ANNUAL REPORT 2013

FMO
Entrepreneurial
Development
Bank

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REPORT OF THE MANAGEMENT BOARD

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FMO KEY FIGURES

The figures and percentages mentioned throughout this annual report are the figures of the financing activities from FMO's own funds including the FOM facility. Where the FMO-managed Government funds are included, it is explicitly stated.

	2013	2012*	2011	2010	2009
New investments [1] (€xmln)	1,524	1,390	1,306	1,026	911
of which are Government funds [2]	144	160	165	81	114
Committed investment portfolio	6,633	6,281	5,874	5,292	4,598
of which are Government funds	844	831	828	726	721
BALANCE SHEET (€XMLN)					
Net loans	2,981	2,817	2,585	2,269	1,942
Equity investments portfolio [3]	962	914	795	688	531
Shareholders' equity	1,963	1,815*	1,665	1,514	1,327
Debt securities and debentures/notes	3,610	3,292	2,679	2,365	2,180
Total assets	6,184	5,564*	5,059	4,305	3,772
PROFIT AND LOSS ACCOUNT (€XMLN)					
Income					
Net interest income	155	154	147	133	109
Income from equity investments	43	89	46	52	27
Other income including services	56	28	45	40	30
Total income	**254**	**271**	**238**	**225**	**166**
Expenses					
Operating expenses	-62	-57*	-52	-50	-52
Operating profit before value adjustments	**192**	**214**	**186**	**175**	**114**
Value adjustments					
• to loans and guarantees	4	-23	-23	-18	-46
• to equity investments	-22	-23	-36	-11	-6
Total value adjustments	**-18**	**-46**	**-59**	**-29**	**-52**
Share in the results of associates	-5	4	-9	5	-1
Profit before tax (including results from associates)	**169**	**172***	**118**	**151**	**61**
Taxes	-36	-27*	-25	-25	-1
Net profit	**133**	**145***	**93**	**126**	**60**
Average number of full-time employees	336	306	283	270	264
Offset CO_2 emissions (tons) [4]	8,100	4,620	3,600	3,791	2,227

1) New investments and Committed investment portfolio concerns both investments for FMO's account and for Government funds managed by FMO
2) The Government funds include MASSIF, IDF, AEF and FOM OS
3) Including associates
4) Since 2012 we have used a new offsetting methodology. Before 2012 we offset our CO_2 emissions solely through the Climate Neutral Group. We now offset part of our CO_2 emissions through KLM, our preferred carrier. The remaining emissions continue to be offset through the Climate Neutral Group. KLM offsets 10% of our emissions; we continue to work with the Climate Neutral Group to offset the remaining emissions.
* The 2012 financial figures have been restated for the changes in IAS 19 Employee Benefits (revised 2011). The change in this IFRS standard, which became effective in 2013, also has an effect on the figures of 2012. For a detailed description on the changes in accounting principles, please refer to the significant accounting policies of the annual accounts.

Introduction

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

We share with our clients the commitment to growing a healthy private sector in developing countries. This is how lasting development impact is generated. These entrepreneurs create jobs. They employ people to manufacture products and services, thereby providing income and boosting living standards.

As we are working in an increasingly complex and interconnected world, it is essential to have open and constructive interaction with our stakeholders. These include clients, partners, investors, governments and ministries, NGOs, knowledge centers and universities. Cooperation through consultative meetings, for example with NGOs in creating FMO's complaints mechanism, conferences on such mutually relevant topics as sustainable finance and best practices in ship breaking, and various other events provide us with knowledge and insight into our stakeholders' needs. This helps us to continually improve our business according to the changing demands of the external environment and developments in our focus sectors and markets.

We offer our capital and knowledge as partners to ambitious entrepreneurs, banks and companies in crucial sectors – so that today's developing markets can become tomorrow's thriving ones.

Profile

Founded in 1970, FMO is a public-private partnership, with 51% of our shares held by the Dutch State, and 49% held by commercial banks, trade unions and other private-sector representatives. FMO has five subsidiaries that serve as intermediate holdings: Nuevo Banco Comercial Holding B.V., FMO Antillen N.V., Blauser S.A., Industrias Andinas B.V. and Asia Participations B.V., all with limited activities and fully consolidated in the FMO annual accounts. A minor part of the FMO financing is guaranteed by the Dutch State under the Faciliteit Opkomende Markten (FOM), which is also consolidated in the FMO annual accounts. FMO also manages several funds for the Dutch Government: the MASSIF fund, Access to Energy fund (AEF), Infrastructure Development Fund (IDF) and the Fonds Opkomende Markten OntwikkelingsSamenwerking (FOM-OS).

FMO has a AAA rating from Fitch Ratings and a AA+ from Standard & Poor's. We are classified as Prime with a B rating – the second highest within our peer group – by Oekom Research, a sustainable investment rating agency.

Our solid profile allows us to invest in higher-risk markets, either through FMO's own balance sheet or through projects we finance using FMO-managed Government funds.

Governance Structure

FMO has a two-tier board structure, with a Management Board and a Supervisory Board. The Management Board develops and implements FMO's strategy and is responsible for ensuring compliance with relevant legislation and regulations. It comprises three statutory directors: the Chief Executive Officer (CEO), the Chief Investment Officer (CIO) and the Chief Risk and Finance Officer (CRFO).

The Supervisory Board appoints the members of the Management Board and supervises its activities. It advises the Management Board on the strategic development and management of the company. The Supervisory Board consists of six members with specific expertise in FMO's primary areas of business. These members are appointed by the Annual Meeting of Shareholders.

Our Vision

We believe in a world in 2050 in which nine billion people live well and within the planet's resources.

In pursuit of this vision, FMO finances entrepreneurs from developing countries because we believe a thriving private sector fuels economic and social progress.

We invest capital and knowledge in projects, companies and financial institutions, and do so with the ultimate goal of empowering

people to employ their skills and improve their own quality of life.

Our Mission

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

Our Ambition

FMO has been investing for impact and profit for more than 40 years. We are convinced that this is crucial for economic growth that has positive social and environmental outcomes. We take pride in multiplying our impact by inspiring other investors to follow us.

For 2020 we have set ourselves an audacious strategic goal: to become a leading impact investor by doubling impact and halving footprint.

Reporting Policy and Justification of Choices

Global Reporting Initiative
Until 2012 FMO followed the Global Reporting Initiative (GRI) 3.1 Sustainability Reporting Guidelines, including the Financial Services Sector Supplement, which set the basis for our reporting method. We reported at a B+ application level.

In 2013 FMO made the move towards integrated reporting and developed new methodologies to measure impact in order to align with our ambitious impact-based strategy. We have discontinued the use of our EDIS development impact framework and presently our new impact framework is being developed further. As a result we are not able to report on our impact figures for 2013.

We do report on quantitative indicators (QIs) in our portfolio in order to show development results. Two of these QIs are harmonized with other development finance institutions. Although we report on them, FMO does not steer on these QIs.

Due to the transitory state of our methodologies we will not follow the GRI 3.1 guidelines for the present report. In the coming years we will move towards the application of the integrated reporting framework of the International Integrated Reporting Council and pursue a higher degree of integration for our annual reporting.

Reporting Policy
FMO reports according to the requirements of section 2:391 of the Dutch civil code and applies the RJ 400 Dutch legal guidelines for reporting in this management report.

Selection of Topics
FMO's annual reports cover activities that took place in or had an effect on the reporting year. Topic selection is guided by the RJ 400 and takes into consideration the suggestions of our stakeholders. The figures and percentages mentioned throughout this annual report include the figures of the financing activities from FMO's own resources as well as the FMO-managed Government funds, unless explicitly stated. The FMO financing activities include the FOM facility.

Materiality
During the year, we performed a high-level materiality analysis. This was done by drawing up a long list of topics forthcoming from interviews we held during the year with several representatives from different stakeholder groups, and complemented by suggestions of the Management Board and the Directors. The Management Board and the Directors subsequently rated each topic in terms of materiality to FMO and materiality to our stakeholders. We did not ask our stakeholders to rate these topics on their materiality but applied our own judgment and prioritized these topics based on the previously held interviews. The reporting process was guided by the topics that were seen as material by our stakeholders and senior management.

We intend on performing a more in depth materiality analysis during 2014 and will report on this in next year's annual report.

Quality of Data
The data presented in this annual report, with the exception of the data for the quantitative indicators (reference is made to page 21), are taken from FMO's internal systems, which are integrated and used for registering and monitoring of organizational processes. Different systems are in place for registering our portfolio or for registering and monitoring our internal human resources.

The year-on-year comparability of the data can be affected by changes in systems or methodology. Whenever this is the case, it is stated in the report.

FMO's Internal Audit performs an independent and objective assurance and advisory function, assessing the effectiveness of FMO's risk management, control and governance processes. Internal Audit audits high-risk processes annually, medium-risk processes every two years and low-risk processes every three to five years. These audit and review processes safeguard the quality of FMO's management, processes and controls.

Manner of Reporting
The 2013 annual report differs significantly in structure from previous years' reports. The decision was made to move towards a more integrated reporting format, with the content structured thematically rather than on a sector basis. The selection of three broad themes – business strategy, stakeholder strategy and financial performance – was informed by the high-level materiality analysis conducted in the last year. We aim to move towards a more integrated reporting format in 2014.

At the same time, we significantly reduced the size of the report, based on input from shareholders and stakeholder. This report was written and structured for the purposes of online publication, and can be found on FMO's website.

Client Case Studies
Throughout the text reference is made to various clients contracted in 2013. Where Government funds were invested, it is stated explicitly.

On FMO's website you can find 15 client cases that offer additional insight into our activities in 2013. The cases selected are not necessarily representative of the entire portfolio or of new contracts throughout the reporting year. They do, however, highlight new and/or innovative transactions and exemplify projects located within FMO's strategic sectors and regions. Several cases were contracted in the reporting year itself, while others highlight a significant development with a client in the same year. We invite you to read these cases on www.fmo.nl.

Assurance
FMO has asked KPMG to provide assurance on both the Annual Accounts and on the Report of the Management Board section of this integrated annual report. The scope of the assurance assignment on the Report of the Management Board is limited to the chapters from Key Figures to Financial Performance, Funding & Risk Management. The assurance is conducted using the ISAE 3000 standard.

Letter from the CEO

Dear Stakeholder,

Last year again demonstrated the truth of FMO's long-held conviction: that development impact and financial returns can and should go hand in hand. It was another year in which we were proud to support our clients as they work towards creating lasting development impact in a sustainable way.

FMO and the managed Government funds achieved record new commitments of more than €1.5 billion, €144 million of which was from the FMO-managed Government funds. Other highlights of 2013 included the launch of our first investment fund and the issue of our first public sustainability bond in the market, where it encountered strong investor demand.

FMO also maintained a good level of profitability, though the quality of income was lower than 2012; lower results from private equity exits were compensated by a release of the group specific provision and lower pension expenses. The quality of our loan and private equity portfolios remained fairly stable throughout the year.

Central to our work in 2013 – as it will be in the years to come – was the development of our bold new strategy to become a leading impact investor by 2020 by doubling impact and halving footprint. The last year was very much about preparing the organization for implementing the new strategy in 2014.

This strategy will increasingly become part of our day-to-day activities at FMO. But it is not, of course, about FMO itself; it is about finding ways to help clients who are agents of change. It is about supporting clients whose business strategies contribute to a sustainable world in 2050.

Our strategy is a work in progress, and the momentum of the strategy development process in 2013 will continue in 2014 and beyond. It is all about gradual change: the majority of what we do in 2014 will be based on what we already know how to do. That is, supporting the growth and development of a broad range of private companies and banks in developing countries, thereby facilitating employment and access to their products and services.

We are already working with many inspiring individuals and groups, as you will see throughout this annual report. Entire banking sectors in Kenya and Mongolia, for example, took responsibility last year for sector-wide environmental and social initiatives. Increasingly, such initiatives will become part of the mainstream.

Going forward, we will also actively search for projects that require change and innovation and that are aimed at finding new ways of achieving sustainable and equitable growth in our markets. We also want to develop the manner in which we report on the impact of projects we finance. Our challenge is to remain at the forefront of development finance – something that has always been at the heart of our mission.

In the coming years we will work to maintain our profitability while also further increasing the money we mobilize from others. By 2020, we will strive to mobilize an equal amount of third-party funding as we invest ourselves, with at least half of these third-party funds coming from commercial investors.

This will be a challenging but inspiring journey. We are working towards setting concrete impact targets, achieving them and reporting on them transparently. As in every journey, the destination is not reached in a day. Yet I know that the journey is worthwhile, and that we will manage to get there.

My thanks go to all our employees, clients, investors, Ministry counterparts and other stakeholders for their efforts and support in 2013. I would also like to express my gratitude to CRFO Nico Pijl, who retired at the end of 2013 after 27 years of great service to FMO. Nico and I cooperated closely over more than two decades, 12 years of which we spent on the Board together. I look forward to continuing such excellent collaboration with his successor Jurgen Rigterink and our new Chief Investment Officer Linda Broekhuizen, who completes our Management Board.

Nanno Kleiterp
Chief Executive Officer

Business Strategy

FMO IN 2013

The markets in which FMO operates continued to enjoy stronger growth than Western markets in 2013, although they began to look more vulnerable as growth forecasts were lowered several times during the year.

In these markets, client demand for FMO's products and services was strong in 2013, while the quality of our portfolio slightly decreased, with non-performing loan levels at 4.1% (2012: 3.5%). We performed well financially and also made meaningful knowledge contributions to our clients, such as enabling and supporting sector-wide environmental and social initiatives.

We achieved most of our targets and key strategic objectives for the year (see table below). In 2013 we also developed a new development impact framework.

We were ahead of target with €1.52 billion in total new contracts for FMO and for funds managed on behalf of the Dutch Government. FMO also catalyzed €822 million from third parties.

From the FMO balance sheet, we invested €1 billion in new contracts in low-income countries (LIC) and lower-middle-income (LMIC) countries in 2013. The share of the FMO portfolio concentrated in LICs and LMICs remained at a high level (77% in 2013).

More specifically, we invested €592 million from the FMO balance sheet in new contracts in the 55 poorest countries. This investment category made up 40% of our portfolio in 2013, up from 38% in 2012.

On the sustainability front we continued to add value to our clients by implementing environmental, social and governance (ESG) improvement measures, initiating sector-wide environmental and social (E&S) initiatives, organizing E&S courses for fund managers and solving governance issues. Because a number of complex ESG action items due to be completed in 2013 proved more challenging than expected, we did not quite realize our goal of implementing 85% of ESG action items due; we fell short of this target by 7 percent.

The net 5 year average return on shareholders' equity is above target at 7%, our cost to income ratio increased compared to 2012 and exceeded our annual target by 1%. This is still within the desired long-term range of 25-30%. The higher net 5 year average return on shareholders' equity was positively influenced by an adjustment to the group specific provision.

KEY TARGETS 2013

	Target	Realization
Total new contracts FMO and Government funds	€1.46 billion	€1.52 billion
New contracts FMO in 55 poorest countries	35%	43%
Catalyzed funds	€785 million	€822 million
ESG action items implemented due	85%	78%
FMO Net 5 year average return on shareholders' equity	6%	7%
FMO Cost to income	24%	25%

COMMITTED PORTFOLIO FMO AND GOVERNMENT FUNDS BY SECTOR (€XMLN)

	2013			2012		
	FMO	Government funds	Total	FMO	Government funds	Total
Financial Sector – Financial Institutions	2,037	266	2,303	1,965	288	2,253
Financial Sector – Private Equity Funds	1,059	209	1,268	1,025	179	1,204
Energy	1,133	272	1,405	996	258	1,254
Agribusiness, Food & Water	439	27	466	380	10	390
Diverse Sectors	1,121	70	1,191	1,084	96	1,180
Total	**5,789**	**844**	**6,633**	**5,450**	**831**	**6,281**

With tighter capital requirements continuing to pressure US and European commercial banks, appetite for long-term projects in emerging markets remained subdued. However, investment by banks from emerging markets continued to increase, strengthening the trend of greater activity between developing countries – also known as South-South cooperation or capital flows. With local banks only partially meeting demand for financing, FMO enjoyed record production.

An Ambitious New Strategy

Last year saw FMO take the first steps towards implementing our new strategy, with the goal of becoming a leading impact investor by 2020 by doubling impact and halving footprint

Through our clients in the countries we are active in, as well as for our clients in the Dutch market, our investors and our partners, we create impact in three ways: inclusive development, green development and economic growth. FMO's new strategy is based on a strong conviction that economic growth that is both inclusive and green will lead to a better world. This is a guiding principle in our selection of sectors, countries and products, as well as in our cooperation with our clients and investors.

The concepts of 'inclusive' and 'green' will be increasingly important in guiding investment decisions in 2014 and beyond. For the sake of clarity we provide explanations of these concepts, in so far as they have been defined:

Inclusive development refers to development that creates greater access for the broader population to finance, infrastructure and other resources. We are currently in the process of operationally defining 'inclusive'.

FMO's definition of green is aligned with the multilateral development bank (MDB) approach. Transactions that are straightforward green include sustainable energy, reduced emissions from deforestation and forest degradation (REDD) and the manufacture of clean tech components. In the case of transactions that are not straightforward green, FMO will leverage the knowledge of MDB partner institutions and follow a learning-by-doing approach, which will lead to a more established list of green definitions by 2015.

The term footprint is widely understood as the (negative) impact on the environment of our activities in terms of pollution, ecosystem damage and depletion of natural resources. At the moment, FMO measures footprint using greenhouse gas (GHG) emissions as the indicator for all investments.

As we strive to double the positive impact of our investments, so we will strive to halve the negative impact – the footprint – of the same investments. For each sector we will define impact indicators to help us measure our progress towards our 2020 goal.

In our ambition to become a leading impact investor, we will strive also to attract other financiers to our projects. We have built up a solid track record of bringing other banks and investors to our clients. We will step up these efforts in the coming years. By 2020 every euro that we invest will be matched with a euro invested from a third party, doubling the leverage of our balance sheet.

Though we are now moving towards greater accountability and more ambitious impact targets, FMO has already been creating development impact in a profitable manner for years. We have done this by providing scarce finance to companies in the private sector and working with them towards meeting high environmental and social standards. FMO's companies have contributed to job creation and greater access to infrastructure and finance. Going forward, we will continue our business in this way. At the same time, we will strive to finance more companies or banks that are innovators and are making significant contributions – for example in resource efficiency or renewable energy – to a sustainable world in 2050.

As part of our new strategy, we will work towards becoming the first financial institution that sets measurable targets for our development impact, financial performance and our environmental footprint. That being said, the strategy development is on-going work. In 2014 and beyond, we will seek to define quantitative impact indicators for our focus sectors and other areas of our business. For more information on our 2020 strategy and treatment of impact and footprint, please refer to the Beyond Finance chapter.

SECTOR STRATEGY

We pursue our vision by financing entrepreneurs in three key sectors: financial institutions, energy and agribusiness, food and water. We believe that it is in these sectors that our contribution can have the highest long-term impact, as they are integral to economic development and a more sustainable world as the global population grows. In addition to our focus sectors we also finance entrepreneurs in other industries that create sustainable impact. In these diverse sectors we support businesses through a network of selected partners who have the expertise and knowledge of the sectors or countries in question.

Through our sector strategy we aim to realize the highest development impact, not only for our own account but also for the funds we manage for the Dutch Government. We measure and therefore report on impact indicators for projects funded through our own account and those through the Government funds.

Our investments are also guided by a country strategy. For the coming years we will invest at least 70% of FMO financing in low- and lower-middle-income countries, and at least 35% of FMO financing in the 55 poorest countries.

Financial Sector

Accessible finance is a cornerstone for viable economies and strong private sectors. A healthy financial sector can bolster entrepreneurs and individuals alike. FMO focuses on financial institutions with long-term goals that can boost their markets and communities by creating access to financial services. Therefore FMO has a focus on reaching micro-, small- and medium-sized enterprises (MSMEs), as access to credit for small entrepreneurs tends to be limited in developing economies.

We also support financial institutions in improving their asset and liability management, risk management, product development, environmental and social risk management, corporate governance and client protection.

Our strategy in the financial sector is to bring together local parties and help them raise private equity funds in which investors can pool high-risk capital. These funds have a high catalyzing effect as equity is scarce but necessary to bring in other financiers, such as banks.

Last year we closed €695 million in new transactions for FMO (€613 million) and for Government funds (€82 million) both in financial institutions as well as in private equity funds. These were lower than the production of €710 million in 2012 (FMO: €609 million; Government funds: €91 million).

PERFORMANCE FMO FINANCIAL SECTOR (€XMLN)

	2013	2012
FINANCIAL INSTITUTIONS		
Total new contracts	496	468
Total committed portfolio	2,037	1,965
Net interest and fee income	74	63
Equity results	13	13
Specific value adjustments on loans*	4	5
Impairments and fair value changes on equity investments	13	-1
Non performing loans (%)	0.4	0.5
PRIVATE EQUITY FUNDS		
Total new contracts	117	141
Total committed portfolio	1,059	1,025
Net interest and fee income	2	6
Equity results	24	45
Specific value adjustments on loans*	0	1
Impairments and value changes on equity investments	5	14
Non performing loans (%)	0.0	0.0

*excluding group specific value adjustments

The financial performance of our financial sector is mainly driven by interest income of the financial institutions and results realized from equity investments and private equity funds. Results realized from equity investments declined last year despite the growth of the portfolio. Market circumstances were very challenging in 2013, and as a consequence we realized fewer exits from our equity investments. Reference is made to the paragraph on our private equity business.

The key transactions of 2013 included a senior loan to National Microfinance Bank (NMB), Tanzania's largest bank, which is partly owned by Rabobank. FMO arranged a US$65 million syndicated loan for NMB, catalyzing funds from DEG, our German peer development finance institution, and European Finance Partners. In Cambodia, FMO provided a local currency loan and a syndicated loan to Prasac, a microfinance institution, bringing along other international investors. FMO arranged a syndicated loan for TBC Bank in Georgia, alongside Canadian investor Cordiant and Swedfund, the Swedish development Bank. TBC Bank contributes to economic growth and job creation in Georgia by developing the SME sector.

Capital markets developments will continue to have major influence on financial institutions in 2014. Countries with more open economies, such as Turkey, Ukraine and India, will remain sensitive to investor nerves around developments in the international financial markets.

Our products evolve as our markets develop. In earlier years in Central America, for example, we offered standard senior loans for long-term financing. Now local commercial banks have begun offering their clients similar facilities for infrastructure projects. FMO retains its added value by offering higher-risk products that match market needs, such as subordinated loans. We also focus on catalyzing local banks in our syndicated loans. In Guatemala, we arranged a US$100 million syndicated senior loan for Banco Agromercantil de Guatemala, with seven commercial banks from four countries in Central America participating in the B-loan. The loan will largely be used to fund long-term renewable energy projects in Guatemala.

Looking forward into our new strategic period, Financial Institutions will maintain its MSME focus, while also further developing green credit lines (credit lines with an explicit sustainability purpose) and sector-wide sustainability initiatives. We will continue to add value to our clients by supporting them with the implementation of environmental and social management systems, corporate governance improvements, risk management and client protection principles.

Energy

For developing countries, access to reliable and affordable energy is essential for economic development and social progress. Renewable energy and energy savings are an integral part of the climate change dilemma. Finding sustainable sources of energy becomes ever more pressing as resources become depleted and natural disasters from climate change become more frequent and more devastating.

A little over 65% of our transactions were in renewable energy last year. Our investments were mostly in wind and solar energy; this trend towards renewable energy is something we hope and expect to continue.

PERFORMANCE FMO ENERGY (€XMLN)

	2013	2012
Total new contracts (€xmln)	265	302
Total committed portfolio	1,133	996
Net interest and fee income	32	32
Equity results	2	9
Specific value adjustments on loans*	1	4
Impairments and value changes on equity investments	-3	-25
Non performing loans (%)	2.5	3.4

*excluding group specific value adjustments

We signed €305 million in new energy commitments in 2013 (FMO: €265 million; Government funds: €40 million) (2012: €346 million). From FMO's own account we completed wind transactions with three different companies in India, one in Uruguay, and the first utility-scale renewable energy project in Jordan (which was also the first utility-scale wind-power project in the Middle East). The latter two were our first ever transactions in Uruguay and Jordan.

Net interest income remained stable at €32 million due to the fact that the growth of the outstanding portfolio materialized in the last part of 2013. The committed portfolio, however, increased by 13% to €1.1 billion. Results realized from equity investments decreased due to challenging market circumstances in 2013. The quality of our portfolio measured in terms of NPLs has improved.

Other highlights included a waste-to-energy and biomass-to-energy transaction with Sindicatum, a company active in India and Thailand, and financing for Chinese company Singyes, which offers building concepts with integrated solar panel solutions. Through the Infrastructure Development Funds we also extended a loan to Green Resources, a forestry company in Tanzania that also generates carbon credits.

In addition to our financing, we also advised clients on and supported improvements for reducing emissions, for example through energy efficiency investments. This consultative role is also important in stakeholder management, which is a crucial part of our energy transactions. Given the scale of most energy projects and their potential for community or livelihood disruption, open and consultative dialogue with all stakeholders is a key part of our energy investment process.

Despite a strong portfolio of renewables, however, the dilemma remains that fossil fuels continue to be necessary for a stable energy grid supply in many developing countries. Going forward with our new strategy, and taking into account the balance between economic growth and green development, we have decided to finance non-renewable energy transactions in lower-income countries only if they meet our regular ESG criteria and if no viable renewable energy alternative is to become available in the near future.

Energy is the first of our focus sectors to work with the sector-specific impact indicators of our newly defined impact framework. Energy is a logical sector to pilot new impact indicators, given the clear environmental and social components of energy projects. For more information on development impact, please refer to the Beyond Finance chapter.

Agribusiness, Food and Water

A surging global population demands the long-term accessibility of affordable food. Food security and access to affordable nourishment are crucial in developing countries, where on average 60-80% of income is spent on food.

To achieve long-term sustainability in global agribusiness production, large investments are needed to improve farming practices, increase yields and reduce waste. FMO finances agribusiness companies throughout the value chain, including farming, processing and distribution operations. FMO has focused on agribusiness, food and water since mid-2011. In 2013 we closed total €133 million (FMO: €115 million; Government funds: €18 million) in new transactions (2012: €103 million).

PERFORMANCE FMO AGRIBUSINESS, FOOD AND WATER (€XMLN)

	2013	2012
Total new contracts	115	102
Total committed portfolio	439	380
Net interest and fee income	19	21
Equity results	-2	0
Specific value adjustments on loans*	-7	-4
Impairments and value changes on equity investments	-1	-1
Non performing loans (%)	4.2	1.5

*excluding group specific value adjustments

The year was marked by our Agribusiness team's first investments in Africa, with investments made by FMO and FOM OS in cocoa production in Nigeria and a coffee plantation in Tanzania. We teamed up with sustainable trade initiative IDH in a program that will see FMO provide loans to companies that support sustainable initiatives in agriculture. This is a milestone in the sector, as the growth of agriculture has been limited by the availability of funding from commercial banks.

The performance of our Agribusiness, Food and Water declined slightly due to lower net interest income driven by a slight decline in our outstanding loan portfolio. Our committed portfolio, however, grew by 15%, which reflects our intensified focus in this sector.

Other notable transactions included a loan to Costa Rican pineapple producer Upala Agricola, which supports smallholder pineapple growers. FMO also provided a senior debt facility and foreign currency convertible bond to Jain Irrigation Systems Ltd., one of India's largest integrated agribusiness players providing, among others, micro irrigation systems that irrigate crops more efficiently by supplying water where it is needed (at the roots rather than on the leaves).

Looking to the future, we aim to intensify the focus on green transactions, in line with FMO's overall strategy. We will also strive to add more non-financial value to the companies we finance, for example through consultancy on environmental, social and governance (ESG) improvements or by organizing events on such sustainability topics as resource management or energy efficiency.

This is a complex sector, with many risks and challenges. Issues such as land grabbing, large scale agriculture and genetically modified organisms can bring many complications into an investment. We are currently developing frameworks for addressing some of these issues. We will continue to carefully screen and select the transactions we do, and consult all stakeholders to ensure that our investments adhere to the highest environmental, social and governance standards.

In pursuing greater impact with a smaller footprint, we will focus on companies that reach out to smallholders, thus providing access to financing earlier in the value chain. In so far as we are able, given the lack of a measurement tool for resource efficiency, we will also seek out clients that produce more efficiently using fewer resources. As water use is integral to to the footprint of agri companies, we will start developing a tool that measures water use in our agri projects.

Diverse Sectors

Diverse Sectors closed €391 million (FMO: €387 million; Government funds €4 million) in new transactions last year (2012: €231 million) in a range of industries, including telecoms, textiles, ports and tourism.

The decline in interest income for Diverse Sectors compared to 2013 is mainly due to the decrease of our outstanding portfolio. Our committed portfolio, however, grew by 3%.. Results realized from equity investments were negatively impacted by challenging market circumstances. The quality of our portfolio measured in term of NPLs has deteriorated. The increased NPLs are associated with our former focus sector, Housing, and other specific projects.

