financial data that are derived from the financial statements we refer to the auditor's report on page 71 of the annual accounts. Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance.

REPORTING CRITERIA

FMO applies the requirements as set out in section 2:391 of the Netherlands Civil Code for its reporting of the state of affairs within the company and the strategy and policy pursued.

STANDARDS

We conducted our engagement in accordance with Dutch law and with the International Standard for Assurance Engagements (ISAE 3000): *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, drawing from emerging best practice and principles within international assurance engagements. This standard requires, amongst others, that the assurance team members possess the specific knowledge, skills and professional competencies needed to understand and review the information in The Report, and that they comply with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence.

WORK UNDERTAKEN

Our review included the following activities:

- a review of the content of The Report in relation to the requirements as set out in section 2:391 of the Netherlands Civil Code;
- a review of the underlying principles of information management and reporting used in drawing up The Report;
- interviews with relevant staff responsible for the information in The Report;
- a review of internal and external documentation such as minutes of meetings, reports, and intranet sources;
- a review of the underlying systems and procedures used to collect and process the reported information, including the aggregation of data into the information in The Report;
- a review of the reliability of the quantitative and qualitative information in The Report based on sampling.

During our investigation we discussed the necessary changes in The Report with FMO and determined that these changes have been adequately incorporated into the final version.

CONCLUSION

Based on the work described in this Report, nothing has come to our attention that causes us to believe that the information in The Report on pages 10-50 is not fairly stated in accordance with the requirements included in section 2:391 of the Netherlands Civil Code.

Amstelveen, March 13, 2008

KPMG Accountants N.V.
M. Frikkee RA

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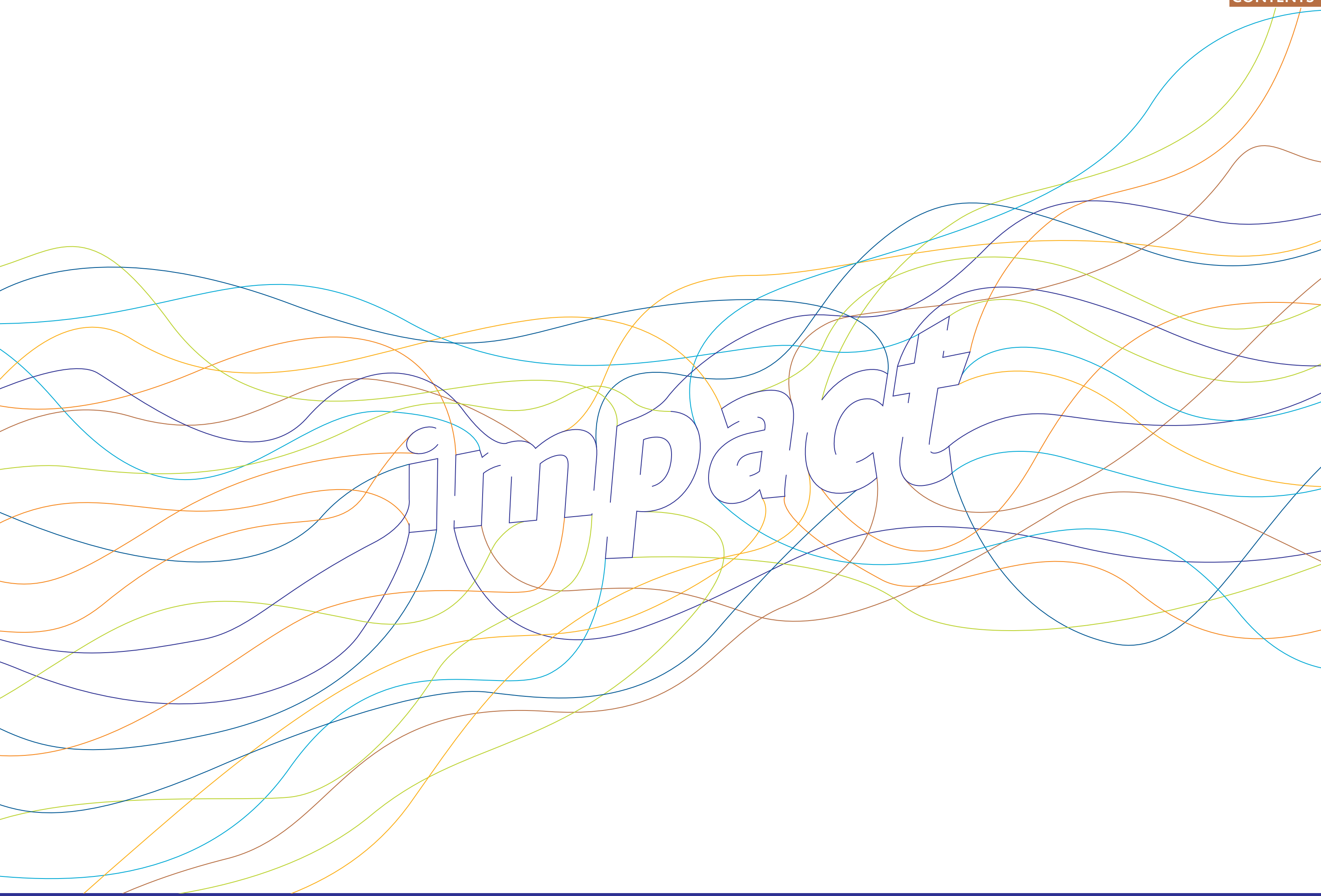

IN CONTROL STATEMENT

Given the inherent high-risk nature of our business and the markets in which we operate, we, the Management Board, are responsible for taking appropriate measures for the design and operation of the internal risk management and control systems. We are also responsible for ensuring that these systems are consistent with FMO's objectives and operations. These systems have been designed to detect risks on a timely basis, to manage significant risks and, through these, to support the realization of our strategic, operational and financial objectives.

During 2007, we systematically analyzed and, where necessary, further enhanced the organization's internal risk management and control systems. We continued the implementation of an integrated operational risk management framework. During the reporting year, senior management has performed two risk control self-assessments. The primary conclusions of these assessments were in line with those of the comprehensive strategic risk assessment conducted in 2005. However, we concluded that the current external developments in the financial markets affect the likelihood and potential impact of the liquidity risks inherent to our stated strategic objectives. In response, the Asset Liability Committee has updated our Contingent Liquidity Plan & Funding Policy. Furthermore, FMO has decided to combine all existing 'in control' functions into one new corporate department called 'Audit, Compliance and Control'. This allows us to execute these functions more efficiently and to be responsive to our rapidly changing external environment.

Some more general areas for continuous improvement relate to our operational management competences as well as to the ongoing monitoring of compliance with our internal policies, procedures and instructions. Within FMO we observe an increased risk and control awareness resulting from, among others, actions taken by our various 'in control' functions. During 2008, we will continue to build on these maturing risk management capabilities and strive to fully embed them in our day-to-day activities. In addition to policies, procedures and instructions ('hard controls'), we actively support management in adopting a set of shared beliefs and behavioral attitudes ('soft controls').

In 2006, FMO implemented a new loan administration system and a new accounting system. During the reporting year, significant efforts have been made in further refining these systems, as well as in the redesign of our front and mid office processes. Furthermore,

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we set up two committees that coordinate the implementation and progress of FMO's change initiatives and projects. Also in 2007, FMO's Business Continuity Plan has been finalized and tested. A Business Continuity Test will be performed annually.

The Management Board regularly considers FMO's risk management and internal control practices and discusses all related significant aspects with its senior management. The results of the Management Board's review of FMO's internal risk management and control systems, including the above mentioned changes and planned improvements, have been discussed with the Audit Committee which has reported these to the Supervisory Board.

Based on our review of the company's risk management and internal control systems, and cognizant of their inherent limitations described below, we have concluded that there is reasonable assurance that:

- we have sufficient insight into the extent to which FMO's strategic, operational and financial objectives will be realized;
- FMO's internal and external (financial) reporting is reliable;
- applicable laws and regulations are being complied with.

It is important to note that the proper design and implementation of risk management and internal 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 and others, management overriding controls, and 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 risk management and internal control systems will therefore provide reasonable, but not absolute, assurance that a company will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business. In this context, reasonable assurance refers to a degree of certainty that would be satisfactory for a prudent manager in the management of his affairs in the given circumstances.

The Hague, March 13, 2008

Arthur Arnold
Chief Executive Officer

Nanno Kleiterp
Chief Investment Officer

Nico Pijl
Chief Risk & Finance Officer

OUTLOOK 2008

Next year will be dedicated to renewing our foundations and expanding our horizons. The majority of our 2005-2010 strategy as the entrepreneurial development bank has been implemented in half the time we expected. As a result, we must re-assess our strategy and expand our vision. At the same time, we foster our continuity. We have spent almost ten years bringing more focus to our operations and professionalizing the organization. We are now in an excellent position to maintain the structurally higher level of turnover reached over the last three years.

Our ambition is always to further increase our impact. Contrary to ten years ago, the private sector is now widely recognized as a key player in the fight against poverty. To that end, we want to make maximum use of the experience and expertise we have built up over the years.

This is also borne out by our new CEO. For the first time in FMO history, someone who started as Investment Officer has risen through the ranks, straight to the top. Nanno Kleiterp knows FMO inside out, has been with FMO for over twenty years, for better and for worse. He is excellently equipped to make full use of FMO's considerable potential and to maintain our momentum. He has already made a start with announcing the process for arriving at a new strategy in 2008. Our challenge will be to maintain forward movement and continue expanding borders for private investors in ever-changing markets, while making full use of the strong financial position we have built over the last few years.

We look forward with confidence to the start of the five-yearly external evaluation of the Agreement State-FMO of November 16, 1998. The outcome, foreseen in 2009, will have an effect on our relationship with our biggest shareholder and key stakeholder, the State of the Netherlands.

The Dutch government has updated its policy framework in relation to its shareholdings. This provides us with the opportunity to show fresh evidence of where the public interest in FMO lies. On the one hand, our results speak for themselves in terms of development impact. We have been working for years to make these results more transparent. In 2008, the social and environmental performance of our clients will be fully integrated and accounted for in all phases of the financing process. On the other hand, we will reinforce the message of this report by maintaining our additionality and catalyst roles, not competing with private financiers but encouraging them to join us. Doing this successfully and in a sustainable way – without quick fixes – is the only way to maintain our credibility in the market and with our key stakeholder, the State.

As some of our key targets for 2010 have already been met, and in light of the dilemmas imposed by current high liquidity seeking opportunities in the more attractive emerging markets, we have a number of aspirations for 2008 and beyond:

- increased focus on the higher-risk countries in Africa as poverty and relative lack of progress are still concentrated in this region;
- intensification of our tailored financial offering, including mezzanine, specifically as a solution for family-owned companies;
- capitalizing on our business process redesign – crucial as since 2002 we have tripled our annual business, from €437 million to over €1.3 billion in 2007;
- introducing a new approach to channeling and mobilizing the knowledge and expertise built with partners and clients so that we can better share it with them.

Moreover, we have set the following targets for 2008:

- inclusion, originally foreseen in 2007, of social and environmental scoring on new contracts in our Development Impact Indicator (DII);
- DII of 690 or higher (2007: 798);
- further increase the share of equity and mezzanine products to 45% (2007: 42%);
- generate €1.1 billion in new commitments, slightly lower than the €1.3 billion in 2007, but in line with our long-term strategy;
- increase the share of government funds in new commitments to 22% (2007: 21%);
- maintain a minimum of 35% of investments in low-income countries (2007: 36%);
- continue to balance the spread of the portfolio over all four regions.

Sharing a vision for alleviating poverty

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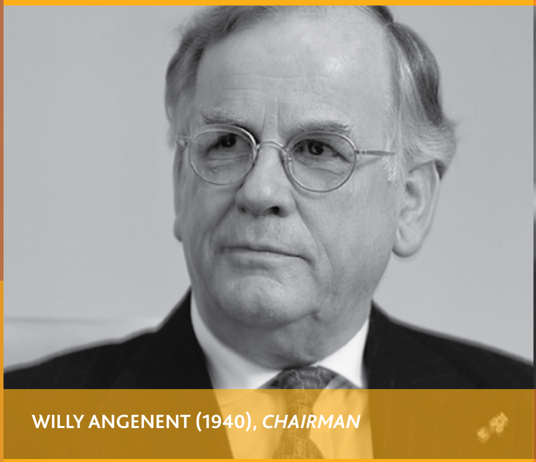
Supervisory Board



WILLY ANGENENT (1940), *CHAIRMAN*

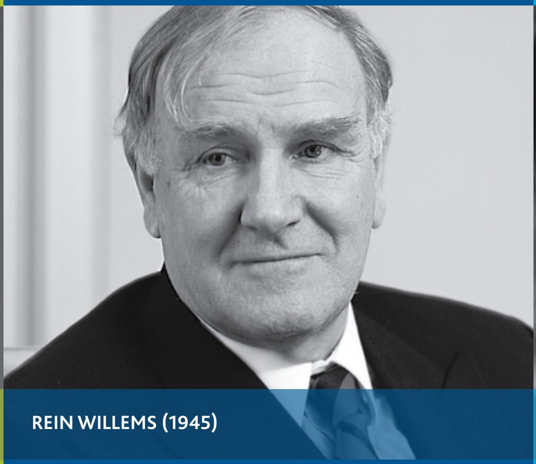
Willy Angenent serves as Chairman of the Supervisory Boards for FMO and Vedior N.V. From 1998 until mid-2000, he was Chairman of the Management Board of Laurus N.V. Between 1992 and 1998, he was a member of the Management Board of Vendex International N.V. He held various positions with Unilever in the Netherlands, Latin America, France and the United Kingdom from 1970 to 1991.

DOLF COLLEE (1952)

Dolf Collee was a member of the ABN AMRO Bank Managing Board. He was a member of the Supervisory Boards of Bouwfonds Nederlandse Gemeenten N.V., the Delta Lloyd ABN AMRO Verzekeringen Holding B.V. and Vice Chairman of the Capitalia Gruppo Bancario Board of Directors. He serves as the Chairman of the Board of Quion Groep B.V. and De Hypothekers Associatie B.V. and is a member of the Supervisory Board of Wealth Management Partners N.V.

CEES MAAS (1947)

Cees Maas was a member of the Executive Board of ING Group from 1992-2007. In 1996, he was appointed Chief Financial Officer, and in 2004 became Vice Chairman of the Executive Board. Between 1976 and 1992, he worked at the Ministry of Finance, serving as Treasurer-General between 1986 and 1992. He is Chairman of the Supervisory Board of The Currency Exchange (TCX) Fund N.V. and the Erasmus Medical Centre, member of the Supervisory Board of BCD Holding N.V., Chairman of the Board of the Foundation 4 and 5 May, member and European Treasurer of the Trilateral Commission, member of the Capital Markets Consultative Group (IMF) and the International Advisory Board of the National Bank of Kuwait.



REIN WILLEMS (1945)

Rein Willems was President of Shell Nederland from 2003-2007. Since 1969, he has held a number of positions at Shell, with postings in Singapore, Australia, the UK, the Philippines and Brazil. In addition, he was a member of the Executive Committee and the Environmental Committee of the Employers Association VNO-NCW and the Innovation Platform. He is Chairman of the Supervisory Board of Koninklijke Joh. Enschedé, member of the Supervisory Board of the Vrije Universiteit Amsterdam, the Centraal Orgaan Opvang Asielzoekers and van Leeuwen Buizen N.V. He was Chairman of the national Task Force Energy Transition, which was established to make the Dutch economy more sustainable.

LODEWIJK DE WAAL (1950)

The former Chairman of the FNV, Lodewijk de Waal was appointed as the Director General of humanitarian association Humanitas from July 2006. He has more than 32 years' experience with trade union organizations in national and international contexts. He is a member of the Advisory Council of the Association of Dutch Healthcare Insurers, Chair of the Governing Board of the Netherlands Development Organization SNV, and Chair of the Governing Board of the International Water and Sanitation Centre IRC. In July 2007, he became a member of the Supervisory Board of the PGGM.

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Report of the Supervisory Board

As the Supervisory Board of FMO, we are gratified to report that performance in 2007 has generated strong results both on development impact and additionality goals and on financial targets. Through this performance, FMO is better positioned to pursue all its sustainability objectives and continually improve its service to clients and partners into the future.

Development impact is the primary goal of FMO. In 2005, we introduced a benchmark to measure development impact in order to monitor FMO's performance on this priority goal. In the reporting year, FMO achieved a DII score of 798 (2006: 570). To a significant extent, FMO's ability to stimulate and create development impact depends on its ability to generate sound and sustainable financial results. In 2007, FMO once again recorded an excellent net profit of €105 million (2006: €134 million). We congratulate all 251 FMO people on this performance.

PROPOSALS AND RECOMMENDATIONS TO THE AGM

FMO's Supervisory Board endorses the Report of the Management Board (see pages 10-56). We nominate Dolf Collee for re-appointment and nominate Agnes Jongerius and Pier Vellinga for appointment as new Supervisory Board members. We propose that the Annual General Meeting of Shareholders (AGM) adopts the 2007 annual accounts audited by KPMG Accountants N.V. (see page 71). Furthermore, and in accordance with Article 6(2) of the Agreement State-FMO of November 16, 1998, we propose that the AGM approve the allocation of €99.7 million (2006: €126.8 million) to the contractual reserve. The remaining amount of €5.3 million (2006: €7.2 million) is the distributable component of profits. We recommend that the AGM adopts the Management Board's proposal to pay a cash dividend of €5.55 (2006: €5.44) per share and allocate the remaining €3.1 million to other reserves. We propose that the AGM reappoints KPMG Accountants N.V. as external auditors. We trust the AGM will also discharge the Management Board for its management of FMO and the Supervisory Board for its supervision during the reporting year.

SUPERVISORY BOARD – STRUCTURE

Supervisory Board members are appointed by the AGM according to the profile approved by shareholders in 2005 (please visit **www.fmo.nl** for full details). An introduction program for new members includes meetings with the Management Board and Works' Council. New members further gain insight into FMO's working processes and target markets through discussions with development impact professionals. Special attention is paid to sustainable development and how FMO contributes to leveraging this through its financing. In February 2007, our colleague Jacqueline Cramer resigned following her appointment as Dutch Minister of Housing, Spatial Planning and the Environment. Jacqueline Cramer was a member of the Supervisory Board for only nine months, but during this time made a great contribution to FMO's sustainable development goals.

During the remainder of 2007, the Supervisory Board comprised five members with very specific expertise in areas relevant to FMO's activities; all members are independent. The full Supervisory Board is responsible for overseeing and monitoring the Management Board's progress on executing strategy and pursuing medium-term goals. All members are available to the Management Board for strategic advice, with dedicated committees

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SME banking in Azerbaijan

ECONOMIC (72)
SOCIAL (62)
ENVIRONMENTAL (33)

For micro-, small- and medium-sized enterprises (MSMEs) in Azerbaijan, attracting funding is difficult. Established in 1989, Azerdemiryolbank (ADB) is a privately-owned, mid-size bank catering to MSMEs and specializing in retail banking. The bank operates 25 outlets across the country and employs around 350 people, but its strong growth means that its plans for the future include significant expansion.

FMO, together with DEG, has invested US $10 million in an SME loan. In addition, FMO invested in the share capital of the bank by acquiring a 10% stake. The investment is FMO's third in Azerbaijan, after transactions in 2006 with Bank Respublika and Unibank – the latter of which included the first subordinated facility ever in the country.

Economic development impact is more than positive: SME finance not only stimulates diversification and strengthening of the local economy; it also creates jobs for local entrepreneurs, while increasing competition and trust in the financial sector. Financing ADB sends a clear signal to international financial institutions that Azerbaijan is home to a growing financial sector. Moreover, the bank already complies with international environmental and labor standards, making it an attractive investment opportunity for other commercial banks in the future.