PERFORMANCE FMO DIVERSE SECTORS (€XMLN)

	2013	2012
Total new contracts	387	217
Total committed portfolio	1,121	1,084
Net interest and fee income	34	39
Equity results	1	26
Specific value adjustments on loans*	-33	-25
Impairments and value changes on equity investments	-4	-9
Non performing loans (%)	15.2	10.8

*excluding group specific value adjustments

Some notable transactions were textile dyeing firm Color City Limited, clothing exporter Ananta Apparels and telecom provider Grameenphone – all based in Bangladesh. Increasing international attention has come upon the sometimes grave shortcomings of health and safety standards in the Bangladeshi textile industry. FMO only invests in companies that adhere to the highest standards of health and safety, as well as broader social and environmental standards. When our client companies source from third party suppliers we strive to ensure that the same regulations are applied to them also. Detailed caveats describing technical and safety standards were included in the environmental and social action plans for Ananta Apparels and Color City Limited. The companies also provided governmental approval and technical checks by independent consultants on fire and construction safety.

We also made an investment in Base Titanium, a mineral sands mining project in Kenya that will see local job creation with a strong focus on hiring women, in an area with a high unemployment rate. The company is engaged in a great deal of community development, including the construction of a secondary school, health center and several community water points. Base Titanium also supports a scholarship program enabling local students to study at university and a linkage program connecting local farmers to markets for fruits and vegetables.

In the wide range of sectors we are active in, we work with our clients to implement the highest environmental and social standards. We strive to support our clients in generating positive economic, environmental and social impact.

In 2014 we will define more clearly how Diverse Sectors transactions contribute to our strategy of becoming a leading impact investor by 2020. These will be leading in the way we want to measure and target impact in non-focus sectors and in developing the indicators in our new impact framework.

Private Equity

In the last few years we have increasingly invested through our private equity product in our focus sectors, either directly or through sector-focused private equity funds. However, in the interest of diversification FMO continues to invest equity in a broad range of sectors and countries.

Private equity creates substantial development impact: projects create new jobs, producing locally implies consumers get access to products previously imported and companies can grow by exporting and competing in the international market.

Through our private equity business we invested €334 million (FMO: €249 million; Government funds: €85 million) (€311 in 2012).

FMO, together with the Government funds, established the first private equity fund in several countries – for example in Ethiopia – have been instrumental in supporting the development of local financial infrastructure. One of the funds we anchored, the Moringa Fund, which invests in Latin America and sub-Saharan Africa and received the award for Most Innovative Impact Investing Project in 2013 at the ESG Leaders Awards.

TOTAL NEW CONTRACTS BY PRODUCT FMO 2013 VS 2012 (€XMLN)

	2013	2012
Commercial loans	926	826
Equity	249	247
Guarantee	37	89
Mezzanine	168	68
Total	**1,380**	**1,230**

As part of our Private Equity strategy we have also been pursuing co-investments alongside private equity funds that we have invested in. Through these co-investments we get direct ownership and create value by improving corporate governance, implementing FMO's environmental and social standards and opening up FMO's client network to these companies. Notable transactions included Fanmilk, the leading manufacturer and distributor of frozen dairy products and juices in West Africa, and Soleq, an innovative pan-Asian solar platform with 10 solar PV farms totaling 92 MW in Thailand as seed assets.

Looking ahead, Africa offers particularly plentiful investment opportunities, although the market is not easy. In Asia, we see the benefits of our longstanding network coming to fruition and new countries opening up. There are also challenges: we see abundant capital available for large-scale developments, which means the upper ends of markets are increasingly mispriced relative to risk. Meanwhile, capital is scarce for riskier projects, and the lower end of the market lacks distribution channels to get money to smaller firms. We are considering various alternative distribution models that could help capital trickle down into these segments of the geographic markets we operate in.

MOBILIZING STRATEGY

Catalyzing Investment

Developing countries are often considered high risk. As a result, even their most innovative, promising businesses often do not have access to the financing they need to reach their potential.

To maximize the development impact of our projects, we strive to increase both our own investment volumes and attract others to invest alongside us. By 2020, we want to mobilize one euro for every euro we invest ourselves. In 2013, this ratio amounts 1 to 0.59 (€1.38 billion to €0.82 billion). We aim to boost our fund catalyzing (mobilizing) role through fund management for third parties and syndicated loans.

Attracting investment from commercial parties remains challenging as (Western) commercial banks refocus increasingly on their home regions, or limit their developing market finance to upper-middle-income countries (UMICs). This creates some tension, as FMO aims to invest as much as possible in low-income countries and limits investments in UMICs to 30% of its financing.

Last year, we catalyzed €822 million from third parties. We achieved this by working with commercial and non-commercial partners who are well networked with local and regional banks.

Our mobilizing strategy is based on:

- Syndicating loans where FMO is mandated arranger or parallel loans where FMO is formally in the lead;
- Funded and unfunded risk sharing agreements with third parties and underwritten loans sold to third parties; and
- Managing third party funds committed to clients through FMO-sponsored debt and equity fund initiatives.

Syndications

We increasingly focus on finding opportunities to arrange larger syndicated loan transactions in which we bring along other lenders. We increased the number of syndicated loan transactions in 2013 compared to 2012. We were also able to attract significantly more commercial co-investors (from 35% in 2012 to 48% in 2013), particularly regional banks. FMO-led transactions received external recognition from the industry. The US$100 million syndicated deal that FMO led for Vicentin was awarded LatinFinance's Trade Finance Deal of the Year 2013.

Sustainability Bond

November saw the highly successful launch of a public FMO Sustainability Bond, one of the first public euro-denominated green bonds. The €500 million bond was met with strong market demand, with more than 50 investors participating and the investment book exceeding €1.2 billion. Proceeds will be used to finance green and inclusive projects in line with FMO's strategy. With this issuance we are helping to make capital markets more sustainable. The bond issue also strengthened our relationship with our Dutch investor base, which contributes to our strategic aim of tightening our Dutch link.

Fund Management

Last year we established FMO Investment Management. This new team was put together in response to the growing interest from institutional investors in increasing their exposure to emerging and frontier markets and doing so in a responsible manner, with attention to environmental, social and governance (ESG) issues. FMO Investment Management is integral to FMO's strategy of becoming a leading impact investor.

We fully understand the fiduciary responsibility of our investors, which is why delivering good returns with our funds is a priority for us. We firmly believe that healthy investment returns and impact investing are compatible; this is the core of our fund management proposition.

Investor appetite for this proposition was proven by FMO Investment Management's highlight of the year: the €100 million first close of a new debt fund set up with SNS Asset Management for small- and medium-sized enterprises – the SNS FMO SME Finance Fund. This fund will participate in loans that FMO provides to banks in emerging markets that focus on SME lending. In each deal the fund invests in, FMO will put in an equal or greater amount of its own money, to ensure strong alignment of interest.

Looking ahead, the long-term opportunities for FMO Investment Management lie in the growing overall interest in ESG and sustainable investing. We actively engage with potential investors in Europe, the US and emerging markets to build their awareness, test their appetite and in some cases educate their staff on aspects of sustainable investing in high-growth markets. In 2013, we hosted two events for the Dutch investor community: one on Africa from an investment perspective and a second on sustainable investing in emerging markets. We use investor feedback to develop new fund propositions, matching FMO's strengths with investor appetite in specific sectors and products.

GOVERNMENT FUNDS

We manage funds for the Dutch Government, using these to provide innovative financial structures where clients and projects involve risks that are too high for FMO's own account. We manage the Dutch Government's MASSIF fund, Infrastructure Development Fund (IDF), Access to Energy Fund (AEF) and the Fonds Opkomende Markten OntwikkelingsSamenwerking (FOM OS). These funds are an important part of our business and development strategies.

FOM OS, which supports Dutch companies investing in emerging markets, had a very strong year, growing its committed portfolio by €14 million from 2012 (€3 million). Among its notable transactions was a combined FMO-FOM OS investment in Tulip Cocoa, a cocoa processor in Nigeria. Such investments further our strategy to promote Dutch interest in our markets. In 2013 the Dutch Government decided to include the FOM OS mandate into the Dutch Good Growth Fund, which is currently being developed. FMO has submitted a proposal to act as a sub-contractor for the fund with respect to Dutch companies investing in developing countries. The final plans for the

COMMITTED PORTFOLIO 2013 GOVERNMENT FUNDS (€XMLN)

Region	MASSIF	IDF	AEF	FOM-OS	Total
Africa	157	238	29	12	436
Asia	111	56	12	0	179
Latin America & the Caribbean	73	21	12	4	110
Eastern Europe & Central Asia	31	0	0	1	32
Non-region specific	64	23	0	0	87
Total	436	338	53	17	844

COMMITTED PORTFOLIO 2012 GOVERNMENT FUNDS (€XMLN)

Region	MASSIF	IDF	AEF	FOM-OS	Total
Africa	147	250	25	2	424
Asia	123	71	14	0	208
Latin America & the Caribbean	68	22	14	0	104
Eastern Europe & Central Asia	33	0	0	1	34
Non-region specific	61	0	0	0	61
Total	**432**	**343**	**53**	**3**	**831**

fund will be published by the Rijksdienst voor Ondernemend Nederland (RVO) by the second quarter of 2014.

Last year saw the Dutch Government strengthen its commitment to IDF with an additional €110 million in funding. Notable IDF transactions were in the area of sustainable forestry and climate business investments. Production of new contracts was lower than last year suffering from a lack of investable assets. The same was true of AEF, which encountered some difficulties in closing transactions primarily due to the very slow development of private sector renewable energy projects in sub-Saharan Africa. Nevertheless, going forward AEF's mandate will limit it to investing only in renewable energy in Sub-Saharan Africa.

MASSIF has €436 million committed in a globally diversified portfolio of microfinance institutions, SME-focused banks and other financial intermediaries in the field of financial inclusion and SME-lending. In 2013 €80 million was contracted in new equity and debt investments, in line with internal targets. All debt investments in 2013 (approximately one third of all production) were in local currency, helping clients manage foreign exchange risks better. Africa is now the largest regional exposure of the fund, which is in line with the fund's mission to address financial inclusion in this continent. The year brought a new and diverse set of investees to the portfolio, from an NGO providing credit and advisory services to farmers in rural Bolivia to a fund that will extend guarantees to banks in Tajikistan to boost their SME lending and lower the risk perception of the segment.

Besides managing the MASSIF, IDF, AEF and FOM OS funds for the Dutch Government, FMO also executes the Faciliteit Opkomende Markten (FOM) facility. This facility is recognized on FMO's balance sheet with the Dutch Government acting as guarantor in the event of losses (up to 95% of losses are compensated).

As of the end of 2013, the total committed portfolio for the FOM facility increased from €75 million to €87 million. We have €41 million in new commitments through the FOM facility (2012: €14 million). Among the notable transactions was a combined FMO-FOM investment in Damen Song Cam Shipyard in Vietnam.

BEYOND FINANCE

In addition to the financial services and products that we offer, clients also benefit from access to our expertise and to our network and partnerships.

Beyond finance, we provide services such as environmental and social management support and assistance with corporate governance, which can mitigate many business and investment risks. We also support our clients in improving their management skills and technical expertise through our Capacity Development program.

In 2013, we supported four highly successful non-financial sector-wide initiatives.

In Mongolia, FMO was one of the organizers of the first Mongolian Sustainable Finance Forum, held in Ulan Bator in May 2013. The event brought together the heads of all the country's commercial banks and of international development banks to discuss environmental and social issues that are likely to affect Mongolia's long-term development goals. It culminated in a public declaration by the 14 Mongolian commercial banks to introduce a sustainable funding framework into the country's banking and financial systems. The same initiative took place in Kenya and Paraguay, where we met with local banks to discuss and promote sustainability in the banking sector.

TOTAL NEW CONTRACTS GOVERNMENT (€XMLN)

	2013	2012
MASSIF	80	88
IDF	40	59
AEF	10	10
FOM-OS	14	3
Total	**144**	**160**

In September in Bangladesh we convened members of the Bangladesh Ship Breakers Association (BSBA) and the Association of Bankers Bangladesh (ABB) to discuss environmental and social issues in the ship recycling industry. Both parties signed a joint statement committing them to improving environmental and social standards in the country's ship recycling industry. This followed a successful round table meeting in June, attended by key industry representatives, the executives of several Bangladeshi banks, government officials and international experts. FMO was one of the organizers of the initiative.

These initiatives are all aimed at bringing together multiple players in a sector to develop and implement improvements in ways of working, with regards to environmental, social and governance considerations. Through this sector-wide format we attempt to facilitate open dialogue and cooperation in the interest of enacting meaningful and lasting change. We see such initiatives as an important way for FMO to share knowledge and experience, and thereby to add value to our clients and to the markets we are active in.

Looking ahead, we aim to enhance our transfer of knowledge through more advisory services, with a specific focus on ESG aspects. We will continue to promote networking and matchmaking between clients and with parties in The Netherlands, and will increase client intimacy by building on the strength of our client interaction and account management.

Development Impact

FMO undertakes transactions if we are convinced that we are complementary to commercial financiers and that we do not re-finance other financiers. These two requirements cannot be measured directly. Therefore, prior to every investment these key questions are discussed within FMO's Investment Committee; project approval is subject to these requirements (among others) being met.

We strive to invest in projects that contribute to the development of the local private sector. This is particularly applicable to sectors with indirect network effects, such as our focus sectors, which create indirect effects on other parts of the economy, and hence improve the investment climate.

Impact considerations are an integral part of FMO's operations, at project appraisal stage, during the annual monitoring of projects and at evaluation phase (5 years after contracting).

New Impact Framework

In 2013 we began developing a new strategic impact measurement and reporting framework. This framework (henceforth referred to as the impact framework) is central to our goal of becoming a leading impact investor in 2020 by doubling impact and halving footprint. The new framework will replace the EDIS framework, which FMO previously used to measure the expected development impact of projects.

The new impact framework links FMO's financial and non-financial activities to expected future impact and links this impact to the longer-term goals we want to achieve.

The impact framework is therefore an important tool in our accountability to our key stakeholders, who include our shareholders, clients and investors.

The approach we have taken for 2020 – simultaneously targeting economic growth, green development and inclusive development – is quite new to the industry. As such, the process of selecting and monitoring impact indicators is in large part a process of learning by doing.

In 2013 we began to measure two new impact indicators for our energy projects: (i) the number of people receiving access to energy via power generation; and (ii) the amount of greenhouse gas emissions (in tons of CO_2) avoided annually compared to the most likely alternative power source available. The second indicator is currently used as the measure of footprint reduction.

In 2014, we will pilot with these two indicators and make them part of our investment decisions.

In 2014 we will also establish the impact indicators for our other focus sectors.

FMO's Footprint

Although relatively small compared to the footprint in our emerging markets portfolio, we are proactive in minimizing our own environmental footprint. We offset our CO_2 emissions by complying with the Gold Standard and by purchasing verified emission rights through the Climate Neutral Group, though our Southern Africa regional office is not yet included in this methodology.

In 2012 we changed our CO_2 offsetting methodology. We now offset the largest share of our CO_2 emissions – those resulting from employee flight travel – directly, through KLM, our preferred carrier. The remaining emissions continue to be offset through the Climate Neutral Group. In 2013 our emissions increased due to more air travel by FMO staff. We have fully offset these emissions in order to remain climate neutral.

We also prefer suppliers who offer a combination of sustainable products and services. Since 2012 we have been implementing the Gouden Standaard (Golden Standard) for facility services personnel in our office in The Netherlands. The standard, developed by the local labor union FNV Schoonmakers, underlines the importance of good working conditions for facility services personnel. Read more on our website about the measures we take to minimize our footprint, including our mobility and energy policies at our office.

Evaluations

Ten years ago, FMO was the first European development finance institution to report evaluation results. We evaluate projects five years after contracting, on both their financial and development results. In 2013, we evaluated projects contracted in 2008 – the first year of the global financial crisis. The crisis has played an important role in the external environment of FMO's projects. The financial results of equity investments made in 2008 were adversely affected. The financial crisis has also made FMO's financing more complementary, as commercial financiers became more risk averse and were less active in FMO's markets. FMO's financing has therefore also played a more important role than in pre-crisis years. A few investments in the height of the crisis turned out to be financially successful and generated very positive development effects, as they supported local banks in extremely difficult situations and bolstered the local economy by providing continued access to credit. Examples include the high-risk transactions in the banking sector in Georgia during the peak of the crisis.

In addition to our regular evaluations FMO also publishes in-depth studies, which analyze the wider economy effects of projects. In 2013 we began a multi-year research program on our Government funds to determine the impact of publicly-funded projects. Of the 6 that began last year, 2 have been completed: renewable energy in Nicaragua (AEF) and SME finance (MASSIF), which studied financial institutions in Sri Lanka and private equity funds in India. Both studies showed high additoinality and positive effects on the local economy. These publicly-funded projects were shown to indirectly increase access to electricity and contribute to a more sustainable local energy sector. These studies were externally conducted and supervised by FMO's external evaluation panel.

A joint study was also undertaken with FMO's European development finance institution partners on SME-oriented financing of African banks. The study showed that providing long-term funding to local banks has played a positive role by allowing these banks to offer more long-term local financing to their (SME) clients. However, reaching the local SMEs indirectly via the local banks remains a challenging task, and can be improved by better aligning strategies and capacities with the local banks and by providing appropriate financial products (preferably local currency).

QUANTITATIVE INDICATORS

Beyond getting financial returns on our investments, FMO also aims to achieve development results, in the form of employment, access to finance or contributions to government revenues. However, similarly to other European development finance institutions (EDFIs), we are currently unable to show a direct relationship between our financing and development impact, for example in the form of poverty reduction. We do report, on a broader level, the non-financial results of our investments using a set of quantitative indicators (QIs). These provide an order of magnitude insight. Although the QIs are based on indicative estimates, they illustrate the development impact created by FMO's investments and provide a snapshot of the development reach of clients in our portfolio. Due to their nature, these QIs are not used as KPIs and FMO does not steer on these indicators.

Harmonization

Other development finance institutions (DFIs) also report on development impact. In 2013 a group of EDFIs agreed to harmonize a set of QIs in order to reduce the reporting burden for clients financed by more than one DFI. This set of indicators is closely aligned with the generally-accepted Impact Reporting and Investment Standards (IRIS) indicators, reporting framework commonly used by potential impact investors. Of these harmonized indicators, FMO reports on two: number of employees in project companies and private equity funds and contribution to government revenues (i.e. taxes minus subsidies).

SECTOR-WIDE QUANTITATIVE INDICATORS

	Portfolio 2013
FINANCIAL SECTOR	
Financial Institutions:	
Number of employees (x000)	400
Microfinance loans	
• Volume (€xbln)	20
• Number (xmln)	30
SME loans	
• Volume (€xbln)	40
• Number (xmln)	1.4
Private Equity Funds:	
Employment at investees (x000)	600
Number of investees	1,400
Amount invested at investees (€xbln)	8
ACCESS TO ENERGY	
Employment (x000)	40
Number of electricity connections (xmln)	6
Contribution to government revenues (€xmln)	110
AGRIBUSINESS, FOOD & WATER	
Employment (x000)	80
Contribution to government revenues (€xmln)	210
DIVERSE SECTORS	
Employment (x000)	180
Contribution to government revenues (€xmln)	950

FMO is active in many sectors. We use a set of sector-specific QIs that have been selected by the (E)DFIs in which QI definitions are standardized (and limitations) and that other multilaterals report on in an aggregated way. For the sectors we are active in we also report on: access to finance (microenterprises and SMEs) and electricity connections.

Methodology and Attribution

We ask clients to report on this data annually and we aggregate these QIs on a total portfolio level (FMO and government funds), irrespective of FMO's investment size at the clients' level. This means that the QIs are indicative of FMO's development impact, hence no attributions are made to FMO. Even though QI definitions are largely based on the harmonized EDFI definitions (for employment, contribution to government revenues), these QI data are not entirely reconcilable to the clients' audited financial statements, probably because auditing non-financial figures is not current practice for our clients.

Data Gathering

The data for the QIs should be seen as indicative estimates and only serve the purpose of providing an order of magnitude insight. The 2013 QI data is based on information from around 500 clients (90% coverage ratio) – after certain exclusions of some portfolio clients. Excluded from the study are clients where the facilities are (almost) ended, 100% provisioned or impaired. These clients are with our Special Operations department. Financial sustainability is integral to creating development impact and when clients are in distress they are focused on becoming financially sustainable again before development impact can be realized. We therefore exclude these clients from the QI data. Several clients were excluded to avoid double-counting of the Holding company as well as the subsidiaries' QIs. When FMO invests in both Holding and subsidiaries, we collect QIs at either the Holding level or subsidiaries to avoid double counting. Missing data are not extrapolated.

2013 QIs

The results for 2013 show that FMO's clients employed around 1.3 million people in low- and middle-income countries, and that our clients contributed approximately €1 billion in taxes to local governments. Both figures point to the macroeconomic effects of FMO's investments: employment in the private sector and contributions to local public finance.

Through our financial institutions clients report that they provide approximately 30 million loans to micro-sized companies and approximately 1.4 million loans to SMEs. This contributes to improved access to finance, in particular for micro and SME companies. Many studies have found that lack of access to finance is a constraint for many SMEs in our markets (the so-called "missing middle").

Clients in our energy portfolio report that they provide access to energy through approximately 6 million connections, mostly in low-income countries where electricity is scarce and/or unreliable. In particular in countries with low reliability and low electricity penetration rates, adding (renewable) electricity capacity delivers sizable indirect effects to the local economy.

DEVELOPMENT REACH BY FMO CLIENTS

	Portfolio 2013
Portfolio-wide performance indicators	
Number of employees (xmln)	1.3
Payments to governments	
Contribution to government revenues (€xbln)	1

Stakeholder Strategy

TRANSPARENCY AND ACCOUNTABILITY

As we see in banks the world over, the general trend is towards greater transparency and accountability, and this applies to FMO too. As we become more transparent, we also open ourselves to more questions from internal and external stakeholders and must take an ever more intensive approach to stakeholder management. This we welcome.

Business integrity is central to all of FMO's operations. Our investment criteria, exclusion list and anti-money laundering, bribery and corruption statements reflect a strict adherence to the highest standards of business conduct. In 2013 we also published a human rights policy.

STAKEHOLDER MANAGEMENT

Reputation

Our reputation is an important asset. We strongly believe that to maintain our reputation we need to align our strategy and investments with our stakeholders. We therefore have regular contact with our key stakeholders through a variety of board meetings, client conferences, stakeholder consultations and other meetings throughout the year. In 2013 we developed a public affairs strategy that includes issues management, for which we have identified a list of topics that could potentially affect FMO's reputation. We are currently developing frameworks for approaching issues related to large-scale agriculture, genetically modified organisms and tax havens. Last year we also met with NGO and government representatives to discuss the issue of land grabbing, and with NGOs to develop our new complaints mechanism. For more information please refer to the section on Strategic Risk.

Working in Partnership

Partnership is central to FMO's approach to business. With our clients, for example, we have a close dialogue to understand their markets, strategies, needs and challenges. Based on this, we offer products and services that will advance their business in a sustainable way, in line with our strategy.

Our clients play a crucial role in helping us to double impact and halve footprint. The challenge, of course, is that we do not manage projects or companies ourselves. In order to motivate clients to make environmental, social and governance (ESG) improvements that will advance both their business and our cause, we partner with them on an individual and on a sector-wide basis. We have brought together clients and other key players in several industries to discuss mutually relevant sustainability topics in a neutral and cooperative setting. In 2013 we saw very positive outcomes from the initiatives we supported in Mongolia, Kenya, Bangladesh and Paraguay.

We also partner closely with other development finance institutions. Last year was the second year of operations for our joint office with DEG, our German peer development finance institution (DFI), in Johannesburg. This initiative has increased efficiency for the clients we share with DEG in South Africa and has helped us grow our business further in the region.

Through international and multi-party partnerships we strengthen the sustainable development cause. Last year FMO signed two declarations on natural capital. One was with the State Secretary of Economic Affairs in The Netherlands, along with other Dutch partners. The other was with UNEP-FI, along with other international banks. FMO's CEO, Nanno Kleiterp, also joined the boards of the International Union for Conservation of Nature (IUCN) and the Natural Capital Coalition (formerly the TEEB for Business Coalition).

FMO is also a signatory to the Equator Principles, a credit risk management framework for assessing environmental and social risk, and the United Nations-supported Principles for Responsible Investment (PRI).

Institutional investors form a new group of partners for FMO. Four Dutch pension funds last year committed to the SNS FMO SME Finance Fund, entrusting their money to be invested alongside FMO. This and other similar endeavors will go a long way towards doubling impact.

Transparency

As of 2013, we disclose all new FMO-funded projects and all Government-funded projects contracted from 2012 onwards on our website. To improve our governance and to ensure adequate reception of any complaints, we have also set up an independent complaints mechanism. This was developed in consultation with various stakeholders, such as NGOs. Clients, investors, NGOs and other stakeholders can use this for project-related and non-project-related complaints. Project-related complaints will be examined by an independent panel. FMO is the first Equator Banks signatory with this type of independent complaints mechanism.

In further pursuit of transparency and inclusiveness, we also increased our cooperation with NGOs. Throughout 2013 we met with organizations such as SOMO, Both Ends, Banktrack and Amnesty International, as well as local NGOs active in the countries where FMO is present.

Increasing Dutch Interest

FMO has a unique position between The Netherlands and developing markets that can benefit both our clients overseas and our stakeholders at home. Part of our strategy is to tighten our Dutch link by partnering with Dutch companies and making use of the growing network of similarly oriented organizations within the Dutch market.

FMO, together with Netherlands-based companies Essent, Eneco and Desso, set up the REDD+ Business Initiative, a program that will tackle deforestation and degradation of biodiversity in the tropics. The initiative is linked to the United Nations' REDD+ (Reducing Emissions from Deforestation and Forest Degradation) program and was launched under the leadership of the Platform for Biodiversity, Ecosystems and Economies. The Platform is a joint initiative of the Dutch Confederation of Employers and Investors (VNO-NCW) and the IUCN National Committee of The Netherlands, with funding from the Dutch Ministry for Economic Affairs.

Also last year, FMO, SNV and Philips jointly organized an expert event titled Empowering Progress. The aim of the meeting was to present and promote cooperation between Dutch parties in order to increase investments and find solutions to create access to energy, including sustainable energy, for the 1.4 billion people currently deprived of such access. The event brought together people from the Dutch energy sector, business leaders, manufacturers, financiers, engineers, scientists, policy makers, regulators, consultants, academics and knowledge brokers to meet and discuss ideas and possible partnerships.

FMO was also active in bringing Dutch organizations together to discuss inclusive finance. Together with NpM, the Dutch platform for inclusive finance, and Triple Jump, which offers services to investors and provides loans and equity investments to microfinance institutions, FMO brought together over 200 people in The Hague to discuss and share ideas about financing SMEs in developing countries.

FOM and FMO hosted four meetings with Dutch chambers of commerce in 2013, which were attended by clients, prospective clients, consultants and various partners. With The Nederlands Centrum voor Handelsbevordering (Netherlands Center for Trade Promotion) we hosted meetings with The Netherlands Vietnam Chamber of Commerce (NVCC) and the Netherlands Ukraine Chamber of Commerce (NOCH). Meetings were also organized with the Netherlands African Business Council and the South Africa Netherlands Chamber of Commerce (Sanec). Through these events we hoped to increase FMO's visibility in and enhance cooperation with the Dutch business community. They also gave our stakeholders and our network the opportunity to connect.

Last year also saw FMO involved in a greater number of Dutch overseas trade missions. For example, we joined a mission to Indonesia that included Dutch Prime Minister Mark Rutte, where we signed an agreement with Bank Andara.

Finally, given that Dutch pension funds manage one of the largest pools of pension assets in the world and are frontrunners in ESG and sustainability issues, Dutch institutional investors are natural clients for FMO Investment Management.

To share our vision on Africa as an investment destination as well as present our commercial proposition, our Investment Management arm brought together over 40 representatives from Dutch pension funds, banks and the Dutch Central Bank. Later in the year, FMO and the Dutch association for investors in sustainable development (VBDO) hosted a master class on sustainable investing in emerging markets in order to share knowledge and experience of investing in Africa.

Dialogue with Regulators

FMO is under increasing pressure to comply with the greater number of regulations being progressively implemented. Tighter regulation is a natural reaction to the pre-crisis excesses of financial markets. FMO is in compliance with all regulatory requirements, and we have an open, healthy dialogue with the Dutch Central Bank that supervises us. Since Basel-III regulations come into force gradually as of 2014 the existing supervisory reports will be extended with more detailed breakdowns and new, Europe-wide applied requirements. Additional reporting is also introduced, examples being the leverage ratio and liquidity coverage ratio.