SUPERVISORY BOARD APPOINTMENTS

Supervisory Board member	Initial appointment	End of current appointment	Supervisory Board Committee membership
Willy Angenent, Chairman Dutch, 1940	2002	2010	Audit Committee; Selection, Appointment & Remuneration Committee
Dolf Collee Dutch, 1952	2001	2008	Selection, Appointment & Remuneration Committee
Cees Maas Dutch, 1947	1997	2009	Audit Committee, Chairman
Lodewijk de Waal, Vice Chairman Dutch, 1950	1996	2008	Selection, Appointment & Remuneration Committee, Chairman
Rein Willems Dutch, 1945	2006	2010	Audit Committee

on audit and on selection, appointment and remuneration, able to provide specific advice on related issues.

WORKING METHOD

FMO's Supervisory Board and committees work through regular, pre-scheduled meetings, and on an ad hoc basis throughout the year. A transparent formal reporting structure is in place, but Supervisory Board members are frequently in contact with the Management Board so that they remain fully informed and can provide advice at all times; the Supervisory Board Chairman meets the CEO informally once a month. With the exception of evaluations and appraisals, the full Management Board meets the full Supervisory Board at all pre-scheduled meetings. Absenteeism is negligible. At all four pre-scheduled meetings, there are a number of recurring key issues. These include:

- FMO's relationship with the Dutch State, which is not only the majority shareholder but also provides the government funds that give FMO its distinct profile;
- progress on strategic goals and objectives, such as development impact and quarterly financial results;
- budgets and costs;
- proposed achievement of bank status and related procedures.

Furthermore, in 2007, two additional meetings were convened to discuss an assessment of the capital structure of FMO; Economic Capital combined with the Internal Capital Adequacy Assessment Process document that was prepared in relation to obtaining the bank status*; FMO's equity investment strategy; and FMO's Africa portfolio. During one of the meetings, the Supervisory Board discussed and evaluated its performance in conformity with the Dutch Corporate Governance Code (the Code).

SUPERVISORY BOARD COMMITTEES AT WORK

The Audit Committee

Comprising Cees Maas as Chairman, Willy Angenent and Rein Willems, the Audit Committee works according to the charter approved by the AGM. It holds a mandate from, and reports to, the full Supervisory Board (to review the charter, please visit **www.fmo.nl**). Key issues in 2007 were the proposed bank status, the audit-related changes and upgrades to working processes and ICT systems. Through the year, the Audit Committee monitors economic capital issues, in line with Basel II guidelines. It reviews and advises on financial position, operational risks and reporting, corporate governance relating to financials and processes, including compliance, internal and external control and audit reports. One meeting, in September, was devoted to first-half performance. In 2007, the Audit Committee met three times. The external accountants, CRFO and CEO, Director Audit, Compliance and Control and Director Finance were present at all meetings. Tasks included reviewing the quality of FMO's financial reporting, cooperation between financial departments and other related financial matters. In conformity with the Code, the Committee also met separately with the external accountants.

The Selection, Appointment & Remuneration Committee

Lodewijk de Waal chairs this Committee comprising members Willy Angenent and Dolf Collee. Key issues were: the selection of a new CEO, as Arthur Arnold will resign in 2008; the selection of two new members of the Supervisory Board to replace Jacqueline Cramer and Lodewijk de Waal, who will resign at the 2008 AGM; performance-related remuneration; and a minor adjustment to the remuneration policy for Management Board members that was adopted in the 2007 AGM. In 2007, the Committee met four times; the CEO and Director Human Resources were present at all meetings.

At the end of another very strong year for FMO, during which significant growth in development impact has been achieved and financial performance reinforces future sustainable growth, we would like to express our gratitude to all stakeholders in FMO.

* Bank status was received on March 14, 2008.

REMUNERATION REPORT

This report was prepared by the Selection, Appointment & Remuneration Committee and was approved by the Supervisory Board of FMO. It is based on the remuneration policy that was approved by the Extraordinary Meeting of Shareholders on November 24, 2005. If changes are deemed desirable, they will be submitted to the AGM for approval. This report addresses the remuneration specifics for the reporting year and the way the policy will be pursued next year and beyond.

REMUNERATION POLICY

The purpose of the remuneration policy is to attract, motivate and retain qualified people who will contribute to the success of FMO, including Supervisory and Management Board members. All personnel is employed in accordance with the General Bank-CAO (Collective Labor Agreement). The terms of employment of Management Board members are different to some extent. Remuneration levels are in line with prevailing market conditions and are based on responsibilities, experience and performance of the individuals concerned. Every year, the Supervisory Board's Selection, Appointment & Remuneration Committee advises on the remuneration of the Management Board. Based on this advice, the Supervisory Board reviews and decides on the remuneration package of the Management Board members annually. The remuneration of the Supervisory Board is determined by the AGM based on a proposal by the Supervisory Board. This working method fully complies with the Dutch Corporate Governance Code.

REMUNERATION OF THE MANAGEMENT BOARD

The remuneration policy for Management Board members is to provide a package that attracts and retains capable executives with relevant expertise in international finance. A specialized external consultant evaluates the compensation package at least every three years using data from executives from a number of financial institutions in the Netherlands as reference.

REMUNERATION ELEMENTS

Remuneration elements include a fixed annual salary, performance-related pay, contribution to pension plan and other components. Members of the Management Board have no shares or options related to the company or availed of loans from the company.

FIXED SALARY

For the fixed salary component, the job function is graded according to the Hay system. Based on this grading, the median remuneration level is then applied. The fixed salary component of the remuneration package is assessed at least every three years, most recently in November 2005. Per April 2007, the fixed salary component for all Management Board members was increased by 1.5%. Nico Pijl received an additional salary increase of 4.3% as the first of two steps to bring the salary level in line with the existing remuneration policy.

REMUNERATION OF THE MANAGEMENT BOARD (€ x 1,000)

	Fixed remuneration[1)]	Performance-related pay[2)]	Pension[3)]	Other[4)]	Total 2007	Total 2006
Arthur Arnold	264	51	95	36	446	421
Nanno Kleiterp	196	31	54	29	310	301
Nico Pijl	183	29	158	30	400	288
Total	**643**	**111**	**307**	**95**	**1,156**	**1,010**

1) Members of the Management Board have no shares, options or loans related to the company. 2) The performance-related pay is based on the fixed remuneration of the previous year. 3) A one-off expense (€110) related to Nico Pijl is included. 4) Includes contribution to company car, fixed expense allowance, general profit sharing, life-course savings scheme and compensation of interest on mortgages.

REMUNERATION OF THE SUPERVISORY BOARD (€ x 1,000)

	2007
SUPERVISORY BOARD	
Chairman	20.0
Member	12.5
AUDIT COMMITTEE	
Chairman	3.0
Member	2.0
SELECTION, APPOINTMENT & REMUNERATION COMMITTEE	
Chairman	2.0
Member	1.0

PERFORMANCE-RELATED PAY (%)

	2005	2006	2007
MANAGEMENT BOARD: CHAIRMAN			
Financial (max. 12.5%*)	10.3	12.5	9.4
Non-financial (max. 12.5%*)	11.3	11.3	10.0
Total (max. 25%)	**21.6**	**23.8**	**19.4**
MANAGEMENT BOARD: MEMBER			
Financial (max. 10%*)	8.3	10.0	7.6
Non-financial (max. 10%*)	9.0	9.0	8.0
Total (max. 20%)	**17.3**	**19.0**	**15.6**

* Percentage of Total Fixed Income (TFI).

PERFORMANCE-RELATED PAY

This remuneration component consists solely of short-term variable salary in the form of performance-related bonuses according to a system effective as of January 2003 and accepted by the Extraordinary Meeting of Shareholders on November 24, 2005. Financial targets are proposed to the Supervisory Board annually by the Selection, Appointment & Remuneration Committee, based on the budget of that year as approved by the Supervisory Board at the start of the year, and assessed at the start of the following year. Financial targets relate to business volume, value adjustments, operating expenses, and profit before value adjustments and taxes. The Committee advises the Supervisory Board as to whether targets have been achieved and asks external auditors to verify the relevant calculations annually. This also applies to a number of non-financial targets which are formulated each year. These targets relate to issues requiring special management attention during the reporting year. In 2007, key issues included further increase of the Development Impact Indicator (DII), improvement of measured customer satisfaction on specific issues, achievement of bank status, and the successful implementation of a mid office department. Both 'at-target' and 'outperformance' (a predetermined percentage above target) scores have been established and have been independently checked by our external accountants. For Management Board members, the total at-target (financial and non-financial) score amounts to 12% and the outperformance score to 20% of the total fixed income. In the case of the Chief Executive Officer, these figures are 15% and 25% respectively.

PENSION SCHEME

With the exception of Arthur Arnold, Chief Executive Officer, the members of the Management Board have a pension scheme that is based on average wage level arrangement, in conformity with the collective arrangement for the rest of FMO's staff. Based on the remuneration policy and as a result of previous commitments regarding salary adjustments in the future, a one-time only additional payment has been made regarding the pension scheme of Nico Pijl, Chief Risk & Finance Officer. The pension scheme of the present Chief Executive Officer is based on defined contribution.

OTHER COMPONENTS

Other employment benefits include a fixed expense allowance, a contribution to a company car, a profit-sharing payment and a compensation of interest on mortgages. All of these benefits are taxable and also apply to other personnel.

REMUNERATION OF THE SUPERVISORY BOARD

FMO does not compensate members of the Supervisory Board with performance-related pay, shares or loans. At the AGM on May 18, 2005, a revised annual remuneration of Supervisory Board members was approved, effective as per May 18, 2005. On December 31, 2007, the Supervisory Board consisted of five members. The members of the Supervisory Board were paid a total remuneration of €82,960 (2006: €94,500).

REMUNERATION OF THE MANAGEMENT BOARD

The Management Board consists of three statutory members. Their remuneration for 2007 is €1,156,000 (2006: €1,010,000) and is specified in the table opposite.

On May 16, 2007, the AGM adopted an amendment to the remuneration policy. The amendment gives the Supervisory Board the discretion to reduce or increase Management Board members' performance-related pay by 10%, only in exceptional circumstances and duly substantiated and verified by KPMG, but never more than the maximum levels mentioned above. FMO intends to continue the current remuneration policy into 2008 and beyond.

CORPORATE GOVERNANCE

Sound corporate governance is a crucial component at FMO for two reasons. As a public-private development bank, our own governance, structure and reporting lines must be both sound and transparent. This is why we comply, where applicable, with the Dutch Corporate Governance Code (the Code) for publicly listed companies. The second reason relates to our mission to stimulate sustainable growth for all stakeholders in order to maximize development impact. FMO often plays a pivotal role in embedding sound corporate governance in our partners' and clients' own organizations. Exemplary is FMO's leading role in the reporting year in defining a common set of principles on how to approach new clients from a corporate governance perspective. See page 11 for further information.

The current corporate governance structure was approved by the AGM in 2005. Any material changes to the existing structure will be submitted to the AGM for approval. The 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 employees, shareholders and other capital providers, clients and partners, the Dutch government and local communities in the countries where we work.

Our whole organization is expected to take the interests of all these stakeholders into account at all times. In governance terms, this expectation is expressed through the responsibilities and accountabilities of the Management and Supervisory Boards to our shareholders and other stakeholders.

GOVERNANCE STRUCTURE

FMO has a two-tier board structure: the Management Board and the Supervisory Board, as defined by the Netherlands Civil Code. Both Boards report directly to the AGM.

ROLE OF THE AGM

The AGM has core powers, including but not limited to decisions on statutory changes, legal mergers, and the adoption of the annual accounts. From a governance perspective,

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Ukrainian car production plant offers employment opportunities

ECONOMIC (57)
SOCIAL (38)
ENVIRONMENTAL (46)

Due in part to political instability, long-term financing is hard to source in Ukraine and is perceived as high risk. Lutsk Automobile Plant (LuAZ) produces cars, including Ladas, Hyundais and Kias. In 2006, the plant produced 40,000 cars, making it Ukraine's second largest car producer. In order for the company to meet rapidly growing demand, LuAZ is undergoing an investment program totalling €227 million, of which LuAZ itself is contributing €100 million.

FMO, together with risk-sharing partners DEG, Cordiant Capital, HVBU and HVB-AG, is participating in a syndicated loan worth €62.5 million arranged by Unicredit Bank Ukraine. FMO's investment of €17.5 million will enable LuAZ to expand its car and bus production facilities using the most modern equipment possible. As a result, 6,500 new jobs, on top of the existing 2,000 jobs, will be created in Cherkassy and Lutsk. Both cities suffer from high unemployment rates and are in economically less developed regions of Ukraine. A further 19,000 indirect jobs are expected to be created in the service and transport sectors.

Moreover, FMO will assist LuAZ in upgrading its governance standards via a Corporate Governance Action Plan and appointment of an independent member of the Supervisory Board. LuAZ is working towards international certification of its technical, environmental, and social standards, setting it high above the Ukrainian average.

CORPORATE GOVERNANCE STRUCTURE

it has power of appointment of members of the Supervisory Board. The AGM may not dismiss or suspend individual members of the Supervisory Board. It can, however, retract its vote of confidence in the entire Supervisory Board, leading to immediate dismissal of all its members. The AGM also approves the remuneration policy for the Management Board and compensation for the Supervisory Board. The AGM is convened once every year. However, both the Management and Supervisory Boards can request extraordinary meetings. Shareholders representing at least 5% of FMO's issued capital can also convene a meeting. In 2007, the AGM was held on May 17. Minutes of this meeting can be found on our website, **www.fmo.nl**.

ROLE OF THE SUPERVISORY BOARD

The Supervisory Board appoints members of the Management Board, though dismissal can take place only after a hearing at the AGM. As its name suggests, this board supervises the activities of FMO's Management Board. However, it also provides expertise-based advice on the management and (strategic) development of the company. The Supervisory Board currently consists of five members with very specific expertise in FMO's focus areas (see biographies on page 58 and review profile on our website, **www.fmo.nl**). The Works' Council recommends the nomination of one third of the members.

SUPERVISORY BOARD COMMITTEES

As approved by the AGM and included in FMO's articles of association, the Supervisory Board has two dedicated Committees – the Audit Committee and the (combined) Selection, Appointment & Remuneration Committee – operating under the overall responsibility of, and reporting regularly to, the Supervisory Board. Committee members are selected based on the relevance of their experience. A summary of Committee activities and accountabilities is on page 61; to review the full role and competencies of these Committees, please visit **www.fmo.nl**.

Audit Committee

Reporting regularly to the Supervisory Board, this dedicated Committee supervises and advises the Management Board on FMO's financial position. It monitors and offers expert advice on issues such as our risk management policy, internal and external auditing systems and compliance with legislation and external and internal regulations. One of its key tasks is to monitor the performance of external auditors.

Selection, Appointment & Remuneration Committee

Proposals on the appointment and re-appointment of Supervisory and Management Board members is one of this Committee's main tasks. Others include monitoring the remuneration policy, preparing proposed adjustments and giving advice on the remuneration of individual Management Board members.

ROLE OF THE MANAGEMENT BOARD

Comprising three statutory directors – the Chief Executive Officer (CEO), the Chief Investment Officer (CIO) and the Chief Risk & Finance Officer (CRFO) – the Management Board is charged with developing and implementing FMO's strategy. It is responsible for management of, and compliance with, legislation and regulations, such as the implementation of internal risk management and auditing systems.

While the Management Board is accountable, in practical terms, FMO is a flat organization. All our activities are based in, and directed from, The Hague; there are no 'subsidiaries' around the world. This enables us to manage our business in a very integrated and transparent way; reporting lines are short and clear, facilitating supervision and control. As the graphic (opposite) shows, our governance reporting structure covers not only the roles of the AGM and Management and Supervisory Boards. We impose specific corporate governance requirements on all transactions with our clients and partners. These are incorporated in the processes applied by all our investment officers when negotiating contracts. Governance components are integral to investment proposals submitted to the Management Board for approval. In this sense, our focus on a sound and transparent governance structure goes further than the internal organization, as it is a key component in achieving our development impact goals.

Annual accounts

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KPMG auditor's report

KPMG auditor's report

To the General Meeting of Shareholders of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

AUDITOR'S REPORT

Report on the annual accounts

We have audited the accompanying annual accounts 2007 of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., The Hague (hereinafter referred to as FMO). The annual accounts consist of the consolidated annual accounts and the company annual accounts. The consolidated annual accounts comprise the consolidated balance sheet as at December 31, 2007, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company annual accounts comprise the company balance sheet as at December 31, 2007, the company profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report of the Management Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the annual accounts based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance whether the annual accounts are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated annual accounts

In our opinion, the consolidated annual accounts give a true and fair view of the financial position of FMO as at December 31, 2007, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company annual accounts

In our opinion, the company annual accounts give a true and fair view of the financial position of FMO as at December 31, 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the Report of the Management Board is consistent with the annual accounts as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, March 13, 2008

KPMG ACCOUNTANTS N.V.

M. Frikkee RA

Consolidated annual accounts

Accounting policies

CORPORATE INFORMATION

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereafter referred to as 'FMO' or the 'company') was incorporated in 1970 as a public limited company and is located at Anna van Saksenlaan 71, The Hague, the Netherlands. The activities of FMO consist of financing activities in developing countries to stimulate private sector development. In addition, FMO provides services in relation to government funds and programs.

Financing activities

FMO's main activity consists of providing loans, guarantees and equity capital to the private sector in developing countries. A minor part of the investment financing is guaranteed by the State of the Netherlands under the Faciliteit Opkomende Markten (FOM), in which FMO itself participates as a 5% to 20% risk partner. Any losses claimed under the guarantee are reported under 'other receivables'.

Services in relation to government funds and programs

Apart from financing activities from its own resources, FMO provides loans, guarantees and equity finance from special government funds, within the conditions and objectives of those facilities. The funds consist of subsidies provided under the General Administrative Law Act regarding the Minst Ontwikkelde Landen Infrastructuur Fonds (hereafter referred to as Least Developed Countries Infrastructure Fund – LDC Infrastructure Fund), the Nederlands Investerings Matching Fonds (hereafter referred to as NIMF), MASSIF and Access to Energy Fund. FMO also executes the subsidy scheme Capacity Development (hereafter referred to as CD).

FMO incurs a risk in NIMF and MASSIF as it has an equity share of 15% and 4.31% respectively. With respect to the remaining interest in NIMF and MASSIF, and the full risk in the remaining government funds, FMO has a contractual right and obligation to settle the results arising from the funds' activities with the State. The economic risks related to these funds are predominantly taken by the State and FMO has limited control on policy issues regarding these funds. FMO receives remuneration for managing the funds. Therefore, with the exception of FMO's equity share in NIMF and MASSIF, the funds' assets and the funds' liabilities are not included in the annual accounts. As the subsidy order period of NIMF expired as per June 30, 2007, all new acquisitions have been stopped. From that date negotiations were ongoing to settle the fund. Final agreement is expected to take place in 2008. The Business segments paragraph provides more detail on the loans and equity investments managed for the risk of the State.

Nederlandse Investeringsbank voor Ontwikkelingslanden N.V.

FMO's subsidiary, Nederlandse Investeringsbank voor Ontwikkelingslanden N.V. (hereafter referred to as NIO), has been established to administer certain grants and loans funded by the State to governments of developing countries. Apart from this bilateral financial development assistance, NIO administers a portfolio of concessional loans. The State of the Netherlands guarantees the repayments of interest, bonds and private loans contracted by NIO with third parties. NIO is reimbursed by the State for operating expenses and is compensated for the difference between the interest income earned on loans provided to developing countries and the interest charges on the funds raised under government guarantee in order to finance those loans. The activities of NIO are entirely at the expense and risk of the Ministry of Foreign Affairs.

SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated annual accounts (the 'annual accounts') have been prepared in accordance with International Financial Reporting Standards as adopted by the European Community in EG1606/2002 directive ('IFRS').

The consolidated annual accounts are prepared under the historical cost convention except for certain equity investments, interest-bearing securities, short-term deposits, applicable funding items and all derivative instruments that are valued at fair value. FMO uses settlement date accounting.

Adoption of new and revised Standards

The new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) as endorsed by the European Commission in 2006 have been applied. These have been effective to annual reporting periods beginning on January 1, 2007.

FMO has adopted *IFRS 7 Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after January 1, 2007, the consequential amendments to *IAS 1 Presentation of Financial Statements*, and *IFRIC 9 Reassessment of Embedded Derivatives*. The adoption of these standards and interpretations has not led to any changes in the accounting policies.

At the date of authorization of these annual accounts, the following Standard, relevant to FMO, was in issue but not yet effective:
• IFRS 8 Operating Segments with effective date of January 1, 2009.

FMO has not applied the above mentioned IFRS in the 2007 annual accounts. The Management Board anticipates that the adoption of this Standard in future periods will have no material financial impact on the 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 incurred but not reported losses. Estimates and assumptions are also used for the determination of tax, depreciation of tangible fixed assets and others.

Group accounting and consolidation

The annual accounts of FMO and the annual accounts of the wholly owned subsidiaries FMO Participaties B.V., FMO Antillen N.V. and TCX Investment Management Company B.V. are integrally included in the consolidated annual accounts. The balances and results of intergroup transactions are eliminated in preparing the consolidated annual accounts.

TCX Investment Management Company B.V. was established on August 31, 2007. This company manages The Currency Exchange Fund N.V. (TCX Fund N.V.), a fund that offers long-term emerging market currency and interest rate derivatives to its investors with the purpose of facilitating local currency lending operations in countries mentioned in the OECD Development Assistance Committee list of Official Development Assistance recipients. FMO has provided TCX Fund N.V. with a backstop guarantee facility of US $335 million, under which FMO will provide security to professional counterparties of TCX Fund N.V. with respect to individual transactions between TCX Fund N.V. and those counterparties. Under this facility FMO will guarantee that TCX Fund N.V. will fully meet its obligations towards the counterparties as a result of those individual transactions. At year-end no guarantees were issued under this facility. FMO has a 19% stake in TCX Fund N.V.

NIO is not consolidated as the government sets the policies and conditions of the NIO activities and FMO has no effective control. The activities of NIO are entirely at the expense and risk of the Ministry of Foreign Affairs. FMO accounts for NIO as a subsidiary under the equity method. The remuneration for services rendered has been accounted for in the profit and loss account.

Fiscal unity

The company has formed a fiscal unity for corporate income tax purposes with its wholly owned subsidiaries NIO as from January 1, 2002 and FMO Participaties B.V. as from January 1, 1999. As a consequence, FMO is severally liable for all income tax debts for all aforementioned companies.

Foreign currency translation

FMO uses the euro as the unit for presenting its annual accounts. All amounts are denominated in thousands of euros unless otherwise stated. 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 denominated in foreign currencies are reported using the closing exchange rate.

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

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

When preparing the consolidated 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 the 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.

Fair value of financial assets and liabilities

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If this information is unavailable, fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which 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 or can be derived from market observable data.

The fair values in the financial asset and liability categories approximate their carrying values except for the loans to the private sector with a fixed interest rate and the funding non-hedged. Loans to the private sector are valued at amortized cost. FMO does not apply hedge accounting to loans to the private sector with a fixed interest rate. The underlying changes to the fair value of these assets are therefore not recognized in the balance sheet. At December 31, 2007, the fair value of these loans was €8,579 (2006: €16,167) above their carrying value.

The funding non-hedged is valued at amortized cost. The carrying value does not materially differ from the fair value and the difference amounts to €2,155 (2006: €331).

Offsetting financial instruments

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

Derivative instruments and hedging

Derivative financial instruments are initially recognized at fair value on the date FMO enters into a derivative contract and is subsequently re-measured at its fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivative instruments related to funding

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

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

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FMO discontinues hedge accounting when it is determined that:
1. a derivative is not, or has ceased to be, highly effective as a hedge;
2. when the derivative expires, is sold, terminated, or exercised; or
3. when the hedged item matures, is sold or repaid.

The method of recognizing the resulting fair value changes depends on whether the derivative is designated as a hedging instrument or not. FMO designates two kinds of derivatives:

1. *Fair value hedges*
   Changes in the fair value of derivatives that are designated and that qualify as fair value hedges are recorded in the profit and loss account. Any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk are also recorded in the profit and loss account. If the hedge relationship is terminated for reasons other than the de-recognition of the hedged item, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the 'unamortized fair value adjustment') is treated as follows:
   • in case of interest-bearing instruments, that amount is amortized and included in net profit or loss over the remaining term of the original hedge;
   • in case of non-interest-bearing instruments, that amount is immediately recognized in profit and loss.
   If the hedged instrument is de-recognized, e.g. is sold or repaid, the unamortized fair value adjustment is recognized immediately in profit and loss.
2. *Derivatives that do not qualify for hedge accounting*
   Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognized immediately in profit and loss.

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

Interest income
Interest income and expense are recognized in the profit and loss account for all interest-bearing instruments on an accrual basis using the 'effective interest' method based on the actual cost price. Interest income and expense also includes amortized accrued discount and premium on treasury instruments. Interest income and expense includes interest related to derivatives.

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

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

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

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

Cash and cash equivalents

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

Loans to the private sector

Loans originated by FMO include:

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

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

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

Value adjustments on loans

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

1. *Counterparty-specific:*
   Individual credit exposures are evaluated based on the borrower's character, overall financial condition, resources and payment record, original contractual term, exit possibilities and, where applicable, the realizable value of the underlying collateral. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. Value adjustments for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.
2. *Group-specific:*
   All loans that have no counterparty-specific value adjustment are divided in groups of financial assets with similar credit risk characteristics and are collectively assessed for value adjustments. The credit exposures are evaluated based upon local political and economical developments, branch of industry (financial or non-financial institution), probabilities of default, country ratings, information deprivation and recovery rates, and taking into consideration the nature of the exposures based on product/country combined risk assessment.

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

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

Interest-bearing securities

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

Unrealized losses included in the available for sale reserve are considered to be temporary as the investments are intended to be held for a period of time sufficient to recover their cost.

Equity investments

Equity investments in which FMO has no significant influence are carried:

1. *At fair value when a quoted market price in an active market is available or when fair value can be estimated reliably using a valuation technique*
   Unrealized gains or losses are reported in the available for sale reserve net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until such investment is determined to be impaired. Foreign exchange differences are reported as part of the fair value change in shareholders' equity. On disposal of the available for sale investment, the accumulated unrealized gain or loss included in shareholders' equity is transferred to profit or loss.
2. *At cost or lower recoverable amount if the fair value can not be estimated reliably*
   In line with AG80 and AG81 of IAS 39, the fair value of equity investments that do not have a quoted market price in an active market is only reliably measurable if the variability in the range of reasonable fair value estimates:
   - is not significant for that instrument; or
   - the probabilities of the various estimates within the range can be reasonably assessed and used in estimating the fair value.

The nature of FMO's private equity investments in developing countries causes certain valuation difficulties and uncertainties. There is no market for these investments and there have not been any recent transactions that provide reliable evidence of its current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows based on the high-risk nature of the industry. Therefore, discounted cash flow techniques do not provide a reliable measure of fair value. As a result hereof the fair value of investments can not always be measured reliably and these investments are recorded at cost less impairment where required. For the equity investments valued at cost, no foreign exchange differences are either recognized in income or shareholders' equity.

Impairments

All equity investments are reviewed and analyzed at least annually. An equity investment is considered impaired if its carrying value exceeds the recoverable amount for an amount that is considered significant or for a period that is considered prolonged. If an equity investment is determined to be impaired, the impairment is charged to the profit and loss account and reported in value adjustments. The impairment loss includes any unrealized loss previously recognized in shareholders' equity. The impairment losses shall not be reversed through the profit and loss account except at realization. Accordingly, any subsequent unrealized gains are reported through shareholders' equity in the available for sale reserve.

Investments in associates

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

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

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

FMO operates in developing countries that do not particularly have advanced accounting standards and practices comparable to those in developed countries. Financial reporting may not always be comparable to the quality under IFRS standards and may not be available in a timely manner. Inherent to this situation, FMO accounts the associates according to the equity method if underlying financial data is recent, audited and prepared under internationally accepted accounting standards.

If these criteria are not met, FMO records the associates at cost less impairment. In line with the accounting principles for equity investments, the impairment losses are included in profit and loss.

Tangible fixed assets

ICT equipment

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

Furniture and leasehold improvements

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

Depreciation

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

ICT equipment	3 years
Furniture	5 years
Leasehold improvements	8 years

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

Debt issued

Debt issued consists of:

1. *Debt securities:*
   Non-subordinated debt, which has not been identified as debentures and notes. In this category FMO distinguishes:
   - Debt securities that qualify for hedge accounting (valued at fair value);
   - Debt securities that do not qualify for hedge accounting (valued at amortized cost).
2. *Debentures and notes:*
   Medium-term notes under the FMO GMTN program. Debentures and notes can be divided into:
   - GMTN notes ('structured funding') that qualify for the fair value option of IAS 39 (valued at fair value);
   - GMTN notes that qualify for hedge accounting (valued at fair value);
   - GMTN notes that do not qualify for hedge accounting (valued at amortized cost).

Debt issued valued at amortized cost

Debt issued is initially measured at cost, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is amortized cost, using the effective interest rate method to amortize the cost at inception to the redemption value over the life of the debt. With respect to combined debt instruments, derivatives are separated from the host contract and accounted for as a stand-alone derivative if the criteria for separation are met. The host contract is measured at amortized cost.

Debt issued eligible to hedge accounting

When hedge accounting is applied to debt instruments, the carrying value of debt issued is adjusted for changes in fair value related to the hedged risk. The fair value changes are brought to the profit and loss account. See 'derivative instruments and hedging'.

Debt issued eligible to fair value option

It is FMO's policy to hedge the currency and interest rate risks with regard to debentures and notes under the GMTN program. Certain transactions do not meet the specified criteria for hedge accounting. FMO designates the GMTN medium-term notes at 'fair value through profit or loss' (IAS 39 – The fair value option) to reduce a measurement inconsistency ('accounting mismatch') that would otherwise arise from measuring the GMTN medium-term note at amortized cost and the derivative at fair value. As the credit rating of the company has remained the same during the reporting period, all fair value changes during the reporting period are due to market changes.

Provisions

Provisions are recognized when:

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

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

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Leases

FMO has operational leases. The total payments due under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place. FMO has not entered into financial leases over group assets.

Guarantees

The amended IAS 39 *Financial Instruments: Recognition and Measurement* requires certain financial guarantee contracts to be accounted initially at their fair value, and subsequently measured at the higher of:

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

Provisions for guarantees are included in other liabilities.

Retirement benefits

FMO provides the majority of its employees with retirement benefits that are categorized as a defined benefit. A defined benefit plan is a pension plan that defines the amount of pension benefit to be provided, as a function of one or more factors such as age, years of service or compensation. As from January 1, 2006 the national law 'Wet VPL' has come into force. As a result amendments have been made to FMO's pension scheme. Under this new law, the retirement age is raised to 65 and early retirement schemes have expired to be replaced by the 'Levensloopregeling'. Employees born before January 1, 1950 are part of the transitional provision and no changes are required to their current (early) retirement benefits. In the amended pension scheme, employees are entitled to retirement benefits that are based on the average salary, instead of final pay, on attainment of the retirement age of 65, instead of the age of 62.

This scheme is funded through payments to an insurance company as determined by periodic actuarial calculations. The principal actuarial assumptions are set out in note 22. FMO recognizes a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of ('corridor approach'):

1. 10% of present value of the defined benefit obligation at that date (before deducting plan assets); and
2. 10% of the fair value of any plan assets at that date.

The liability in respect of defined benefit pension plans 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 interest rates of high-quality corporate bonds, which have terms to maturity approximating the terms of the related liability. When the fair value of the plan assets exceeds the present value of the defined benefit obligations, a gain (asset) could be recognized given that this difference be recovered fully through refunds or reductions in future contributions. No gain is recognized solely as a result of deferral of an actuarial loss or past service cost in the current period. No loss is recognized solely as a result of deferral of an actuarial gain in the current period.

The net periodic pension cost is included in staff costs. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to income over the service lives of the related employees.

The change in FMO's pension scheme in 2006 resulted in past service losses due to a higher defined benefit obligation with regard to past service periods. In accordance with IAS 19, this loss has been included as a loss in the profit and loss account 2006.

Under IAS 19 the FMO pension obligation is determined in a narrow pre-described calculation. IFRS does not allow hedging the defined benefit obligation in the pension scheme with the typical Dutch guaranteed collective pension contract with a high-rated and well-established insurer. This contract guarantees all nominal pension obligations and certainly mitigates the downside risk from the pension assets.

Certain employees and board members have a defined contribution plan. Under this plan FMO pays contribution to publicly or privately administrated pension plans. FMO has no further payment obligations once contributions have been paid. The annual contributions are recorded as pension costs.

Taxation

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled. Current and deferred taxes are recognized as income tax benefit or expense except for:

1. deferred taxes recognized or disposed of upon the acquisition or disposal of a subsidiary; and
2. unrealized gains or losses on available for sale investments and changes in fair value of derivative instruments designated as cash flow hedges, which are recorded net of taxes directly in shareholders' equity.

Shareholders' equity

Contractual reserve

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

Development fund

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

Available for sale reserve (AFS reserve)

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

Translation reserve

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

Other reserves

Dividends are recorded in equity in the period in which they are declared. Dividends for the year that are declared after the balance sheet date are mentioned as subsequent events.

Undistributed profit

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

Consolidated balance sheet at December 31

(before profit appropriation)	Notes	2007	2006
ASSETS			
Banks	(1)	8,743	10,114
Short-term deposits	(2)	175,345	104,713
Derivative financial instruments	(3)	73,695	58,592
Loans to the private sector	(4), (8)	1,276,026	1,098,529
Loans guaranteed by the State	(5), (8)	39,511	31,505
Equity investments	(6)	306,192	189,627
Investments in associates	(7)	31,260	26,271
Interest-bearing securities	(9)	590,242	638,603
Subsidiaries	(10)	1,135	1,135
Tangible fixed assets	(11)	9,498	7,951
Deferred income tax assets	(34)	49,251	49,419
Current accounts with State funds and programs	(12)	47,780	32,903
Other receivables	(13)	20,066	10,272
Accrued income	(14)	56,291	46,322
Total assets		**2,685,035**	**2,305,956**
LIABILITIES			
Banks	(15)	2,048	2,020
Short-term credits	(16)	242,019	42,218
Derivative financial instruments	(3)	48,393	88,967
Debt securities	(17)	97,685	90,491
Debentures and notes	(18)	1,020,257	913,510
Other liabilities	(19)	20,513	13,457
Current accounts with State funds and programs	(20)	2,641	1,539
Current income tax liabilities	(34)	1,223	51
Deferred income tax liabilities	(34)	1,282	11,500
Accrued liabilities	(21)	43,522	38,293
Provisions	(22)	23,292	20,778
Total liabilities		**1,502,875**	**1,222,824**
SHAREHOLDERS' EQUITY			
Share capital		9,076	9,076
Share premium reserve		29,272	29,272
Contractual reserve		442,488	342,724
Development fund		657,981	657,981
Available for sale reserve		21,878	23,785
Translation reserve		-3,539	-1,605
Other reserves		19,721	14,648
Undistributed profit		5,283	7,251
Total shareholders' equity	**(23)**	**1,182,160**	**1,083,132**
Total liabilities and shareholders' equity		**2,685,035**	**2,305,956**
Contingent liabilities	(35)	150,254	147,110
Irrevocable facilities	(35)	730,284	508,414
Loans and equity investments managed for the risk of the State*		448,132	357,039

* See Business segments paragraph.

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Consolidated profit and loss account

	Notes	2007	2006
INCOME			
Interest income		162,015	141,906
Interest expense		-59,634	-50,384
Net interest income	**(24)**	**102,381**	**91,522**
Fee and commission income		3,378	2,191
Fee and commission expense		-134	-177
Net fee and commission income	**(25)**	**3,244**	**2,014**
Dividend income	(26)	5,900	6,880
Results from equity investments	(27)	72,504	73,898
Results from financial transactions	(28)	-9,548	-1,034
Remuneration for services rendered	(29)	23,477	23,262
Other operating income	(30)	1,052	5,594
Total other income		**93,385**	**108,600**
Total income		**199,010**	**202,136**
OPERATING EXPENSES			
Staff costs	(31)	-38,985	-34,675
Other administrative expenses	(32)	-8,537	-8,909
Depreciation and impairment	(11)	-3,562	-3,512
Other operating expenses	(33)	-148	-219
Total operating expenses		**-51,232**	**-47,315**
Operating profit before value adjustments		**147,778**	**154,821**
VALUE ADJUSTMENTS ON			
Loans	(8)	-19,990	1,370
Equity investments and associates	(6), (7)	-9,249	-2,442
Guarantees issued	(8)	-6,202	7,296
Total value adjustments		**-35,441**	**6,224**
Share in the result of associates	(7)	3,941	3,533
Share in the result of subsidiaries	(10)	57	51
Total share in the result of associates and subsidiaries		**3,998**	**3,584**
Profit before taxation		**116,335**	**164,629**
Income tax expense	(34)	-11,288	-30,552
Net profit		**105,047**	**134,077**

Consolidated statement of changes in shareholders' equity

	Share capital	Share premium reserve	Contractual reserve	Develop-ment fund	Available for sale reserve	Translation reserve	Other reserves	Undistri-buted profit	Total
Balance at December 31, 2005	**9,076**	**29,272**	**215,898**	**657,981**	**21,798**	**185**	**11,617**	**4,330**	**950,157**
ARISING IN THE PERIOD									
Fair value changes in equity investments, net of tax	-	-	-	-	29,444	-	-	-	29,444
Fair value changes in interest-bearing securities, net of tax	-	-	-	-	-13,942	-	-		-13,942
Currency translation differences	-	-	-	-	-	-1,790	-	-	-1,790
TRANSFERS									
Fair value changes in equity investments, net of tax	-	-	-	-	-13,515	-	-	-	-13,515
Fair value changes in interest-bearing securities, net of tax	-	-	-	-	-	-	-	-	-
Net results not recognized in the profit and loss account	**-**	**-**	**-**	**-**	**1,987**	**-1,790**	**-**	**-**	**197**
Appropriation undistributed profit 2005	-	-	-	-	-	-	3,031	-3,031	-
Net profit	-	-	126,826*	-	-	-	-	7,251	134,077
Dividend declared	-	-	-	-	-	-	-	-1,299	-1,299
Balance at December 31, 2006	**9,076**	**29,272**	**342,724**	**657,981**	**23,785**	**-1,605**	**14,648**	**7,251**	**1,083,132**
ARISING IN THE PERIOD									
Fair value changes in equity investments, net of tax	-	-	-	-	11,679	-	-	-	11,679
Fair value changes in interest-bearing securities, net of tax	-	-	-	-	-5,772	-	-	-	-5,772
Currency translation differences	-	-	-	-	-	-1,934	-	-	-1,934
TRANSFERS									
Fair value changes in equity investments, net of tax	-	-	-	-	-10,267	-	-	-	-10,267
Fair value changes in interest-bearing securities, net of tax	-	-	-	-	2,453	-	-	-	2,453
Net results not recognized in the profit and loss account	**-**	**-**	**-**	**-**	**-1,907**	**-1,934**	**-**	**-**	**-3,841**
Appropriation undistributed profit 2006	-	-	-	-	-	-	5,073	-5,073	-
Net profit	-	-	99,764*	-	-	-	-	5,283	105,047
Dividend declared	-	-	-	-	-	-	-	-2,178	-2,178
Balance at December 31, 2007	**9,076**	**29,272**	**442,488**	**657,981**	**21,878**	**-3,539**	**19,721**	**5,283**	**1,182,160**

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

Consolidated cash flow statement

	Notes	2007	2006*
Profit before taxation		**116,335**	**164,629**
Adjusted for non-cash items included in result and other items shown separately:			
• Result on sale of equity investments		-72,504	-73,898
• Result of associates and subsidiaries		-3,998	-3,584
• Result on sale of interest-bearing securities		-3,293	-
• Depreciation and impairment of tangible fixed assets		3,562	3,512
• Net interest income		-102,381	-91,522
• Amortization of premiums, discounts and fees		-2,242	10,226
• Changes in fair value		1,256	13,838
• Value adjustments		35,441	-6,224
• Other non-cash items		-10,752	910
• Changes in exchange rates		5,047	1,359
• Movement in provisions		2,514	2,933
Movement in working capital (excluding interest, taxes and State programs)		-5,925	-3,302
Interest received		155,636	137,260
Interest paid		-54,808	-46,938
Net income taxes paid		-18,568	-72,827
Dividends received		5,957	6,931
Loan disbursements		-578,530	-553,910
Loan disbursements, guaranteed by the State		-20,903	-17,081
Loan repayments		287,187	353,170
Loan repayments, guaranteed by the State		4,670	5,760
Purchase and contributions of equity investments		-160,111	-99,067
Sale of equity investments and associates		122,115	118,339
Purchase of and contributions in associates		-17,045	-18,763
Movement in short-term credits		199,801	13,446
Movement in working capital with State programs		-13,775	-27,919
Net cash flow from operational activities	**(38)**	**-125,314**	**-182,722**
INVESTING ACTIVITIES			
Purchase of interest-bearing securities		-62,751	-174,127
Redemption/sale of interest-bearing securities		112,732	145,548
Investments in tangible fixed assets		-5,109	-5,385
Net cash flow from investing activities	**(39)**	**44,872**	**-33,964**
FINANCING ACTIVITIES			
Proceeds from issuance of debt securities		10,835	1,361
Proceeds from issuance of debentures and notes		267,592	72,892
Redemption of debt securities		-2,369	-39,918
Redemption of debentures and notes		-124,205	-76,661
Dividend paid		-2,178	-1,299
Net cash flow from financing activities	**(40)**	**149,675**	**-43,625**
Net cash flow		**69,233**	**-260,311**
CASH AND CASH EQUIVALENTS			
Banks and short-term deposits at January 1		112,807	373,231
Exchange rate difference on cash and cash equivalents		-	113
Banks and short-term deposits at December 31		182,040	112,807
Total cash flow		**69,233**	**-260,311**

* Adjusted for comparative purposes.