Engaging Employees

At FMO, our people are our most valuable asset. We stimulate our employees to use their fullest capacity and talents to contribute to FMO's goal of becoming a leading impact investor.

We introduced a leadership program and implemented new systems and tools for performance management, learning and development and recruitment. These were important milestones to prepare for our new strategic period.

In the coming years, our employee focus will remain on diversity, talent, career and management development, professionalization and cooperation. As FMO becomes a larger organization, we will address the impact on employees and respond efficiently, while cultivating operational excellence and cooperation in our workplace culture.

Growing Workforce

We recruited 53 new people in 2013, ending the year with 372 employees. To help new colleagues adapt to our organizational culture and become efficiently acquainted with our investment process, systems and procedures, we implemented an onboarding program. New hires also participated in FMO's introduction program to learn about the business of development banking and more about our strategy, culture and core values.

During the year, we implemented a new social recruitment method. With a new career website, as well as FMO's presence on LinkedIn and Facebook, we can now share our vacancies and interesting stories through our social network and beyond.

Diversity

To become a leading impact investor, we believe we need a diverse staff. We strive for a diverse culture with an open working environment where all employees can realize their full potential, whatever their background. We view diversity as creating an inclusive culture – one that welcomes, acknowledges, respects, challenges and benefits from the differences that diversity brings.

We focus on three key diversity themes: gender, nationality and age.

By year-end 2013, 26% of senior and middle managers were women. FMO strives towards an equal division of board positions. We strive for men and women. Nevertheless, diversity in our staff, including in the distribution of seats is subject to the availability of positions and of suitable candidates. This year FMO appointed its first female Management Board member.

As a signatory to the Talent to the Top Charter, we will continue to strive towards greater representation of women at the top three management levels. We expect this, as well as our other management development programs, to contribute to a greater gender balance at board level in the years to come. We achieved our target of having 15% of our workforce made up of international employees. With 28 different nationalities represented at FMO (not counting half-Dutch people with dual nationalities), we are creating a more culturally diverse organization that we hope appeals to international staff. In 2013, we also partnered with an agency to help our international staff and their families settle in The Netherlands.

Respecting age diversity means considering the needs of employees at all stages of their lives. With the retirement age rising, we seek to provide working conditions that enable all employees to perform to the best of their abilities.

For detailed information on our employee figures for 2013 and organizational structure, please visit our website.

Talent, Career and Management Development

Stimulating the professional and personal growth of our employees and matching their ambitions with available opportunities is a priority at FMO. Through our management development program, as well as mentoring and talent development, we stimulate ambition, develop skills and facilitate job rotation, job changes and promotions.

We hold employee evaluations twice a year. In 2013, we introduced a new performance management system that enables management and employees to assess performance in an efficient way.

In support of personal and professional development, we offered several employees international assignments at other development finance institutions and with FMO clients. We also brought in the fourth group of trainees, hiring three new recruits from around 200 applicants.

Education

At FMO we support continuous learning. Our FMO Academy provides education for staff, clients and partners in sustainable development finance. In 2013, the Academy organized 41 trainings on various topics, technical as well as skills-related. We saw an increase in participation by other partners: more than 120 employees of partner European development finance institutions (EDFIs) and other partners participated in one or more FMO Academy course in 2013.

Works Council

The Works Council represents all FMO employees and is an important platform for interaction with senior management, giving employees a voice and the chance to influence the culture and mindset of the organization. As is customary, the Works Council held eight formal meetings with the CEO during 2013, providing advice and employee input on issues ranging from changes to FMO's pension scheme to organizational changes and the implementation of the new 2013–2016 strategy. The Works Council also holds regular meetings with the Supervisory Board or one of its members.

Financial Performance, Funding and Risk Analysis

KEY FINANCIAL FIGURES FMO

	2013	2012*	2011	2010	2009
BALANCE SHEET (€XMLN)					
Net loans	2,981	2,817	2,585	2,269	1,942
Equity investments portfolio (including associates)	962	914	795	688	531
Total assets	6,184	5,564*	5,059	4,305	3,772
Shareholders' equity	1,963	1,815*	1,665	1,514	1,327
Debt securities and debentures/notes	3,610	3,292	2,679	2,365	2,180
PROFIT AND LOSS ACCOUNT (€XMLN)					
Net interest income	155	154	147	133	109
Income from equity investments	43	89	46	52	27
Value adjustments					
• on loans and guarantees	5	-23	-23	-18	-46
• on equity investments	-22	-23	-36	-11	-6
Total value adjustments	-17	-46	-59	-29	-52
Profit before taxation	169	172*	118	151	61
Net profit	133	145*	93	126	60
Total comprehensive income	155	140	153	192	95
Committed investment portfolio	5,789	5,450	5,046	4,566	3,877
KEY RATIOS (%)					
Shareholders' equity/Total assets	31.7	32.6	32.9	35.2	35.2
Return on average shareholders' equity					
• Operating profit before taxation	8.9	9.9	7.4	10.7	4.8
• Net profit	7.0	8.4	5.9	8.9	4.7
Cost to income ratio	25	21	22	22	31
BIS ratio	27.7	29.0	29.4	29.0	29.7

*The 2012 figures have been restated as a result of the IAS 19 Employee Benefits (revised 2011). For details, reference is made to the significant accounting principles in the annual accounts.

The financial performance and risk management as reported in this annual report is limited to the FMO balance sheet, as we do not benefit from the returns or run the risks for the Government funds. FMO does receive remuneration from the Dutch State for the management of these funds.

General

Despite some challenging economic conditions in 2013, FMO ended the year with satisfying results. We saw an increase in the committed portfolio in 2013 to €5,789 million from €5,450 million in 2012. New commitments totaled €1,380 million versus €1,230 in 2012.

Despite a substantial release of FMO's group-specific provision, net profit declined to €133 million from 2012's €146 million. Lower equity exits were the main factor in the decline, although the unrealized valuation of our equity investment portfolio increased further.

Net interest income increased by €1 million to €155 million. Both gross interest income and expenses declined due to lower base rates, predominantly US dollar Libor rates. The net effect on our profit & loss account of the lower base rate was therefore minimal.

Market conditions for exits of equity investments were challenging in 2013. As a consequence, we realized substantially lower results realized from equity investments including results from associates. The decline in results realized from equity investments was partly compensated by lower value adjustments (2013: €17 million versus 2012: €46 million). The decrease in value adjustments is primarily attributed to the further refinement of FMO's group-specific provisioning model. This refinement is mainly related to aligning the underlying parameters for calculating the provision in line with FMO's economic capital framework, which is embedded in FMO's financial risk control framework. In addition, the provisioning model was updated with a parameter that includes a reflection of current market circumstances. These changes resulted in a release of the group-specific provision of almost €77 million in 2013.

Amendments related to Dutch tax law effective in 2014 had an effect on FMO's defined benefit obligation. The changes related to raising the retirement age from 65 to 67 and reducing the maximum tax deductible accrual rate from 2.25% to 2.15% led to a decrease of FMO's defined benefit obligation of €4.9 million and consequently to a lower pension expense of the same amount. Total operating expenses increased by €5 million in line with our 2013 budget.

The release of the group- specific provision positively influenced return on shareholders' equity (based on net profit). At 7%, this was above our strategic target of 6%.

Balance Sheet

FMO's balance sheet increased from €5.6 billion to €6.2 billion, mainly driven by the increase of our loan and equity portfolio. To finance the growth of our total assets the funding portfolio has increased as presented in the debt securities and debentures and notes on the balance sheet. This also led to an increase in short-term deposits.

Our net loan portfolio increased by 5.8% to €2,981 million due to increased loan disbursements and lower value adjustments in 2013. Equity investments (including associates) increased by 5.2% to €962 million, compared to €914 million in 2012. The increase was mainly due to new investments and positive fair value changes of underlying companies, which was partially offset by negative share in net results from associates.

The decline in long-term interest rates in 2013, together with the weakening of certain foreign currencies, was largely reflected in the fair value of derivative financial assets and liabilities. These derivatives are used to mitigate our foreign currency and interest rate risk position, and are therefore not held for trading purposes. Interest-bearing securities decreased from €730 million in 2012 to €665 million in 2013, mainly due to maturity and redemptions. Lower long-term interest rates had a modest impact on the interest-bearing securities.

Shareholders' equity increased by 8.2% to €1,963 million, mainly due to the increased accumulated net profit in 2013 and growth in the available for sale reserve as a result of higher unrealized revaluation of equity investments.

Loan Portfolio

The gross loan portfolio increased by 4.9% to €3,265 million in 2013, compared to an increase of 8.4% the previous year. The decline in growth of the loan portfolio is mainly attributable to an increased amount of project financing, which results in loan disbursements in a later period.

FMO's net loan portfolio (excluding €53 million loans guaranteed by the Dutch Government) increased by €170 million to €2,928 million in 2013, driven by increased net disbursements and a partial release of the group-specific provision. Foreign currency movements had a negative impact on the portfolio of approximately €166 million. Please note FMO hedges its FX-position. Non-performing loans as a percentage of the gross portfolio increased to 4.1%.

All non-performing loans were related to company specific reasons.

The overall quality of our portfolio remained stable. One loan was written off in 2013 (2012: 2 loans).

DEVELOPMENT OF THE LOAN PORTFOLIO (€XMLN)*

	2013	2012
Gross loan portfolio	3,265	3,113
Net loan portfolio	2,928	2,758
Written off amounts	2	15
NPL (principals with arrears > 90 days)	135	108
NPL as % of gross portfolio	4.1	3.5

*The loan portfolio as presented in this table is excluding loans guaranteed by the state.

Equity Investment Portfolio

Equity investments (excluding associates) grew from €891 million to €943 million. This is mainly attributable to new investments of €163 million, which were offset by sales of €79 million, value adjustments of €22 million and €42 million of reclassifications to loans.

Good performance by the underlying companies in our equity portfolio resulted in a €33 million increase in the fair value of our portfolio. Due to challenging market circumstances, results realized from equity investments were significantly lower than in 2012. The realized results on equity investments (consisting of exits, dividend, share in the results of associates and value adjustments on equity investments and associates) amounted to €19 million in 2013 (2012: €70 million). Cumulative value adjustments as a percentage of the portfolio remained at 8.5%, which speaks to the stable condition of our equity portfolio. The index 'Carrying amount/cost price minus impairments (in %)' grew by seven percentage points to 128%.

Income

Total income in 2013 amounted to €254 million, 6.3% lower than the previous year (2012: €271 million). This decrease is mainly explained by a decrease in income from equity investments, mainly due to fewer exits from investments in 2013.
The results from financial transactions were positively affected by the valuation of embedded derivatives in the emerging markets portfolio, which reflected a positive result of €24.9 million (2012: €0.2 million). FMO provides loans with an upward potential based on the performance of underlying companies. IFRS require these features to be separated from the loans and accounted for as embedded derivatives when certain conditions are met. The value of the embedded derivatives increased based on sound performance by the underlying companies. Although the value of the embedded derivatives can vary from year to year, it cannot decline below zero.

Despite the growth of our portfolio, net interest income remained stable at €155 million (2012: €154 million). This is the result of the fact that this growth materialized in the last part of 2013.

FMO receives fees for the management of Government funds. This remuneration amounted to €19 million (2012: €17 million), with the increase mainly attributable to renewed management agreements with the Government driven by increased costs for managing these funds.

PERFORMANCE EQUITY AND ASSOCIATES (€XMLN)

	2013	2012
Realized results from equity investments	24	72
Dividend income	20	17
Value adjustments	-22	-23
Share in the result from associates	-3	4
Realized profit before taxation	19	70
Available for sale movements	33	4
Total comprehensive income before taxation	52	74
Realized profit before taxation over average outstanding portfolio (in %)	2.2	8.3
Total comprehensive income before taxation over performance average outstanding portfolio (in %)	5.5	8.8
Carrying amount/ cost price minus impairment (in %)	128	121

Operating Expenses
Total operating expenses rose from €57 million in 2012 to €62 million in 2013, in line with expectations based on our budget. The focus on growth of FMO's operations, further emphasis on sustainability and implementation of our new strategy 2013 – 2016 led to staff expansions and an increase in other administrative expenses. Staff costs increased from €44 million in 2012 to €47 million in 2013. The number of FTEs grew from 310 at the end of 2012 to 352 at the end of 2013.

The decline in total income and increase in operating expenses resulted in an increase in the cost-to-income ratio from 21% in 2012 to 25% in 2013. This was higher than budget, but still within our long-term desirable range of 25%-30%.

Value Adjustments
The level of provisioning on our loan and guarantee portfolio in the profit and loss account led to a positive result of almost €5 million in 2013 (2012: €22 million addition), mainly driven by the release of €77 million of the group-specific provision related to the refinement of the provisioning model as described earlier. The decrease in the provision is also attributable to lower counterparty-specific provisions. Total provisioning (counterparty-specific and group-specific) as a percentage of gross loan portfolio decreased to 9.2% (2012: 10.4%).

The level of value adjustments on our equity investment portfolio improved slightly compared to the previous year. For 2013, these amounted to €22 million (2012: €23 million). The value adjustments were driven by individual circumstances, for which no general trend can been identified.

FUNDING
FMO attracts long-term funding through the issuance of bonds in the capital markets. Funding is raised in various currencies from various geographies. The issued bonds are presented as debentures and notes on the balance sheet. During 2013, FMO's outstanding debt increased by €318 million to €3,610 million. The increase is mainly attributable to new funding of more than €1 billion, which was partially offset by repayments of €394 million and €266 million in currency effects.

In February, FMO enhanced its position in the US dollar market by successfully issuing its first fixed rate dollar benchmark, a US$500 million, five-year bond.

In addition to these deals, FMO issued private placements of €140 million at attractive funding levels. The interest rates and foreign exchange rates of all issued bonds are fully hedged.

Sustainability Bond
The inaugural €500 million five-year sustainability bond was met with strong market demand, with more than 50 investors participating and the investment book, exceeding €1.2 billion. Proceeds of the sustainability bond support the financing of green and inclusive finance projects supporting FMO's long-term strategy of fostering green and inclusive development. The market for green bonds is growing as investors increasingly realize that impact and returns go hand in hand. As soon as we have invested the proceeds, we will focus on issuance of more of these bonds.

RISK PROFILE AND MANAGEMENT
It is FMO's strategy to maximize development impact while remaining profitable in a sustainable way. Taking risks is inherent in this strategy, but these are managed stringently. The risk profile and risk appetite are defined by FMO's Management Board.

FMO's risk appetite pertains mainly to credit risk relating to the credit/equity portfolio, consisting of loans and equity to private institutions in developing countries. Other risks cannot always be avoided, but FMO mitigates these risks as much as possible. FMO does not have trading positions. The risk appetite is reviewed and approved annually by the Audit & Risk Committee and the Supervisory Board.

In Control Framework
Our In Control Framework ensures continuous measurement and monitoring of the drivers in our risk universe. The framework entails three lines of defense. The first line of defense is business management's own processes and self-assessments. In the second line independent risk departments advise authorized committees or conduct 'second pair of eyes' checks. The third line of defense consists of the Internal Audit function, advising the Management and Supervisory Boards.

Strategic Risk
Business Risks and Strategic Planning
FMO has the ambition to be a leading impact investor by doubling impact and halving footprint by 2020. This strategy will be further operationalized within the existing risk parameters as well as profitability targets.

Our pipeline of new investments will remain strong, as we will continue to focus on the type of business we have had for years. The drive to innovate in our portfolio to meet the needs of the world in 2050 will be by way of a gradual evolution instead of a sudden movement in the shape of our business. This diminishes the risk that FMO's strategic change itself leads to substantive changes in its risk profile and financial results.

Environmental and Social risk
FMO runs environmental and social (E&S) risks in its emerging market projects, also related to reputational risk. These risks stem from the nature of our projects, which in several cases can carry a negative environmental or social impact related to their large footprint (for example large scale infrastructure or primary agriculture projects).

FMO does not seek to avoid such risks. Instead we mitigate them through E&S risk management policies, requiring our clients to meet international standards. Before contracting a project, FMO performs an in-depth assessment of environmental and social risks and impacts and, if necessary, agrees on an action plan that ensures that clients reach compliance with these international standards within a set period. If at some point during the life of a project unexpected negative social or environmental impacts appear, FMO establishes a dialogue with the client to ensure that these negative impacts are mitigated, ensuring that the client will re-establish compliance with international standards.

Reputational Risk
FMO's emerging market operations inherently expose the institution to various types of reputational risk. Origins of such risks are potentially broad and include integrity risks (internal or external issues), environmental and social risks of FMO's projects and various types of legal risks. These types of reputational risks may trigger negative media coverage on a national and international scale.

FMO cannot fully avoid such risks due to the nature of its operations, but chooses to mitigate them as much as possible through strict policies, upfront assessment and, if necessary, mitigation through agreements with FMO's clients.

As part of our due diligence FMO conducts a thorough risk analysis and background research of all parties involved. At this stage we refer to our ESG Policy and other criteria. Issues raised concerning our projects are immediately and transparently addressed. In 2013 we launched a formal complaints mechanism on our website. For project-related complaints we have set up an Independent External Panel. For more information on this please visit our website.

Financial Risk
Capital Management
FMO pursues high capital adequacy ratios and corresponding credit rating. In order to achieve this, a conservative capitalization is necessary. The capital ratios are actively monitored.

FMO uses an economic capital model based on an internal assessment of the risk of the clients and investments. This model is used to calculate the internal capital ratio. The minimum internal capital ratio is 10%. At year end 2013 the internal capital ratio stands at 14.4% (2012: 14.2%). Reference is also made to the Financial Risk Management paragraph of the annual accounts. In addition, FMO targets a standardized BIS capital ratio of at least 20%. As per year end 2013 this ratio is 27.7% (2012: 29.0%).

The leverage ratio of FMO is 22.4%. The proposed Basel III minimum ratio is 3%. FMO foresees no issues complying to the minimum ratios.

Credit Risk
Credit risk in FMO's emerging markets portfolios is a combination of country risk, counterparty (debtor) risk and product-specific risk. All three risk types are assessed during the credit approval process. FMO's clients are subject to periodic reviews, at least annually, and distressed clients are intensively monitored by the Special Operations department.

Concentration risk of FMO's investments is mitigated by stringent limits on individual counterparties, countries and sectors.

In the course of 2013, we have seen economic and political instability in some of our countries. This is reflected in a

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somewhat weaker credit quality of FMO's portfolio. Also in 2014 a level of instability in some emerging markets is expected to persist. We feel confident, however, that FMO is well prepared to withstand these conditions. On a portfolio level, the credit quality is stressed at least annually against adverse macroeconomic circumstances in FMO's markets. A severe crisis is not estimated to result in a capital ratio below our limits. If so, this would trigger management intervention.

Equity Risk

Equity risk of our committed portfolio refers to equity valuation risk and exit risk. Due to equity market circumstances in emerging markets, exit results were below expectations.

However, the underlying value of the portfolio remained strong, as reflected in the valuation of the equity portfolio. In order to manage equity risk FMO strives to have a maximum equity exposure of 70% of FMO shareholders' equity. FMO was in compliance with this guideline throughout 2013.

Market Risk

The most relevant market risks for FMO are foreign exchange (FX) risk and interest rate risk. Currency translation on equity investments are not recorded in foreign exchange results, but are reflected in the (unrealized) results on equity investment as part of the available for sale reserve. FX risks arising from the loan portfolio, funding and other treasury activities are hedged.

In order to keep the interest margin at a stable level and to avoid mismatched positions, the interest position is managed via a basis point value limit framework and a limited duration of equity. Duration of FMO's equity is kept within a range of 3-5 years.

Liquidity Risk

FMO has a conservative liquidity risk policy. In the first place FMO maintains sufficient liquidity and investment in liquid assets to survive a stress situation in which no funding can be raised for 6 months.

Next to this FMO follows a policy of matched funding; cash outflows must be covered by cash inflows per time bucket. This is to restrict refinancing risk in any particular time bucket and to lock in interest margins.

FMO also maintains a diversified investor base, and has a target ratio of 110% for the Basel III Liquidity Coverage Ratio (LCR). The LCR stood at 344% as of December 31, 2013. In 2013 the funding conditions improved for FMO, leading to a lower cost of funds compared to 2012.

Other risks

Operational risk

Knowledge of products, procedures and systems and risk awareness always remain an important aspect of management steering and control. In 2013 we have further intensified employee training and mentoring and invested in behavioral and leadership skills, such as awareness, coaching and maintaining clear accountability.

Compliance and Regulatory Risk

Compliance with the multiple regulatory and supervisory requirements is very important for FMO. Currently this puts significant pressure on our organization, due to the many regulatory developments. These developments are constantly monitored and translated into policies by specialists and dedicated regulatory working groups. All employees are obliged to follow amongst others strict know-your-customer, anti-money laundering and anti-bribery and corruption procedures.

OUTLOOK 2014

We enter 2014 with expected growth in our markets, albeit at slower rates than in recent years. Continued uncertainty, as well as volatile exchange rates in many of our markets, however, could affect the valuation of our private equity portfolio in 2014.

The downside risks to the expected economic growth path have increased and various emerging economies such as China, India, Turkey, Indonesia, Argentina and more prominently Ukraine, have come under pressure in late 2013 and into 2014.

Especially in Ukraine, where we have a sizeable investment portfolio, we will closely follow the political developments. We are in continuous contact with our clients to stay updated on the situation and act if needed and remain vigilant to possible spill-over effects to the surrounding countries. We will remain rigorous in monitoring the financial health of our clients throughout 2014.

With a pipeline that is 10% higher than at year-end 2012 and a well-diversified portfolio supported by an equally strong capital base, we can withstand a potential market downturn. However, an adverse economic scenario could have a negative impact on our performance in 2014.

In the coming year we see much opportunity in Africa, particularly for agribusiness and private equity. As capital flows move more freely to larger companies, we will seek out innovative ways to access smaller firms and players at the lower end of the market.

MSMEs will remain central to our Financial Institutions investments, with greater attention given to green credit lines and broader sustainability initiatives in the sector.

For FMO Investment Management, the mainstreaming of impact investing is both an objective and an opportunity, since it means more investors are potentially interested in our funds. Increasing our assets under management will multiply our development impact beyond levels that can be realized on our own. Green transactions will play a bigger role in our other sectors, as well, and we will strive to add increasing non-financial value to our clients through consultancy and knowledge transfer, for example in the area of resource efficiency.

2014 is the second year of our four-year strategic period. Work to embed our strategy throughout the organization will gather pace as we develop and track more specific impact indicators for our projects, in support of our aim to double our impact and halve our footprint in 2020.Specifically we will develop impact indicators in our newly defined impact framework, bringing our other sectors up to speed with Energy.

In general, ever more large companies are putting sustainability at the heart of their operations, taking responsibility for their supply chain and setting more stringent environmental and social requirements for their suppliers. We expect this trend to continue, stoking increased demand for FMO's services.

We expect the total number of staff by the end of 2014 to be around 385 (2013: 372). To adapt to this growth, FMO is strengthening leadership in all layers of our organization through training and development programs. We will continue to strive for greater gender balance in top management and board levels, through, among other things, management development programs. We are also further standardizing internal processes.

In 2014 and beyond we will strive to remain an employer of choice and a developer of talent. As FMO becomes a larger organization in the coming years, we will continue to address the impact of growth on our employees and respond effectively. Throughout, we will cultivate operational excellence and cooperation as pillars of FMO's work culture.

Over the next decade, we are likely to see the impact investment and traditional investment markets starting to converge. This will bring new players into FMO's markets – something we are already seeing happening in the private equity sphere, for example – and will change our competitive landscape.

For 2014, our targets are as follows:

KEY TARGETS 2014

	Targets
Total new contracts FMO and Government funds	€1.6 billion
New contracts FMO in low- and lower middle income countries	70%
Catalyzed funds	€820 million
Sustainability	85% of ESG action items due implemented
	20% green investments
FMO Net 5 year average return on shareholders' equity	6%
FMO Cost to income	25%

IN CONTROL STATEMENT

FMO uses an integrated and solid In Control Framework that enables taking and controlling risks and complies with international best practices. Adequate internal control strongly supports the achievement of objectives in the following categories:
(i) effectiveness and efficiency of processes;
(ii) reliability of financial reporting;
(iii) realization of operational and financial objectives; and
(iv) compliance with laws and regulations.

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

Based on our review of the company's internal risk management and control systems, and cognizant of their inherent limitations described below, we have concluded that FMO is in compliance with the requirements of best practices II.1.4 and II.1.5 of the Dutch Corporate Governance Code. The Management Board makes the following statement regarding the financial reporting risks:

- The internal risk management and control systems of FMO provide a reasonable assurance that FMO's financial reporting does not contain any errors of material importance;
- FMO's risk management and control systems worked properly during 2013.
- There are no indications that FMO's internal risk management and control systems will not continue to function properly in the current year.

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

We note that the proper design and implementation of internal risk management and control systems significantly reduces, but cannot fully eliminate, the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees 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 internal risk management and control systems will therefore provide reasonable, but not absolute, assurance that FMO will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business.

The Hague, March 12, 2014

Nanno Kleiterp, ***Chief Executive Officer***
Jurgen Rigterink, ***Chief Risk & Finance Officer***
Linda Broekhuizen, ***Chief Investment Officer***

REPORT OF THE SUPERVISORY BOARD

INTRODUCTION

FMO continued to achieve healthy results in 2013, despite challenging economic circumstances. The quality of FMO's Emerging Markets loan and equity portfolio remained stable. Funding conditions also remained positive with improved cost of funding, despite a downgrade of The Netherlands' sovereign rating. The Supervisory Board was especially gratified at the successful launch of FMO's first public sustainability bond.

As always, the Supervisory Board greatly appreciates the efforts and dedication of the Management Board and all FMO's employees, without which nothing would have been possible.

PROPOSALS AND RECOMMENDATIONS TO THE ANNUAL GENERAL MEETING

FMO's Supervisory Board endorses the Report of the Management Board. We propose that the Annual General Meeting of Shareholders (AGM) adopt the 2013 annual accounts audited by KPMG Accountants N.V.

In accordance with Article 6(2) of the Agreement State-FMO of November 16, 1998 and the proposed dividend policy, we propose that the AGM approve the allocation of €128 million (2012: €138.5 million) to the contractual reserve. The remaining amount of €5.3 million (2012: €6.7 million) is the distributable component of profits. We recommend that the AGM adopt our proposal to pay a cash dividend of €13.24 (2012: €16.81) per share.

In addition, the Supervisory Board proposes that the AGM reappoint KPMG Accountants N.V. as external auditors. We trust that the AGM will also discharge the Management Board for its Management of FMO and the Supervisory Board for its supervision during the reporting year.

As the first term of Jean Frijns as the Chairman of the Supervisory Board has come to an end, the Board requests the AGM to appoint him for a second term. Furthermore, Rein Willems will step down as Supervisory Board member after eight years of service. The Supervisory Board would like to thank him for his dedication and valuable contribution to FMO during these years. A successor will be proposed during an extra ordinary meeting of the AGM.

Last, but not least the Supervisory Board would like to thank Nico Pijl, who served 27 years at FMO, starting as Investment Officer and retiring as member of the Management Board. Nico Pijl showed an enormous dedication and expertise, for which the Board is very grateful.

SUPERVISORY BOARD ACTIVITIES IN 2013

FMO's Supervisory Board and its committees work through regular, pre-scheduled meetings and on an ad hoc basis throughout the year.

A transparent formal reporting structure is in place, and Supervisory Board members are frequently in contact with the Management Board so 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. It is policy that the Chairman may also meet with FMO's larger shareholders, in order to provide them with the opportunity to share their views.

The Supervisory Board held four regular meetings and two strategic sessions in 2013. One extra ordinary meeting and a few conference calls were held in connection with the succession of MB member Nico Pijl. The Supervisory Board is careful to ensure the right balance between governance and performance, so that it devotes attention not just to governance matters, but also to strategic and business issues. The attendance at the regular meetings was almost 100%.

Mission and Strategy

The Supervisory Board paid much attention to the implementation of FMO's new strategy. Discussions included the organizational changes it entailed and the development impact indicators to be used, as well as the bank's intention to move towards integrated reporting in the 2013 annual report. The Supervisory Board supports the creation of a new Strategy Department, as a tool to monitor and maintain progress towards FMO's strategic goals.

The Supervisory Board is aware of the importance of ensuring that FMO's enhanced focus on inclusive and sustainable growth does not impair projects' profitability. Remaining profitable is integral to FMO's mission.

The Supervisory Board supports the Management Board's positive attitude towards the Government's Dutch Good Growth Fund initiative. This fund, commencing in 2014, will issue export and investment financing to Dutch and local businesses for activities in developing countries. FMO will look to see where and how it can add value to this initiative, although we will only undertake projects that are in line with FMO's mission and strategy.

The Supervisory Board continues to be happy to have the Dutch Government as a stable, long-term shareholder, in support of FMO's ambitious strategy. FMO's ambitions to step up efforts to mobilize commercial sources of funding to emerging markets, such as institutional investors, are also considered important.