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Financial risk management

In its operating environment and daily activities, FMO encounters various risks. In the process of identification, measurement, monitoring and mitigation of these risks, the company maintains comprehensive and strict procedures and controls. The main risks identified by FMO are:

1. *Credit risk* – the risk that a change in the credit quality of a counterparty will affect the value of FMO's positions. Adverse changes in credit quality can occur due to specific counterparty risk or risks relating to the country in which the counterparty conducts its business.
2. *Market risk* – this risk is split into four types:
   - Currency risk – the risk that the value of FMO's positions will fluctuate due to changes in foreign currency exchange rates;
   - Interest rate risk – the risk that the changes in market interest rates will cause fluctuations in the value of FMO's positions;
   - Equity risk – the risk that the value of FMO's positions will fluctuate due to changes in the value of equity investments;
   - Commodity price risk – the risk that the value of FMO's positions will fluctuate due to changes in commodity prices. This risk is of limited relevance to FMO's operations.
3. *Liquidity risk* – the risk that FMO will encounter difficulty in raising funds to meet commitments associated with its financial instruments. This definition includes the risk that FMO will be unable to sell a financial asset quickly at a price close to its fair value.
4. *Operational risk* – the risks that can arise from inadequate procedures, information systems and/or actions by staff.

FMO has defined these risks on a clear and consistent basis. The most significant risks are the credit and equity risks related to the company's investment activities, as a result of taking risks that commercial market parties are usually not prepared to take. Therefore, all individual financing proposals are assessed by the company's Investment Committee in terms of specific counterparty as well as country risk. In addition, all financial exposures are subject to a periodic review process in the Investment Review Committee. Management of FMO's risks on a portfolio level is the responsibility of the Asset and Liability Management Committee (ALCO). Key duties of the ALCO include setting policies on credit, country, currency, interest rate and liquidity risks, as well as capital adequacy. In its monthly meeting, the ALCO assesses risk reports and advises on new products and limits. The Risk Management department acts as secretary to the ALCO, for which it prepares the Treasury Risk Monitor and the Region Risk Monitor. The Treasury Risk Monitor covers capital adequacy and counterparty risk for treasury activities as well as liquidity, currency and interest rate risk. Capital adequacy for investment activities and country risk are covered by the Region Risk Monitor.

CREDIT RISK

FMO is exposed to credit risk, which is the risk that adverse movements in the credit quality of counterparties will affect the value of financial instruments. Credit risk can arise due to specific counterparty risk, in the form of defaults or adverse change in credit quality, or due to country risks. As credit risk is the most significant risk in the company's operations, it is managed carefully. Credit exposures arise principally in its investment activities by way of loans, advances and off-balance instruments such as loan commitments and guarantees. To a lesser extent, FMO is exposed to credit risk in areas related to its treasury activities.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before provisioning and the effect of mitigation through the use of master netting and collateral agreements.

	2007	2006
ON-BALANCE		
Banks	8,743	10,114
Short-term deposits	175,345	104,713
Derivative financial instruments	73,695	58,592
Loans to the private sector	1,427,713	1,242,682
Loans guaranteed by the State	48,865	33,908
Equity investments	337,844	220,448
Interest-bearing securities	590,242	638,603
Deferred income tax assets	49,251	49,419
Current accounts with State funds and programs	47,780	32,903
Other receivables	20,066	10,272
Accrued income	56,291	46,322
Total	**2,835,835**	**2,447,976**
OFF-BALANCE		
Credit risk exposures relating to off-balance sheet items are as follows:		
• Contingent liabilities	165,900	155,816
• Irrevocable facilities	730,284	508,414
	896,184	**664,230**
Total credit risk exposure	**3,732,019**	**3,112,206**

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Investment credit risk

FMO manages investment credit risks by pursuing a rigorous acceptance policy with regard to obligor and project risk. The policies employed to control credit risk include organizational and administrative procedures, investment criteria, and limits per country, sector, group and debtor. These limits are designed to avoid credit risk concentrations, and are monitored periodically. The lending process works on the basis of a formalized and strict system of procedures and decision-making competencies. These competencies have been differentiated according to both the size of the facility sought and the risk profile of the financing instrument in question. In this regard, FMO has decided to restrict individual mandates and authorities, and to take all but minor investment decisions in committees. All financing proposals are assessed by the Investment Committee in terms of specific counterparty as well as country risk. The company's Investment Review Committee reviews all financing at least once a year. Management of investments in need of restructuring is transferred to the Special Operations department.

The following table gives an overview of the loan portfolio (including investments transferred to the Special Operations department) in the regions and sectors in which FMO is active:

	Finance	Infrastructure	Trade & Industry	Other	Total
Africa	76,748	96,797	42,053	1,427	217,025
Asia	138,531	96,052	123,856	1,273	359,712
Europe & Central Asia	314,831	53,288	25,269	15,764	409,152
Latin America & the Caribbean	177,678	115,680	113,833	34,633	441,824
Total	**707,788**	**361,817**	**305,011**	**53,097**	**1,427,713**

Counterparty risk

In measuring the credit risk of investment activities at the counterparty level, FMO distinguishes between the credit quality of counterparties (i.e. probability of default) and the likely recovery ratio in case of defaults (i.e. loss given default). Counterparty credit quality is measured by scoring counterparties on various dimensions of financial strength. With respect to the likely recovery ratio, the company typically seeks to protect its interest in direct loans to enterprises by calling for security in the form of collateral, third party guarantees, or both. The company does, however, provide loans to certain financial institutions and enterprises either without security or with security that does not fully cover the value of its loans, provided that:

1. it deems such institutions and enterprises to be sufficiently creditworthy;
2. all other lenders with respect to a financial instrument take the same position; and
3. satisfactory covenants, pari-passu clauses, cross-default clauses and negative pledges are given and acceptable agreements are made with the obligor and co-lenders.

Securities obtained in the form of collateral are registered by type, the diversification of which is presented in the table below. Due to the nature of the markets in which the company operates, it has been proven difficult to assign reliable fair values to the collateral used to mitigate credit risk.

	2007 % of total collateral	2006 % of total collateral
Real estate	24	23
Business assets	47	50
Financial instruments	29	27
Total	**100**	**100**

The table below indicates what part of the loans to the private sector is past due or carries a value adjustment. The total value adjustment for loans to the private sector is €151,687 (2006: €144,153) of which €30,369 (2006: €39,394) represents the counterparty-specific value adjustments and the remaining amount of €121,318 (2006: €104,759) represents the group-specific value adjustment. Further information of the value adjustments for loans to the private sector is provided in note 8.

	2007	2006
Loans neither past due nor value adjustment recorded	1,327,519	1,085,072
Loans past due but no value adjustment recorded	80,883	109,484
Loans value adjustment recorded	37,652	65,183
Gross	**1,446,054**	**1,259,739**
Less: amortizable fees	-18,341	-17,057
Subtotal	**1,427,713**	**1,242,682**
Less: (group-specific) value adjustment	-151,687	-144,153
Net	**1,276,026**	**1,098,529**

The table below gives an overview of the distribution of value adjustments over regions and sectors.

	Finance	Infrastructure	Trade & Industry	Other	Total
Africa	10,358	12,690	5,542	231	28,821
Asia	13,514	18,161	14,971	1,272	47,918
Europe & Central Asia	23,750	5,100	593	195	29,638
Latin America & the Caribbean	18,354	11,679	9,039	6,238	45,310
Total	**65,976**	**47,630**	**30,145**	**7,936**	**151,687**

The credit quality of the portfolio of loans to the private sector that were neither past due nor carry a value adjustment, is assessed by reference to the internal rating system in the table below. Due to the geographical and sectoral differentiation of counterparties, the size of FMO's portfolio and the lack of benchmark ratings, internal ratings are not mapped to equivalent ratings of external rating agencies. However, in our experience the internal ratings provide a powerful tool for analyzing counterparty credit risk and assessing required levels of monitoring.

FMO counterparty rating	Description of rating	2007	2006
A	Good financial sustainability	22,383	38,210
B	Satisfactory financial sustainability	1,017,197	784,211
C	Moderate financial sustainability	287,939	262,651
D, E	Poor financial sustainability	-	-
Total		**1,327,519**	**1,085,072**

In 2007 a total of €114,512 was received from prepayments. The prepayments were received from clients with ratings B and C. It is assumable that at least a part of those clients, would they not have prepaid, would have had an upgrade in their yearly review by FMO. The table above shows zero amounts for loans to counterparties with a rating D or E as these are always provisioned.

Gross amount of loans to the private sector that were past due but without value adjustment was as follows:

	2007	2006
Past due up to 30 days	9,265	57,446
Past due 30-60 days	31,778	15,977
Past due 60-90 days	1,134	-
Past due more than 90 days	38,706	36,061
Total	**80,883**	**109,484**

Apart from its on-balance finance activities, the company is also exposed to off-balance credit-related commitments. Guarantees, which represent irrevocable commitments that FMO will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risks as loans. The largest part of the guarantees is quoted in US dollars or euros. Guarantees on export facilities are collateralized by the underlying letters of credit to which they relate, and therefore carry less credit risk than a direct borrowing. The total outstanding guarantees add up to an amount of €165,900. This is a slight increase compared to 2006 (€155,816).

Commitments to provide credit represent unused portions of authorizations to extend credit in the form of loans or guarantees to existing clients as well as to new clients. With respect to credit risk on commitments to extend credit to existing clients, FMO is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since, in general, commitments to extend credit are contingent upon customers maintaining specific credit standards. The outstanding commitments increase from €508,414 in 2006 to €730,284 in 2007 of which 9% is in local currency.

Country risk

Country risk arises from country-specific events that adversely impact the company's exposure in a specific country, such as events on a political or macro-economic level. All investments in developing countries involve country risk. The assessment of country risk is based on a benchmark of external rating agencies and other external information. The table below gives an indicative mapping of FMO's internal country ratings to country ratings of Standard & Poor's as well as the proportion of the total emerging market portfolio that is invested per rating class.

Over the last few years the risk profiles of many countries have improved. In the table below it is shown that loans outstanding in countries with country rating 1 increased in 2007. This is mainly due to an upgrade of the country ratings of Russia and India from 2 to 1. When cumulating classes 1 and 2 the relative portfolio of FMO is the same in 2006 (32.1%) as in 2007 (32.1%). The part of the portfolio with an indicative Standard & Poor rating of B and lower, increased slightly in 2007 from 40.1% (2006) to 41.2% (2007).

FMO country rating	Indicative external rating equivalent (based on Standard & Poor's methodology)	Portfolio exposure 2007 %	Portfolio exposure 2006 %
1	BBB- and higher ratings	26.2	9.9
2	BB+	5.9	22.2
3	BB, BB-	21.4	21.9
4	B+	5.3	5.9
5	B	11.7	6.6
6	B-	24.5	26.7
7	CCC+ and lower ratings	5.0	6.8

Limits per country are based on the country risk assessment. With respect to the exposure under these limits, FMO recognizes that the impact of country risk differs across the financial products it is offering. In order to approximate group-specific value adjustment losses, country-specific provisions are established on the investment credit portfolio based on country risk and estimated recovery rates. With respect to the geographic diversification in the portfolio, reference is made to Segment reporting by geographic location. With respect to the sectoral diversification in the portfolio, reference is made to notes 4, 5 and 6 of the Notes to the consolidated balance sheet.

Treasury credit risk

In addition to credit risk resulting from its investment activities in developing countries, the company is exposed to credit risks in connection with the liquid assets maintained by it, its treasury investment portfolio of interest-bearing securities and the positive fair value of derivative instruments. FMO's treasury investment policy aims to limit such risks. This policy prescribes a selective procedure with regard to the acceptance of counterparties, which must satisfy certain minimum Standard & Poor's and Moody's ratings (AA-/AA3 rating for long-term loans; A2/P2 rating for short-term deposits). In addition, concentration risks are managed by setting limits per country, industry sector, debtor, and type of transaction. Limits per debtor depend, in particular, on the independent rating of the counterparty. The credit quality of the exposures arising from treasury activities is monitored on a daily basis. The table below presents an analysis of short-term deposits and interest-bearing securities by rating agency designation, based on Standard & Poor's ratings or their equivalent.

	2007	2006
INTEREST-BEARING SECURITIES (BASED ON LONG-TERM RATING)		
AAA	532,057	561,687
AA- to AA+	58,185	76,916
Total	**590,242**	**638,603**
SHORT-TERM DEPOSITS (BASED ON SHORT-TERM RATING)		
A1	165,343	104,713
A2	10,002	-
Total	**175,345**	**104,713**

MARKET RISK

FMO is exposed to market risk, which is the risk that the fair value or future cash flows of financial instruments is affected by changes in market variables, such as foreign exchange rates, interest rates and equity prices.

Currency risk

Currency risk arises from the possibility that changes in foreign currency exchange rates have an adverse effect on the value of FMO's financial position and future cash flows. The Board has set limits on currency positions, which are monitored on a daily basis. Currency risks are managed by matching the currency characteristics of the company's assets and liabilities, using derivative instruments such as (cross-)currency swaps and currency forwards.

With respect to equity investments, the company runs currency risks that cannot be completely covered, as future cash flows are unknown. When equity investments are made, the expected returns in local currencies are assessed in terms of their sufficiency to compensate for the currency risk. FMO has made the strategic decision to accept open positions in certain emerging market currencies that cannot be hedged in the market. This decision allowed FMO to provide loans in local currencies, enhancing the financial stability of clients that operate in local markets. Criteria for such loans include diversification of local currency exposures and requirements for the currencies involved.

The largest part of the equity portfolio is valued at fair value. However, it can be difficult to assess the fair value of the investment when there is a lack of market data or when the market is illiquid. Under these circumstances FMO values these equity investments at cost minus impairment. In total €101,942 of the equity portfolio is valued at cost minus impairment, of which €20,950 is quoted in euros, €57,461 in US dollars and €23,531 in other currencies. The equity portfolio valued at cost minus impairment denominated in other currencies than euros has not been revalued due to the exchange rate movements in 2007.

The table opposite summarizes FMO's year-end exposure to currency risk at carrying values. The majority of currency exposures arise due to equity investments, investments in associates and loans provided in local emerging market currencies.

For funding purposes FMO attracted Nigerian naira (NGN) and Australian dollars (AU $) funding in 2007 with a euro equivalent nominal amount of €48,241 and €35,838 respectively at year-end. These amounts are presented in 'other' on the account 'debentures and notes'. The Nigerian naira and Australian dollar currency risk is swapped against the US dollar (account 'derivative financial instruments'). As a result the Nigerian naira and Australian dollar position is almost equal to zero.

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At December 31, 2007	€	US $	¥	Other	Total
ASSETS					
Banks	3,399	2,601	14	2,729	8,743
Short-term deposits	66,815	108,530	-	-	175,345
Derivative financial instruments*	83,997	-272,592	224,913	37,377	73,695
Loans to the private sector	281,589	839,131	-	155,306	1,276,026
Loans guaranteed by the State	36,872	2,639	-	-	39,511
Equity investments	85,465	178,616	-	42,111	306,192
Investments in associates	-	28,753	-	2,507	31,260
Interest-bearing securities	590,242	-	-	-	590,242
Subsidiaries	1,135	-	-	-	1,135
Tangible fixed assets	9,498	-	-	-	9,498
Deferred income tax assets	49,251	-	-	-	49,251
Current accounts with State funds and programs	46,500	1,286	-	-6	47,780
Other receivables	15,530	4,283	-	253	20,066
Accrued income	25,126	20,131	3,128	7,906	56,291
Total assets	**1,295,419**	**913,378**	**228,055**	**248,183**	**2,685,035**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity	1,182,160	-	-	-	1,182,160
Banks	-	2,048	-	-	2,048
Short-term credits	237,053	4,966	-	-	242,019
Derivative financial instruments*	5,517	277,186	-201,015	-33,295	48,393
Debt securities	69,594	9,537	18,554	-	97,685
Debentures and notes	130,153	394,883	409,638	85,583	1,020,257
Other liabilities	5,610	12,632	-	2,271	20,513
Current accounts with State funds and programs	2,825	-184	-	-	2,641
Current income tax liabilities	1,223	-	-	-	1,223
Deferred income tax liabilities	1,282	-	-	-	1,282
Accrued liabilities	18,697	14,756	2,978	7,091	43,522
Provisions	23,292	-	-	-	23,292
Total liabilities and shareholders' equity	**1,677,406**	**715,824**	**230,155**	**61,650**	**2,685,035**
Currency sensitivity gap 2007	**-381,987**	**197,554**	**-2,100**	**186,533**	**-**

At December 31, 2006	€	US $	¥	Other	Total
Total assets	1,130,565	1,083,884	-4,455	95,962	2,305,956
Total liabilities and shareholders' equity	1,321,143	942,936	-2,258	44,135	2,305,956
Currency sensitivity gap 2006	**-190,578**	**140,948**	**-2,197**	**51,827**	**-**

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

Off-balance FMO has a guarantee exposure of €93,993 in US dollars and €37,816 in local currencies. The off-balance commitment exposure adds up to €500,983 in US dollars and €68,018 in local currencies.

The table below presents the sensitivity of FMO's net interest income and shareholders' equity to a possible change in the main foreign currencies. The sensitivity of income and shareholders' equity to the assumed changes in exchange rates is based on the financial assets and liabilities held at year-end, including the effect of hedging instruments. The sensitivities set out below are illustrative only and employ simplified scenarios. It should be noted that the effects may not be linear and therefore the results cannot be extrapolated.

	At December 31, 2007		At December 31, 2006	
Change of value relative to the euro	Sensitivity of income	Sensitivity of shareholders' equity	Sensitivity of income	Sensitivity of shareholders' equity
US $ value increase of 10%	-982	14,009	648	10,017
US $ value decrease of 10%	982	-14,009	-648	-10,017
¥ value increase of 10%	-210	-210	-220	-220
¥ value decrease of 10%	210	210	220	220

Interest rate risk

Interest rate risk can be specified as cash flow interest rate risk and fair value interest rate risk. Cash flow interest rate risk relates to the possibility that future cash flows of financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk arises from the possibility that the value of financial instruments is affected by changes in market interest rates. The Board has set limits on the level of interest repricing mismatch that may be undertaken, which is monitored on a weekly basis. Interest rate risk is managed by matching the interest repricing characteristics of the company's assets and liabilities using derivative instruments such as interest rate swaps and forward rate agreements. The treasury investment policy of FMO is to generate stable interest cash flows through investing in a liquid portfolio of fixed interest-bearing securities. This deliberate long-term fixed interest position is the main source of interest repricing mismatch reported in the tables that follow.