The Supervisory Board paid great attention to stakeholder management through regular meetings with the Government and through contact - often at an individual level – with Dutch companies, other development banks and non-governmental organizations. An increasing amount of time is devoted to maintaining fruitful relationships with NGOs.

Internally, the FMO Works Council holds regular meetings with the Supervisory Board or one of its members.

Risk Profile and Risk Management

The Supervisory Board regularly discusses the risk profile of FMO. The bank invests in difficult markets and mitigates risk through rigorous credit risk management and consequent diversification of its portfolio in terms of countries and sectors, as well as by its prudent funding and liquidity policy. Risks such as foreign exchange risk and interest rates are hedged whenever appropriate. In addition, FMO's risk profile is underpinned by its strong capital base, exceeding the minimum requirements as set by the Dutch Central Bank.

The Supervisory Board is regularly informed about compliance and reputation risks by the Management Board. The Supervisory Board is conscious of the importance of risk awareness and intends to increase the attention it pays to the subject.

Management Development

The Supervisory Board plays a prominent role in management development at the top level of FMO. As well as holding evaluation conversations with individual members of the Management Board, the Supervisory Board is involved in the management development system for the layer just beneath the Management Board.

Last year saw the retirement of CRFO Nico Pijl. The Supervisory Board asked the CIO, Jürgen Rigterink, to take over his responsibilities and appointed him to the position of CRFO after the extra ordinary meeting of the AGM in November. After a search process the Board decided to appoint an internal candidate, Linda Broekhuizen, as successor of Jürgen as CIO. The Supervisory Board was glad that the search process led to several qualified internal candidates, which demonstrated the benefits of a well-functioning management development system.

The Supervisory Board is very pleased that FMO has an open culture, with highly accessible management. This was clearly demonstrated in the development of FMO's new strategy, in which a great number of employees participated.

SUPERVISORY BOARD ROLE AND STRUCTURE

The Supervisory Board supervises the Management Board, and the general course of affairs in the company and in FMO's business. All members are available to the Management Board for strategic advice. They are able to provide advice on specific issues through two dedicated committees, one on audit and risk management, and the other on selection, appointment and remuneration.

Supervisory Board members are appointed by the AGM. The Supervisory Board currently comprises six members with specific expertise in areas relevant to FMO's activities. The Supervisory Board also strives to have at least two female members.

FMO subscribes to the four core competencies for banks' Management and Supervisory Boards. Board members are required to have sufficient expertise on the following subjects:

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

The introduction program for new Supervisory Board members includes meetings with the Management Board and Works' Council. New members gain further insight into FMO's working processes and target markets through discussions with directors of various departments, investment officers and environmental and social specialists.

Bert Bruggink was reappointed in 2013. The Supervisory Board regrets but accepts that Rein Willems is not available for reappointment in 2014 due to the number of supervisory board positions he holds. It is actively seeking his successor. The Supervisory Board has expressed its confidence in Chairman Jean Frijns, who is eligible for reappointment in 2014.

AUDIT & RISK COMMITTEE

The Audit & Risk Committee monitors economic capital issues, in line with Basel II guidelines. It reviews and advises on FMO's financial position, operational risks and reporting, corporate governance relating to financials and processes, including compliance, internal and external control, and audit reports.

The Audit & Risk Committee comprises Bert Bruggink (Chairman), Alexandra Schaapveld, Pier Vellinga and Jean Frijns. It reports to the full Supervisory Board.

In 2013, the committee met three times. The external auditors, the FMO Chief Risk & Financial Officer and Chief Executive Officer and the directors of Risk Management, Audit, Compliance & Control and Finance were present at all meetings. The committee also met separately with the external auditors.

Key issues addressed by the Audit & Risk Committee in 2013 included integrated reporting, the mandatory auditor's firm rotation, the hedge effectiveness and the assessment of the group specific value adjustment (IBNR).

Reports that were discussed on a regular basis were the quarterly development and financial report, the quarterly updates on FMO's risk profile and the progress report on audit, compliance and control.

SELECTION, APPOINTMENT & REMUNERATION COMMITTEE

This committee handles proposals regarding the appointment and reappointment of Supervisory and Management Board members, monitors the remuneration policy, proposes adjustments and gives advice on the remuneration of individual Management Board members.

The Selection, Appointment & Remuneration Committee currently comprises Agnes Jongerius (Chair), Jean Frijns and Rein Willems.

In 2013 this commitee met five times, joined by the CEO and the Director of

SUPERVISORY BOARD STRUCTURE AND MEMBERSHIPS

Supervisory Board member	Personal information	Initial appointment	End of current appointment	Supervisory Board Committee membership
Jean Frijns *Chairman*	Dutch, 1947, male	2010	2014	Audit & Risk Committee Selection, Appointment & Remuneration Committee
Bert Bruggink	Dutch, 1963, male	2009	2017	Audit & Risk Committee, *Chairman*
Agnes Jongerius	Dutch, 1960, female	2008	2016	Selection, Appointment & Remuneration Committee *Chair (as of 9 May 2012)*
Alexandra Schaapveld	Dutch, 1958, female	2012	2016	Audit & Risk Committee *(as of 9 May 2012)*
Pier Vellinga	Dutch, 1950, male	2008	2016	Audit & Risk Committee
Rein Willems *Vice Chairman*	Dutch, 1945, male	2006	2014	Audit & Risk Committee *(until 9 May 2012)* Selection, Appointment & Remuneration Committee *(as of 9 May 2012)*

Human Resources. Among the key issues discussed was the succession of CRFO Nico Pijl, who retired at the end of the year. Due to the fact that a current MB member, Jürgen Rigterink, was chosen to succeed the CRFO, the succession of the CIO was also addressed. In the last quarter the reappointment of the Chairman of the SB and the succession of Rein Willems was discussed.

The Committee proposes the targets for the Management Board and monitors its progress. At least once a year the members of the Management Board are formally evaluated. The committee also assesses whether Management Board members continue to fulfill the expertise requirements developed by the Dutch Central Bank, which is required by the Banking Code. On an annual basis, the committee discusses with the Management Board the human resources policy for FMO, including staff mobility and career patterns.

LIFELONG LEARNING

The Dutch Banking Code, which came into effect in 2010, requires Supervisory Board members to follow a formal program of lifelong learning. At FMO, this began in 2010 and has been continued and expanded since. There were five sessions in 2013. Though they have their own set of programs, the Management Board members also participated in these sessions.

In 2013 the Supervisory Board participated in learning sessions on topics related to FMO's business: financial institutions, energy, private equity, trends and challenges in food and agribusiness, the outlook on emerging markets and taxation.

SELF-EVALUATION

In 2013, the Supervisory Board performed the customary annual internal evaluation of its performance. Also this year, an external party was involved in this evaluation in order to deepen and better structure the exercise.

The assessment looked at areas such as the Board's composition, time management, committees and support, strategic and operational oversight, risk management and internal control. The evaluation found that the Board in general is positive about its functioning and that the Board participated intensively in the setting of FMO's strategy, management development and risk profile, but could be more involved in operational processes such as investment processes.

REMUNERATION POLICY

In 2012, FMO discontinued variable remuneration for members of the Management Board. The variable pay of members of the Management Board was previously linked to financial and non-financial targets and could not exceed 25% of the fixed salary. This was a factor in the decision to abolish the Management Board's variable remuneration, as was the fact that Dutch Central Bank requirements made the cost of the system relatively high compared to the maximum remuneration.

On July 18, 2012, the Budget Agreement 2013 Tax Measures Implementation Act came into effect. This Act amended a number of tax laws as of 1 January 2013. One of the amendments concerned a one-off 'crisis levy' over 16% of the wages from current employment (including any bonuses) that employers paid their employees during 2012, as far as such wages exceeded €150,000. This charge is also applicable for the wages paid in 2013. The total crisis charges of €46 (2012: €53) are not included in the remuneration of the Management Board.

REMUNERATION OF THE MANAGEMENT BOARD (€X1,000)

Personal information		Fixed remuneration	Pension	Other [1]	Total 2013	Total 2012
Nanno Kleiterp	Dutch, 1953, male	297	94	38	429	477
Nico Pijl	Dutch, 1951, male	227	80	34	341	369
Jürgen Rigterink	German, 1964, male	227	49	38	314	317
Total		**751**	**223**	**110**	**1,084**	**1,163**

1) Includes contributions to company car, fixed expense allowance, general profit-sharing, life-course savings scheme, compensation of interest on mortgages, compensation for the return of leave allowances and anniversary benefits. This is in line with the general fringe benefits within FMO.

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INDEPENDENCE, CONFLICTS OF INTEREST AND GOVERNANCE

The Supervisory Board is of the opinion that all members of the Supervisory Board are independent, as required by Best Practice Provision III.2.1 of the Corporate Governance Code.

No direct, indirect or formal conflicts of interest were identified in 2013.

FMO has specific regulations concerning private investments. Compliance by Supervisory Board members, Management Board members and all other employees with FMO's regulations on private investments is addressed regularly. Based on the information provided by the members, no conflicts with regard to private investments were found in 2013.

FMO complies with the Dutch Banking Code and Corporate Governance Code. Where FMO does not comply with these codes, clear reasons are provided. For more information, see the Corporate Governance section.

REMUNERATION OF THE SUPERVISORY BOARD (€X1,000)

	Remuneration 2013	Committees 2013	Total 2013	Total 2012
Jean Frijns, *Chairman*	22.5	5.0	27.5	27.5
Bert Bruggink	15.0	3.5	18.5	18.7
Dolf Collee	-	-	-	6.4
Agnes Jongerius	15.0	3.5	18.5	18.0
Alexandra Schaapveld	15.0	2.5	17.5	11.2
Pier Vellinga	15.0	2.5	17.5	17.7
Rein Willems	15.0	2.5	17.5	17.7
Total	**97.5**	**19.5**	**117.0**	**117.2**

CORPORATE GOVERNANCE

At FMO, we regard sound corporate governance as crucial. As a public-private development bank, our own governance, structure and reporting lines must be both sound and transparent.

Corporate governance also relates to our mission to stimulate sustainable growth for our clients in order to maximize development impact. We believe that in order to carry out our mission, we should first set a high standard of corporate governance.

GOVERNANCE STRUCTURE

FMO has a two-tier board structure consisting of the Management Board and the Supervisory Board, as defined by the Dutch Civil Code.

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

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

The roles of AGM, Supervisory Board and Management Board did not change in 2013. This also applies to the Audit & Risk and Selection, Appointment & Remuneration committees. Detailed information is available on our website.

ARTICLES OF ASSOCIATION

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

CORPORATE GOVERNANCE CODES

FMO abides by two governance codes: the Dutch Banking Code and Corporate Governance Code. The Banking Code was drawn up in the wake of the financial crisis to help the financial sector improve its performance and thereby increase public trust in banks. Its principles are based on the Corporate Governance Code.

The Banking Code works according to the 'comply or explain' principle. FMO believes that complying with the Banking Code is not just a case of 'ticking boxes'. Because we invest in sustainable, entrepreneurial development in high-risk economies, we regard this code in the context of how it applies to our specific organization. FMO has implemented the Banking Code and has drawn up an extensive document in which we explain per article how we comply.

The Corporate Governance Code applies to listed companies having their registered seat in The Netherlands. As a non-listed bank, FMO is not required to adhere to the Code, but has chosen to do so. The Supervisory Board and the Management Board fully endorse the basic principle on which the Code is based, namely that the company is a long-term partnership of various stakeholders, such as clients, shareholders and other capital providers, employees, the Dutch Government and groups in civil society.

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

- BPP II.1.9 - II.1.11: stipulations on the response time of the Management Board in case of shareholder activism and the hostile takeover stipulations are not implemented, given our stable majority shareholder, the State of The Netherlands.
- BPP II.2.3: FMO complies with this article, except for the fact that the share price is not taken into account when determining the remuneration of the Management Board, as FMO is non-listed.
- BPP II.2.4 - II.2.7 and II.2.13 c. and d.: these provisions relate to the granting of options and shares that are awarded to Management Board members. No options and shares are granted at FMO.
- BPP III.8.1 - III.8.4: these do not apply, since FMO does not have a one-tier board.
- BPP IV.1.1: this does not apply, since this provision refers to a legal entity that does not apply a so-called 'structuurregime'. FMO is a so-called 'structuur' legal entity as defined in paragraph 2.4.6 of the Dutch Civil Code.
- BPP IV.1.2: this does not apply, since this provision refers to financing preferred shares, which FMO does not use in its share capital.
- BPP IV.1.7: FMO does not comply with the provision that the company determines a registering date to exercise voting rights and rights to attend the AGM. Since FMO has registered shares only and the identity of all shareholders is known, there is no need for separate registration.
- BPP IV.2.1 - IV.2.8: these concern the issuing of depositary receipts for shares. There is no such requirement at FMO, apart from the articles of association, which lay down that the company is not permitted to cooperate in issuing depositary receipts of shares.
- BPP IV.3.1 - IV.3.4:.these provisions relate to analysts' meetings and presentations to institutional investors. These provisions are of no practical significance for FMO and therefore do not apply.
- BPP IV.3.8: the explanation of the agenda of the AGM is not published on FMO's website, since this document is sent to all shareholders of FMO.
- BPP IV.3.11: this best practice provision requires the Management Board to provide a survey in the annual report of all the anti-takeover measures to prevent control from being relinquished. FMO has not incorporated any anti-takeover measures in its articles of association, which has to do with the fact that FMO has a stable majority shareholder, the State of The Netherlands. Therefore, an overview as meant in this provision is not incorporated in this annual report.
- BPP IV.3.13: this best practice provision requires FMO to publish on its website the outlines of a policy on the bilateral contacts with its shareholders. FMO aims to adhere to this best practice as soon as possible and as far as applicable since FMO's shares are not listed.
- BPP IV.4.1 - IV.4.3: institutional investors annually publish their policy with respect to the exercise of voting rights on shares in listed companies, report annually on the implementation of this policy and report at least once a quarter on voting behavior at general meetings of shareholders. The vast majority of companies FMO invests in are non-listed companies and the few exceptions concern very small stakes listed on stock exchanges abroad. FMO's mission states that FMO behaves as an active investor with regard to environmental, social and corporate governance issues, among other things. Where FMO has voting rights (with regard to its equity investments), it will always exercise these rights to ensure its mission and interests are fulfilled and protected in the best possible way.
- BPP V3.3: this provision only applies when the company does not have an internal auditor. FMO does have an internal auditor.

COMBINED INDEPENDENT AUDITOR'S AND ASSURANCE REPORT

We have been engaged by Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., The Hague (hereafter referred to as 'FMO') to conduct (1) an audit (reasonable assurance) on the financial statements 2013 and (2) a review (limited assurance) of pages 3 to 32 of the Management Board Report 2013 (hereafter referred to as 'the reviewed section of the Report').

AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

ASSURANCE REPORT ON THE REVIEWED SECTION OF THE REPORT

OUR OPINIONS AND CONCLUSIONS

Our opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements on pages 54 to 115 give a true and fair view of the financial position of FMO as at December 31, 2013, and of its result and its cash flows for the year 2013 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

Our opinion with respect to the company financial statements
In our opinion, the company financial statements on pages 116 to 121 give a true and fair view of the financial position of FMO as at December 31, 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Our conclusion with respect to the reviewed section of the Report
Based on our review, nothing has come to our attention that causes us to believe that the information in the reviewed section of the Report is not, in all material respects, presented in accordance with the requirements included in section 2:391 of the Dutch Civil Code.

OUR ENGAGEMENTS

We have audited the accompanying financial statements 2013 of FMO on pages 54 to 121, which include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2013, the consolidated profit and loss account, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2013, the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

We have reviewed whether the reviewed section of the Report is presented, in all material respects, in accordance with the requirements of section 2:391 of the Dutch Civil Code. We do not provide any assurance on the feasibility of the targets, expectations, policy and ambitions of FMO. 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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

ASSURANCE REPORT ON THE REVIEWED SECTION OF THE REPORT

BASIS FOR OUR OPINION AND CONCLUSION

We conducted our audit and our review in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information respectively.

Our responsibilities under those standards are further described in the section Our responsibility for the audit of the financial statements and review of the reviewed section of the Report of our report. We are independent of FMO within the meaning of the relevant Dutch ethical requirements as included in the 'Verordening op de gedrags- en beroepsregels accountants' (VGBA) and the 'Verordening inzake de onafhankelijkheid van accountants' (ViO) and have fulfilled our other responsibilities under those ethical requirements.

Audit procedures focus on obtaining reasonable assurance, substantiated by sufficient and appropriate audit evidence. Review procedures focus on obtaining limited assurance which does not require exhaustive gathering of evidence, therefore providing less assurance than audit procedures.

We believe that the audit and review evidence we have obtained is sufficient and appropriate to provide a basis for our opinion respectively our conclusion.

KEY AUDIT AND REVIEW MATTERS

Key audit and review matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements and our review of the reviewed section of the Report. Key audit and review matters are selected from the matters communicated with the Management Board and the Supervisory Board, but are not intended to represent all matters that were discussed with them.

Our audit and review procedures relating to these matters were designed in the context of our audit of the financial statements as a whole as well as our review of the reviewed section of the Report. Our opinion on the financial statements and our conclusion on the reviewed section of the Report is not modified with respect to any of the key audit respectively review matters described below, and we do not express an opinion or conclusion on these individual matters.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

ASSURANCE REPORT ON THE REVIEWED SECTION OF THE REPORT

KEY AUDIT AND REVIEW MATTERS (CONTINUED)

Valuation of the loans to the private sector involves significant judgment
The loans to the private sector amounting to €2,928 million forms 47% of FMO's total assets. Counterparty specific provisions are recorded on outstanding loans for which it is doubtful that the borrower is able to repay the principal amount and/or the interest according to the loan agreement. As required by EU-IFRS, these values are based on incurred losses at balance sheet date and not on expected losses. The carrying amount of loan and advances after value adjustments does not represent fair value. Certain aspects of the accounting for loan loss impairments require significant judgment, such as the identification of loans that are deteriorating, the assessment of objective evidence for impairment, the value of collateral and the assessment of the recoverable amount.

This area was significant to our audit as the use of different estimates and assumptions could result in a different value adjustment for loan losses, as FMO disclosed in its accounting policies and its disclosure on loans to the private sector in notes 4 and 8. Also actual loan losses over time may differ from the value adjustment at the balance sheet date due to changes in economic conditions.

Our audit procedures included, among others, obtaining understanding of FMO's credit monitoring procedures including the internal controls related to the timely recognition and measurement of value adjustments on loans, including loans that have been renegotiated. We examined the loan portfolio and evaluated loans exposures with arrears or with low internal credit ratings in detail, and challenged the Management Board's assessment of the recoverable amount. We also performed a detailed inspection with an emphasis on high risk countries in which FMO is active, and performed roll-forward procedures to evaluate whether all credit events up to the date of our auditor's report are appropriately reflected in the year-end valuation. Finally we focused on the adequacy of the credit risk disclosure on the loan portfolio which is included in the financial risk management paragraph on pages 70 to 76.

Judgment required in assessing completeness of material aspects
To enable the stakeholders as identified by FMO to base their decisions on the information provided, the reviewed section of the Report have to present a comprehensive picture of FMO's policies, efforts and achievements in all material aspects. Material aspects are defined as aspects of which omission could substantially influence the stakeholders' decisions. The requirements for the reviewed section of the Report are included in BW2:391 and are further detailed in RJ 400.

This area was significant to our review as the assessment of materiality and completeness are inherently subject to qualitative evaluation of information and judgment about the presentation in the reviewed section of the Report as well as the fact that FMO updated its strategy and changed the reporting to become more concise in 2013. Taking into account the strategy and FMO's business environment we focused on to whether the reviewed section of the Report address the material aspects.

Our review procedures included, among others, a review of the process that FMO has implemented to identify the material topics for the reviewed section of the Report and the ways in which stakeholders' interests are taken into account as part of that. We further reviewed and discussed FMO's assessment of the material topics to assess the appropriateness of the decisions taken by FMO and conducted a media search and a peer review to identify any issues that could potentially be material for FMO to report upon.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

ASSURANCE REPORT ON THE REVIEWED SECTION OF THE REPORT

KEY AUDIT AND REVIEW MATTERS (CONTINUED)

Sensitivities in respect of the group specific value adjustment for loans
The loans to the private sector with no counterparty specific value adjustments, amounting to €2,872 million, are divided in groups of financial assets with similar credit risk characteristics and are collectively assessed for value adjustments in accordance with EU-IFRS.

As described on page 72 of the financial statements, FMO has refined its parameters for recovery rates as well as country risk ratios within its group-specific provisioning model to align with its internal rating model. This refinement has led to a release of the group specific value adjustments of €77 million recorded in 2013 and a total provision balance of €169 million as at December 31, 2013.

This area was significant to our audit as the use of different estimates and assumptions could result in a different group specific value adjustment for loan losses, as FMO disclosed in its accounting policies and its disclosure on loans to the private sector in notes 4 and 8. Also actual loan losses over time may differ from the group specific value adjustment at the balance sheet date due to changes in economic conditions.

Our audit procedures included, among others, obtaining understanding of FMO's internal rating model, including the internal controls related to periodical back-testing of the model's assumptions. We also performed a detailed inspection of the internal rating model set-up and agreed parameters with respect to country risks (probability of default) to external data sources. Finally we evaluated the loss given defaults in the provisioning model against available historical loss information.

We examined the impact of the refinement of the provision model on the individual groups of loans with no counterparty specific provision and challenged the Management Board on the impact on such groups of loans with similar risk characteristics. We recalculated the group-specific value adjustment to determine that the model was applied accurately and consistently as at December 31, 2013.

Finally we focused on the adequacy of the credit risk disclosure on the loan portfolio which is included in the financial risk management paragraph on pages 70 to 76.

Sensitivities in finding the right balance
In order to inform stakeholders in a complete manner and to enable them to rely on the information provided, it is required that the reviewed section of the Report reflects both positive and negative aspects of the performance as applicable. Furthermore the information has to be sufficiently accurate and detailed to enable a reasoned assessment of the overall performance of FMO.

This area was significant to our review as the assessment of the right balance is inherently subject to a qualitative evaluation of the information gathered and judgment about the extent to which specific information needs to be included in the reviewed section of the Report.

Also, the narrative information in the reviewed section of the Report is to some extent not part of a continuous process, and therefore this could result in deviations between the information reported and information from underlying sources.

Our assurance procedures included, among others, obtaining an understanding of the principles that FMO applied and processes that FMO followed to collect and document information used in preparing the reviewed section of the Report.

We interviewed relevant staff responsible for the information included in the reviewed section of the Report and assessed proper inclusion of their insights in the reviewed section of the Report.

Finally we conducted an overall review of the reviewed section of the Report based on our knowledge of the company and all evidence obtained to determine that it presents a balanced overall picture of FMO's performance over the year.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

ASSURANCE REPORT ON THE REVIEWED SECTION OF THE REPORT

KEY AUDIT AND REVIEW MATTERS (CONTINUED)

Judgment in the valuation of the equity investments
The valuation of the equity investments totalling €943 million is complex given the nature of FMO's investments. The equity investments comprise of either direct investments or investment funds. EU-IFRS requires that all equity investments are valued at fair value when the fair value can be determined reliably. As disclosed in note 6 of the financial statements, 25% of the equity investments is recorded at cost less impairment as no reliable fair value information is available at balance sheet date.

Certain aspects of the accounting for fair values on equity investments require significant judgment, such as the assessment of the reliability of available valuation information, identification of equity investments that are deteriorating and the assessment whether a decline in value is considered significant and/or prolonged resulting in an impairment.

This area was significant to our audit as the use of different estimates and assumptions could result in a different fair value of equity investments, as FMO disclosed in its accounting policies and its disclosure on equity investments in note 6. Also the fair value of the equity investments over time may differ from the fair value at the balance sheet date due to changes in economic conditions.

Our audit procedures included, among others, obtaining understanding of FMO's valuation process for equity investments as well as the policy applied to evaluate whether reliable information is available for accounting at fair value. We evaluated the assumption underlying the fair value calculations and verified the reconciliation to the supporting financial information obtained from the respective investee. For listed equity investments we agreed the year-end valuation to external data sources.

We also challenged the Management Board's assessment made for the equity investments for which the fair value is below historical cost at balance sheet date including the consistent application of the accounting policy for significant and/or prolonged decline in fair value compared to its historical cost.

Finally we focused on the adequacy of the equity risk disclosure which is included in the financial risk management paragraph on page 77.

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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

ASSURANCE REPORT ON THE REVIEWED SECTION OF THE REPORT

GOING CONCERN

FMO's financial statements have been prepared using the going concern basis of accounting which is also reflected in the reviewed section of the Report. The use of this basis of accounting is appropriate unless the Management Board either intends to liquidate FMO or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we concur with the Management Board's use of the going concern basis of accounting in the preparation of FMO's financial statements.

The Management Board has not identified a material uncertainty that may cast significant doubt on FMO's ability to continue as a going concern, and accordingly none is disclosed in neither the financial statements nor the reviewed section of the Report of the Management Board. Based on our audit of the financial statements, we also have not identified such a material uncertainty. However, neither the Management Board nor the auditor can guarantee FMO's ability to continue as a going concern.

RESPONSIBILITIES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD FOR THE FINANCIAL STATEMENTS AND THE REPORT OF THE MANAGEMENT BOARD

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the (complete) Report of the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Furthermore, the Management Board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements and the reviewed section of the Report of the Management Board that are free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing FMO's reporting process.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

ASSURANCE REPORT ON THE REVIEWED SECTION OF THE REPORT

OUR RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS AND THE REVIEW OF THE REVIEWED SECTION OF THE REPORT

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Dutch Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Dutch Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FMO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of FMO and business activities within FMO to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

The objective of our review is to provide limited assurance on whether the information in the reviewed section of the Report is, in all material respects, prepared in accordance with section 2:391 of the Dutch Civil Code based on the Dutch Standard on Assurance engagements 3000. We do not provide any assurance on the feasibility of the targets, expectations, policy and ambitions of FMO. 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.

The following procedures were performed:

- a review of the content of the reviewed section of the Report in relation to the specific requirements as set out in section 2:391 of the Dutch Civil Code;
- a review of the underlying reporting principles and policies applied in preparing the reviewed section of the Report;
- 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 reviewed section of the Report, in order to understand whether these procedures are expected to result in reliable information;
- an analytical review of the quantitative information included in the reviewed section of the Report;
- interviews with relevant staff responsible for the information in the reviewed section of the Report;
- an examination of a sample of third party confirmations obtained supporting quantitative information in the reviewed section of the Report; and
- a review of internal and external documentation such as minutes of meetings, reports, intranet sources and source documents that are part of FMO's company records.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

ASSURANCE REPORT ON THE REVIEWED SECTION OF THE REPORT

OUR RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS AND REVIEW OF THE REVIEWED SECTION OF THE REPORT (CONTINUED)

We are required to communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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REPORT ON THE REPORT OF THE MANAGEMENT BOARD AND OTHER INFORMATION

Pursuant to the legal requirement under Part 9 of Book 2 of the Dutch Civil Code regarding our responsibility to report on the (complete) Report of the Management Board and the other information:

- We have no deficiencies to report as a result of our examination whether the Report of the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the other information as required by Part 9 of Book 2 has been annexed.
- We report that the Report of the Management Board, to the extent we can assess, is consistent with the financial statements.

Amstelveen, March 12, 2014
KPMG Accountants N.V.
M.A. Hogeboom RA

Consolidated Annual Accounts 2013

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The 2013 financial statements of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereafter referred to as 'FMO' or the 'company') were prepared by the Management Board and signed by all members of the Management Board and the Supervisory Board on March 12, 2014 and will be submitted for adoption in the General Meeting of Shareholders on May 14, 2014.

FMO was incorporated in 1970 as a public limited company and is located at Anna van Saksenlaan 71, The Hague, The Netherlands. FMO finances activities in developing countries to stimulate private sector development. In addition, FMO provides services in relation to Government funds and programs.

FINANCING ACTIVITIES

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

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

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

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 Infrastructure Development Fund, MASSIF, Access to Energy Fund and FOM OS.

FMO incurs a risk in MASSIF as it has an equity share of 2.38% (2012: 2.55%). With respect to the remaining interest in MASSIF, and the full risk in the other Government funds, FMO has a contractual right and obligation to settle the results arising from the funds' activities with the State. The economic risks related to these funds are predominantly taken by the State, and FMO has limited control over policy issues regarding these funds. FMO receives a remuneration for managing the funds. Therefore, with the exception of FMO's equity share in MASSIF, the funds' assets and the funds' liabilities are not included in the annual accounts. The segment information paragraph provides more detail on the loans and equity investments managed for the risk of the State.

Significant Accounting Policies

BASIS OF PREPARATION

The consolidated annual accounts (the 'annual accounts') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union and are based on the 'going concern' principle.

The consolidated annual accounts are prepared under the historical cost convention except for: equity investments valued at fair value, investments in associates, interest-bearing securities, short-term deposits, applicable funding items and all derivative instruments that are valued at fair value. The carrying value of debt issued that is qualified for hedge accounting, is adjusted for changes in fair value related to the hedged risk. For all financial instruments valued at fair value settlement date accounting is applied by FMO.

NEW AND REVISED STANDARDS

Adopted

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

IFRS 1 Government Loans: Amendments to IFRS 1 (effective date January 1, 2013)

This standard has no impact on the financial statements of FMO.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (effective date January 1, 2013)

The amendment requires additional disclosure about rights of set-off and related arrangements. These disclosures are included in the section Financial Risk Management.

IFRS 13 Fair Value Measurement (effective date January 1, 2013)

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value when fair value is required or permitted under IFRS. The application of IFRS 13 has not materially impacted the fair value measurements carried out by FMO.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including *IFRS 7 Financial Instruments: Disclosures*. These disclosures are provided in the individual notes related to the assets and liabilities whose fair values were determined.

IAS 19 Revisions for Employee Benefits (effective date January 1, 2013)

IAS 19R has been applied retrospectively from January 1, 2012 and includes a number of changes to the accounting for defined benefit plans of which the following have impact on FMO:

- The amended standard removes the option to defer recognition of actuarial gains and losses (i.e. corridor approach). As a result all actuarial gains and losses are recognized immediately in other comprehensive income and are permanently excluded from profit and loss. These actuarial gains and losses are therefore presented as 'Items not reclassified to profit and loss' as represented in IAS 1 Presentation of Financial Statements as of January 1, 2013 and this has been applied retrospectively;
- Expected returns on plan assets are no longer recognized in profit and loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit and loss, calculated using the discount rate used to measure the defined benefit obligation;
- Additional disclosures for defined benefit plans are required for FMO's annual consolidated financial statements and are included in note 21 Provisions.

The amended standard has the following impact on FMO's consolidated and company annual accounts:

- An increase in total equity (net of tax) of €12.3 million as per January 1, 2012;
- A decrease in total equity (net of tax) of €6.9 million as per December 31, 2012;
- A decrease in net profit of €0.7 million as per December 31, 2012.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective date January 1, 2013)

This standard has no impact on the financial statements of FMO.

Not effective, not adopted

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

IFRS 10 Consolidated Financial Statements (effective date January 1, 2014)

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated. FMO has assessed the impact of this standard. Under the new rules, FMO has recognized one extra investee over which it has control. FMO will recognize this as a subsidiary as per 1 January 2014. Furthermore, the standard has no effect for FMO's existing subsidiaries.

IFRS 11 Joint Arrangements (effective date January 1, 2014)

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard will have no impact on FMO's financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities (effective date January 1, 2014)

The standard includes the disclosure requirements related to FMO's interests in subsidiaries, joint arrangements, associates and structured entities. This standard will require a few new disclosures.

IAS 27 Separate Financial Statements (effective date January 1, 2014)

IAS 27 outlines the accounting and disclosure requirements for 'separate financial statements'. FMO does not present separate financial statements.

IFRS 10, IFRS 12, and IAS 27 Investment Entities – Amendments (effective date January 1, 2014)
The amendments define an "Investment entity" in IFRS 10 and represent significant changes for these investment entities which are currently required to consolidate investees that they control. Furthermore the amendments also represent new disclosure requirements for investment entities in IFRS 12 and IAS 27. These amendments will have no impact on FMO's financial position and performance.

IAS 28 Investments in Associates and Joint Ventures (effective date January 1, 2014)
This standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. This standard will have no impact on FMO's financial position and performance.

IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (effective date January 1, 2014)
The amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position. The changes will not have significant impact on FMO's financial statements.

IAS 36 Recoverable Amount Disclosures for Non-financial Assets (effective date January 1, 2014)
The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. This standard has no impact on the financial statements of FMO.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (effective date 1 January, 2014)
The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendment covers novations:

- That arise as a consequence of laws or regulations, or the introduction of laws or regulations;
- Where the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties;
- That did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing.

All of the above criteria must be met to continue hedge accounting under this exception. The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members. FMO needs to prove that it meets the criteria of IAS 39 when implementing the central clearing law in order to continue hedge accounting. FMO is currently assessing the impact of this standard.

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

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

GROUP ACCOUNTING AND CONSOLIDATION
The company accounts of FMO and the company accounts of the subsidiaries Nuevo Banco Comercial Holding B.V., FMO Antillen N.V., Industrias Andinas B.V., Blauser S.A. and Asia Participations B.V. are consolidated in these annual accounts. During 2013, FMO sold its 100% stake in subsidiary Confoco S.A.

The activities of Nuevo Banco Comercial Holding B.V., FMO Antillen N.V. and Asia Participations B.V. consist of providing equity capital to companies in developing countries. All are 100% owned by FMO. Industrias Andinas B.V. and Blauser S.A. are holding companies for Ecuadorian fruit processors and exporters.

SEGMENT REPORTING
The operating segments are reported in a manner consistent with internal reporting to FMO's chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board.

FMO focuses on three business sectors:

1. Financial sector (distinguished by financial institutions and private equity funds)
2. Energy
3. Agribusiness, Food and Water

The business sectors are included in the segment reporting and further divided into i) Financial sector – financial institutions, ii) Financial sector – private equity funds, iii) Energy, iv) Agribusiness, Food and Water. The segment Financial sector – private equity funds includes funds that provide financing to various sectors. In addition to these business sectors a segment Diverse Sectors has been identified which operates in other sectors (e.g. telecom, infrastructure and manufacturing) by partnering with commercial banks and development finance institutions.

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

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

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

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

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

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

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

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

HEDGE ACCOUNTING
FMO uses derivative 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. When a financial instrument is designated as a hedge, FMO formally documents the relationship between the hedging instrument(s) and hedged item(s).

Documentation includes its risk management objectives and its strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

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

FMO discontinues hedge accounting when it is determined that:

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

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

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

If the hedged instrument is derecognized, e.g. sold or repaid, the unamortized fair value adjustment is recognized immediately 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 initial fair value at inception. Interest income and expense also include amortized discounts, premiums on financial instruments and interest related to derivatives.

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

FEE AND COMMISSION INCOME

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

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

DIVIDEND INCOME

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

CASH AND CASH EQUIVALENTS

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

LOANS TO THE PRIVATE SECTOR

Loans originated by FMO include:

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

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

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

VALUE ADJUSTMENTS ON LOANS

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

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

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

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

INTEREST-BEARING SECURITIES

Interest-bearing securities include bonds and loans and are classified as available for sale investments. The interest-bearing securities are carried at fair value. The determination of fair values of interest-bearing securities is based on quoted market prices or dealer price quotations from active markets. Unrealized revaluations due to movements in market prices and the accompanying foreign exchange results 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 classified as available for sale assets and are measured:

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 and loss.
2. *At cost or lower recoverable amount if the fair value cannot 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 most of FMO's private equity investments in developing countries causes certain valuation difficulties and uncertainties. Very often there is no liquid market for these investments and there have not been any recent transactions that provide reliable evidence for 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, the fair value of investments cannot 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 recognized.

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 by an amount considered significant or for a period considered prolonged. If an equity investment is determined to be impaired, the impairment is recognized in the profit and loss account as a value adjustment. The impairment loss includes any unrealized loss previously recognized in shareholders' equity. The impairment losses shall not be reversed through the profit and loss account except upon realization. Accordingly, any subsequent unrealized gains for impaired equity investments are reported through shareholders' equity in the available for sale reserve.

INVESTMENTS IN ASSOCIATES

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

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

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

FMO operates in developing countries that may not have particularly 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 only 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 and cannot be reversed through the profit and loss accounts, except upon realization.

TANGIBLE FIXED ASSETS

ICT equipment

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

Furniture and leasehold improvements

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

Depreciation

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

ICT equipment	Five years
Furniture	Five years
Leasehold improvements	Five years

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 the following distinction is made:
   - Debt securities qualifying for hedge accounting (valued at amortized cost and adjusted for the fair value of the hedged risk);
   - Debt securities not qualifying for hedge accounting (valued at amortized cost).
2. *Debentures and notes:*
   Medium-term notes under FMO's Debt Issuance Programme or other issuance programmes. Debentures and notes can be divided into:
   - Notes qualifying for hedge accounting (valued at amortized cost and adjusted for the fair value of the hedged risk);
   - Notes that do not qualify for hedge accounting (valued at amortized cost).

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.

Debt issued eligible for 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 recorded in the profit and loss account. Further reference is made to 'derivative instruments' and 'hedge accounting'.

PROVISIONS

Provisions are recognized when:

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

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

LEASES

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

GUARANTEES

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

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and

- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies as set out in 'interest income' and 'fee and commission income'. These fees are recognized as revenue on an accrual basis over the period commitment.

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

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

RETIREMENT BENEFITS

FMO provides all employees with retirement benefits that are categorized as a defined benefit. A defined benefit plan is a pension plan defining the amount of pension benefit to be provided, as a function of one or more factors such as age, years of service or compensation. Employees are entitled to retirement benefits based on the average salary, on attainment of the retirement age of 65. Starting from January 1, 2014 this retirement age has been adjusted to 67. Employees born before January 1, 1950 are entitled to (early) retirement benefits based on final pay.

This scheme is funded through payments to an insurance company determined by periodic actuarial calculations. The principal actuarial assumptions are set out in note 21. All actuarial gains and losses are reported in shareholders' equity, net of applicable income taxes and are permanently excluded from profit and loss.

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

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

FMO recognizes the following changes in the net defined benefit obligations under staff costs:
- Service costs comprising current service costs, past-service costs (like gains and losses on curtailments and plan amendments)
- Net interest expense or income

Past-service costs are recognized in profit and loss on the earlier of:
- The date of the plan amendment or curtailment, and
- The date that FMO recognizes restructuring-related costs.

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

TAXATION

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

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

SHAREHOLDERS' EQUITY

Contractual reserve

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

Development fund

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

Available for sale reserve (AFS reserve)

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

Translation reserve

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

Other reserves

The other reserves include the cumulative distributable net profits. Dividends are deducted from other reserves in the period in which they are declared.

Undistributed profit

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

Non-controlling interests

The non-controlling interest in 2012 was related to the investment in Blauser S.A. and Confoco S.A. held by other investors.

Consolidated Balance Sheet at December 31

(before profit appropriation)	Notes	Page number	2013	2012 Restated*
ASSETS				
Banks	(1)	94	29,042	22,507
Short-term deposits	(2)	94	1,102,630	678,126
Derivative financial instruments	(3)	94	296,901	280,195
Loans to the private sector	(4), (8)	95, 98	2,927,508	2,757,597
Loans guaranteed by the State	(5), (8)	96, 98	53,355	58,906
Equity investments	(6)	97	943,197	890,530
Investments in associates	(7)	97	19,246	23,156
Interest-bearing securities	(9)	99	664,705	729,816
Tangible fixed assets	(10)	99	7,468	11,685
Deferred income tax assets	(32)	109	4,954	5,693
Current accounts with State funds and other programs	(11)	100	35	1,060
Other receivables	(12)	100	52,053	25,376
Accrued income	(13)	100	83,249	78,983
Total assets			**6,184,343**	**5,563,630**
LIABILITIES				
Banks	(14)	101	76,897	27,772
Short-term credits	(15)	101	226,885	240,445
Derivative financial instruments	(3)	94	218,157	89,560
Debt securities	(16)	101	-	15,143
Debentures and notes	(17)	102	3,609,796	3,276,507
Other liabilities	(18)	102	6,394	9,364
Current accounts with State funds and other programs	(19)	102	1,630	322
Current income tax liabilities	(32)	109	2,897	515
Wage tax liabilities			80	2,110
Deferred income tax liabilities	(32)	109	5,224	8,645
Accrued liabilities	(20)	102	50,587	53,576
Provisions	(21)	103	22,839	24,249
Total liabilities			**4,221,386**	**3,748,208**
SHAREHOLDERS' EQUITY				
Share capital			9,076	9,076
Share premium reserve			29,272	29,272
Contractual reserve			1,020,547	892,508
Development fund			657,981	657,981
Available for sale reserve			215,889	193,009
Translation reserve			-644	239
Other reserves			25,540	25,782
Undistributed profit			5,296	6,724
Shareholders' equity (parent)			**1,962,957**	**1,814,591**
Non-controlling interests			-	831
Total shareholders' equity	**(22)**	**105**	**1,962,957**	**1,815,422**
Total liabilities and shareholders' equity			**6,184,343**	**5,563,630**
Contingent liabilities	(33)	111	106,470	92,392
Irrevocable facilities	(33)	111	1,408,148	1,281,687
Loans and equity investments managed for the risk of the State[1]			643,304	652,607

1) See segment reporting paragraph.
*The comparative figures of 2012 have been restated as a result of IAS 19 Employee Benefits (revised 2011) as detailed under significant accounting policies.

Consolidated Profit and Loss Account

	Notes	Page number	2013	2012 Restated*
INCOME				
Interest income			196,778	202,099
Interest expense			-42,243	-48,275
Net interest income	**(23)**	**107**	**154,535**	**153,824**
Fee and commission income			7,126	7,308
Fee and commission expense			-187	-167
Net fee and commission income	**(24)**	**107**	**6,939**	**7,141**
Dividend income			19,826	17,207
Results from equity investments	(25)	107	23,643	72,126
Results from financial transactions	(26)	108	24,911	199
Remuneration for services rendered	(27)	108	22,896	19,146
Other operating income	(28)	108	1,124	1,811
Total other income			**92,400**	**110,489**
Total income			**253,874**	**271,454**
OPERATING EXPENSES				
Staff costs	(29)	108	-46,824	-44,195
Other administrative expenses	(30)	109	-13,738	-11,161
Depreciation and impairment	(10)	99	-1,662	-1,779
Other operating expenses	(31)	109	-220	-257
Total operating expenses			**-62,444**	**-57,392**
Operating profit before value adjustments			**191,430**	**214,062**
VALUE ADJUSTMENTS ON				
Loans	(8)	98	2,966	-29,123
Equity investments and associates	(6), (7)	97, 97	-22,087	-22,797
Guarantees issued	(8)	98	1,635	6,257
Total value adjustments			**-17,486**	**-45,663**
Share in the result of associates	(7)	97	-3,034	4,033
Result on disposal of subsidiaries			-1,934	-
Total result on associates and subsidiaries			**-4,968**	**4,033**
Profit before taxation			**168,976**	**172,432**
Income tax	(32)	109	-35,641	-27,149
Net profit			**133,335**	**145,283**
NET PROFIT ATTRIBUTABLE TO				
Owners of the parent company			133,335	145,210
Non-controlling interests			-	73
Net profit			**133,335**	**145,283**

*The comparative figures of 2012 have been restated as a result of IAS 19 Employee Benefits (revised 2011) as detailed under significant accounting policies.

Consolidated Statement of Comprehensive Income

(before profit appropriation)	Notes	Page number	2013	2012 Restated*
Net profit			**133,335**	**145,283**
OTHER COMPREHENSIVE INCOME				
Exchange differences on translating associates and subsidiaries			-883	-3,265
Available for sale financial assets			19,459	20,952
Income tax effect			3,421	-4,144
Items to be reclassified to profit and loss	(36)	114	**21,997**	**13,543**
Actuarial gains/losses on defined benefit plans			-562	-24,699
Income tax effect			320	6,175
Items not reclassified to profit and loss	(36)	114	**-242**	**-18,524**
Total other comprehensive income, net of tax			**21,755**	**-4,981**
Total comprehensive income			**155,090**	**140,302**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent company			155,090	140,229
Non-controlling interests			-	73
Total comprehensive income			**155,090**	**140,302**

*The comparative figures of 2012 have been restated as a result of IAS 19 Employee Benefits (revised 2011) as detailed under significant accounting policies.

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Share premium reserve	Contractual reserve	Development fund	Available for sale reserve	Translation reserve	Other reserves	Undistributed profit	Non-controlling interests	Total
Balance at December 31, 2011	**9,076**	**29,272**	**753,989**	**657,981**	**176,201**	**3,504**	**29,860**	**4,286**	**421**	**1,664,590**
Adoption of IAS 19R*	-	-	-	-	-	-	12,335	-	-	12,335
Balance at January 1, 2012*	**9,076**	**29,272**	**753,989**	**657,981**	**176,201**	**3,504**	**42,195**	**4,286**	**421**	**1,676,925**
Exchange differences on translating associates and subsidiaries	-	-	-	-	-	-3,265	-	-	-	-3,265
Available for sale financial assets	-	-	-	-	20,952	-	-	-	-	20,952
Actuarial gains/ losses on defined benefit plans	-	-	-	-	-	-	-24,699	-	-	-24,699
Income tax effect other comprehensive income	-	-	-	-	-4,144	-	6,175	-	-	2,031
Total other comprehensive income	**-**	**-**	**-**	**-**	**16,808**	**-3,265**	**-18,524**	**-**	**-**	**-4,981**
Changes in subsidiaries Blauser S.A. and Confoco S.A.	-	-	-	-	-	-	-	-	337	337
Undistributed profit 2011	-	-	-	-	-	-	2,144	-2,144	-	-
Net profit	-	-	138,519[1)]	-	-	-	-33	6,724	73	145,283
Dividend declared	-	-	-	-	-	-	-	-2,142	-	-2,142
Balance at December 31, 2012*	**9,076**	**29,272**	**892,508**	**657,981**	**193,009**	**239**	**25,782**	**6,724**	**831**	**1,815,422**
Exchange differences on translating associates and subsidiaries	-	-	-	-	-	-883	-	-	-	-883
Available for sale financial assets	-	-	-	-	19,459	-	-	-	-	19,459
Actuarial gains/losses on defined benefit plans	-	-	-	-	-	-	-562	-	-	-562
Income tax effect other comprehensive income	-	-	-	-	3,421	-	320	-	-	3,741
Total other comprehensive income	**-**	**-**	**-**	**-**	**22,880**	**-883**	**-242**	**-**	**-**	**21,755**
Changes in subsidiaries Blauser S.A. and Confoco S.A.	-	-	-	-	-	-	-	-	-831	-831
Net profit	-	-	128,039[1)]	-	-	-	-	5,296	-	133,335
Dividend declared	-	-	-	-	-	-	-	-6,724	-	-6,724
Balance at December 31, 2013	**9,076**	**29,272**	**1,020,547**	**657,981**	**215,889**	**-644**	**25,540**	**5,296**	**-**	**1,962,957**

1) Under the Agreement State-FMO of November 16, 1998, it is required to add this part of the net profit to the contractual reserve. Therefore this profit is not distributable.
*The comparative figures of 2012 have been restated as a result of IAS 19 Employee Benefits (revised 2011) as detailed under significant accounting policies

Consolidated Statement of Cash Flows

	Notes	Page number	2013	2012 Restated*
OPERATIONAL ACTIVITIES				
Net profit			**133,335**	**145,283**
Adjusted for non-cash items:				
• Result of associates			3,034	-4,033
• Unrealized gains (losses)			-38,427	10,694
• Value adjustments			20,872	49,007
• Depreciation and impairment of tangible fixed assets			1,662	1,779
• Income tax expense			35,641	27,149
Changes in:				
• Income tax paid			-32,520	-22,022
• Net movement (disbursements and repayments) in loans (including guaranteed by the State)			-279,576	-324,596
• Purchase of and proceeds from equity investments and associates			-83,361	-131,945
• Movement other assets and liabilities[1]			-31,642	22,188
• Movement in short-term credits[1]			-13,534	-317,201
Net cash flow from operational activities	(37)	115	**-284,516**	**-543,697**
INVESTMENT ACTIVITIES				
Purchase of interest-bearing securities			-	-271,028
Redemption/sale of interest-bearing securities			45,231	231,392
(Dis)investments in tangible fixed assets			2,555	-4,081
Net cash flow from investment activities	(38)	115	**47,786**	**-43,717**
FINANCING ACTIVITIES				
Proceeds from issuance of debt securities, debentures and notes			1,023,968	951,786
Redemption of debt securities, debentures and notes			-398,600	-230,270
Dividend paid			-6,724	-2,142
Net cash flow from financing activities	(39)	115	**618,644**	**719,374**
Net cash flow			**381,914**	**131,960**
CASH AND CASH EQUIVALENTS				
Banks and short-term deposits at January 1			672,861	540,901
Banks and short-term deposits at December 31			1,054,775	672,861
Total cash flow			**381,914**	**131,960**
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS				
Interest received			192.484	205,226
Interest paid			40,574	50,682
Dividend received			19,826	17,207

1) Movement is excluding foreign exchange results. Foreign exchange results are included in unrealized gains (losses).
*The comparative figures of 2012 have been restated as a result of IAS 19 Employee Benefits (revised 2011) as detailed in under significant accounting policies.

Financial Risk Management

Introduction

FMO invests in a diversified portfolio in emerging countries. The financial risks FMO is exposed to are reputational risk, credit risk, currency risk, equity risk, interest rate risk, liquidity risk and operational risk.

The financial risk chapter is structured as follows: first FMO's risk profile will be highlighted, then a brief overview of FMO's risk management organization will be given, followed by specialized paragraphs on reputational risk, credit risk, equity risk, currency risk, interest rate risk, liquidity risk, operational risk and FMO's capital management framework.

Risk Profile

The only financial risk FMO is willing to take relates to the risk stemming from debt and equity instruments to private institutions in developing countries. This risk profile is supported by holding prudent levels of capital and liquidity and strong diversification of the portfolio over regions and sectors. About 80% of the economic capital was allocated to credit risk. Reference is made to the capital management paragraph. Although other financial risks cannot always be fully avoided, FMO mitigates them as much as possible. FMO does not have trading positions and in general no appetite for currency risk and interest rate risk.

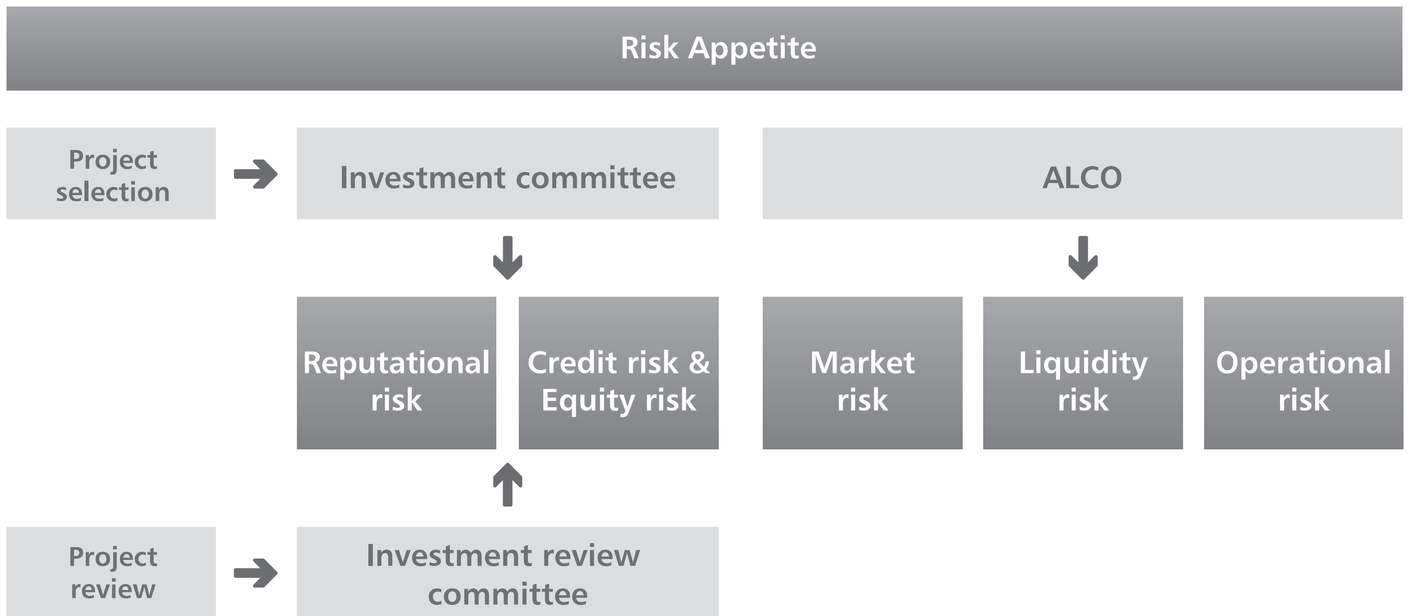
Organization of Risk Management

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

The Risk Management department is responsible for managing portfolio risks of the emerging market portfolio, treasury, and all related market risks. Additionally, risk management tends to increase awareness of the financial risks and the risk-return relationship.

The figure below provides an overview of FMO's financial risk control framework.

FINANCIAL RISK CONTROL FRAMEWORK



The Investment Committee, comprising of representatives of several departments, reviews financing proposals in emerging markets. Each financing proposal is assessed in terms of specific counterparty, product risk as well as country risk. All financing proposals are accompanied by the advice of the Investment Mission Review (IMR) department. This department is responsible for credit risk assessment of both new transactions and the existing portfolio.

In addition, financial exposures in emerging markets are subject to a periodic review, at least annually.

Relevant exposures are reviewed by the Investment Review Committee. Its members consist of representatives of several departments. The large and higher risk exposures are accompanied by the advice of the IMR department. If the Investment Review Committee concludes that a client has difficulty in meeting its payment obligations, the client is transferred to the Special Operations department – responsible for the management of distressed assets – where it is intensively monitored.

The Asset and Liability Committee (ALCO) is responsible for setting risk management policies, which are to be endorsed by the Management Board. The ALCO approves the treasury and risk policies, the limit framework, the economic capital model and discusses capital and liquidity adequacy planning. The ALCO complies with the recommendations of the Banking Code (see the annual report for more information on the Banking Code). The CEO and CRFO are members of the ALCO.

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

Reputational Risk

FMO's emerging market operations inherently expose the company to various types of reputational risk. Origins of such risks can potentially be broad and include integrity risks (internal or external issues), environmental and social risks of FMO's projects and various types of legal risks. These types of reputational risks may trigger negative media coverage on a national and international scale. FMO cannot fully avoid such risks by the nature of its operations, but chooses to mitigate them as much as possible through strict policies, upfront assessment and, if necessary, through agreements with FMO's clients.

ENVIRONMENTAL AND SOCIAL RISK

FMO runs environmental and social risks in its emerging market projects. These risks stem from the nature of FMO's projects, which in several cases can carry a negative environmental or social impact related to their large footprint (for example large scale infrastructure or primary agriculture projects). FMO does not seek to avoid such risks, but instead it mitigates them through environmental and social risk management policies, requiring our clients to meet high international standards. Before contracting a project, FMO performs an in-depth assessment of environmental and social risks and impacts and, if necessary, agrees on an action plan that ensures that clients reach compliance with these international standards within a set period. Although environmental and social risk is primarily seen as reputational risk within the financial markets, for FMO there is a strong relation with credit risk and equity risk as environmental and social risk is fully integrated in FMO's risk assessment and investment process.

Credit Risk

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

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

The following table shows the maximum exposure to credit risk for FMO. The maximum exposure of balance sheet items, including derivatives, is shown gross, before provisioning and the effect of mitigation through the use of master netting and collateral agreements. Only derivative financial instruments with positive market values are presented. The maximum exposure to credit risk increased during the year from €7,368 million at December 31, 2012 to €8,119 million at December 31, 2013.

Maximum exposure to credit risk, including derivatives

	2013	2012
ON-BALANCE		
Banks	29,042	22,507
Short-term deposits	974,400	294,874
Short-term deposits – Dutch central bank	128,230	383,252
Derivative financial instruments	296,901	280,195
Loans to the private sector	3,265,174	3,112,833
Loans guaranteed by the State	61,715	68,441
Equity investments	1,024,961	967,782
Investments in associates	19,246	23,156
Interest-bearing securities	664,705	729,816
Deferred income tax assets	4,954	5,693
Current accounts with State funds and other programs	35	1,060
Other receivables	52,053	25,376
Accrued income	83,249	78,983
Total on-balance	**6,604,665**	**5,993,968**
OFF-BALANCE		
Contingent liabilities	106,470	92,392
Irrevocable facilities	1,408,148	1,281,687
Total off-balance	**1,514,618**	**1,374,079**
Total credit risk exposure	**8,119,283**	**7,368,047**

CREDIT RISK IN THE EMERGING MARKETS LOAN PORTFOLIO

FMO offers loans in emerging market countries. Concentration risks on individual counterparties, sectors or countries are mitigated due to stringent single client, sector and country limits, which are set by the ALCO.