The table below summarizes the interest repricing characteristics for FMO's assets and liabilities. Included in the table are FMO's assets and liabilities at carrying values, categorized by the earlier of contractual repricing or maturity dates.

At December 31, 2007	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest bearing	Total
ASSETS						
Banks	8,743	-	-	-	-	8,743
Short-term deposits	175,345	-	-	-	-	175,345
Derivative financial instruments*	-69,830	-91,984	129,102	106,054	353	73,695
Loans to the private sector	329,987	822,329	47,541	76,169	-	1,276,026
Loans guaranteed by the State	554	18	16,194	22,745	-	39,511
Equity investments	-	-	-	-	306,192	306,192
Investments in associates	-	-	-	-	31,260	31,260
Interest-bearing securities	16,531	48,958	296,456	228,297	-	590,242
Subsidiaries	-	-	-	-	1,135	1,135
Tangible fixed assets	-	-	-	-	9,498	9,498
Deferred income tax assets	-	-	-	-	49,251	49,251
Current accounts with State funds and programs	-	-	-	-	47,780	47,780
Other receivables	-	-	-	-	20,066	20,066
Accrued income	-	-	-	-	56,291	56,291
Total assets	**461,330**	**779,321**	**489,293**	**433,265**	**521,826**	**2,685,035**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Shareholders' equity	-	-	-	-	1,182,160	1,182,160
Banks	2,048	-	-	-	-	2,048
Short-term credits	192,019	50,000	-	-	-	242,019
Derivative financial instruments*	96,854	16,650	-59,160	-5,951	-	48,393
Debt securities	-	23,142	65,817	8,726	-	97,685
Debentures and notes	452,083	291,175	180,025	96,974	-	1,020,257
Other liabilities	-	-	-	-	20,513	20,513
Current accounts with State funds and programs	-	-	-	-	2,641	2,641
Current income tax liabilities	-	-	-	-	1,223	1,223
Deferred income tax liabilities	-	-	-	-	1,282	1,282
Accrued liabilities	-	-	-	-	43,522	43,522
Provisions	-	-	-	-	23,292	23,292
Total liabilities and shareholders' equity	**743,004**	**380,967**	**186,682**	**99,749**	**1,274,633**	**2,685,035**
Interest sensitivity gap 2007	**-281,674**	**398,354**	**302,611**	**333,516**	**-752,807**	**-**
Of which denominated in:						
• €	-78,495	127,211	303,232	268,648	-1,002,583	-381,987
• US $	-191,496	118,665	-731	64,905	206,211	197,554
• ¥	-1,600	-723	110	-37	150	-2,100
• Other	-10,083	153,201	-	-	43,415	186,533

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

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At December 31, 2006	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest bearing	Total
Total assets	630,538	348,838	515,609	445,194	365,777	2,305,956
Total liabilities and shareholders' equity	599,356	345,897	136,077	55,876	1,168,750	2,305,956
Interest sensitivity gap 2006	**31,182**	**2,941**	**379,532**	**389,318**	**-802,973**	**-**
Of which denominated in:						
• €	75,919	80,949	348,564	310,004	-1,006,014	-190,578
• US $	-40,855	-84,668	11,667	94,050	160,754	140,948
• ¥	-1,424	-613	-	-160	-	-2,197
• Other	-2,458	7,273	19,301	-14,576	42,287	51,827

The interest sensitivity gaps reported mainly relate to the deliberate long-term fixed interest position FMO takes in interest-bearing securities.

The table below presents the sensitivity of FMO's net interest income and shareholders' equity to possible changes in interest rates. The sensitivity of net interest income to the assumed changes in interest rates is based on the floating rate financial assets and liabilities held at year-end, including the effect of hedging instruments. The sensitivity of shareholders' equity is calculated by revaluing fixed rate available-for-sale financial assets held at year-end for the effects of assumed changes in interest rates. The total sensitivity of shareholders' equity is based on the assumption of parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes. The interest rate sensitivities set out below are illustrative only and employ simplified scenarios. It should be noted that the effects may not be linear and therefore the results cannot be extrapolated. The sensitivities do not incorporate actions that could be taken by management to mitigate the effect of the interest rate movements.

		Sensitivity of shareholders' equity				
At December 31, 2007	**Sensitivity of net interest income**	**< 3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Increase of 100 basis points	1,167	-388	92	-14,437	-18,710	-33,443
Decrease of 100 basis points	-1,167	388	-92	14,437	18,710	33,443

		Sensitivity of shareholders' equity				
At December 31, 2006	**Sensitivity of net interest income**	**< 3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Increase of 100 basis points	341	1,754	-1,025	-10,204	-12,656	-22,131
Decrease of 100 basis points	-341	-1,754	1,025	10,204	12,656	22,131

Equity risk

Equity risk is the risk that the fair values of equity investments decrease as the result of changes in the levels of equity indices and the value of individual stocks. FMO assumes non-trading equity risk in its investment activities. Equity investments are assessed by the company's Investment Committee in terms of specific obligor as well as country risk. The company's Investment Review Committee reviews all equity investments at least once a year and assesses the valuation of equity investments semi-annually. The performance of the equity investments in portfolio is periodically analyzed through the revision and fair value process. Based on this performance and market circumstances, exits are pursued in close cooperation with our investment partners. The sale price is based on market conditions and the fair market value. Subject to conjunctures of the sector and the region, equity investments are normally not held in portfolio longer than five years. The following table gives an overview of the equity portfolio in the regions and sectors in which FMO is active.

	Finance	Infrastructure	Trade & Industry	Other	Total
Africa	48,688	9,831	-	-	58,519
Asia	38,701	129	1,067	1,544	41,441
Europe & Central Asia	94,697	-	1,503	7,668	103,868
Latin America & the Caribbean	24,956	1	14,625	6,737	46,319
Global	56,045	-	-	-	56,045
Total	**263,087**	**9,961**	**17,195**	**15,949**	**306,192**

The sector finance includes investment funds. The global investments in the financial sector all represent investments funds of which the largest part is an investment in TCX Fund N.V. of €47,185.

LIQUIDITY RISK

Liquidity risk is the risk that the company has insufficient funds to meet financial commitments, or when it has to sell assets at a price below fair value to meet such commitments. The treasury investment policy mitigates this liquidity risk through:

1. funding activities on a day-to-day basis, managed by monitoring expected future cash flows and actively operating on money markets to ensure that liquidity requirements can be met;
2. maintaining a sizeable portfolio of highly marketable securities that under normal market circumstances can easily be liquidated;
3. monitoring balance sheet liquidity ratios against internal and regulatory requirements;
4. managing the concentration and profile of funding sources;
5. maintaining an updated liquidity contingency plan dealing with stress scenarios.

FMO has not been adversely affected by the liquidity crisis in 2007. The liquidity crisis that resulted from deteriorating conditions in the subprime mortgage market in the United States has led FMO to carefully review its contingent liquidity planning. The unprecedented strong correlation of credit risk in a particular segment of the financial markets with reduced liquidity risk in most other segments of the market justified some additional measures taken with respect to contingent liquidity, such as organizing a committed bank facility to support our operations in times of adverse market circumstances.

As a buy and hold investor in high-quality bonds for the purpose of maintaining an investment portfolio FMO has not experienced valuation problems. All instruments are marked-to-market using a Reuters feed against the bid and ask prices quoted at the end of each day. Apart from the movements of these prices as a result of deteriorating liquidity in the bond market, FMO has not taken impairments with respect to the bond portfolio.

FMO's AAA rating from Standard & Poor's ensures the company's access to financial markets for funding, thereby moderating liquidity risk. The diversification of funding sources with respect to currency is shown in the previous paragraph; the diversification of funding sources with respect to maturities is presented in the table below. Part of FMO's funding comes from structured instruments, which may be subject to early repayment at semi-annual intervals. Whether the company's counterparties exercise this early repayment option depends on the specific option structure of the instrument, which is mainly based on movements of interest rates and foreign exchange rates. The risk of early repayment concentrations has been reduced by diversifying FMO's structured funding portfolio with respect to option structures. The probability of early repayment of structured funding, together with the expected tenor, is monitored on a frequent basis. An analysis of the sensitivity of the expected remaining period to maturity to movements in interest rates and foreign exchange rates is presented in the table below. The parallel interest rates movements for the US dollar and the Japanese yen are about 10% of current interest rates. The total nominal amount of the structured funding portfolio is €576,242. The average remaining maturity of the structured portfolio at year-end was 3.66 years.

At December 31, 2007	Expected remaining period to maturity in years
PARALLEL MOVEMENTS OF INTEREST RATES	
50 basis points increase US $	3.94
50 basis points decrease US $	3.34
10 basis points increase ¥	4.03
10 basis points decrease ¥	3.26
MOVEMENTS OF FOREIGN EXCHANGE RATES	
US $ value increase of 10%	3.51
US $ value decrease of 10%	3.83
¥ value increase of 10%	3.70
¥ value decrease of 10%	3.62

The table below provides the cash flows receivable and payable by remaining maturities at the balance sheet date. The amounts disclosed in the table are the expected undiscounted cash flows. With respect to our structured funding portfolio and related derivative instruments, aggregate amounts based on undiscounted cash flows at the contractual earliest possible maturity dates are presented at the bottom of the table.

At December 31, 2007	< 3 months	3-12 months	1-5 years	> 5 years	Maturity undefined	Total
ASSETS						
Banks	8,743	-	-	-	-	8,743
Short-term deposits	175,345	-	-	-	-	175,345
Derivative financial instruments	1,611	7,522	56,110	8,099	353	73,695
Loans to the private sector	137,913	66,140	417,102	654,871	-	1,276,026
Loans guaranteed by the State	102	18	16,648	22,743	-	39,511
Equity investments	-	-	-	-	306,192	306,192
Investments in associates	-	-	-	-	31,260	31,260
Interest-bearing securities	16,531	48,958	296,456	228,297	-	590,242
Subsidiaries	-	-	-	1,135	-	1,135
Tangible fixed assets	-	-	-	9,498	-	9,498
Deferred income tax assets	-	-	-	-	49,251	49,251
Current accounts with State funds and programs	47,780	-	-	-	-	47,780
Other receivables	20,066	-	-	-	-	20,066
Accrued income	56,291	-	-	-	-	56,291
Total assets (expected maturity dates)	**464,382**	**122,638**	**786,316**	**924,643**	**387,056**	**2,685,035**
(contractual maturity dates)	464,231	122,249	781,562	929,937	387,056	2,685,035
LIABILITIES AND SHAREHOLDERS' EQUITY						
Shareholders' equity	-	-	-	-	1,182,160	1,182,160
Banks	2,048	-	-	-	-	2,048
Short-term credits	192,019	50,000	-	-	-	242,019
Derivative financial instruments	11	3,050	42,053	3,279	-	48,393
Debt securities	-	23,142	65,817	8,726	-	97,685
Debentures and notes	78,195	160,425	565,839	215,798	-	1,020,257
Other liabilities	4,867	-	15,646	-	-	20,513
Current accounts with State funds and programs	2,641	-	-	-	-	2,641
Current income tax liabilities	-	1,223	-	-	-	1,223
Deferred income tax liabilities	-	-	-	-	1,282	1,282
Accrued liabilities	43,522	-	-	-	-	43,522
Provisions	-	-	-	-	23,292	23,292
Total liabilities and shareholders' equity (expected maturity dates)	**323,303**	**237,840**	**689,355**	**227,803**	**1,206,734**	**2,685,035**
(contractual maturity dates)	310,403	216,342	377,150	574,406	1,206,734	2,685,035
Liquidity gap 2007 (expected maturity dates)	**141,079**	**-115,202**	**96,961**	**696,840**	**-819,678**	**-**
(contractual maturity dates)	153,828	-94,093	404,412	355,531	-819,678	-

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At December 31, 2006	< 3 months	3-12 months	1-5 years	> 5 years	Maturity undefined	Total
Total assets	259,140	178,582	1,094,823	508,094	265,317	2,305,956
Total liabilities and shareholders' equity						
(expected maturity dates)	95,761	58,712	586,141	449,932	1,115,410	2,305,956
(contractual maturity dates)	89,391	44,324	444,364	612,467	1,115,410	2,305,956
Liquidity gap 2006						
(expected maturity dates)	**163,379**	**119,870**	**508,682**	**58,162**	**-850,093**	**-**
(contractual maturity dates)	169,749	134,258	650,459	-104,373	-850,093	-

The table below presents the contractual maturity of contingent liabilities and irrevocable facilities. FMO expects that not all of these off-balance items will be drawn before expiry.

At December 31, 2007	< 3 months	3-12 months	1-5 years	> 5 years	Maturity undefined	Total
Contingent liabilities	3,685	3,681	62,483	80,405	-	150,254
Irrevocable facilities	12,212	-	65,282	652,790	-	730,284
Total off-balance	**15,897**	**3,681**	**127,765**	**733,195**	**-**	**880,538**

At December 31, 2006	< 3 months	3-12 months	1-5 years	> 5 years	Maturity undefined	Total
Contingent liabilities	4,593	11,617	87,893	43,007	-	147,110
Irrevocable facilities	612	6,777	95,405	405,620	-	508,414
Total off-balance	**5,205**	**18,394**	**183,298**	**448,627**	**-**	**655,524**

OPERATIONAL RISK

Operational risk is defined as the risk resulting from inadequate procedures, systems failure, human errors, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. In line with sound governance practice, FMO has in place a comprehensive internal control framework to limit operational risk. Controls include segregation of duties of roles, responsibilities and accountabilities in its closing, settlement and positions procedures. Our Audit, Compliance & Control department plays a key role through regular audits on critical operating processes as well as our operational effectiveness and efficiency. This department monitors compliance with the Dutch Corporate Governance Code, our own internal Code of Conduct, and other applicable compliance policies and procedures.

CAPITAL MANAGEMENT

FMO further implemented capital management. During 2007 FMO started to use economic capital. The internally developed economic capital model is based on FMO's risk assessment tool, the scorecard. It is used to compare the risk profiles of investments and required capital for all material risks (financial and other risks) in the portfolio.

In anticipation of the bank status, FMO delivered the Internal Capital Adequacy Assessment Process (ICAAP) document, as required under Basel II, to the Dutch Central Bank. In this document all risks evolving from the portfolio and from the strategy are addressed. Several (downside) scenarios are analyzed and all costs are considered. The main conclusion in the document is that although the FMO strategy and the portfolio are inherently high risk, sufficient risk mitigation, flexibility and capital assure sustainable growth.

Business segments

SEGMENT REPORTING BY GEOGRAPHIC LOCATION

FMO's primary segmentation reporting is by geographical location. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. The geographical analysis of total assets and the segment revenue and expenses is based on customer domicile. Interest expenses are included in the line income, based on an internal allocation model. The capital expenditure related to property and equipment is allocated to treasury and other. The geographic analysis of revenue, expenses and total assets provides background on FMO's operations.

At December 31, 2007	Africa	Asia	Europe & Central Asia	Latin America & the Caribbean	Treasury and other	Total
Income	26,391	15,168	36,531	72,418	48,502	199,010
Share in the result of associates and subsidiaries	-1,068	4,114	270	625	57	3,998
Total revenue	**25,323**	**19,282**	**36,801**	**73,043**	**48,559**	**203,008**
Value adjustments	472	-13,072	-17,221	-5,625	5	-35,441
Operating expenses	-17,047	-10,532	-10,444	-10,177	-3,032	-51,232
Total expenses	**-16,575**	**-23,604**	**-27,665**	**-15,802**	**-3,027**	**-86,673**
Income tax expense	-1,381	1,791	2,286	-2,262	-11,722	-11,288
Net profit	**7,367**	**-2,531**	**11,422**	**54,979**	**33,810**	**105,047**
SEGMENT ASSETS						
Net portfolio	252,474	382,309	507,963	454,198	56,045	1,652,989
Other assets	-	-	-	-	1,032,046	1,032,046
Total assets	**252,474**	**382,309**	**507,963**	**454,198**	**1,088,091**	**2,685,035**

At December 31, 2006	Africa	Asia	Europe & Central Asia	Latin America & the Caribbean	Treasury and other	Total
Income	16,277	17,065	70,178	37,167	61,449	202,136
Share in the result of associates and subsidiaries	1,732	-231	1,591	441	51	3,584
Total revenues	**18,009**	**16,834**	**71,769**	**37,608**	**61,500**	**205,720**
Value adjustments	-2,953	-2,161	3,913	7,425	-	6,224
Operating expenses	-13,762	-8,989	-12,825	-10,036	-1,703	-47,315
Total expenses	**-16,715**	**-11,150**	**-8,912**	**-2,611**	**-1,703**	**-41,091**
Income tax expense	-72	-387	-2,162	-6,534	-21,397	-30,552
Net profit	**1,222**	**5,297**	**60,695**	**28,463**	**38,400**	**134,077**
SEGMENT ASSETS						
Net portfolio	225,795	265,481	426,488	428,168	-	1,345,932
Other assets	-	-	-	-	960,024	960,024
Total assets	**225,795**	**265,481**	**426,488**	**428,168**	**960,024**	**2,305,956**

The following tables give details on the geographical segmentation of the contingent liabilities and the irrevocable facilities.

	Irrevocable facilities		Contingent liabilities	
At December 31, 2007	€ x 1,000	Share %	€ x 1,000	Share %
Africa	202,795	28	59,180	39
Asia	164,720	22	28,308	19
Europe & Central Asia	197,504	27	38,008	25
Latin America & the Caribbean	158,144	22	24,758	17
Global	7,121	1	-	-
Total	**730,284**	**100**	**150,254**	**100**

	Irrevocable facilities		Contingent liabilities	
At December 31, 2006	**€ x 1,000**	**Share %**	**€ x 1,000**	**Share %**
Africa	133,828	26	61,719	42
Asia	122,155	24	31,427	21
Europe & Central Asia	153,950	31	19,987	14
Latin America & the Caribbean	98,481	19	33,977	23
Total	**508,414**	**100**	**147,110**	**100**

SEGMENT REPORTING BY FUNDS MANAGED FOR THE RISK OF THE STATE

FMO and funds managed for the risk of the State

Apart from making disbursements from its own resources, FMO provides loans, guarantees and equity investments from special government funds, within the conditions and objectives of these facilities. The funds consist of subsidies provided under the General Administrative Law Act. In the case of NIMF and MASSIF, FMO has an equity stake of 15% and 4.31% respectively. In 'related parties', the relationship between the State and FMO regarding these funds and programs is described in detail.

Loans and equity managed for the risk of the State

These loans and equity investments are managed for the risk of the State. The risks, and therefore the associated losses, will be compensated by the State.

	2007	**2006**
Loans	246,403	213,927
Equity investments	201,729	143,112
Total	**448,132**	**357,039**

Loans managed for the risk of the State

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

	2007	**2006**
MASSIF	159,642	115,566
NIMF	1,626	1,803
LDC Infrastructure Fund	84,635	95,950
European Investment Bank	305	608
Access to Energy Fund	195	-
Total	**246,403**	**213,927**

Equity investments managed for the risk of the State

The equity investments have been made by the following funds:

	2007	**2006**
MASSIF	89,711	61,893
NIMF	26,046	26,491
LDC Infrastructure Fund	82,097	49,495
European Investment Bank	3,875	5,233
Total	**201,729**	**143,112**

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Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortized cost. The summary of the significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following tables give a breakdown of the carrying amounts of the financial assets and financial liabilities by category as defined in IAS 39 and by balance sheet heading.

At December 31, 2007	Held for trading	Designated at fair value	Loans and receivables at amortized cost	Available for sale	Financial liabilities at amortized cost	Derivatives at fair value hedging instruments	Other	Total
ASSETS								
Banks	-	-	8,743	-	-	-	-	8,743
Short-term deposits	-	175,345	-	-	-	-	-	175,345
Derivative financial instruments	19,226	6,589	-	-	-	47,880	-	73,695
Loans to the private sector	-	-	1,276,026	-	-	-	-	1,276,026
Loans guaranteed by the State	-	-	39,511	-	-	-	-	39,511
Equity investments	-	-	-	306,192	-	-	-	306,192
Investments in associates	-	-	-	-	-	-	31,260	31,260
Interest-bearing securities	-	-	-	590,242	-	-	-	590,242
Subsidiaries	-	-	-	-	-	-	1,135	1,135
Tangible fixed assets	-	-	-	-	-	-	9,498	9,498
Deferred income tax assets	-	-	-	-	-	-	49,251	49,251
Current accounts with State funds and programs	-	-	47,780	-	-	-	-	47,780
Other receivables	-	-	20,066	-	-	-	-	20,066
Accrued income	-	-	56,291	-	-	-	-	56,291
Total assets	**19,226**	**181,934**	**1,448,417**	**896,434**	**-**	**47,880**	**91,144**	**2,685,035**
LIABILITIES AND SHAREHOLDERS' EQUITY								
Banks	-	-	-	-	2,048	-	-	2,048
Short-term credits	-	-	-	-	242,019	-	-	242,019
Derivative financial instruments	4,449	14,502	-	-	-	29,442	-	48,393
Debt securities	-	80,252	-	-	17,433	-	-	97,685
Debentures and notes	-	827,293	-	-	192,964	-	-	1,020,257
Other liabilities	-	-	-	-	20,513	-	-	20,513
Current accounts with State funds and programs	-	-	-	-	2,641	-	-	2,641
Current income tax liabilities	-	-	-	-	-	-	1,223	1,223
Deferred income tax liabilities	-	-	-	-	-	-	1,282	1,282
Accrued liabilities	-	-	-	-	43,522	-	-	43,522
Provisions	-	-	-	-	-	-	23,292	23,292
Total liabilities	**4,449**	**922,047**	**-**	**-**	**521,140**	**29,442**	**25,797**	**1,502,875**
Total shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**	**1,182,160**	**1,182,160**
Total liabilities and shareholders' equity	**4,449**	**922,047**	**-**	**-**	**521,140**	**29,442**	**1,207,957**	**2,685,035**

ALL AMOUNTS IN € X 1,000

Analysis of financial assets and liabilities by measurement basis

At December 31, 2006	Held for trading	Designated at fair value	Loans and receivables at amortized cost	Available for sale	Financial liabilities at amortized cost	Derivatives at fair value hedging instruments	Other	Total
ASSETS								
Banks	-	-	10,114	-	-	-	-	10,114
Short-term deposits	-	104,713	-	-	-	-	-	104,713
Derivative financial instruments	9,964	483	-	-	-	48,145	-	58,592
Loans to the private sector	-	-	1,098,529	-	-	-	-	1,098,529
Loans guaranteed by the State	-	-	31,505	-	-	-	-	31,505
Equity investments	-	-	-	189,627	-	-	-	189,627
Investments in associates	-	-	-	-	-	-	26,271	26,271
Interest-bearing securities	-	-	-	638,603	-	-	-	638,603
Subsidiaries	-	-	-	-	-	-	1,135	1,135
Tangible fixed assets	-	-	-	-	-	-	7,951	7,951
Deferred income tax assets	-	-	-	-	-	-	49,419	49,419
Current accounts with State funds and programs	-	-	32,903	-	-	-	-	32,903
Other receivables	-	-	10,272	-	-	-	-	10,272
Accrued income	-	-	46,322	-	-	-	-	46,322
Total assets	**9,964**	**105,196**	**1,229,645**	**828,230**	**-**	**48,145**	**84,776**	**2,305,956**
LIABILITIES AND SHAREHOLDERS' EQUITY								
Banks	-	-	-	-	2,020	-	-	2,020
Short-term credits	-	-	-	-	42,218	-	-	42,218
Derivative financial instruments	3,595	51,630	-	-	-	33,742	-	88,967
Debt securities	-	82,348	-	-	8,143	-	-	90,491
Debentures and notes	-	765,025	-	-	148,485	-	-	913,510
Other liabilities	-	-	-	-	13,457	-	-	13,457
Current accounts with State funds and programs	-	-	-	-	1,539	-	-	1,539
Current income tax liabilities	-	-	-	-	-	-	51	51
Deferred income tax liabilities	-	-	-	-	-	-	11,500	11,500
Accrued liabilities	-	-	-	-	38,293	-	-	38,293
Provisions	-	-	-	-	-	-	20,778	20,778
Total liabilities	**3,595**	**899,003**	**-**	**-**	**254,155**	**33,742**	**32,329**	**1,222,824**
Total shareholders' equity	**-**	**-**	**-**	**-**	**-**	**-**	**1,083,132**	**1,083,132**
Total liabilities and shareholders' equity	**3,595**	**899,003**	**-**	**-**	**254,155**	**33,742**	**1,115,461**	**2,305,956**

Notes to the consolidated annual accounts

NOTES TO THE CONSOLIDATED BALANCE SHEET: ASSETS

1. Banks

	2007	2006
Banks	8,743	10,114

2. Short-term deposits

	2007	2006
Short-term deposits	175,345	104,713

3. Derivative financial instruments

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

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

The table below summarizes the notional amounts and the fair values of the 'derivatives other than hedging instruments'. These derivatives are held to reduce interest rate risks and currency risks but do not meet the specified criteria to apply hedge accounting. The table below also includes derivatives related to the asset portfolio. FMO holds these derivatives without a trading intent.

At December 31, 2007	Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedging instruments:			
• Currency swaps	2,039	2,185	-746
• Interest rate swaps	20,407	-	-298
• Cross-currency interest rate swaps	64,341	16,688	-3,405
	86,787	**18,873**	**-4,449**
Derivatives related to asset portfolio	-	353	-
Total derivative assets/(liabilities) other than hedging instruments	**86,787**	**19,226**	**-4,449**

At December 31, 2006	Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedging instruments:			
• Currency swaps	39,961	906	-898
• Interest rate swaps	45,455	-	-3
• Cross-currency interest rate swaps	73,803	7,181	-2,694
	159,219	**8,087**	**-3,595**
Derivatives related to asset portfolio	-	1,877	-
Total derivative assets/(liabilities) other than hedging instruments	**159,219**	**9,964**	**-3,595**

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The table below summarizes the notional amounts and the fair values of the derivatives related to structured funding:

At December 31, 2007	Notional amounts	Fair value assets	Fair value liabilities
Derivatives structured:			
• Interest rate swaps	196,163	334	-8,525
• Cross currency interest rate swaps	337,545	6,255	-5,977
Total derivative assets/(liabilities) structured	**533,708**	**6,589**	**-14,502**

At December 31, 2006	Notional amounts	Fair value assets	Fair value liabilities
Derivatives structured:			
• Interest rate swaps	249,528	-	-15,264
• Cross currency interest rate swaps	394,285	483	-36,366
Total derivative assets/(liabilities) structured	**643,813**	**483**	**-51,630**

The table below summarizes the notional amounts and the fair values of the derivatives 'held for hedging':

At December 31, 2007	Notional amounts	Fair value assets	Fair value liabilities
Derivatives designated as fair value hedges:			
• Interest rate swaps	376,606	47,880	-29,442
Total derivatives designated as fair value hedges	**376,606**	**47,880**	**-29,442**
Total derivative financial instruments assets/(liabilities)	**997,101**	**73,695**	**-48,393**

At December 31, 2006	Notional amounts	Fair value assets	Fair value liabilities
Derivatives designated as fair value hedges:			
• Interest rate swaps	252,320	48,145	-33,742
Total derivatives designated as fair value hedges	**252,320**	**48,145**	**-33,742**
Total derivative financial instruments assets/(liabilities)	**1,055,352**	**58,592**	**-88,967**

For the year ended December 31, 2007, FMO recognized an ineffectiveness of €0.2 million net gain (2006: €0.1 million net loss) on the fair value hedges. The profit on the hedging instruments amounted to €3.0 million (2006: €5.5 million loss). The loss on hedged items attributable to the hedged risk amounted to €2.8 million (2006: €5.4 million profit).

4. Loans to the private sector

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

	2007	2006
Balance at January 1	1,242,682	1,158,291
Disbursements	578,530	553,910
Repayments	-287,187	-353,170
Write-offs	-423	-10,342
Changes in amortizable fees	-1,669	-5,566
Exchange rate differences	-104,220	-100,441
Balance at December 31	**1,427,713**	**1,242,682**
Value adjustments	-151,687	-144,153
Net balance at December 31	**1,276,026**	**1,098,529**

The table below summarizes the loans segmented by sector:

	2007	2006
Finance	641,812	487,507
Infrastructure	314,187	270,728
Trade & Industry	274,866	282,908
Other	45,161	57,386
Net balance at December 31	**1,276,026**	**1,098,529**

	2007	2006
Gross amount of loans to companies in which FMO has equity investments	53,360	73,486
Gross amount of subordinated loans	172,335	139,674
Gross amount of non-performing loans	37,652	65,183

A loan is classified as non-performing when the loan has been provided for by a value adjustment.

5. Loans guaranteed by the State

These loans in developing countries are individually guaranteed by the State of the Netherlands for 80% to 95%. Any losses will be compensated by the State up to the guaranteed percentage. Payments by the State on guaranteed loans are deducted from the reported loan balance.

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

	2007	2006
Balance at January 1	33,908	23,908
Disbursements	20,903	17,081
Repayments	-4,670	-5,760
Write-offs	-900	-903
Changes in amortizable fees	-376	-418
Balance at December 31	**48,865**	**33,908**
Value adjustments	-9,354	-2,403
Net balance at December 31	**39,511**	**31,505**

The table below summarizes the loans guaranteed by the State segmented by sector:

	2007	2006
Finance	158	686
Infrastructure	6,591	2,271
Trade & Industry	22,553	22,830
Other	10,209	5,718
Net balance at December 31	**39,511**	**31,505**

	2007	2006
Gross amount of subordinated loans	47,954	32,473
Gross amount of non-performing loans	13,284	3,678

6. Equity investments

These equity investments in developing countries are for the account and risk of FMO. The movements in net book value of the equity investments are summarized below:

	2007	2006
Net balance at January 1	189,627	114,293
Purchases and contributions	160,111	99,067
Reclass from associates	5,232	-
Sales	-40,941	-37,198
Value adjustments	-9,249	-2,431
Changes in fair value	1,412	15,896
Net balance at December 31	**306,192**	**189,627**

	2007	2006
Equity investments at fair value	204,250	84,562
Equity investments at cost less impairment	101,942	105,065
Net balance at December 31	**306,192**	**189,627**

The table below summarizes the equity investments segmented by sector:

	2007	2006
Finance	263,087	156,059
Infrastructure	9,961	6,171
Trade & Industry	17,195	16,790
Other	15,949	10,607
Net balance at December 31	**306,192**	**189,627**

7. Investments in associates

The movements in net book value of the associates are summarized below:

	2007	2006
Net balance at January 1	26,271	13,611
Purchases and contributions	17,045	18,762
Reclass to equity investments	-5,232	-
Sales	-8,670	-7,243
Share in net results	3,941	3,533
Value adjustments	-	-11
Translation differences	-2,095	-2,381
Net balance at December 31	**31,260**	**26,271**

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

	Associates at equity method	Associates at cost less impairment	Total
Total assets	24,259	7,400	31,659
Total liabilities	399	-	399
Total income	921	-	921
Total profit/loss	3,941	-	3,941

FMO accounts the associates according to the equity method if underlying financial data is prepared under internationally accepted accounting standards, not older than three months. FMO operates in developing countries that do not particularly have advanced accounting standards and practices comparable to those in developed countries. Financial reporting may not always be comparable to the quality under IFRS standards and may not be presented in a timely manner. In these instances FMO values its associates at cost less impairment. The associates valued at cost less impairment have incurred cumulative impairment losses of €628 (2006: €3,052).

8. Movement in value adjustments

Movement in value adjustments FMO portfolio

	Guarantees	Loans	Total
Balance at January 1, 2006	16,876	166,521	183,397
Additions	261	37,220	37,481
Releases	-7,557	-36,234	-43,791
Exchange rate differences	-860	-13,013	-13,873
Write-offs	-14	-10,341	-10,355
Balance at December 31, 2006	**8,706**	**144,153**	**152,859**

	Guarantees	Loans	Total
Balance at January 1, 2007	8,706	144,153	152,859
Additions	6,445	33,434	39,879
Releases	-243	-14,376	-14,619
Exchange rate differences	-774	-11,101	-11,875
Write-offs	-	-423	-423
Balance at December 31, 2007	**14,134**	**151,687**	**165,821**

Movement in value adjustments on loans guaranteed by the State

	2007	2006
Balance at January 1	2,403	5,627
Additions	8,103	665
Release	-252	-3,021
Write-offs	-900	-868
Balance at December 31	**9,354**	**2,403**

FMO's own risk participation with regard to FOM (5% to 20%) has not been guaranteed. The guaranteed part has been recorded under other receivables and this amounted to €6,919 for the value adjustment recognized in 2007. See also note 13.

9. Interest-bearing securities

This portfolio contains marketable bonds and private loans with fixed interest rates, mainly issued by financial institutions.

	2007	2006
Bonds (listed)	585,568	633,875
Private loans	4,674	4,728
Balance at December 31	**590,242**	**638,603**

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

	2007	2006
Balance at January 1	638,603	631,448
Amortization premiums/discounts	3,221	-2,655
Purchases	62,751	174,127
Sale and redemption	-109,439	-145,548
Results from changes in fair value	-4,894	-18,769
Balance at December 31	**590,242**	**638,603**

The interest-bearing securities have been issued by:

	2007	2006
Private parties:		
• Credit institutions	507,293	282,740
• Other	62,641	294,758
Public bodies	20,308	61,105
	590,242	**638,603**

10. Subsidiaries

This refers to the 100% interest in the share capital of Nederlandse Investeringsbank voor Ontwikkelingslanden N.V. (NIO).

	2007	2006
Balance at January 1	1,135	1,135
Share in net result	57	51
Declared dividend	-57	-51
Balance at December 31	**1,135**	**1,135**

11. Tangible fixed assets

	Furniture	ICT equipment	Leasehold improvement	2007 Total	2006 Total
Historical cost price at January 1	5,781	12,831	634	19,246	14,269
Accumulated depreciation at January 1	-3,321	-7,541	-433	-11,295	-8,191
Balance at January 1	**2,460**	**5,290**	**201**	**7,951**	**6,078**
Investments	52	5,052	5	5,109	5,385
Depreciation	-965	-2,470	-127	-3,562	-2,832
Accumulated depreciation on divestments	-	-	-	-	408
Divestments historical cost price	-	-	-	-	-408
Impairment	-	-	-	-	-680
Balance at December 31	**1,547**	**7,872**	**79**	**9,498**	**7,951**
Historical cost price at December 31	5,833	17,883	639	24,355	19,246
Accumulated depreciation at December 31	-4,286	-10,011	-560	-14,857	-11,295
Balance at December 31	**1,547**	**7,872**	**79**	**9,498**	**7,951**

In 2006 impairment losses were recognized on the ICT equipment due to the discontinued use of some software functionalities. In 2007 no impairments were recognized.

12. Current accounts with State funds and programs

	2007	2006
Current account MASSIF	34,555	18,785
Current account NIMF	241	1,041
Current account LDC Infrastructure Fund	10,428	12,833
Current account TAEM	-	107
Current account European Investment Bank	-	137
Current account CD/IPTA	2,556	-
Balance at December 31	**47,780**	**32,903**

This refers to the current account between FMO and the funds and programs managed on behalf of the State of the Netherlands.

13. Other receivables

	2007	2006
Debtors related to sale of equity investments	5,948	6,140
Taxes and social premiums	400	450
Other receivables	13,718	3,682
Balance at December 31	**20,066**	**10,272**

The other receivables include the claims in connection with State guaranteed loans to the amount of €8,326 (2006: €2,200).

14. Accrued income

	2007	2006
Accrued interest loans	25,898	19,644
Accrued interest on swaps and other assets	27,787	26,373
Other accrued income	2,606	305
Balance at December 31	**56,291**	**46,322**

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NOTES TO THE CONSOLIDATED BALANCE SHEET: LIABILITIES

15. Banks

	2007	2006
Banks	2,048	2,020

16. Short-term credits

	2007	2006
Short-term credits	242,019	42,218

17. Debt securities

Debt securities include all non-subordinated debt, which has not been identified as debentures or other notes payable to banks. Debt securities do not include savings deposits.

Debt securities consist of loans and deposits raised in Dutch and foreign capital markets from professional counterparties. The movements of debt securities are summarized as follows:

	2007	2006
Balance at January 1	90,491	134,702
Amortization of premiums/discounts	828	703
Proceeds from issuance	10,835	1,361
Redemptions	-2,369	-39,918
Changes in fair value	-1,306	-3,779
Exchange rate differences	-794	-2,578
Balance at December 31	**97,685**	**90,491**

The table below summarizes the carrying value of the debt securities:

	2007	2006
Debt securities valued at fair value under hedge accounting	80,252	82,348
Debt securities valued at amortized costs	17,433	8,143
Balance at December 31	**97,685**	**90,491**

The nominal amounts of the debt securities are as follows:

	2007	2006
Debt securities valued at fair value under hedge accounting	83,316	92,650
Debt securities valued at amortized costs	17,433	8,145
Balance at December 31	**100,749**	**100,795**

18. Debentures and notes

Debentures and notes consist of medium-term notes under the GMTN program. The FMO medium-term notes have been raised in Dutch and foreign capital markets. The movements can be summarized as follows:

	2007	2006
Balance at January 1	913,510	1,004,700
Amortization of premiums/discounts	2,078	884
Proceeds from issuance	267,592	72,892
Redemptions	-124,205	-76,661
Changes in fair value	22,662	-3,803
Exchange rate differences	-61,380	-84,502
Balance at December 31	**1,020,257**	**913,510**

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The table below summarizes the carrying value of the debentures and notes:

	2007	2006
Debentures and notes valued at fair value under the fair value option	535,655	606,227
Debentures and notes valued at fair value under hedge accounting	291,638	158,798
Debentures and notes valued at amortized costs	192,964	148,485
Balance at December 31	**1,020,257**	**913,510**

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

	2007	2006
Debentures and notes valued at fair value under the fair value option	566,650	661,772
Debentures and notes valued at fair value under hedge accounting	302,122	176,288
Debentures and notes valued at amortized costs	192,964	148,485
Balance at December 31	**1,061,736**	**986,545**

19. Other liabilities

	2007	2006
Amortized costs related to guarantees	1,512	1,418
Liabilities for guarantees	14,134	8,706
Current account NIO	3,990	2,062
Other liabilities	877	1,271
Balance at December 31	**20,513**	**13,457**

The other liabilities include liabilities for staff costs and other costs.

20. Current accounts with State funds and programs

	2007	2006
Current account Access to Energy Fund	1,365	-
Current account CD/IPTA	-	945
Current account ECIP	599	594
Current account European Investment Bank	615	-
Current account TAEM	62	-
Balance at December 31	**2,641**	**1,539**

This refers to the current account between FMO and the funds and programs managed on behalf of the State of the Netherlands.

21. Accrued liabilities

	2007	2006
Accrued interest on banks, debt securities and debentures and notes	29,277	24,451
Other accrued liabilities	14,245	13,842
Balance at December 31	**43,522**	**38,293**

22. Provisions

Amounts recognized in the balance sheet:

	2007	2006
Pension schemes	22,860	20,778
Other provisions	432	-
Balance at December 31	**23,292**	**20,778**

Pension schemes

FMO has established a number of pension schemes covering substantially all employees. Most of the pension schemes are average salary defined benefit plans. FMO has outsourced the asset management of the pension assets to an asset manager. FMO has agreed strict guidelines with the asset manager. The assets of the funded plans are held independently of FMO's assets by the insurance company in separately administered funds. Independent actuaries value the schemes every year using the projected unit credit method. The latest actuarial valuations were carried out at December 31, 2007.