Gross exposure of loans distributed by region and sector

	Financial Sector					
At December 31, 2013	**Private equity funds**	**Financial Institutions**	**Energy**	**Agribusiness, Food & Water**	**Diverse Sectors**	**Total**
Africa	9,104	330,742	197,730	11,454	144,624	693,654
Asia	-	407,783	196,043	62,121	269,438	935,385
Latin America & the Caribbean	-	472,230	206,337	160,406	117,781	956,754
Europe & Central Asia	60,604	346,727	11,293	69,739	94,489	582,852
Non-region specific	16,814	13,500	15,242	29,031	21,942	96,529
Total	**86,522**	**1,570,982**	**626,645**	**332,751**	**648,274**	**3,265,174**

	Financial Sector					
At December 31, 2012	**Private equity funds**	**Financial Institutions**	**Energy**	**Agribusiness, Food & Water**	**Diverse Sectors**	**Total**
Africa	28,229	307,892	137,665	5,699	186,647	666,132
Asia	-	324,251	182,444	48,990	314,320	870,005
Latin America & the Caribbean	-	448,547	182,481	161,573	110,823	903,424
Europe & Central Asia	505	425,452	5,593	72,335	102,123	606,008
Non-region specific	506	10,000	10,951	30,336	15,471	67,264
Total	**29,240**	**1,516,142**	**519,134**	**318,933**	**729,384**	**3,112,833**

INTERNAL CREDIT APPROVAL PROCESS

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

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

Gross exposure distributed by internal ratings

Indicative counterparty credit rating	2013	2012
F1 – F10 (BBB- and higher)	161,039	143,857
F11 – F13 (BB-, BB, BB+)	1,394,540	1,499,802
F14 – F16 (B-, B, B+)	1,320,575	1,182,543
F17 and lower (CCC+ and lower ratings)	389,020	286,631
Total	**3,265,174**	**3,112,833**

Maximum exposure to credit risk of the gross loan portfolio increased to €3,265 million in 2013 (2012: €3,113 million). The largest sector within the loan portfolio is the sector Financial institutions. For more details reference is made to the table above.

Apart from its on-balance finance activities, FMO is also exposed to off-balance credit-related commitments. Guarantees, which represent contingent liabilities to make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risks as loans. The majority of the guarantees are quoted in US dollars or euros. Guarantees on export facilities are collateralized by the underlying letters of credit, and therefore carry less credit risk than a direct uncollateralized borrowing. The total outstanding guarantees add up to an amount of €106,470 (2012: €92,392). FMO has received guarantees for an amount of €102,795 (2012: €100,710). Provisions, amortized costs and obligations for guarantees add up to €6,207 (2012: €8,387).

Irrevocable facilities represent commitments to extend finance to clients. The irrevocable facilities increased to €1,408 million (2012: €1,282 million) corresponding to 35% (2012: 35%) of the net exposure in emerging markets (including loans, equity investments and contingent liabilities). Irrevocable facilities are usually not immediately and fully drawn by clients, especially in case of commitments to equity funds, which have a contractual investment period of several years.

COLLATERAL, LOANS PAST DUE AND VALUE ADJUSTMENTS

In 2013, collateral was acquired on 32% (2012: 35%) of the gross amount of loans. Collateral mainly consists of real estate, business assets or financial instruments. The collateral obtained is used to support FMO's position in renegotiation of loan terms. Due to the nature of the markets in which FMO operates, it has been proven difficult to assign reliable fair values to the collateral used to mitigate credit risk due to the limited liquidity and enforceability.

At the end of 2013, the counterparty-specific value adjustments as a percentage of the gross loan portfolio equaled 4.0% (2012: 3.4%). The group-specific value adjustments equaled 5.2% (2012: 7.0%), resulting in total value adjustments of 9.2% (2012: 10.4%) of the gross loan portfolio. The decrease of the group-specific value adjustment as a percentage of the gross loan portfolio can be explained by a refinement in the parameters of the provisioning model. As provisioning is an integral part of our risk management model, FMO aligned the expected recovery ratios and country risk ratios with FMO's internal rating methodology. In addition, as country risk ratios do not always reflect the current economic conditions in certain development countries, FMO has updated these ratios. This refinement has led to a release of €77.3 million of the group-specific value adjustments.

Our Non-Performing Loan (NPL) ratio increased from 3.5% to 4.1%[1]. In general, the non-performing loans represent a fair cross-section of our portfolio and no correlation with respect to specific geographic region has been identified. However, correlation – though limited – can be found in terms of sector given that a relatively larger part of the NPLs is related to our former focus sector Housing.

When the terms and conditions of a loan have been modified significantly, FMO considers these loans as restructured. Changes in terms and conditions usually include extending the maturity, changing the interest margin and changing the timing of interest payments. The loans are assessed to determine if they qualify for derecognition and if that is the case, they are recognized as a new loan with valuation differences through profit and loss. Value adjustments related to restructured loans are being measured as indicated in the accounting policies under 'Value adjustments on loans'. As result of our 2013 assessment no loans qualified for derecognition. The total amount of the loans under consideration was €32,027 (2012: €46,340).

In 2013, our (partial) write-offs were limited to three loans, corresponding to 0.07% of our portfolio. Although the number of non-performing loans increased and country ratings deteriorated compared to 2012, FMO sees no trend that would indicate a material deterioration of asset quality.

Loans past due and value adjustments 2013

	Loans not value adjusted	Loans value adjusted	Gross exposure	Counterparty specific value adjustment	Total
Loans not past due	3,050,345	53,848	3,104,193	-33,787	3,070,406
Loans past due:					
• Past due up to 30 days	-	-	-	-	-
• Past due 30-60 days	-	-	-	-	-
• Past due 60-90 days	25,942	-	25,942		25,942
• Past due more than 90 days	-	135,039	135,039	-98,131	36,908
Subtotal	**3,076,287**	**188,887**	**3,265,174**	**-131,918**	**3,133,256**
Less: amortizable fees	-35,425	-1,065	-36,490	-	-36,490
Less: group-specific value adjustments	-169,258	-	-169,258	-	-169,258
Carrying value	**2,871,604**	**187,822**	**3,059,426**	**-131,918**	**2,927,508**

Loans past due and value adjustments 2012

	Loans not value adjusted	Loans value adjusted	Gross exposure	Counterparty specific value adjustment	Total
Loans not past due	2,953,638	24,615	2,978,253	-17,249	2,961,004
Loans past due:					
• Past due up to 30 days	-	-	-	-	-
• Past due 30-60 days	1,779	-	1,779	-	1,779
• Past due 60-90 days	5,530	19,305	24,835	-4,826	20,009
• Past due more than 90 days	-	107,966	107,966	-83,870	24,096
Subtotal	**2,960,947**	**151,886**	**3,112,833**	**-105,945**	**3,006,888**
Less: amortizable fees	-31,788	-889	-32,677	-	-32,677
Less: group-specific value adjustments	-216,614	-	-216,614	-	-216,614
Carrying value	**2,712,545**	**150,997**	**2,863,542**	**-105,945**	**2,757,597**

1) Note that the NPL ratio is influenced by the recognition of a guaranteed amount which is thus deducted of the amount from the non-performing loans. When this guaranteed amount is not taken into account the overall NPL ratio increases to 5.0% (2012: 3.9%).

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

At December 31, 2013	Financial Sector	%	Energy	%	Agribusiness, Food & Water	%	Diverse Sectors	%	Total	%
Africa	962	-	2,190	1	4,750	41	3,721	3	11,623	2
Asia	-	-	11,861	6	7,563	12	29,917	11	49,341	5
Latin America & the Caribbean	3,721	1	-	-	4,681	3	6,643	6	15,045	2
Europe & Central Asia	7,258	2	-	-	-	-	29,726	31	36,984	6
Non-region specific	-	-	-	-	-	-	18,925	86	18,925	20
Total	**11,941**	**1**	**14,051**	**2**	**16,994**	**5**	**88,932**	**14**	**131,918**	**4**

December 31, 2012	Financial Sector	%	Energy	%	Agribusiness, Food & Water	%	Diverse Sectors	%	Total	%
Africa	-	-	2,467	2	4,042	71	5,670	3	12,179	2
Asia	-	-	13,083	7	7,481	15	26,728	9	47,292	5
Latin America & the Caribbean	6,520	1	-	-	-	-	-	-	6,520	1
Europe & Central Asia	11,376	3	-	-	-	-	28,578	28	39,954	7
Non-region specific	-	-	-	-	-	-	-	-	-	-
Total	**17,896**	**1**	**15,550**	**3**	**11,523**	**4**	**60,976**	**8**	**105,945**	**3**

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

	(a)	(b)	(c)=(a)-(b)	(d) Related amounts not offset in the balance sheet		(e)=(c)-(d)
At December 31, 2013	Gross amounts recognized in balance sheet	Gross amount of financial assets/ liabilities offset in the balance sheet	Net amount presented in the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral [1]	Net amount
FINANCIAL ASSETS						
Derivatives	272,677	-	272,677	-		
FINANCIAL LIABILITIES						
Derivatives	-210,791	-	-210,791	-		
Total	**61,886**	**-**	**61,886**	**-**	**70,387**	**-8,501**

	(a)	(b)	(c)=(a)-(b)	(d) Related amounts not offset in the balance sheet		(e)=(c)-(d)
At December 31, 2012	Gross amounts recognized in balance sheet	Gross amount of financial assets/ liabilities offset in the balance sheet	Net amount presented in the balance sheet	Financial instruments (including non-cash collateral)	Cash collateral [1]	Net amount
FINANCIAL ASSETS						
Derivatives	268,629	-	268,629	-		
FINANCIAL LIABILITIES						
Derivatives	-83,073	-	-83,073	-		
Total	**185,556**	**-**	**185,556**	**-**	**204,837**	**-19,281**

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

COUNTRY RISK

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

The level of the country limits depends on the sovereign rating. FMO recognizes that the impact of country risk differs across the financial products it offers. In order to calculate group-specific value adjustments, country-specific provisions are established on the investment credit portfolio based on country risk and estimated recovery rates. With respect to the geographical diversification in the portfolio, reference is made to the segment information paragraph. With respect to the sector diversification in the portfolio, reference is made to notes 4, 5, and 6 of the notes to the consolidated balance sheet. Overall, the sovereign ratings in our markets did not show material change during 2013. Since FMO has increased its exposure in the 55 poorest countries the exposure to category CCC+ and lower has grown.

Overview country ratings

Indicative external rating equivalent	2013 (%)	2012 (%)
BBB and higher ratings	16.1	19.1
BBB-	11.0	10.7
BB+	5.4	5.8
BB	4.5	6.8
BB-	16.3	12.5
B+	13.0	14.7
B	14.0	9.4
B-	1.8	9.2
CCC+ and lower ratings	17.9	11.8
Total	**100**	**100**

CREDIT RISK IN THE TREASURY PORTFOLIO

The main responsibility of FMO's Treasury department is to fund the core business of FMO and to efficiently and effectively mitigate risks in line with Treasury's mandate. Credit risk in the treasury portfolio stems from short-term investments, interest-bearing securities and derivative instruments. Derivatives are primarily used for hedging interest rate risk and foreign exchange risks.

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

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

In order to reduce credit risk originating from 'in the money' derivative contracts, FMO has entered into Credit Support Annexes (CSA) with almost all derivative counterparties. A CSA is a legal document which regulates credit support (collateral) between derivative counterparties. In case of FMO the accepted collateral is cash (US dollar or euro).

FMO pursues a conservative investment policy.

Overview interest-bearing securities

At December 31	2013	2012
AAA	317,287	510,286
AA- to AA+	347,418	219,530
Total	**664,705**	**729,816**

Geographical distribution interest-bearing securities

At December 31	2013 (%)	2012 (%)
Austria	7	7
Belgium	6	6
Finland	8	7
France	3	3
Germany	3	3
Great Britain	13	12
Netherlands	31	34
Supra-nationals	29	28
Total	**100**	**100**

In 2013 FMO sold interest-bearing securities for a principal amount of €10 million (2012 €95.6 million) which no longer complied with the investment policy.

Overview short-term deposits

At December 31	Rating (short-term)	2013	2012
Dutch central bank		128,230	383,251
Financial institutions	A-1	816,159	94,166
	A-2	180	9,700
Money market funds	AAAmmf	158,061	191,009
Total		**1,102,630**	**678,126**

The increase in deposits with Financial institutions is related to our increased liquidity position. The short term ratings of the counterparties fit well in our liquidity and investment policy.

Derivative financial instruments distributed by rating[1)]

Derivative financial instruments (based on long-term rating)	**2013**		**2012**	
	Net exposure	**CSA (%)**	**Net exposure**	**CSA (%)**
AAA	-	-	6	-
AA- to AA+	36,893	99	37,940	94
A to A+	184,204	100	195,565	100
BBB	178	100	-	-
Total	**221,275**	**100**	**233,511**	**99**

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

Equity Risk

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

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

FMO has a long-term view on its equity portfolio, usually selling its equity stake within a period of 5 to 10 years. Equity investments are assessed by the Investment Committee in terms of specific obligor as well as country risk. The Investment Review Committee assesses the valuation of the majority of equity investments semi-annually. The performance of the equity investments in the portfolio is periodically analyzed during the fair value process. Based on this performance and the market circumstances, exits are pursued in close cooperation with our co-investing partners. The total outstanding equity portfolio at December 31, 2013, amounted to €943,197 (2012: €890,530) of which €667,636 (2012: €693,728) is invested in investment funds.
It can be difficult to assess the fair value of an investment when market data is lacking or when the market is illiquid. Under these circumstances, FMO values equity investments at cost minus impairment. In total, €238,602 (2012: €191,924) of the equity portfolio is valued at cost minus impairment, of which a high share is quoted in US dollars: 39% (2012: 49%). The equity portfolio valued at cost minus impairment denominated in other currencies than euros is not revalued for the exchange rate movements. The equity portfolio valued at fair value is revalued for changes in the value of the equity investment and the movements in the exchange rates, which is accounted for in the available for sale reserve.

Equity portfolio distributed by region and sector

	Financial Sector					
At December 31, 2013	**Private equity funds**	**Financial Institutions**	**Energy**	**Agribusiness, Food & Water**	**Diverse Sectors**	**Total**
Africa	133,846	75,312	32,518	11,067	51,899	304,642
Asia	120,287	38,833	49,617	10,033	17,237	236,007
Latin America & the Caribbean	93,361	25,946	10,176	17,375	9,909	156,767
Europe & Central Asia	137,748	13,108	1,399	-	5,064	157,319
Non-region specific	73,223	8,740	6,493	-	6	88,462
Total	**558,465**	**161,939**	**100,203**	**38,475**	**84,115**	**943,197**

	Financial Sector					
At December 31, 2012	**Private equity funds**	**Financial Institutions**	**Energy**	**Agribusiness, Food & Water**	**Diverse Sectors**	**Total**
Africa	121,253	71,792	21,937	-	32,930	247,912
Asia	137,376	25,852	34,397	8,748	2	206,375
Latin America & the Caribbean	88,599	12,837	10,717	17,753	10,281	140,187
Europe & Central Asia	176,599	10,669	18	-	4,563	191,849
Non-region specific	88,148	8,740	7,313	-	6	104,207
Total	**611,975**	**129,890**	**74,382**	**26,501**	**47,782**	**890,530**

Currency Risk

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

Limits have been set on currency positions and are monitored on a daily basis. Currency risks are managed by matching the currency characteristics of FMO’s assets and liabilities, using derivative instruments such as (cross-) currency swaps and currency forwards. Equity investments are excluded from the currency position as the size and the timing of the cash flows are uncertain. With respect to equity investments, the expected returns in local currencies are assessed in terms of their sufficiency to compensate for the currency risk. Reference is made to the previous paragraph on equity risk.

FMO offers loans in emerging market currencies. This aims to better match the needs of local banks and corporates, thereby reducing their currency risk. At December 31, 2013, 11% (2012: 13%) of the net loans to the private sector was in emerging market currencies. The emerging market currency loans are swapped to US dollars via either commercial parties or via The Currency Exchange Fund (TCX Fund N.V.); as a result, FMO’s open emerging market currency position of the investment portfolio, apart from equity, is limited.

Currency risk exposure (at carrying values)

At December 31, 2013	€	US$	¥	CHF	Other	Total
ASSETS						
Banks	209	26,110	-	-	2,723	29,042
Short-term deposits	384,750	717,880	-	-	-	1,102,630
Derivative financial instruments [1]	747,134	-890,402	84,401	651,697	-295,929	296,901
Loans to the private sector	336,454	2,273,985	-	-	317,069	2,927,508
Loans guaranteed by the State	36,659	16,696	-	-	-	53,355
Equity investments	212,527	587,675	-	-	142,995	943,197
Investments in associates	1,544	17,702	-	-	-	19,246
Interest-bearing securities	664,705	-	-	-	-	664,705
Tangible fixed assets	7,468	-	-	-	-	7,468
Deferred income tax assets	4,954	-	-	-	-	4,954
Current accounts with State funds and other programs	35	-	-	-	-	35
Other receivables	28,482	19,045	-	-	4,526	52,053
Accrued income	24,653	39,484	4,934	6,516	7,662	83,249
Total assets	**2,449,574**	**2,808,175**	**89,335**	**658,213**	**179,046**	**6,184,343**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Banks	29,507	54,432	-43	-6	-6,993	76,897
Short-term credits	226,885	-	-	-	-	226,885
Derivative financial instruments [1]	-192,891	1,163,956	-591,591	-	-161,317	218,157
Debentures and notes	1,126,793	956,268	675,826	652,913	197,996	3,609,796
Other liabilities	419	3,400	-	-	2,575	6,394
Current accounts with State funds and other programs	1,630	-	-	-	-	1,630
Current income tax liabilities	3,025	-	-	-	-128	2,897
Wage tax liabilities	80	-	-	-	-	80
Deferred income tax liabilities	5,224	-	-	-	-	5,224
Accrued liabilities	8,238	24,357	4,885	6,365	6,742	50,587
Provisions	22,839	-	-	-	-	22,839
Shareholders' equity	1,962,957	-	-	-	-	1,962,957
Total liabilities and shareholders' equity	**3,194,706**	**2,202,413**	**89,077**	**659,272**	**38,875**	**6,184,343**
Currency sensitivity gap 2013		**605,762**	**258**	**-1,059**	**140,171**	
Currency sensitivity gap 2013 excluding equity investments and investments in associates		**385**	**258**	**-1,509**	**-2.824**	

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

At December 31, 2012	€	US$	¥	CHF	Other	Total
Total assets	1,837,549	2,467,584	349,758	699,362	209,377	5,563,630
Total liabilities and shareholders' equity	2,550,605	1,852,761	349,883	700,826	109,555	5,563,630
Currency sensitivity gap 2012		**614,823**	**-125**	**-1,464**	**99,822**	
Currency sensitivity gap 2012 excluding investments in equity and associates		**8,073**	**-125**	**-1,464**	**-3,369**	

Sensitivity of interest income and shareholders' equity to main foreign currencies

	At December 31, 2013		At December 31, 2012	
Change of value relative to the euro [1]	Sensitivity of income	Sensitivity of shareholders' equity [2]	Sensitivity of income	Sensitivity of shareholders' equity [2]
US$ value increase of 10%	39	60,576	808	50,755
US$ value decrease of 10%	-39	-60,576	-808	-50,755
¥ value increase of 10%	26	26	-13	13
¥ value decrease of 10%	-26	-26	13	-13
CHF value increase of 10%	-106	-106	-147	-147
CHF value decrease of 10%	106	106	147	147

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

Interest Rate Risk

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

FMO's policy with regard to interest rate risk is to match funding within set boundaries: to match interest rate characteristics for assets, liabilities and derivatives per currency, and per remaining term as much as possible.

FMO manages its interest position through the Price Value per Basis Point (PVBP) and duration. The PVBP expresses the impact on the fair value of the financial instruments by a basis point change in yield. FMO's interest policy has set the PVBP limits between -€600 and -€250. The target duration for FMO's equity is set in a range from 3 to 5 years. The interest position per end 2013 was a PVBP of €523 and a duration of 3.26 years.

The following table summarizes the interest re-pricing 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 re-pricing or maturity dates.

Interest re-pricing characteristics

At December 31, 2013	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
ASSETS						
Banks	29,042	-	-	-	-	29,042
Short-term deposits	602,454	500,176	-	-	-	1,102,630
Derivative financial instruments [1]	-895,149	385,169	815,376	-32,193	23,698	296,901
Loans to the private sector	861,372	1,093,846	497,195	475,095	-	2,927,508
Loans guaranteed by the State	-	21,815	22,636	8,904	-	53,355
Equity investments	-	-	-	-	943,197	943,197
Investments in associates	-	-	-	-	19,246	19,246
Interest-bearing securities	25,046	191,423	448,236	-	-	664,705
Tangible fixed assets	-	-	-	-	7,468	7,468
Deferred income tax assets	-	-	-	-	4,954	4,954
Current accounts with State funds and other programs	-	-	-	-	35	35
Other receivables	-	-	-	-	52,053	52,053
Accrued income	-	-	-	-	83,249	83,249
Total assets	**622,765**	**2,192,429**	**1,783,443**	**451,806**	**1,133,900**	**6,184,343**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Banks	76,897	-	-	-	-	76,897
Short-term credits	226,885	-	-	-	-	226,885
Derivative financial instruments[1]	579,614	764,659	-873,782	-252,334	-	218,157
Debentures and notes	1,019,739	533,558	1,913,904	142,595	-	3,609,796
Other liabilities	-	-	-	-	6,394	6,394
Current accounts with State funds and other programs	-	-	-	-	1,630	1,630
Current income tax liabilities	-	-	-	-	2,897	2,897
Wage tax liabilities	-	-	-	-	80	80
Deferred income tax liabilities	-	-	-	-	5,224	5,224
Accrued liabilities	-	-	-	-	50,587	50,587
Provisions	-	-	-	-	22,839	22,839
Shareholders' equity	-	-	-	-	1,962,957	1,962,957
Total liabilities and shareholders' equity	**1,903,135**	**1,298,217**	**1,040,122**	**-109,739**	**2,052,608**	**6,184,343**
Interest sensitivity gap 2013	**-1,280,370**	**894,212**	**743,321**	**561,545**	**-918,708**	

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

At December 31, 2012	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
Total assets	663,363	527,541	2,797,352	529,791	1,045,583	5,563,630
Total liabilities and shareholders' equity	898,818	495,287	2,090,680	164,642	1,914,203	5,563,630
Interest sensitivity gap 2012	**-235,455**	**32,254**	**706,672**	**365,149**	**-868,620**	**-**

Sensitivity of interest income and shareholders' equity to changes in interest rates

	Sensitivity of net	Sensitivity of shareholders' equity				
At December 31, 2013	interest income [1]	< 3 months	3-12 months	1-5 years	> 5 years	Total
Increase of 100 basis points	-70	1,508	2,705	-3,879	-6,357	-6,023
Decrease of 100 basis points	70	-1,508	-2,705	3,879	6,357	6,023

	Sensitivity of net	Sensitivity of shareholders' equity				
At December 31, 2012	interest income [1]	< 3 months	3-12 months	1-5 years	> 5 years	Total
Increase of 100 basis points	-2,032	927	2,897	-10,827	1,023	-5,980
Decrease of 100 basis points	2,032	-927	-2,897	10,827	-1,023	5,980

1) The sensitivity of net interest income is based on the floating rate financial assets and liabilities held at year-end, including the effect of hedging instruments. The interest rate sensitivities set are illustrative only and employ simplified scenarios. It should be noted that the effects may not be linear (convexity not included) 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, nor second-round effects.

As from 2013 FMO altered its interest rate risk policy to keep in line with the composition of the balance sheet. As a result FMO's capital is excluded from the interest rate sensitivity calculation. FMO's capital will primarily be used to fund equity investments and fixed rated (US dollar) loans instead of liquid fixed rate euro bonds. This means the duration of equity is initially driven by the fixed rate (US dollar) loan portfolio and remaining bond portfolio. When the duration threatens to go beyond the limits of 3 to 5 years FMO enters into interest rate swaps to bring the duration back within the range.

Liquidity Risk

Liquidity risk is the risk that insufficient funds are available to meet financial commitments. FMO's policy is to match the tenor of the funding with the assets (matched funding), in order to reduce liquidity risk. FMO's liquidity policy sets out a 4 pillar approach to address this risk. Firstly, it ensures that the bank has sufficient cash, liquidity buffers and access to emergency lines to survive a stress period of 6 months. Secondly, it ensures that as a rule FMO matches the maturity of FMO's liabilities with the maturity of FMO's assets, so as to largely avoid refinancing risk. Thirdly, FMO strives to have diversified funding sources in terms of geography and instrument type. And fourthly, FMO maintains a minimum Liquidity Coverage Ratio (LCR). The level of this ratio is already comfortably above the new requirements of Basel III which are expected to be put by the regulator in the upcoming years. The policy is managed by a model which places forecasted cash flows into time buckets. The net cash flows per bucket are tested against the limits.

FMO traditionally has a conservative liquidity policy and funding strategy that is well suited to its business. Stress tests are conducted on FMO's liquidity position at least once a month to ensure this conservative position is maintained. In case of a crisis there are various sources of emergency liquidity available. This includes a bond portfolio and a portfolio of short-term instruments such as Commercial Paper and Treasury Bills. These can be used as collateral to obtain short-term loans from the Dutch central bank.

The liquidity position is well within FMO's limits. We perform a monthly stress test where defaults on our loan and equity portfolio are increased to 20%, collateral outflow of circa €300 million is expected in one week and where we include larger haircuts on our liquid asset portfolio. Throughout the year the liquidity position was above the limits of this stress test. For the annual Internal Liquidity Adequacy Assessment Process (ILAAP) process we also perform other stress tests including a euro crisis, doom scenario and reverse stress testing. A continuous review is performed on the liquidity position, FMO's assumptions, internal expectations and external market conditions to ensure that FMO's liquidity overview remains relevant and accurate.

FMO raised over €1 billion of funding during 2013:
FMO launched its 5 year US $500 million benchmark issue in February 2013. With this issue FMO succeeded well in establishing its name with mainstream investors with high quality buyers taking up the paper in primary and secondary market. In addition to the US dollar benchmark issue, we issued a number of private placements at attractive funding levels for a total of €155 million.

In November 2013 FMO successfully issued its first Sustainability Bond – a €500 million, 5 year fixed bond. This issue is a good match with our overall strategy and provided another level of diversification in our investor portfolio.

The following table shows the categorization of the balance sheet per maturity bucket. The maturity profile of the financial assets and liabilities is based on undiscounted projected cash flows. Expected cash flows resulting from irrevocable facilities being drawn are not included in the liquidity gap. For internal liquidity planning and management, cash flows from irrevocable facilities are included in the cash flow forecasts.

Categorization of the balance sheet per maturity bucket

At December 31, 2013	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
ASSETS						
Banks	29,042	-	-	-	-	29,042
Short-term deposits	445,956	500,176	-	-	156,498	1,102,630
Derivative financial instruments	4,919	21,333	211,612	41,320	-	279,184
Loans to the private sector	93,704	397,713	1,907,061	706,524	-	3,105,002
Loans guaranteed by the State	5,464	8,897	42,635	6,146	-	63,142
Equity investments	-	-	-	-	943,197	943,197
Investments in associates	-	-	-	-	19,246	19,246
Interest-bearing securities	25,000	187,500	422,400	-	-	634,900
Tangible fixed assets	-	-	-	-	-	-
Deferred income tax assets	-	-	-	-	4,954	4,954
Current accounts with State funds and other programs	35	-	-	-	-	35
Other receivables	52,053	-	-	-	-	52,053
Accrued income	83,249	-	-	-	-	83,249
Total assets	**739,422**	**1,115,619**	**2,583,708**	**753,990**	**1,123,895**	**6,316,634**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Banks	76,897	-	-	-	-	76,897
Short-term credits	-	-	-	-	226,885	226,885
Derivative financial instruments	-3,633	96,337	114,551	1,878	-	209,133
Debentures and notes	152,577	703,495	2,545,295	210,142	-	3,611,509
Other liabilities	6,394	-	-	-	-	6,394
Current accounts with State funds and other programs	1,630	-	-	-	-	1,630
Current income tax liabilities	2,897	-	-	-	-	2,897
Wage tax liabilities	80	-	-	-	-	80
Deferred income tax liabilities	-	-	-	-	5,224	5,224
Accrued liabilities	50,587	-	-	-	-	50,587
Provisions	-	-	-	-	22,839	22,839
Shareholders' equity	-	-	-	-	1,962,957	1,962,957
Total liabilities and shareholders' equity	**287,429**	**799,832**	**2,659,846**	**212,020**	**2,217,905**	**6,177,032**
Liquidity gap 2013	**451,993**	**315,787**	**-76,138**	**541,970**	**-1,094,010**	**139,602**

At December 31, 2012	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
Total assets	948,596	385,516	2,557,928	713,316	954,987	5,560,343
Total liabilities and shareholders' equity	156,088	367,325	2,720,963	167,305	2,098,125	5,509,806
Liquidity gap 2012	**792,508**	**18,191**	**-163,035**	**546,011**	**-1,143,138**	**50,537**

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

Contractual maturity of contingent liabilities and irrevocable facilities

At December 31, 2013	< 3 months	3-12 months	1-5 years	>5 years	Total
Contingent liabilities	20,660	16,045	50,735	12,823	100,263
Irrevocable facilities	108,445	402,370	464,528	432,805	1,408,148
Total off-balance [1)]	**129,105**	**418,415**	**515,263**	**445,628**	**1,508,411**

At December 31, 2012	< 3 months	3-12 months	1-5 years	>5 years	Total
Contingent liabilities	34,310	25,573	17,548	6,574	84,005
Irrevocable facilities	67,501	560,539	272,197	381,450	1,281,687
Total off-balance [1)]	**101,811**	**586,112**	**289,745**	**388,024**	**1,365,692**

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

Operational Risk

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

Capital Management

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

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

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

EXTERNAL CAPITAL REQUIREMENT

FMO complies with the Basel II requirements and reports its BIS-ratio to the Dutch central bank on a quarterly basis. FMO calculates its external capital requirement for its entire portfolio based on the standardized approach. Of the total capital requirement, 84% is related to credit risk (equity investments included), 11% to market risk and 5% to operational risk. FMO mainly has tier-1 capital; its tier-2 capital consists of the AFS reserve for equity investments including regulatory adjustments. The BIS-ratio equaled 27.7% at the end of 2013 (2012: 29.0%) and the core tier-1 ratio stood at 24.7% (2012: 26.1%). Under Basel III the leverage ratio will become a mandatory reporting requirement in 2018. The minimum leverage ratio is set at 3%, FMO's leverage ratio under Basel III equals 22.4% (2012: 25.7%).