The amounts recognized in the balance sheet are as follows:

	2007	2006
Present value of funded defined benefit obligations	62,538	62,560
Fair value of plan assets	-42,250	-39,116
	20,288	**23,444**
Unrecognized actuarial gains	2,572	-2,666
Liability in the balance sheet	**22,860**	**20,778**

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

	2007	2006
Fair value at January 1	-39,116	-35,640
Expected return on plan assets	-1,988	-1,820
Employer contribution	-2,918	-2,602
Plan participants' contributions	-270	-117
Actuarial gains/(losses)	994	250
Benefits paid	1,048	813
Fair value at December 31	**-42,250**	**-39,116**

Determination of expected return on assets

An important element for financial reporting is the assumption for return on assets (ROA). The ROA is updated at least annually, taking into consideration the plan's asset allocation, historical returns on the types of assets held in the fund, and the current economic environment. Based on these factors, it is expected that the fund's assets will earn an average percentage per year over the long term. This estimation takes into account a reduction for administrative expenses and investment manager's fees paid from the fund. For estimation purposes, it is assumed the long-term asset mix will be consistent with the current mix. Changes on the asset mix could impact the amount of recorded pension income or expense, the funded status of the plan, and the need for future cash contributions. The actual return on plan assets was -1.6% (2006: 2.5%).

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

	2007 %	2006 %
Equities	22	23
Fixed income	77	75
Cash	1	2
	100	**100**

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

	2007	2006
Present value at January 1	62,560	63,160
Service cost	4,466	4,188
Interest cost	2,792	2,601
Past service cost	-	675
Actuarial gains/(losses)	-6,232	-7,251
Benefits paid	-1,048	-813
Present value at December 31	**62,538**	**62,560**

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

	2007	2006
Current service cost	5,106	4,745
Interest cost	2,792	2,601
Expected return on plan assets	-1,988	-1,822
Net actuarial (gains)/losses recognized in year	-	383
Past service cost due to change in plan	-	675
	5,910	**6,582**
Contribution by plan participants	-270	-117
	5,640	**6,465**
Pension costs for defined contribution plans	160	119
Total annual expense	**5,800**	**6,584**

Cumulative recognized actuarial losses

The cumulative net actuarial losses recognized from 2004 until 2007 amount to €473.

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

	2007	2006
Balance at January 1	20,778	17,470
Annual expense	5,640	6,465
Contributions paid	-3,558	-3,157
Balance at December 31	**22,860**	**20,778**

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

	2007 %	2006 %
Discount rate	5.1	4.5
Expected return on plan assets	5.2	5.0
Future salary increases – general salary progression	2.8	2.5
Future pension increases	2.8	2.5

Other provisions

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

	2007	2006
Balance at January 1	-	375
Addition	432	-
Paid out	-	-375
Balance at December 31	**432**	**-**

23. Shareholders' equity

Share capital

The authorized capital amounts to €45,380, consisting of 51% A shares of €22.69 each, which are held only by the State, and 49% B shares, also of €22.69 each, which are held by private investors. The voting rights for A shares and B shares are equal.

The equity of the company comprises three reserves, which result from the Agreement State-FMO of November 16, 1998. These are the share premium reserve, the development fund and the contractual reserve. As long as the company continues its activities, these reserves are not available to the shareholders. Upon liquidation of FMO these reserves fall due to the State, after settlement of the contractual return to the shareholders.

	2007	2006
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**

	2007	2006
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

	2007	2006
Share premium reserve shareholder A, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	8,061	8,061
Share premium reserve, contributed by shareholder A in relation to the financial restructuring and appropriated to compensate for possible losses from activities financed from the development fund	21,211	21,211
Balance at December 31	**29,272**	**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.

Development fund

This special purpose reserve contains the allocation of risk capital provided by the State to finance the portfolio of loans and equity investments. In 2005 FMO received the last contribution (€37,260) to the development fund under the Agreement State-FMO of November 16, 1998.

Available for sale reserve

	Fair value differences	Foreign exchange differences	Tax effect	Total available for sale reserve
Balance at January 1, 2006	23,498	537	-2,237	21,798
Additions	14,835	-4,111	4,778	15,502
Transfers	-12,993	-537	15	-13,515
Balance at December 31, 2006	**25,340**	**-4,111**	**2,556**	**23,785**
Balance at January 1, 2007	25,340	-4,111	2,556	23,785
Additions	13,894	-10,401	2,414	5,907
Transfers	-6,603	-371	-840	-7,814
Balance at December 31, 2007	**32,631**	**-14,883**	**4,130**	**21,878**

Included in the available for sale reserve is an amount of €7,774 (2006: €8,525) for fair value differences on equity investments that were previously impaired.

Translation reserve

	2007	2006
Balance at January 1	-1,605	185
Change	-1,934	-1,790
Balance at December 31	**-3,539**	**-1,605**

Other reserves

Dividend distributed to shareholders of A shares and B shares is equal.

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

24. Interest

Interest income

	2007	2006
Interest on loans	131,113	112,343
Interest on banks and short-term deposits	8,694	6,936
Interest on interest-bearing securities	21,973	22,497
Other interest income	235	130
Total interest income	**162,015**	**141,906**

Included in the interest on loans is €2,485 (2006: €4,783) related to loans for which value adjustments have been recorded.

Interest expense

	2007	2006
Interest on debt securities valued at fair value	-21,506	-18,596
Interest on debt securities valued at amortized cost	-986	-699
Interest on debentures and notes valued at fair value	-24,405	-23,706
Interest on debentures and notes valued at amortized cost	-7,744	-5,962
Interest on short-term credits	-4,993	-861
Other interest expenses	-	-560
Total interest expense	**-59,634**	**-50,384**

25. Net fee and commission income

	2007	2006
Prepayment fees	1,810	475
Other fees (like arrangement, cancellation and waiver fees)	1,568	1,716
Total fee and commission income	**3,378**	**2,191**
Charges for the early repayment of debt securities	-134	-177
Total fee and commission expense	**-134**	**-177**
Net fee and commission income	**3,244**	**2,014**

26. Dividend income

	2007	2006
Dividends received from equity investments	**5,900**	**6,880**

27. Results from equity investments

	2007	2006
Result from the sale of equity investments and associates	**72,504**	**73,898**

The result from sale of equity investments valued at cost amounts to €58,896 (2006: €57,463). The carrying amount of these equity investments at the time of sales was €21,735 (2006: €30,267).

The result from sale of equity investments at fair value amounts to €11,580 (2006: €14,999). The net proceeds amount to €1,313 (2006: €1,484) including the transfer from the available for sale reserve of €10,267 (2006: €13,515). The carrying amount of these equity investments at the time of sale was €19,205 (2006: €20,446). The result from sale of associates amounts to €2,028 (2006: €1,436).

28. Results from financial transactions

	2007	2006
Exchange results	-5,047	-1,359
Result on sale and valuation of derivatives held for trading	-385	119
Result on sale and valuation of derivatives designated at fair value hedging instruments	3,045	-5,537
Result on sale and valuation of derivatives designated at fair value (GMTN)	17,120	-5,082
Result on sale and valuation of derivatives related to asset portfolio	59	290
Result on sale and valuation of medium-term notes (GMTN)	-18,187	5,084
Result on sale and valuation of funding hedged	-2,860	5,393
Result on sale of interest-bearing securities	-3,293	58
Total results from financial transactions	**-9,548**	**-1,034**

29. Remuneration for services rendered

	2007	2006
These include the following remuneration:		
• Funds and programs managed on behalf of the State	18,493	14,127
• NIO (including ORET)	1,256	5,932
• Syndication fees, remuneration from directorships and others	3,728	3,203
Total remuneration for services rendered	**23,477**	**23,262**

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

30. Other operating income

	2007	2006
Total other operating income	**1,052**	**5,594**

Other income concerns mainly revenues related to investments in the asset portfolio that have previously been written off.

31. Staff costs

	2007	2006
Salaries	-18,880	-18,128
Social security costs	-1,868	-1,543
Pension costs	-5,800	-6,584
Temporaries	-6,135	-2,573
Travel and subsistence allowances	-2,911	-2,335
Other personnel expenses	-3,391	-3,512
Total staff costs	**-38,985**	**-34,675**

The average number of employees in 2007 amounted to 236 FTE (2006: 224 FTE).

32. Other administrative expenses

	2007	2006
Other administrative expenses	**-8,537**	**-8,909**

These expenses consist of business travel expenses, services from third parties and other operational expenses. The remuneration paid to the Supervisory Board is included in these expenses. At December 31, 2007 the Supervisory Board consists of five members (2006: six). The members of the Supervisory Board were paid a total remuneration of €83 (2006: €95). The annual remuneration of the members of the Supervisory Board is as follows:

	Remuneration
ROLE	
Supervisory Board: Chairman	20
Supervisory Board: Member	12.5
Audit Committee: Chairman	3
Audit Committee: Member	2
Selection, Appointment & Remuneration Committee: Chairman	2
Selection, Appointment & Remuneration Committee: Member	1

The members of the Supervisory Board have no shares, options or loans related to the company.

33. Other operating expenses

	2007	2006
Other operating expenses	**-148**	**-219**

34. Income taxes

Income tax expense by type

	2007	2006
Current income taxes	-18,157	-31,094
Deferred income taxes	6,869	542
Total income tax expense	**-11,288**	**-30,552**

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

	2007	2006
Profit before taxation	116,335	164,629

	2007	2006
Income taxes at statutory rate of 25.5% in 2007 and 29.6% in 2006	-29,665	-48,730
Increase/(decrease) resulting from:		
• Settlement with local withholding taxes	522	493
• Non-taxable income and expense (participation exemption facility)	18,488	24,195
• Tax adjustments to prior periods	-633	-1,171
• Change in deferred tax valuation due to decrease of future corporate income tax rates	-	-5,609
• Other differences	-	270
Income tax expense	**-11,288**	**-30,552**
Effective income tax rate	9.7%	18.5%

Current tax liability

The company made net tax payments of €18,568 (2006: €72,827). The remaining current income tax liability amounts to €1,223 (2006: €51).

Deferred tax

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

	2007	2006
DEFERRED TAX ASSETS		
Group-specific value adjustments	34,148	28,804
Pension provision	4,954	4,263
Amortized cost on loans and guarantees	5,684	5,238
Fair value measurement funding derivatives	-	7,742
Fair value measurement of interest-bearing securities and deposits	4,465	2,886
Fair value measurement debt securities	-	486
Total deferred tax assets	**49,251**	**49,419**
DEFERRED TAX LIABILITIES		
Temporary value adjustments on equity investments (art 13CA VPB)	-1,193	-1,352
Fair value measurement debentures and notes	-89	-10,148
Total deferred tax liabilities	**-1,282**	**-11,500**
Net balance at December 31	**47,969**	**37,919**

OFF-BALANCE SHEET INFORMATION

35. Commitments and contingent liabilities

The company issued guarantees regarding repayments of principal and interest for a number of projects. The nominal amount of the guarantees is valued at the exchange rate as per December 31, 2007 and 2006.

	2007	2006
CONTINGENT LIABILITIES		
Effective guarantees	165,900	155,816
Less: presented under other liabilities	-15,646	-8,706
Total contingent liabilities	**150,254**	**147,110**

Of the liabilities for guarantees €1,380 (2006: €1,840) is covered by a counter guarantee of the State.

	2007	2006
IRREVOCABLE FACILITIES		
Contractual commitments for disbursements of:		
• Loans	412,557	303,875
• Equity investments	199,381	144,600
• Contractual commitments for guarantees	118,346	59,939
Total irrevocable facilities	**730,284**	**508,414**

36. Lease and rental commitments

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

2007	< 1 year	2-5 years	> 5 years	Total
Buildings	2,192	9,446	-	11,638
Cars	693	679	-	1,372
Total lease and rental commitments	**2,885**	**10,125**	**-**	**13,010**

2006	< 1 year	2-5 years	> 5 years	Total
Buildings	2,128	9,171	2,467	13,766
Cars	683	840	-	1,523
Total lease and rental commitments	**2,811**	**10,011**	**2,467**	**15,289**

37. Related parties

FMO defines related parties as the State of the Netherlands, subsidiaries, associated companies and the Management Board.

State of the Netherlands

The State of the Netherlands holds 51% of FMO's share capital. The remaining 49% is held by private banks and others. In 2005 FMO received its last contribution to the development fund from the State of the Netherlands to the amount of €37,260. FMO has a guarantee from the State. The guarantee provisions from the State are detailed in Other information.

FMO stimulates the development of small and medium Dutch-sponsored enterprises in selected emerging markets through the Faciliteit Opkomende Markten (FOM). This facility is a joint initiative with the Dutch Ministry of Economic Affairs. The State acts as a guarantor for 80% to 95% of the outstanding loans. These loans are included in the consolidated annual accounts under 'loans guaranteed by the State'.

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

1. *MASSIF*
   MASSIF extends risk capital and local currency financing to financial intermediaries in developing countries who in turn serve micro- and small-scale entrepreneurs and lower income households. FMO has a 4.31% stake in this fund. FMO's remuneration is based on the combination of a percentage of the outstanding investment portfolio, a percentage of the annual disbursements and a percentage of profit related to the sale of equity investments. In accordance with the subsidy order, FMO has purchased one equity investment for the amount of €2,853.

2. *LDC Infrastructure Fund*
   Through this fund, FMO concentrates on the development of the social and economic infrastructure of Least Developed Countries. FMO aims to stimulate private investors to invest in private or public-private infrastructure projects in these countries. Through providing risk capital, the LDC Infrastructure Fund decreases risk for other financiers, which should thus catalyze additional private funds. This fund is executed by FMO under a remuneration system comparable to MASSIF without the profit-related component.

3. *NIMF*
   The State and FMO agreed to stop NIMF activities as government sponsored fund as per June 30, 2007. FMO is negotiating with the State on possibly taking over the NIMF portfolio.

4. *Capacity Development (CD)*
   CD enables targeted access to know-how, bundled to meet a company's full organizational needs. The program is financed by the Dutch Minister for Development Cooperation. The CD program is the successor of the Investment Promotion & Technical Assistance (IPTA) program. The program stimulates technical cooperation between companies in developing countries and enterprises in industrialized nations and is executed by FMO under a fixed remuneration.

5. *Access to Energy Fund (AEF)*
   Per the end of 2006, FMO agreed with the Dutch Minister for Development Cooperation to execute the subsidy scheme, Access to Energy Fund. Through this fund, FMO provides risk and concessional financing through equity, local currency loans, subordinated debt and grants to facilitate projects that generate, transmit or distribute sustainable energy. This fund is executed by FMO under a fixed remuneration.

In addition to the above mentioned funds, FMO also executes the following program:

- *Technical Assistance for Emerging Markets (TAEM)*
  The TAEM program was discontinued on January 1, 2005. All current applications will be finalized by FMO.

Subsidiaries

The consolidated subsidiaries FMO Antillen N.V. and FMO Participaties B.V. are used for intermediate holding purposes and the consolidated subsidiary TCX Investment Management Company B.V. is the management company for The Currency Exchange Fund N.V.

As an agent of the State of the Netherlands, FMO's non-consolidated subsidiary NIO acts on behalf of the Ministry of Foreign Affairs as manager of part of the funding provided by the Dutch government. The government sets the policies and conditions of the NIO activities and FMO has no effective control.

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

Associated companies

At December 31, 2007 no loans were issued to the associated companies (2006: €4,545).

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Remuneration of the Management Board

On December 31, 2007 the Management Board consisted of three statutory members (2006: three). The members of the Management Board have no shares, options or loans related to the company. The performance-related pay shown in the table below relates to the performance year and not to the following year in which they are paid. As of 2007, payments regarding the general profit-sharing scheme, social security and life-course savings scheme are included in other instead of fixed remuneration and performance-related pay. The 2006 figures are restated for comparative purposes.

The remuneration paid to the statutory members in 2007 is €1,156 (2006: €1,010) and is specified as follows:

2007	Fixed remuneration	Performance-related pay	Pension[1)]	Other[2)]	Total
Arthur Arnold	264	51	95	36	446
Nanno Kleiterp	196	31	54	29	310
Nico Pijl	183	29	158	30	400
Total	**643**	**111**	**307**	**95**	**1,156**

2006	Fixed remuneration	Performance-related pay	Pension	Other[2)]	Total
Arthur Arnold	257	62	72	30	421
Nanno Kleiterp	192	37	46	26	301
Nico Pijl	169	33	59	27	288
Total	**618**	**132**	**177**	**83**	**1,010**

1) A one-off expense (€110) related to Nico Pijl is included. 2) Includes contribution to company car, fixed expense allowance, general profit-sharing, life-course savings scheme and compensation of interest on mortgages.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement shows the sources of the liquidity that became available during the year and the application of this liquidity. The liquidity is measured by the balance 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. The comparative figures have been adjusted in accordance with this year's presentation.

38. Net cash flow from operational activities

The net cash flow from operational activities includes the movements of the company's portfolio 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.

39. 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 tangible fixed assets are also included in the cash flow from investing activities.

40. Net cash flow from financing activities

The net cash flow from financing activities includes the movements in the funding attracted from the capital market. Also included in the cash flow from financing activities are the additions and reductions in the company's capital.

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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.

Abbreviated income statement

In accordance with the provisions of article 402 Book 2 of the Netherlands Civil Code, the company presents the profit and loss account for the year in abbreviated format.

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 Netherlands Civil Code with the allowed application of the accounting policies (IFRS) as set forth in the consolidated annual accounts. The principles of valuation and determination of results stated in the consolidated balance sheet and profit and loss account are also applicable to the company balance sheet and profit and loss account. Investments in group-companies are initially recognized at cost and subsequently accounted for by the equity method.

Reference to the consolidated annual accounts

As mentioned above, the accounting policies applied in the annual accounts correspond with those of 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 incurred but not reported losses. Estimates and assumptions are also used for the determination of tax and depreciation of tangible fixed assets and others.

Company balance sheet at December 31

(before profit appropriation)	Notes	2007	2006
ASSETS			
Banks		6,449	8,872
Short-term deposits		175,345	104,713
Derivative financial instruments		73,695	58,592
Loans to the private sector		1,276,026	1,098,529
Loans guaranteed by the State		39,511	31,505
Equity investments	(1)	298,509	181,680
Investments in associates	(2)	30,207	22,569
Interest-bearing securities		590,242	638,603
Subsidiaries	(3)	13,569	14,262
Tangible fixed assets		9,498	7,951
Deferred income tax assets		49,251	49,419
Current accounts with State funds and programs		47,780	32,903
Other receivables		19,525	10,238
Accrued income		56,291	46,322
Total assets		**2,685,898**	**2,306,158**
LIABILITIES			
Banks		2,048	2,020
Short-term credits		242,019	42,218
Derivative financial instruments		48,393	88,967
Debt securities		97,685	90,491
Debentures and notes		1,020,257	913,510
Other liabilities		21,471	13,668
Current accounts with State funds and programs		2,641	1,539
Current income tax liabilities		1,221	50
Deferred income tax liabilities		1,282	11,500
Accrued liabilities		43,429	38,285
Provisions		23,292	20,778
Total liabilities		**1,503,738**	**1,223,026**
SHAREHOLDERS' EQUITY			
Share capital		9,076	9,076
Share premium reserve		29,272	29,272
Contractual reserve		442,488	342,724
Development fund		657,981	657,981
Available for sale reserve		21,878	23,785
Translation reserve		-3,539	-1,605
Other reserves		19,721	14,648
Undistributed profit		5,283	7,251
Total shareholders' equity	**(4)**	**1,182,160**	**1,083,132**
Total liabilities and shareholders' equity		**2,685,898**	**2,306,158**
Contingent liabilities		150,254	147,110
Irrevocable facilities		729,669	508,414

Company profit and loss account

	Notes	2007	2006
Profit after taxation		102,696	132,310
Income from subsidiaries, after tax	(3)	2,351	1,767
Net profit		**105,047**	**134,077**

Notes to the company annual accounts

NOTES TO THE SPECIFIC ITEMS OF THE BALANCE SHEET

1. Equity investments

	2007	2006
Balance at January 1	181,680	114,293
Purchases and contributions	160,056	91,120
Reclass from associates	5,232	-
Sales	-40,622	-37,198
Value adjustments	-9,249	-2,431
Changes in fair value	1,412	15,896
Balance at December 31	**298,509**	**181,680**

	2007	2006
Equity investments at fair value	204,250	79,050
Equity investments at cost less impairment	94,259	102,630
Balance at December 31	**298,509**	**181,680**

2. Investments in associates

	2007	2006
Balance at January 1	22,569	7,178
Purchases and contributions	16,918	18,561
Reclass to equity investments	-5,232	-
Sales	-5,270	-5,094
Share in net results	3,317	3,136
Value adjustments	-	-11
Translation differences	-2,095	-1,201
Balance at December 31	**30,207**	**22,569**

3. Subsidiaries

	2007	2006
Balance at January 1	14,262	8,266
Purchases and contributions	18	7,914
Sales and repayment of capital	-	-2,847
Share in results	2,351	1,767
Dividends declared	-3,223	-249
Translation differences	161	-589
Balance at December 31	**13,569**	**14,262**

The investments in subsidiaries consist of the following 100% interests in the share capital of:

1. Nederlandse Investeringsbank voor Ontwikkelingslanden N.V. (NIO);
2. FMO Participaties B.V.;
3. FMO Antillen N.V.;
4. TCX Investment Management Company B.V.