At December 31	2013	2012
Core capital	1,694,852	1,592,648
Additional capital	201,988	172,723
Total capital	**1,896,840**	**1,765,371**
Risk-weighted assets	6,854,375	6,092,238
Core tier-1 ratio	24.7%	26.1%
BIS-ratio	27.7%	29.0%
Leverage ratio (under Basel II)	24.2%	24.9%

INTERNAL CAPITAL REQUIREMENT

The internal ratio is based on an economic capital model. In compliance with regulations and best practice, the economic capital model includes both pillar 1 and pillar 2 risks. Credit, market and operational risk fall under pillar 1. As part of pillar 2, model risk, reputation risk, interest rate risk and concentration risk are included in the assessment of economic capital. Economic capital is calculated using a conservative confidence level of 99.99%. The economic capital at the end of 2013 amounted to €1,093 million. The calculated internal capital ratio, using an FMO specific internal rate based method for calculating credit risk taking into account the relevant other risks, amounts to 14.4% at the end of 2013 (2012: 14.2%).

Credit risk resulting from FMO's emerging market loan portfolio represents FMO's main financial risk. The credit risk of the loan portfolio is determined based on the Advanced Internal Ratings Based (A-IRB) methodology. The most important input parameters for the A-IRB model are Probability of Default (PD) and Loss Given Default (LGD). The PD is based on the outcome of FMO's ratings methodology, which was developed in cooperation with one of the leading rating agencies. The client is assigned a rating class on a scale of F1 to F21, with the majority of the ratings of FMO clients in the range of F10-F15, or BBB- to B- in S&P-comparable rating terms. The LGD is determined on the basis of internal expert assessments. LGDs depend on security coverage, liquidity, enforceability of guarantees and on extraordinary circumstances. LGD for senior secured loans is between 20% - 30%, for unsecured loans 40%, and for unsecured subordinated loans 75%. Credit risk for equity is based on the simple risk weight approach. For quantifying the credit risk in FMO's treasury portfolio, the market and operational risk, the Basel II standardized approach is used.

At December 31	2013	2012
PILLAR 1		
Credit risk emerging market portfolio (99.99% interval)	866,801	823,622
Credit risk treasury portfolio	46,062	26,127
Market risk	58,364	56,757
Operational risk	28,723	26,363
Total pillar 1	**999,950**	**932,869**
PILLAR 2		
Concentration risk	17,000	30,000
Interest rate risk in the banking book	37,000	41,000
Reputation risk	39,000	32,000
Model risk	-	2,000
Economic capital (pillar 1 & 2)	**1,092,950**	**1,037,869**
AVAILABLE CAPITAL		
Core & Additional	1,896,840	1,765,371
Surplus provisioning (capped at 0.6% RWA) [1)]	74,996	69,965
Total available capital	**1,971,836**	**1,835,336**

1) Surplus provisioning for the loan portfolio is only calculated at total provisioning (€314 million) minus total expected loss (€159 million), which equals €155 million. The amount to be included in the available capital is according to the BIS-guidelines capped at 0.6% risk weighted assets (RWA), which equals €75 million at December 31, 2013.

Only for comparative purposes FMO calculates its internal capital ratio at a 99.9% confidence level (for pillar 1 only). Under the A-IRB model this ratio equaled 18.3% at December 31, 2013 (2012: 18.6%).

Segment Information

Segment Reporting by Operating Segments

A sector based approach on Financial sector, Energy and Agribusiness, Food and Water is leading in the strategy to optimize development impact. For further insight into development impact reference is made to FMO's annual report. The company product range includes commercial loans, equity investments and guarantees. The services rendered are related to funds managed on behalf of the Dutch State and catalyzing funds (such as syndications). FMO's primary segmentation is the sector based approach because strategic and operating decisions by the Management Board are made based upon this segmentation. Besides the focus sectors the segment Diverse Sectors is distinguished for segment information reporting purposes as well.

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

As part of the implementation of the strategy 2013-2016 the sector definition has been refined. This has resulted in a minor impact on the sector-classification of the assets and its related income. Furthermore the segment Treasury is not recognized as a separate segment and its related assets and income are allocated to the focus sectors based on their asset value. The information about products and services (Loans and guarantees, Equity investments, Remuneration for services rendered and Other) is now presented in combination with the results of the focus sectors. With these changes the segmentation report will provide insight in profitability of both sectors and products. The 2012 comparative figures have been changed accordingly. In 2013 there were no transactions between the operating segments.

At December 31, 2013	Financial sector: Private Equity Funds	Financial sector: Financial Institutions	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
LOANS AND GUARANTEES						
Interest and fee income	1,899	73,581	32,488	18,980	34,526	161,474
Other income	1,120	2,977	1,280	342	20,316	26,035
Value adjustments	-3,431	29,855	18,127	-32,193	-7,757	4,601
Other comprehensive income	-	-5,165	-2,093	-1,048	-1,987	-10,293
Total loans and guarantees	**-412**	**101,248**	**49,802**	**-13,919**	**45,098**	**181,817**
EQUITY INVESTMENTS (INCLUDING ASSOCIATES AND SUBSIDIARIES)						
Results from equity investments, associates and subsidiaries	11,663	7,539	586	-1,934	821	18,675
Dividend income	12,392	5,954	1,450	-	30	19,826
Impairments	-8,753	-3,323	-9,171	-	-840	-22,087
Other comprehensive income	13,770	16,139	6,495	-617	-3,497	32,290
Total equity investments	**29,072**	**26,309**	**-640**	**-2,551**	**-3,486**	**48,704**
REMUNERATION FOR SERVICES RENDERED						
Managed Government funds	4,263	9,704	3,291	861	795	18,914
Syndicated & parallel transactions	-	1,413	797	1,164	608	3,982
Total remuneration for services rendered	**4,263**	**11,117**	**4,088**	**2,025**	**1,403**	**22,896**
OTHER						
Operating expenses	-10,448	-26,087	-10,570	-5,292	-10,047	-62,444
Income tax expenses	3,716	-22,171	-11,804	4,194	-9,576	-35,641
Other comprehensive income-Other reserves	-40	-101	-41	-21	-39	-242
Total other	**-6,772**	**-48,359**	**-22,415**	**-1,119**	**-19,662**	**-98,327**
Total comprehensive income	**26,151**	**90,315**	**30,835**	**-15,564**	**23,353**	**155,090**
Total other comprehensive income net of tax	**13,730**	**10,873**	**4,361**	**-1,686**	**-5,523**	**21,755**
Net profit	**12,421**	**79,442**	**26,474**	**-13,878**	**28,876**	**133,335**

At December 31, 2013	Financial sector: Private Equity Funds	Financial sector: Financial Institutions	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
SEGMENT ASSETS						
Loans (incl. guaranteed by the State)	82,100	1,485,458	567,285	295,699	550,321	2,980,863
Equity investments and investments in associates (excl. associates using equity method)	577,711	161,939	100,203	38,475	84,115	962,443
Other assets	374,980	936,239	379,343	189,916	360,559	2,241,037
Total assets	**1,034,791**	**2,583,636**	**1,046,831**	**524,090**	**994,995**	**6,184,343**
Contingent liabilities	3,629	61,958	1,742	-	39,141	106,470
Loans and equity investments managed for the risk of the state	129,464	238,045	204,371	14,630	60,004	646,514

At December 31, 2012	Financial Sector: Private Equity Funds	Financial Sector: Financial Institutions	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
LOANS AND GUARANTEES						
Interest and fee income	6,385	62,998	32,149	20,537	38,896	160,965
Other income	460	5,024	359	992	-4,825	2,010
Value adjustments	1,164	13,569	-5,922	-3,380	-28,297	-22,866
Other comprehensive income	-	6,177	2,088	1,402	2,764	12,431
Total loans and guarantees	**8,009**	**87,768**	**28,674**	**19,551**	**8,538**	**152,540**
EQUITY INVESTMENTS (INCLUDING ASSOCIATES AND SUBSIDIARIES)						
Results from equity investments, associates and subsidiaries	32,539	8,659	9,005	-	25,956	76,159
Dividend income	13,042	4,019	146	-	-	17,207
Impairments	-3,681	-2,536	-10,223	-	-6,357	-22,797
Other comprehensive income	17,260	1,946	-14,665	-1,258	-2,171	1,112
Total equity investments	**59,160**	**12,088**	**-15,737**	**-1,258**	**17,428**	**71,681**
REMUNERATION FOR SERVICES RENDERED						
Managed Government funds	3,423	9,555	3,013	340	779	17,110
Syndicated & parallel transactions	-	531	1,099	313	93	2,036
Total remuneration for services rendered	**3,423**	**10,086**	**4,112**	**653**	**872**	**19,146**
OTHER						
Operating expenses	-10,176	-23,459	-7,931	-5,326	-10,500	-57,392
Income tax expenses	-93	-18,282	-7,671	-3,469	2,366	-27,149
Other comprehensive income-Other reserves	-3,284	-7,572	-2,560	-1,719	-3,389	-18,524
Total other	**-13,553**	**-49,313**	**-18,162**	**-10,514**	**-11,523**	**-103,065**
Total comprehensive income	**57,039**	**60,629**	**-1,113**	**8,432**	**15,315**	**140,302**
Total other comprehensive income net of tax	13,976	551	-15,137	-1,575	-2,796	-4,981
Net profit	**43,063**	**60,078**	**14,024**	**10,007**	**18,111**	**145,283**
SEGMENT ASSETS						
Loans (incl. guaranteed by the State)	26,257	1,394,814	441,113	319,685	634,634	2,816,503
Equity investments and investments in associates (excl. associates using equity method)	635,131	129,890	74,383	26,500	47,782	913,686
Other assets	325,082	749,414	253,374	170,155	335,417	1,833,441
Total assets	**986,470**	**2,274,118**	**768,870**	**516,340**	**1,017,833**	**5,563,630**
Contingent liabilities	3,792	47,546	3,640	2,167	35,247	92,392
Loans and equity investments managed for the risk of the state	118,802	259,916	202,327	7,099	64,463	652,607

Information About Geographical Areas

FMO operates in the following four geographical markets: Africa, Asia, Europe & Central Asia, Latin America & the Caribbean. The allocation of revenues to the markets is based upon the geographical classification of the financing projects. The segment Treasury is not recognized as a separate segment and its related interest income on interest-bearing securities has been allocated to the focus sectors based on their asset value.

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

At December 31, 2013	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Income	64,628	69,701	54,250	54,222	11,073	253,874
Share in the results of associates	33	-3,059	3	-11	-	-3,034
Result on disposal of subsidiaries	-	-	-1,934	-	-	-1,934
Total revenue	**64,661**	**66,642**	**52,319**	**54,211**	**11,073**	**248,906**

At December 31, 2012	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Income	77,663	48,201	63,225	74,257	8,108	271,454
Share in the results of associates	269	3,935	-19	-152	-	4,033
Result on disposal of subsidiaries	-	-	-	-	-	-
Total revenue	**77,932**	**52,136**	**63,206**	**74,105**	**8,108**	**275,487**

Information About Major Customers

In 2013 and 2012, FMO did not have any customers that individually contributed more than 10% to FMO's total revenues.

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 and other official third parties. In case of MASSIF, FMO has an equity stake of 2.25% (2012: 2.55%). 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.

	2013 Gross exposure	2012 Gross exposure
Loans	358,217	389,612
Equity investments	288,297	262,995
Total	**646,514**	**652,607**

LOANS MANAGED FOR THE RISK OF THE STATE

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

	2013 Gross exposure	2012 Gross exposure
MASSIF	136,137	163,827
Infrastructure Development Fund	182,578	189,410
Access to Energy Fund	29,852	35,025
FOM OS	9,650	1,350
Total	**358,217**	**389,612**

EQUITY INVESTMENTS MANAGED FOR THE RISK OF THE STATE

The equity investments have been made by the following funds.

	2013 Gross exposure	2012 Gross exposure
MASSIF	189,219	170,841
Infrastructure Development Fund	91,288	83,547
Access to Energy Fund	3,006	3,697
European Investment Bank	4,784	4,910
Total	**288,297**	**262,995**

Analysis of Financial Assets and Liabilities by Measurement Basis

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

At December 31, 2013	Held for trading	Designated at fair value	Loans & receivables and liabilities at amortized cost	Available for sale	Financial liabilities used as hedged items	Derivatives at fair value used as hedging instruments	Other	Total
ASSETS								
Banks	-	-	29,042	-	-	-	-	29,042
Short-term deposits	-	1,102,630	-	-	-	-	-	1,102,630
Derivative financial instruments	265,617	-	-	-	-	31,284	-	296,901
Loans to the private sector	-	-	2,927,508	-	-	-	-	2,927,508
Loans guaranteed by the State	-	-	53,355	-	-	-	-	53,355
Equity investments	-	-	-	943,197	-	-	-	943,197
Investments in associates	-	-	-	-	-	-	19,246	19,246
Interest-bearing securities	-	-	-	664,705	-	-	-	664,705
Tangible fixed assets	-	-	-	-	-	-	7,468	7,468
Deferred income tax assets	-	-	-	-	-	-	4,954	4,954
Current accounts with State funds and other programs	-	-	35	-	-	-	-	35
Other receivables	-	-	52,053	-	-	-	-	52,053
Accrued income	-	-	83,249	-	-	-	-	83,249
Total assets	**265,617**	**1,102,630**	**3,145,242**	**1,607,902**	**-**	**31,284**	**31,668**	**6,184,343**
LIABILITIES AND SHAREHOLDERS' EQUITY								
Banks	-	-	76,897	-	-	-	-	76,897
Short-term credits	-	-	226,885	-	-	-	-	226,885
Derivative financial instruments	206,637	-	-	-	-	11,520	-	218,157
Debt securities	-	-	-	-	-	-	-	-
Debentures and notes	-	-	1,570,246	-	2,039,550	-	-	3,609,796
Other liabilities	-	-	6,394	-	-	-	-	6,394
Current accounts with State funds and other programs	-	-	1,630	-	-	-	-	1,630
Current income tax liabilitiy	-	-	2,897	-	-	-	-	2,897
Wage tax liabilities	-	-	80	-	-	-	-	80
Deferred income tax liabilities	-	-	-	-	-	-	5,224	5,224
Accrued liabilities	-	-	50,587	-	-	-	-	50,587
Provisions	-	-	-	-	-	-	22,839	22,839
Shareholders' equity	-	-	-	-	-	-	1,962,957	1,962,957
Total liabilities and shareholders' equity	**206,637**	**-**	**1,935,616**	**-**	**2,039,550**	**11,520**	**1,991,020**	**6,184,343**

At December 31, 2012	Held for trading	Designated at fair value	Loans & receivables and liabilities at amortized cost	Available for sale	Financial liabilities used as hedged items	Derivatives at fair value used as hedging instruments	Other	Total
ASSETS								
Banks	-	-	22,507	-	-	-	-	22,507
Short-term deposits	-	678,126	-	-	-	-	-	678,126
Derivative financial instruments	220,805	-	-	-	-	59,390	-	280,195
Loans to the private sector	-	-	2,757,597	-	-	-	-	2,757,597
Loans guaranteed by the State	-	-	58,906	-	-	-	-	58,906
Equity investments	-	-	-	890,530	-	-	-	890,530
Investments in associates	-	-	-	-	-	-	23,156	23,156
Interest-bearing securities	-	-	-	729,816	-	-	-	729,816
Tangible fixed assets	-	-	-	-	-	-	11,685	11,685
Deferred income tax assets	-	-	-	-	-	-	5,693	5,693
Current accounts with State funds and other programs	-	-	1,060	-	-	-	-	1,060
Other receivables	-	-	25,376	-	-	-	-	25,376
Accrued income	-	-	78,983	-	-	-	-	78,983
Total assets	**220,805**	**678,126**	**2,944,429**	**1,620,346**	**-**	**59,390**	**40,534**	**5,563,630**
LIABILITIES AND SHAREHOLDERS' EQUITY								
Banks	-	-	27,772	-	-	-	-	27,772
Short-term credits	-	-	240,445	-	-	-	-	240,445
Derivative financial instruments	89,432	-	-	-	-	128	-	89,560
Debt securities	-	-	688	-	14,455	-	-	15,143
Debentures and notes	-	-	1,395,365	-	1,881,142	-	-	3,276,507
Other liabilities	-	-	9,364	-	-	-	-	9,364
Current accounts with State funds and other programs	-	-	322	-	-	-	-	322
Current income tax liability	-	-	515	-	-	-	-	515
Wage tax liabilities	-	-	2,110	-	-	-	-	2,110
Deferred income tax liabilities	-	-	-	-	-	-	8,645	8,645
Accrued liabilities	-	-	53,576	-	-	-	-	53,576
Provisions	-	-	-	-	-	-	24,249	24,249
Shareholders' equity	-	-	-	-	-	-	1,815,422	1,815,422
Total liabilities and shareholders' equity	**89,432**	**-**	**1,730,157**	**-**	**1,895,597**	**128**	**1,848,316**	**5,563,630**

Fair Value of Financial Assets and Liabilities

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

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

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

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

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

The fair value measurement of derivative financial instruments categorised within level 3, are mainly based on EBITDA multiples within a range of 6-8 for the relevant industry classes per country/region, adjusted for illiquidity. An increase (decrease) by 10% of these EBITDA multiples would result in an increase (decrease) of the fair value by €1.5 million.

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

FMO uses internal valuation models to value its financial instruments. Due to model imperfections, there are differences between the transaction price and the calculated fair value. These differences are not recorded in the profit and loss account at once but are amortized over the remaining maturity of the transactions. Per December 31, 2013, the unamortized accrual amounts to €11,534 (2012: €4,316). An amount of €4,269 was recorded as a loss in the profit and loss (2012: €1,401).

The carrying values in the financial asset and liability categories approximate their fair values, except private sector loans and non-hedged funding. Loans to the private sector are valued at amortized cost. The underlying changes to the fair value of these assets are therefore not recognized in the balance sheet. At December 31, 2013, the fair value of the loans to the private sector was €95,208 (2012: €195,592) above their carrying value. A parallel shift of 100 basis points in the interest curves will result in an increase (decrease) of the fair value by €48.0 million (2012: €46.4 million).

The funding non-hedged is valued at amortized cost. The difference between the fair value and the carrying cost value amounts to €11,524 (2012: €20,830).

The loans to the private sector and non-hedged funding are categorized within level 3. The valuation technique we use for the calculation of fair value is the discounted cash-flow method. The discount rate we apply is a spread curve based on the average spread of the portfolio.

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

At December 31, 2013	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS				
• Short-term deposits	-	1,102,630	-	1,102,630
• Derivative financial instruments	-	273,203	23,698	296,901
AVAILABLE FOR SALE FINANCIAL ASSETS				
• Equity investments	62,629	-	641,966	704,595
• Interest-bearing securities	664,705	-	-	664,705
Total financial assets at fair value	**727,334**	**1,375,833**	**665,664**	**2,768,831**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS				
• Derivative financial instruments	-	218,157	-	218,157
Total financial liabilities at fair value	**-**	**218,157**	**-**	**218,157**

At December 31, 2012	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS				
• Short-term deposits	-	678,126	-	678,126
• Derivative financial instruments	-	280,195	-	280,195
AVAILABLE FOR SALE FINANCIAL ASSETS				
• Equity investments	58,860	-	639,746	698,606
• Interest-bearing securities	729,816	-	-	729,816
Total financial assets at fair value	**788,676**	**958,321**	**639,746**	**2,386,743**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS				
• Derivative financial instruments	-	89,560	-	89,560
Total financial liabilities at fair value	**-**	**89,560**	**-**	**89,560**

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

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

	Derivative financial instruments	Equity investments	Total
Balance at January 1, 2012	-	545,414	545,414
Total gains or losses			
• In profit and loss (changes in fair value and value adjustments)	-	-1,405	-1,405
• In other comprehensive income (changes in fair value available for sale reserve)	-	9,984	9,984
Purchases	-	102,338	102,338
Sales	-	-35,947	-35,947
Transfers into level 3	-	19,362	19,362
Transfers out of level 3	-	-	-
Balance at December 31, 2012	**-**	**639,746**	**639,746**
Total gains or losses			
• In profit and loss (changes in fair value and value adjustments)	14,472	-17,816	-3,344
• In other comprehensive income (changes in fair value available for sale reserve)	-	29,257	29,257
Purchases	-	86,347	86,347
Sales	-	-63,340	-63,340
Transfers into level 3	9,226	23,886	33,112
Transfers out of level 3	-	-56,114	-56,114
Balance at December 31, 2013	**23,698**	**641,966**	**665,664**

Notes to the Consolidated Annual Accounts

Notes to the Consolidated Balance Sheet: Assets

1. BANKS

	2013	2012
Banks	27,952	20,047
Mandatory reserve deposit with Dutch central bank	1,090	2,460
Balance at December 31	**29,042**	**22,507**

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

2. SHORT-TERM DEPOSITS

	2013	2012
Collateral delivered (related to derivative financial instruments)	156,498	35,608
Commercial paper	543,673	68,258
Money market funds	275,319	191,009
Dutch central bank	127,140	383,251
Balance at December 31	**1,102,630**	**678,126**

3. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

At December 31, 2013	Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedging instruments:			
• Currency swaps	130,763	154	-367
• Interest rate swaps	2,030,812	12,458	-2,721
• Cross-currency interest rate swaps	3,164,075	229,307	-203,549
Subtotal	**5,325,650**	**241,919**	**-206,637**
Embedded derivatives related to asset portfolio	-	23,698	-
Total derivative assets (/liabilities) other than hedging instruments	**5,325,650**	**265,617**	**-206,637**

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

At December 31, 2013	Notional amounts	Fair value assets	Fair value Liabilities
Derivatives designated as fair value hedges:			
Interest rate swaps	2,030,571	31,284	-11,520
Total derivatives designated as fair value hedges	**2,030,571**	**31,284**	**-11,520**
Total derivative financial instruments assets (/liabilities)	**7,356,221**	**296,901**	**-218,157**

For the year ended December 31, 2013, FMO recognized an ineffectiveness of €0.9 million net profit (2012: €0.3 million net profit) on the fair value hedges. The loss on the hedging instruments amounted to €33.7 million (2012: €0.2 million loss). The profit on hedged items attributable to the hedged risk amounted to €34.6 million (2012: €0.5 million profit).

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

December 31, 2012	Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedging instruments:			
• Currency swaps	373,466	832	-375
• Interest rate swaps	1,347,861	407	-2,500
• Cross-currency interest rate swaps	2,760,541	210,466	-86,557
Subtotal	**4,481,868**	**211,705**	**-89,432**
Embedded derivatives related to asset portfolio	-	9,100	-
Total derivative assets (/liabilities) other than hedging instruments	**4,481,868**	**220,805**	**-89,432**

At December 31, 2012	Notional amounts	Fair value assets	Fair value liabilities
Derivatives designated as fair value hedges:			
• Interest rate swaps	1,838,482	59,390	-128
Total derivatives designated as fair value hedges	**1,838,482**	**59,390**	**-128**
Total derivative financial instruments assets (/liabilities)	**6,320,350**	**280,195**	**-89,560**

4. LOANS TO THE PRIVATE SECTOR

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

	2013	2012
Balance at January 1	3,080,156	2,838,129
Disbursements	934,901	828,608
Re-class from equity investments	41,774	-3,940
Repayments	-655,017	-504,680
Write-offs	-2,124	-15,042
Changes in amortizable fees	-3,814	-24
Changes in fair value	-1,382	-25
Exchange rate differences	-165,810	-62,870
Balance at December 31	**3,228,684**	**3,080,156**
Value adjustments	-301,176	-322,559
Net balance at December 31	**2,927,508**	**2,757,597**

The following table summarizes the loans segmented by sector.

	2013	2012
Financial sector	1,567,557	1,421,071
Energy	567,285	441,113
Agribusiness, Food & Water	267,898	283,663
Diverse Sectors	524,768	611,750
Net balance at December 31	**2,927,508**	**2,757,597**

	2013	2012
Gross amount of loans to companies in which FMO has equity investments	176,310	176,086
Gross amount of subordinated loans	454,797	519,244
Gross amount of non-performing loans	135,039	107,966

A loan is classified as non-performing when payments of interest or principal are past due by 90 days or more.

5. LOANS GUARANTEED BY THE STATE

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

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

	2013	2012
Balance at January 1	67,748	69,354
Disbursements	18,662	11,202
Repayments	-18,970	-10,534
Write-offs	-5,472	-1,930
Changes in amortizable fees	-123	35
Exchange rate differences	-946	-379
Balance at December 31	**60,899**	**67,748**
Value adjustments	-7,544	-8,842
Net balance at December 31	**53,355**	**58,906**

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

	2013	2012
Financial Sector	-	-
Energy	-	-
Agribusiness, Food & Water	27,801	36,022
Diverse Sectors	25,554	22,884
Net balance at December 31	**53,355**	**58,906**

Gross amount of subordinated loans	21,694	33,396
Gross amount of non-performing loans	5,270	8,842

6. EQUITY INVESTMENTS

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

	2013	2012
Net balance at January 1	890,530	753,366
Purchases and contributions	162,739	182,278
Re-class to/from loans	-41,774	3,940
Re-class to/from associates	-	20,480
Sales	-79,386	-51,114
Value adjustments	-22,087	-22,797
Changes in fair value	33,175	4,377
Net balance at December 31	**943,197**	**890,530**

	2013	2012
Equity investments at fair value	704,595	698,606
Equity investments at cost less impairment	238,602	191,924
Net balance at December 31	**943,197**	**890,530**

The following table summarizes the equity investments segmented by sector.

	2013	2012
Financial Sector - of which Private equity funds: €558,465 (2012: €611,975)	720,404	741,865
Energy	100,203	74,382
Agribusiness, Food & Water	38,475	26,501
Diverse Sectors	84,115	47,782
Net balance at December 31	**943,197**	**890,530**

7. INVESTMENTS IN ASSOCIATES

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

	2013	2012
Net balance at January 1	23,156	42,073
Purchases and contributions	8	8,151
Re-class to/from equity investments	-	-20,480
Sales	-	-7,370
Share in net results	-3,034	4,033
Translation differences	-884	-3,251
Net balance at December 31	**19,246**	**23,156**

There were no associates valued at cost less impairment in 2013 (2012: €0).

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

	Associates at equity method
Total assets	19,717
Total liabilities	471
Total income	582
Total profit/loss	-3,034

8. MOVEMENT IN VALUE ADJUSTMENTS

Movement in value adjustments FMO portfolio

	Guarantees	Loans	Total
Balance at January 1, 2012	13,544	316,017	329,561
Additions	-	44,225	44,225
Reversals	-6,257	-15,712	-21,969
Exchange rate differences	390	-6,929	-6,539
Write-offs	-	-15,042	-15,042
Balance at December 31, 2012	**7,677**	**322,559**	**330,236**
Additions	120	42,704	42,824
Reversals	-1,755	-46,453	-48,208
Exchange rate differences	-299	-15,510	-15,809
Write-offs	-	-2,124	-2,124
Balance at December 31, 2013	**5,743**	**301,176**	**306,919**

The reversal of the value adjustments comprises amongst others the release of the group-specific value adjustments as a result of the improved parameters related to the information backlog. For more information see the Financial risk management paragraph - Credit risk.

The value adjustments related to guarantees are included in other liabilities (see note 18).

Movement in value adjustments on loans guaranteed by the State

	2013	2012
Balance at January 1	8,842	6,804
Additions	4,297	4,074
Reversals	-	-
Exchange rate differences	-123	-106
Write-offs	-5,472	-1,930
Balance at December 31	**7,544**	**8,842**

FMO's own risk participation with regard to FOM (5% to 20%) is not guaranteed. The guaranteed part is recorded under other receivables (see note 12), and this amounts to €3,514 (2012: €3,464) for the value adjustment recognized in 2013.