4. Shareholders' equity

Share capital

The authorized capital amounts to €45,380, consisting of 51% A shares of €22.69 each, which are held only by the State, and 49% B shares, also of €22.69 each, which are held by private investors. The voting rights for A shares and B shares are equal.

The equity of the company comprises three reserves, which result from the Agreement State-FMO of November 16, 1998. These are the share premium reserve, the development fund and the contractual reserve. As the company continues its activities, these reserves are not available to the shareholders. Upon liquidation of FMO these reserves fall due to the State, after settlement of the contractual return to the shareholders.

	2007	2006
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
	45,380	**45,380**

	2007	2006
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
	9,076	**9,076**

Share premium reserve

	2007	2006
Share premium reserve shareholder A, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	8,061	8,061
Share premium reserve, contributed by shareholder A in relation to the financial restructuring and appropriated to compensate for possible losses from activities financed from the development fund	21,211	21,211
	29,272	**29,272**

Contractual reserve

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

Development fund

This special purpose reserve contains the annual budgetary allocations made by the State to finance the portfolio of loans and equity investments. In 2005 FMO received the last contribution (€37,260) to the development fund under the Agreement State-FMO of November 16, 1998.

Available for sale reserve (AFS reserve)

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

The following table shows the components of the available for sale reserve at December 31, 2007 and December 31, 2006:

	2007	2006
GROSS GAINS AND LOSSES IN AFS RESERVE		
Equity investments at fair value	33,960	32,548
Interest-bearing securities at fair value	-16,212	-11,319
	17,748	**21,229**
DEFERRED TAXES ON GAINS AND LOSSES		
Equity investments at fair value	-	-
Interest-bearing securities at fair value	4,130	2,556
	4,130	**2,556**
NET GAINS AND LOSSES IN THE AFS RESERVE		
Equity investments at fair value	33,960	32,548
Interest-bearing securities at fair value	-12,082	-8,763
	21,878	**23,785**

The statement of changes in the shareholders' equity details the movements in the available for sale reserve during 2007. The statement is included in the consolidated annual accounts.

Other reserves

Dividend distributed to shareholders of A shares and B shares is equal.

Other information

Other information

PROVISION IN THE ARTICLES OF ASSOCIATION CONCERNING THE APPROPRIATION OF PROFIT

The Articles of Association of the company state that net profit in any year shall in the first place cover any net losses from previous years. The appropriation of the remaining profit shall, taking into account the relevant provisions in the Agreement State-FMO of November 16, 1998, be determined by the General Meeting of Shareholders.

Proposal for appropriation of profit

A net profit of €105,047 was recorded in 2007. Under the Agreement State-FMO of November 16, 1998, it is required to add €99,764 to the contractual reserve. Therefore this profit is not distributable. The distributable element of the net profit amounts to €5,283. The Management Board and the Supervisory Board propose distributing a sum of €2,219 as cash dividend (€5.55 per A and B share; 2006: €5.44 per A and B share) and to add the remaining amount of €3,064 to the other reserves.

GUARANTEE PROVISIONS IN THE AGREEMENT STATE-FMO OF NOVEMBER 16, 1998

Article 7

Maintenance obligations after exhaustion of General Risks Reserve (RAR) fund and in the event of inadequate cover for special operating risks.

7.1 With a view to determining whether FMO may appeal to the State under the maintenance obligation referred to in Article 7.2.1 (the 'State maintenance obligation'), the losses incurred by FMO as defined in Article 7.2.2, as evidenced by the annual accounts drawn up in accordance with generally accepted standards and Part 9 of Book 2 of the Netherlands Civil Code, shall first be charged to the RAR fund.

7.2.1 The State undertakes vis-à-vis FMO to make good any operational losses the latter may incur under Article 3.1 and 3.2 of this Agreement as determined in Article 7.2.2 – in so far as these risks are not or will not be covered by specific value adjustments and/or indemnification received and/or payments under insurance policies – to the extent that:

a) the amount of these losses exceeds the size of the RAR fund at December 31 of the year in which these losses were incurred; and
b) inadequate cover of the general value adjustments forming part of the RAR fund is due to abnormal operating risks, such as unforeseen political and transfer problems in or with certain countries or the collapse of the world economy or the economy in a particular continent.

7.2.2 The parties will consult with one another on the size of the losses. If they are unable to reach agreement, the figure will be calculated on the basis of reasonableness and fairness, and in accordance with generally accepted standards, by FMO's auditor and an auditor to be appointed by the State.

7.3 If the circumstances as described in Article 7.2.1 under a) and b) should arise and FMO appeals to the State to comply with its obligation laid down in Article 7.2, such appeal shall create a claim against and recognized by the State on the first working day of the first financial year following the day on which such appeal was made. The appeal must be made in writing.

Article 8

Other financial security obligations.

8.1 Without prejudice to the other provisions in this Agreement, the State shall prevent FMO from being unable to comply in good time with the following limitative list of obligations to which FMO is subject:
(i) loans raised in the capital market;
(ii) short-term funds raised in the capital market with a term of two years or less;
(iii) swap agreements involving the exchange of principal and payment of interest;
(iv) swap agreements without the exchange of principal but with payment of interest;
(v) forward exchange contracts and Future Rate Agreements (FRAs);
(vi) option and futures contracts;
(vii) combinations of the products referred to in 1-6 above;
(viii) guarantees provided by FMO to third parties for the financing of private companies in developing countries; and
(ix) which arise from the need to maintain adequate plant and equipment.

Notes to the guarantee provision

The RAR fund referred to in Article 7 is defined in Article 6 of the Agreement State-FMO of November 16, 1998 and consists of the share premium reserve of €21,211 plus the group-specific provision (formerly the general value adjustments) and the contractually required reserve. On December 31, 2007, the fund amounted (rounded off) to €597,877 (2006: €477,152).

Appendices

Appendices

FMO COMMITTED PORTFOLIO PER SECTOR, EXCL. GOVERNMENT FUNDS

This summary covers all outstanding loans, guarantees and equity investments by sector and region including contractual commitments as of December 31, 2007. The outstanding balances in foreign currencies have been converted at the last known exchange rate applying on the balance sheet date. The amounts are nominal amounts excluding value adjustments.

December 31, 2007	Africa	Asia	Europe & Central Asia	Latin America & the Carribean	Global	Total
FINANCE						
Banks and financial intermediation	271,990	322,407	568,171	325,770	63,166	1,551,504
Insurance and pension funds	4,798	-	-	-	-	4,798
Finance total	**276,788**	**322,407**	**568,171**	**325,770**	**63,166**	**1,556,302**
INFRASTRUCTURE						
Construction and infrastructure	-	714	1,800	-	-	2,514
Oil and gas	7,500	5,512	15,000	-	-	28,012
Telecoms	111,283	66,028	30,122	68,025	-	275,458
Transport and logistics	4,395	-	22,052	24,052	-	50,499
Utilities	98,344	40,621	6,825	70,580	-	216,370
Infrastructure total	**221,522**	**112,875**	**75,799**	**162,657**	**-**	**572,853**
TRADE & INDUSTRY						
Automotive	-	4,367	18,562	-	-	22,929
Basic materials	42,520	13,605	1,522	10,204	-	67,851
Building materials	11,245	48,929	21,161	-	-	81,335
Capital goods	-	1,987	23,164	27,210	-	52,361
Chemicals	-	58,812	11,194	37,026	-	107,032
Consumer products non-food	-	20,274	9,591	35,904	-	65,769
Food, beverages and tobacco	6,602	4,810	33,056	43,321	-	87,789
Retail	-	-	500	10,531	-	11,031
Services	-	-	1,503	-	-	1,503
Technology	-	39,543	-	-	-	39,543
Trade & Industry total	**60,367**	**192,327**	**120,253**	**164,196**	**-**	**537,143**
OTHER						
Agriculture and fishing	3,580	8,754	24,499	43,454	-	80,287
Diversified/other	71	-	7,669	6,737	-	14,477
Media	-	1,200	-	-	-	1,200
Private individuals	-	-	2,041	-	-	2,041
Other total	**3,651**	**9,954**	**34,209**	**50,191**	**-**	**98,005**
Total	**562,328**	**637,563**	**798,432**	**702,814**	**63,166**	**2,764,303**

FMO COMMITTED PORTFOLIO PER SECTOR, EXCL. GOVERNMENT FUNDS

December 31, 2007	Africa %	Asia %	Europe & Central Asia %	Latin America & the Carribean %	Global %	Total %
Finance	10	12	21	12	2	57
Infrastructure	8	4	3	6	0	21
Trade & Industry	2	7	4	6	0	19
Other	0	0	1	2	0	3
Total	**20**	**23**	**29**	**26**	**2**	**100**

FMO COMMITTED PORTFOLIO PER COUNTRY, EXCL. GOVERNMENT FUNDS

This summary covers all outstanding loans, guarantees and equity investments by country and region including contractual commitments as of December 31, 2007. The outstanding balances in foreign currencies have been converted at the last known exchange rate applying on the balance sheet date. The amounts are nominal amounts excluding value adjustments.

December 31, 2007	Loans	Mezzanine	Equity	Guarantees	Total
AFRICA					
Algeria	12,585	-	-11	-	12,574
Benin	1,377	-	-	-	1,377
Botswana	-	-	8,530	-	8,530
Cameroon	19,943	-	-	-	19,943
Chad	-	-	-	5,338	5,338
Congo, Democratic Republic of the	6,802	-	-	-	6,802
Equatorial Guinea	-	-	1,281	-	1,281
Ethiopia	-	1,400	-	-	1,400
Ghana	7,500	102	115	23,809	31,526
Ivory Coast	1,991	401	-	-	2,392
Kenya	13,079	24,969	2,088	397	40,533
Madagascar	2,041	-	1,398	-	3,439
Malawi	680	-	-	-	680
Morocco	-	-	1,900	-	1,900
Mozambique	22,864	9,098	-	-	31,962
Nigeria	61,365	1,361	808	28,655	92,189
Senegal	5,785	-	587	-	6,372
Sierra Leone	6,122	-	-	-	6,122
South Africa	480	85,892	14,603	-	100,975
Tanzania	14,265	-	-	-	14,265
Tunisia	-	-	1,528	-	1,528
Uganda	37,981	-	4,612	-	42,593
Zambia	25,187	7,067	-	10,612	42,866
Africa region	3,657	44,615	37,468	-	85,740
Africa total	**243,704**	**174,905**	**74,907**	**68,811**	**562,327**
ASIA					
Bangladesh	69,542	9,898	1,921	6,818	88,179
Cambodia	6,802	-	3,658	-	10,460
China	50,561	67,703	10,121	1,380	129,765
India	63,691	12,368	8,056	6,615	90,730
Indonesia	51,073	10,401	-	6,632	68,106
Lebanon	3,644	-	-	-	3,644
Nepal	3,336	-	-	-	3,336
Pakistan	46,404	18,843	-	-	65,247
Philippines	7,601	-	4,106	2,721	14,428
Samoa	5,544	-	-	-	5,544
Singapore	-	-	74	-	74
Sri Lanka	16,293	11,327	-	-	27,620
Thailand	-	5,102	4,585	22,808	32,495
Vietnam	18,722	-	14,629	-	33,351
Asia region	34,012	-	30,573	-	64,585
Asia total	**377,225**	**135,642**	**77,723**	**46,974**	**637,564**

December 31, 2007	Loans	Mezzanine	Equity	Guarantees	Total
EUROPE & CENTRAL ASIA					
Azerbaijan	19,727	6,802	-	4,422	30,951
Belarus	6,802	300	-	5,102	12,204
Bosnia & Herzegovina	10,000	-	-	-	10,000
Bulgaria	15,138	25,547	-	-	40,685
Croatia	-	5,000	-	-	5,000
Czech Republic	3,500	2,767	-	-	6,267
Georgia	18,282	13,605	-	5,000	36,887
Hungary	-	1,138	-	-	1,138
Kazakhstan	35,583	2,051	-	22,108	59,742
Moldova	2,075	-	-	3,061	5,136
Montenegro	3,333	-	-	-	3,333
Netherlands, the	-	3,400	14,881	-	18,281
Poland	-	4,353	11,174	-	15,527
Romania	46,727	23,129	-	1	69,857
Russian Federation	80,171	28,159	32,385	6,122	146,837
Serbia	20,000	400	-	-	20,400
Slovakia	-	1,600	-	-	1,600
Turkey	54,874	5,450	27,556	-	87,880
Ukraine	42,574	26,439	14,526	44,735	128,274
Europe & Central Asia region	18,250	59,987	20,195	-	98,432
Europe & Central Asia total	**377,036**	**210,127**	**120,717**	**90,551**	**798,431**
LATIN AMERICA & THE CARIBBEAN					
Argentina	71,651	1,949	5,822	-	79,422
Belize	15,739	3,401	-	-	19,140
Bolivia	13,605	8,503	-	-	22,108
Brazil	104,934	-	1,517	-	106,451
Colombia	13,605	-	-	-	13,605
Costa Rica	23,405	5,918	-	-	29,323
Dominican Republic	-	-	-	8,513	8,513
El Salvador	-	6,802	-	-	6,802
Guatemala	26,066	-	-	6,264	32,330
Honduras	35,294	-	10,282	-	45,576
Jamaica	31,137	-	-	-	31,137
Mexico	34,654	4,081	29,719	7,723	76,177
Nicaragua	26,275	3,401	-	-	29,676
Panama	7,963	8,844	-	-	16,807
Peru	30,567	11,047	-	3,834	45,448
Uruguay	-	-	7,784	-	7,784
Virgin Islands (British)	-	6,737	-	-	6,737
Latin America & the Caribbean region	44,711	17,075	63,993	-	125,779
Latin America & the Caribbean total	**479,606**	**77,758**	**119,117**	**26,334**	**702,815**
GLOBAL					
Global	-	-	63,166	-	63,166
Global total	**-**	**-**	**63,166**	**-**	**63,166**
Total	**1,477,571**	**598,432**	**455,630**	**232,670**	**2,764,303**

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COMMITTED GOVERNMENT FUNDS PORTFOLIO, PER COUNTRY

This summary covers all outstanding loans, guarantees and equity investments by country and region including contractual commitments as of December 31, 2007. The outstanding balances in foreign currencies have been converted at the last known exchange rate applying on the balance sheet date. The amounts are nominal amounts excluding value adjustments.

December 31, 2007	MASSIF	EIB	NIMF	LDC Infrastructure	AEF	Total
AFRICA						
Algeria	3,968	-	2,234	-	-	6,202
Benin	610	-	-	14,841	-	15,451
Burkina Faso	3,387	381	-	-	-	3,768
Cameroon	6,793	-	-	-	-	6,793
Cape Verde	125	-	-	-	-	125
Egypt	-	-	1,366	-	-	1,366
Ghana	7,554	-	1,279	-	-	8,833
Kenya	8,257	-	-	6,803	-	15,060
Mali	5,338	-	-	1,219	-	6,557
Mauritania	223	-	-	-	-	223
Morocco	5	-	-	-	-	5
Mozambique	2,222	-	-	49,705	-	51,927
Niger	502	-	-	-	-	502
Nigeria	27,771	-	-	-	-	27,771
Senegal	229	-	-	-	-	229
Sierra Leone	-	-	-	1,224	-	1,224
South Africa	5,668	-	1,800	-	-	7,468
Sudan	-	-	-	24,721	-	24,721
Tanzania	6,350	-	-	30,621	-	36,971
Togo	-	-	-	15,161	-	15,161
Tunisia	487	-	-	-	-	487
Uganda	6,336	-	-	19,047	-	25,383
Zambia	1,401	-	-	3,401	-	4,802
Africa region	56,714	5,192	5,977	30,024	-	97,907
Africa total	**143,940**	**5,573**	**12,656**	**196,767**	**-**	**358,933**
ASIA						
Afghanistan	-	-	-	4,220	-	4,220
Bangladesh	9,054	-	-	21,882	-	30,936
Cambodia	9,644	-	-	-	1,361	11,005
China	1,555	-	18,728	-	-	20,283
India	18,324	-	-	-	-	18,324
Indonesia	84	-	-	-	-	84
Lao People's Democratic Republic (Laos)	2,182	-	-	-	1,704	3,886
Mongolia	6,802	-	-	-	-	6,802
Pakistan	6,802	-	-	-	-	6,802
Philippines	317	-	-	-	-	317
Sri Lanka	17,153	-	-	-	-	17,153
Thailand	-	-	5,000	-	-	5,000
Vietnam	5,724	-	-	-	-	5,724
Asia region	7,508	-	-	-	-	7,508
Asia total	**85,149**	**-**	**23,728**	**26,102**	**3,065**	**138,044**

December 31, 2007	MASSIF	EIB	NIMF	LDC Infrastructure	AEF	Total
EUROPE & CENTRAL ASIA						
Albania	3,000	-	-	-	-	3,000
Azerbaijan	3,200	-	-	-	-	3,200
Belarus	1,680	-	-	-	-	1,680
Bosnia & Herzegovina	2,683	-	-	-	-	2,683
Georgia	7,355	-	-	-	-	7,355
Kazakhstan	2,510	-	3,265	-	-	5,775
Macedonia	1,800	-	-	-	-	1,800
Moldova	7,492	-	-	-	-	7,492
Serbia	12,302	-	-	-	-	12,302
Europe & Central Asia region	9,997	-	5,000	-	-	14,997
Europe & Central Asia total	**52,019**	**-**	**8,265**	**-**	**-**	**60,284**
LATIN AMERICA & THE CARIBBEAN						
Argentina	8,843	-	-	-	-	8,843
Bolivia	7,565	-	-	-	-	7,565
Costa Rica	3,241	-	-	-	-	3,241
El Salvador	2,721	-	-	-	-	2,721
Guatemala	4,130	-	-	-	-	4,130
Honduras	4,414	-	-	-	-	4,414
Mexico	3,401	-	-	-	-	3,401
Nicaragua	9,587	-	-	-	-	9,587
Panama	545	-	-	-	-	545
Peru	3,823	-	-	-	-	3,823
Uruguay	5,468	-	-	-	-	5,468
Latin America & the Caribbean region	9,350	-	-	-	-	9,350
Latin America & the Caribbean total	**63,088**	**-**	**-**	**-**	**-**	**63,088**
GLOBAL						
Global	18,023	-	-	-	-	18,023
Global total	**18,023**	**-**	**-**	**-**	**-**	**18,023**
Total	**362,219**	**5,573**	**44,649**	**222,869**	**3,065**	**638,375**

Notes

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Colophon

Concept, copy and design	*the write company* The Write Company B.V. Triple Value Strategy Consulting FMO N.V.
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