9. INTEREST-BEARING SECURITIES

This portfolio contains marketable bonds and private loans with fixed interest rates.

FMO has no impairment charged to interest-bearing securities.

	2013	2012
Bonds (listed)	664,705	729,816
Balance at December 31	**664,705**	**729,816**

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

	2013	2012
Balance at January 1	729,816	671,578
Amortization premiums/discounts	-6,167	2,027
Purchases	-	271,028
Sale and redemption	-45,231	-231,392
Revaluation	-13,713	16,575
Balance at December 31	**664,705**	**729,816**

The interest-bearing securities have been issued by:

	2013	2012
Private parties:		
• Credit institutions	333,196	361,264
• Other	-	17,380
Public institutions	331,509	351,172
Balance at December 31	**664,705**	**729,816**

10. TANGIBLE FIXED ASSETS

	Furniture	ICT equipment	Leasehold improvement	Land and buildings due to business combination	Total 2013	Total 2012
Historical cost price at January 1	7,538	6,388	132	7,148	21,206	17,125
Accumulated depreciation at January 1	-6,085	-2,512	-85	-839	-9,521	-7,742
Balance at January 1	**1,453**	**3,876**	**47**	**6,309**	**11,685**	**9,383**
Decrease historical price due to sale of Confoco S.A	-	-	-	-7,148	-7,148	-
Decrease accumulated depreciation due to sale of Confoco S.A.	-	-	-	839	839	-
Investments	1,387	2,356	11	-	3,754	4,081
Depreciation	-318	-1,316	-28		-1,662	-1,779
Accumulated depreciation on divestments	-	-	-	-	-	-
Divestments historical cost price	-	-	-	-	-	-
Balance at December 31	**2,522**	**4,916**	**30**	**-**	**7,468**	**11,685**
Historical cost price at December 31	8,925	8,744	146	-	17,815	21,206
Accumulated depreciation at December 31	-6,403	-3,828	-116	-	-10,347	-9,521
Balance at December 31	**2,522**	**4,916**	**30**	**-**	**7,468**	**11,685**

11. CURRENT ACCOUNTS WITH STATE FUNDS AND OTHER PROGRAMS

	2013	2012
Current account Infrastructure Development Fund	-	1,049
Current account FOM OS	-	11
Current account Access to Energy Fund	35	-
Balance at December 31	**35**	**1,060**

12. OTHER RECEIVABLES

	2013	2012
Debtors related to sale of equity investments	12,129	5,029
Taxes and social premiums	610	747
To be declared on State guaranteed loans	6,285	2,868
Accrued management fees State funds	4,731	4,326
Other receivables	28,298	12,406
Balance at December 31	**52,053**	**25,376**

13. ACCRUED INCOME

	2013	2012
Accrued interest on loans	41,862	41,615
Accrued interest on swaps and other assets	41,387	37,368
Balance at December 31	**83,249**	**78,983**

Notes to the Consolidated Balance Sheet: Liabilities

14. BANKS

	2013	2012
Banks	76,897	27,772
Balance at December 31	**76,897**	**27,772**

15. SHORT-TERM CREDITS

	2013	2012
Collateral received (related to derivative financial instruments)	226,885	240,445
Balance at December 31	**226,885**	**240,445**

16. DEBT SECURITIES

Debt securities include all non-subordinated debt, not 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 the international capital market from professional counterparties. The movements of debt securities are summarized as follows:

	2013	2012
Balance at January 1	15,143	22,429
Amortization of premiums/discounts	-4,979	795
Proceeds from issuance	-	681
Redemptions	-9,529	-8,247
Changes in fair value	-635	-515
Exchange rate differences	-	-
Balance at December 31	**-**	**15,143**

The following table summarizes the carrying value of the debt securities.

	2013	2012
Debt securities valued at fair value under hedge accounting	-	14,455
Debt securities valued at amortized cost	-	688
Balance at December 31	**-**	**15,143**

The nominal amounts of the debt securities are as follows:

	2013	2012
Debt securities valued at fair value under hedge accounting	-	9,529
Debt securities valued at amortized cost	-	688
Balance at December 31	**-**	**10,217**

17. DEBENTURES AND NOTES

Debentures and notes consist of medium-term notes under the Debt Issuance Programme and other issuance programmes. The movements can be summarized as follows:

	2013	2012
Balance at January 1	3,276,507	2,656,111
Amortization of premiums/discounts	-5,997	3,633
Proceeds from issuance	1,023,968	951,105
Redemptions	-383,457	-222,023
Changes in fair value	-34,756	-1,468
Exchange rate differences	-266,469	-110,851
Balance at December 31	**3,609,796**	**3,276,507**

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

	2013	2012
Debentures and notes valued at fair value under hedge accounting	2,039,550	1,881,142
Debentures and notes valued at amortized cost	1,570,246	1,395,365
Balance at December 31	**3,609,796**	**3,276,507**

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

	2013	2012
Debentures and notes valued at fair value under hedge accounting	2,017,489	1,819,110
Debentures and notes valued at amortized cost	1,568,173	1,395,365
Balance at December 31	**3,585,662**	**3,214,475**

18. OTHER LIABILITIES

	2013	2012
Amortized costs related to guarantees	464	710
Liabilities for guarantees	5,743	7,677
Other liabilities	187	977
Balance at December 31	**6,394**	**9,364**

The movements in liabilities for guarantees are set out in note 8.

19. CURRENT ACCOUNTS WITH STATE FUNDS AND OTHER PROGRAMS

	2013	2012
Current account MASSIF	718	87
Current account European Investment Bank	900	235
Current account Infrastructure Development Fund	12	-
Balance at December 31	**1,630**	**322**

20. ACCRUED LIABILITIES

	2013	2012
Accrued interest on banks, debt securities and debentures and notes	44,310	42,641
Other accrued liabilities	6,277	10,935
Balance at December 31	**50,587**	**53,576**

21. PROVISIONS

The amounts recognized in the balance sheet are as follows.

	2013	2012
Pension schemes	22,579	24,249
Other provisions	260	-
Balance at December 31	**22,839**	**24,249**

Pension schemes

FMO has established a number of pension schemes covering all its employees. All pension schemes are defined benefit plans and most of these plans are average-pay-schemes. FMO has a contract with a well established insurer, in which all nominal pension obligations are guaranteed. As a result FMO's pension plan is exposed to counterparty risk, interest rate risk (changes of discount rate), inflation and changes in the life expectancy for pensioners. FMO has outsourced the management of the pension assets to an asset manager and has agreed strict guidelines with this asset manager. The assets of the funded plans are held independently of FMO's assets by the insurance company in separately administered funds. Independent actuaries value the schemes every year using the projected unit credit method. The latest actuarial valuations were carried out as per December 31, 2013.

The amounts recognized in the balance sheet are as follows:

	2013	2012
Present value of funded defined benefit obligations	122,111	122,558
Fair value of plan assets	-99,532	-98,309
Liability in the balance sheet	**22,579**	**24,249**

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

	2013	2012
Fair value at January 1	-98,309	-88,531
Expected return on plan assets	-3,461	-4,049
Employer contribution	-5,097	-4,480
Plan participants' contributions	-1,100	-1,003
Actuarial (gains) / losses	6,401	-2,101
Benefits paid	2,034	1,855
Fair value at December 31	**-99,532**	**-98,309**

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

	2013 %	2012 %
Equities	21	20
Fixed income	79	80
Total	**100**	**100**

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

	2013	2012
Present value at January 1	122,558	88,224
Service cost	2,977	5,205
Interest cost	4,449	4,163
Actuarial (gains) / losses	-5,839	26,821
Benefits paid	-2,034	-1,855
Present value at December 31	**122,111**	**122,558**

The actuarial gain on the defined benefit obligation amounts to €5,839 (2012: €26,821 loss) and is mainly due to the change in expected pension indexation for active partners (2013: 2.3% and 2012: 3.0%).

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

	2013	2012
Current service cost	8,748	6,140
Net interest cost	988	114
Past service cost	-4,890	-
Subtotal	**4,846**	**6,254**
Contribution by plan participants	-1,100	-1,003
Total annual expense	**3,746**	**5,251**

In November 2013 FMO decided (after consultation of the Works Council) to adjust FMO's pension scheme starting from January 1, 2014. As a consequence of the amended legal requirements related to pensions, FMO made the following adjustments:

- Increase in retirement age from 65 to 67.
- Decrease of pension accrual rate from 2,25% to 2,15%.

These changes resulted in a reduction of the defined benefit obligation of €4,890, which is recognized as past service cost.
The movement in the liability recognized in the balance sheet is as follows:

	2013	2012
Balance at January 1	24,249	-307
Annual expense	3,746	5,251
Contributions paid	-5,860	-5,092
Actuarial (gains)/losses	562	24,699
Other payments	-118	-302
Balance at December 31	**22,579**	**24,249**

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

	2013 (%)	2012 (%)
Discount rate	3.3	3.4
Expected pension indexation for active participants	2.3	3.0
Expected pension indexation for inactive participants	1.0	1.0
Wage inflation	1.5	2.0
Future salary growth	0.5-3.5	0.5-3.5

The assumption for future salary growth is a range of percentages wich are based on the age of individual employees. The pension indexation is conditional. FMO adjusted the expected indexation for active participants and wage inflation. An expected longterm indexation of 2.3% and wage inflation of 1.5% are a better reflection of the current economic situation and the slow economic recovery.

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

	Increase (+1%)	Decrease (-1%)
Discount rate	-24,115	33,208
Increase accrued pension rights	20,005	-15,279
Future salary growth	3,869	-3,377

Other provisions

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

	2013	2012
Balance at January 1	-	52
Addition	260	-
Release	-	-27
Paid out	-	-25
Balance at December 31	**260**	**-**

22. SHAREHOLDERS' EQUITY

Share capital

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

	2013	2012
AUTHORIZED SHARE CAPITAL		
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
Balance at December 31	**45,380**	**45,380**
ISSUED AND PAID-UP SHARE CAPITAL		
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
Balance at December 31	**9,076**	**9,076**

Share premium reserve

	2013	2012
Share premium reserve shareholder A, contributed on the transfer to the company of investments administered on behalf of the State at the time of the financial restructuring	8,061	8,061
Share premium reserve shareholder B, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	21,211	21,211
Balance at December 31	**29,272**	**29,272**

Other reserves

Dividend distributed in 2013 to shareholders of A shares and B shares was equal and amounted to €16.81 (2012: €5.36) per share.

Contractual reserve

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

Development fund

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

Available for sale reserve

	Equity investments	Interest-bearing securities	Total available for sale reserve
Balance at January 1, 2012	162,697	13,504	176,201
Fair value changes	41,001	23,537	64,538
Foreign exchange differences	-10,550	-	-10,550
Transfers due to sale	-27,437	-6,962	-34,399
Transfers due to impairment	1,363	-	1,363
Tax effect	-	-4,144	-4,144
Balance at December 31, 2012	**167,074**	**25,935**	**193,009**
Fair value changes	77,087	-13,239	63,848
Foreign exchange differences	-29,646	-	-29,646
Transfers due to sale	-20,554	-475	-21,029
Transfers due to impairment	6,286	-	6,286
Tax effect	-	3,421	3,421
Balance at December 31, 2013	**200,247**	**15,642**	**215,889**

Included in the available for sale reserve is an amount of €17,809 (2012: €7,793) for fair value changes in equity investments that were previously impaired.

Translation reserve

	2013	2012
Balance at January 1	239	3,504
Change	-883	82
Release due to reclassification to equity	-	-3,347
Balance at December 31	**-644**	**239**

Non-controlling interests

Blauser S.A. and Confoco S.A.	2013	2012
Balance at January 1	831	421
Acquisition by third party of non-controlling share	-	346
Share in net profit	-	73
Currency translation movement	-	-9
Sale of FMO's share in Confoco S.A.	-831	-
Balance at December 31	**-**	**831**

Notes to the Specific Items of the Consolidated Profit and Loss Account

23. NET INTEREST INCOME
Interest income

	2013	2012
Interest on loans valued at amortized cost	202,584	205,975
Interest on banks	-161	29
Interest on short-term deposits	1,860	1,481
Interest on derivatives related to asset portfolio	-22,550	-24,877
Interest on available for sale interest-bearing securities	15,045	19,491
Total interest income	**196,778**	**202,099**

Included in the interest on loans is €3,509 (2012: €7,741) related to loans for which value adjustments have been recorded.

In 2013 interest on derivatives related to the asset portfolio has been reclassified from interest expense to interest income. The 2012 figures have been restated accordingly. This reclassification amounts to €22,550 (2012: €24,877).

Interest expense

	2013	2012
Interest on debt securities valued at fair value	-722	-856
Interest on debt securities valued at amortized cost	7	-129
Interest on debentures and notes valued at fair value	-38,842	-36,965
Interest on debentures and notes valued at amortized cost	-15,328	-20,122
Interest on derivatives	12,713	13,629
Interest on short-term credits	-71	-3,832
Total interest expense	**-42,243**	**-48,275**

24. NET FEE AND COMMISSION INCOME

	2013	2012
Prepayment fees	2,355	1,778
Other fees (like arrangement, cancellation and waiver fees)	4,771	5,530
Total fee and commission income	**7,126**	**7,308**
Custodian fees and charges for the early repayment of debt securities	-187	-167
Total fee and commission expense	**-187**	**-167**
Net fee and commission income	**6,939**	**7,141**

25. RESULTS FROM EQUITY INVESTMENTS

	2013	2012
Result from the sale of equity investments at cost	2,743	36,253
Result from the sale of equity investments at fair value	20,810	33,982
Result from the sale of associates	90	1,891
Total results from equity investments	**23,643**	**72,126**

The carrying amount of the equity investments valued at cost at the time of sale was €7,150 (2012: €12,450). The carrying amount of the equity investments valued at fair value at the time of sale was €63,340 (2012: €38,664). The release from the available for sale reserve at the time of the sale of equity investments at fair value was €20,554 (2012: €27,437); as a result the net result from sale of equity investments at fair value amounted to a gain of €256 (2012: gain of €6,545).

26. RESULTS FROM FINANCIAL TRANSACTIONS

	2013	2012
Result on valuation of hedged items	34,555	473
Result on sale and valuation of derivatives designated at fair value (hedging instruments)	-32,599	-211
Subtotal	**1,956**	**262**
Result on sale and valuation of derivatives designated at fair value	-	-
Result on sale and valuation of medium-term notes	-	-
Subtotal	**-**	**-**
Result on sale and valuation of derivatives held for trading[1)]	-1,805	-2,641
Result on sale and valuation of embedded derivatives related to asset portfolio	18,793	-1,816
Result on sale of interest-bearing securities	475	6,962
Foreign exchange results	5,667	-2,718
Other	-175	150
Total results from financial transactions	**24,911**	**199**

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

27. REMUNERATION FOR SERVICES RENDERED

	2013	2012
Funds and programs managed on behalf of the State:		
• MASSIF	13,751	12,729
• Infrastructure Development Fund	3,087	2,899
• Access to Energy Fund	1,363	1,316
• FOM OS	722	236
• Syndication fees, remuneration from directorships and others	3,973	1,966
Total remuneration for services rendered	**22,896**	**19,146**

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

28. OTHER OPERATING INCOME

	2013	2012
Other operating income	**1,124**	**1,811**

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

29. STAFF COSTS

	2013	2012
Salaries	-28,866	-25,953
Social security costs	-3,244	-3,111
Pension costs	-3,746	-5,251
Temporaries	-1,351	-1,584
Travel and subsistence allowances	-3,756	-3,417
Other personnel expenses	-5,861	-4,879
Total staff costs	**-46,824**	**-44,195**

The number of FTEs at December 31, 2013 amounted to 352 (2012: 310 FTEs).

30. OTHER ADMINISTRATIVE EXPENSES

	2013	2012
Other administrative expenses	**-13,738**	**-11,161**

These expenses consist of services from third parties and other operational expenses. The remuneration paid to the Supervisory Board is included in these expenses. At December 31, 2013, the Supervisory Board consisted of six members (2012: six). The members of the Supervisory Board were paid a total remuneration of €117 (2012: €117).

With reference to Section 2:382a(1) and (2) of the Dutch Civil Code, the following fees for the financial year have been charged by KPMG Accountants N.V. to the company, its subsidiaries and other consolidated entities.

Fee charged by auditors	2013	2012
Statutory audit of annual accounts	202	170
Other assurance services	164	148
Other non-audit services	-	16
Total	**366**	**334**

31. OTHER OPERATING EXPENSES

	2013	2012
Other operating expenses	**-220**	**-257**

The other operating expenses include bank charges and capital tax paid.

32. INCOME TAXES

Income tax by type

	2013	2012
Current income taxes	-35,356	-27,097
Deferred income taxes	-285	-52
Total income tax	**-35,641**	**-27,149**

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

	2013	2012
Profit before taxation	168,976	172,432
Income taxes at statutory rate of 25.0% (2012: 25.0%)	-42,244	-43,108
Increase/decrease resulting from:		
• Settlement with local withholding taxes	2,003	1,891
• Non-taxable income and expense (participation exemption facility)	4,387	14,209
• Tax adjustments to prior periods	23	-88
• Other	190	-53
Total income tax	**-35,641**	**-27,149**
Effective income tax rate	21.1%	15.7%

Current income tax liabilities

The company paid €32,420 (2012: €21,843) to tax authorities. The remaining current income tax liabilities amount to €2,897 (2012: €515). Per year-end 2013 there were no unused tax losses and the unused tax credits amount to €29 (2012: €338).

Deferred tax

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

	2013	2012
DEFERRED TAX ASSETS		
Pension provision	2,716	5,301
Actuarial gains and losses defined benefit plans	2,204	-
Depreciation fixed assets	34	392
Total deferred tax assets	**4,954**	**5,693**
DEFERRED TAX LIABILITIES		
Fair value measurement of interest-bearing securities	-5,224	-8,645
Total deferred tax liabilities	**-5,224**	**-8,645**
Net balance at December 31	**-270**	**-2,952**

Off-balance Sheet Information

33. COMMITMENTS AND CONTINGENT LIABILITIES

The company issued guarantees regarding principal and interest repayments for a number of projects. The nominal amount of the guarantees is valued at the exchange rate as per December 31, 2013 and December 31, 2012.

	2013	2012
CONTINGENT LIABILITIES		
Effective guarantees issued	106,470	92,392
Less: provisions, amortized costs and obligations for guarantees (presented under other liabilities)	-6,207	-8,387
Total guarantees issued	**100,263**	**84,005**
Effective guarantees received	102,795	100,710
Total guarantees received	**102,795**	**100,710**

Of the liabilities for guarantees €0 (2012: €0) is covered by a counter guarantee of the State.

	2013	2012
IRREVOCABLE FACILITIES		
Contractual commitments for disbursements of:		
• Loans	765,837	689,892
• Equity investments	498,158	430,669
• Contractual commitments for guarantees	144,153	161,126
Total irrevocable facilities	**1,408,148**	**1,281,687**

34. LEASE AND RENTAL COMMITMENTS

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

2013	≤ 1 year	>1 - ≤ 5 years	> 5 years	Total
Buildings	2,289	9,604	3,787	15,680
Cars	649	829	-	1,478
Total lease and rental commitments	**2,938**	**10,433**	**3,787**	**17,158**

2012	≤ 1 year	>1 - ≤ 5 years	> 5 years	Total
Buildings	2,246	9,423	6,257	17,926
Cars	628	678	-	1,306
Total lease and rental commitments	**2,874**	**10,101**	**6,257**	**19,232**

35. RELATED PARTIES

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

Dutch State

The Dutch State holds 51% of FMO's share capital. The remaining 49% is held by banks and others. In 2005, FMO received its last contribution to the development fund from the Dutch State. FMO has a guarantee provision from the State, which is detailed in 'other information'.

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

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

1. *MASSIF*
   MASSIF extends risk capital and local currency financing to financial intermediaries in developing countries who in turn serve micro- and small-scale entrepreneurs and lower income households. FMO has a 2.38% (2012: 2.55%) stake in this fund. For 2013, FMO received a fixed remuneration of €13,751.
2. *Infrastructure Development Fund*
   Through this fund, FMO concentrates on the development of the social and economic infrastructure in least developed countries. FMO aims to stimulate private investors to invest in private or public-private infrastructure projects in these countries. By providing risk capital, the Infrastructure Development Fund decreases risk for other financiers. As a result, additional private funds are attracted. For 2013, FMO received a fixed remuneration of €3,087 in accordance with the subsidy order.
3. *Access to Energy Fund (AEF)*
   FMO agreed with the Dutch Minister for Development Cooperation to execute the subsidy scheme, Access to Energy Fund. Through this fund, FMO provides risk and concessional financing through equity, local currency loans, subordinated debt and grants to facilitate projects that generate, transmit or distribute sustainable energy. For 2013, FMO received a fixed remuneration of €1,363.
4. *FOM OS*
   The program finances private sector companies with a strong focus on food security and water. For 2013, FMO received a fixed remuneration of €722. The program has been ended by the Ministry of Foreign Trade and Development Corporation as per December 31, 2013.

Subsidiaries

The consolidated subsidiaries FMO Antillen N.V. Nuevo Banco Comercial Holding B.V. and Asia Participations B.V. are used for intermediate holding purposes. The consolidated subsidiaries Blauser S.A. and Industrias Andinas B.V. acted as holding companies for Ecuadorian fruit processors and exporters. During 2013, FMO sold its 100% stake in Confoco S.A.

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

Remuneration of the Management Board

On December 31, 2013, the Management Board consisted of three statutory members (2012: three). The members of the Management Board have no options, shares or loans related to the company. On December 31, 2012 one of the members of the Management Board held 500 shares (0.1% of the total shares) in the company. Those shares were sold during 2013. As of 2012, the performance-related pay has been converted into an increased fixed salary. Payments regarding the general profit-sharing scheme, social security, company car and life-course savings scheme are included in other instead of fixed remuneration and performance-related pay.

On December 17, 2013 the Budget Agreement 2014 Tax Measures Implementation Act came into effect. This Act amended a number of tax laws as of January 1, 2014. One of the amendments concerned a one-off 'crisis levy' of 16% of the wages from current employment (including any bonuses) that employers paid their employees during 2013, as far as such wages exceeded €150. The crisis charges of total €48 (2012: €53) are not included in the remuneration of the Management Board.

The total remuneration of the Management Board in 2013 amounts to €1,084 (2012: €1,163) and is specified as follows:

	Fixed remuneration	Performance-related pay	Pension	Other [1]	Total 2013
Nanno Kleiterp	297	abolished	94	38	429
Nico Pijl	227	abolished	80	34	341
Jürgen Rigterink	227	abolished	49	38	314
Total	**751**	**n.a.**	**223**	**110**	**1,084**

	Fixed remuneration	Performance-related pay	Pension	Other [1]	Total 2012
Nanno Kleiterp	297	abolished	121	59	477
Nico Pijl	227	abolished	106	36	369
Jürgen Rigterink	227	abolished	50	40	317
Total	**751**	**n.a.**	**277**	**135**	**1,163**

1) Includes contributions to company car, fixed expense allowance, general profit-sharing, life-course savings scheme, compensation of interest on mortgages, compensation for the return of leave allowances (ADV) and anniversary benefits. This is in line with the general fringe benefits within FMO.

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

	Remuneration 2013	Committees 2013	Total 2013	Total 2012
Jean Frijns, Chairman	22.5	5.0	27.5	27.5
Bert Bruggink	15.0	3.5	18.5	18.7
Dolf Collee	-	-	-	6.4
Agnes Jongerius	15.0	3.5	18.5	18.0
Alexandra Schaapveld	15.0	2.5	17.5	11.2
Pier Vellinga	15.0	2.5	17.5	17.7
Rein Willems	15.0	2.5	17.5	17.7
Total	**97.5**	**19.5**	**117.0**	**117.2**

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

Notes to the Consolidated Statement of Comprehensive Income

36. OTHER COMPREHENSIVE INCOME

Other comprehensive income

		2013		2012
ITEMS TO BE RECLASSIFIED TO PROFIT AND LOSS				
Exchange differences on translating foreign operations		-883		-3,265
Available for sale interest-bearing securities:				
Unrealized results during the year	-13,239		23,537	
Less: reclassification adjustments for results included in profit and loss	-475		-6,962	
Total available for sale interest-bearing securities		**-13,714**		**16,575**
Available for sale equity investments:				
Unrealized results during the year	77,087		41,001	
Foreign exchange results	-29,646		-10,550	
Reclassification adjustments for results included in profit and loss	-14,268		-26,074	
Total available for sale equity investments		**33,173**		**4,377**
Total other comprehensive income before tax		**18,576**		**17,687**
Income tax effect		3,421		-4,144
Total to be reclassified to profit and loss		**21,997**		**13,543**
ITEMS NOT RECLASSIFIED TO PROFIT AND LOSS				
Actuarial gains/losses on defined benefit plans		-562		-24,699
Income tax effect		320		6,175
Total not reclassified to profit and loss		**-242**		**-18,524**
Total other comprehensive income at December 31		**21,755**		**-4,981**

Tax effects relating to each component of other comprehensive income

	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	-883	-	-883
Available for sale interest-bearing securities	-13,714	3,421	-10,293
Available for sale equity investments	33,173	-	33,173
Actuarial gains/losses on defined benefit plans	-562	320	-242
Balance at December 31, 2013	**18,014**	**3,741**	**21,755**

	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	-3,265	-	-3,265
Available for sale interest-bearing securities	16,575	-4,144	12,431
Available for sale equity investments	4,377	-	4,377
Actuarial gains/losses on defined benefit plans	-24,699	6,175	-18,524
Balance at December 31, 2012	**-7,012**	**2,031**	**-4,981**

Notes to the Consolidated Statement of Cash Flows

The consolidated cash flow statement shows the sources of liquidity that became available during the year and the application of this liquidity. The liquidity is measured by the balance sheet accounts ‘banks’ and ‘short-term deposits’. The cash flows are broken down according to operational, investing and financing activities. The cash flow statement is prepared using the indirect method.

37. NET CASH FLOW FROM OPERATIONAL ACTIVITIES

The net cash flow from operational activities includes the company’s portfolio movements, such as loans to the private sector and under guarantee of the State, equity investments, subsidiaries and associates. The net cash flow further includes the movements in working capital and current accounts with the State in regard to Government funds and programs.

38. 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.

39. NET CASH FLOW FROM FINANCING ACTIVITIES

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

Company Annual Accounts

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 Dutch Civil Code, the company presents the profit and loss account for the year in abbreviated format.

Significant Accounting Policies

PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

The annual accounts are prepared in accordance with the financial reporting requirements as included in Part 9 of Book 2 of the Dutch Civil Code with the allowed application of the accounting policies (IFRS) as set forth in the consolidated annual accounts. The principles of valuation and determination of results stated in the consolidated balance sheet and profit and loss account are also applicable to the company balance sheet and profit and loss account. Investments in group companies are initially recognized at cost and subsequently accounted for by the equity method.

REFERENCE TO THE CONSOLIDATED ANNUAL ACCOUNTS

As mentioned above, the accounting policies applied in the annual accounts correspond with the consolidated annual accounts. Furthermore, the consolidated annual accounts have a limited consolidation scope and accordingly the notes to the balance sheet and profit and loss account are almost similar in both the company annual accounts and the consolidated annual accounts. In these cases, reference is made to the disclosure notes and information provided in the consolidated annual accounts. For the mandatory disclosure notes and those notes with larger discrepancies, the information is included in the notes to the company's annual accounts.

ESTIMATES AND ASSUMPTIONS

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

Company Balance Sheet at December 31

(before profit appropriation)	Notes	Page number	2013	2012 Restated*
ASSETS				
Banks			17,047	9,197
Short-term deposits			1,102,630	678,126
Derivative financial instruments			296,901	280,195
Loans to the private sector			2,927,508	2,762,590
Loans guaranteed by the State			53,355	58,906
Equity investments	(1)	119	939,265	890,525
Investments in associates	(2)	119	19,246	23,156
Interest-bearing securities			664,705	729,816
Subsidiaries	(3)	119	14,950	20,008
Tangible fixed assets			7,468	5,376
Deferred income tax assets			4,954	5,693
Current accounts with State funds and other programs			35	1,060
Other receivables			56,017	20,825
Accrued income			83,249	78,983
Total assets			**6,187,330**	**5,564,456**
LIABILITIES				
Banks			76,897	27,772
Short-term credits			226,885	240,445
Derivative financial instruments			218,157	89,560
Debt securities			-	15,143
Debentures and notes			3,609,796	3,276,507
Other liabilities			9,354	12,151
Current accounts with State funds and other programs			1,630	322
Current income tax liabilities			2,897	515
Wage tax liabilities			80	2,110
Deferred income tax liabilities			5,224	8,645
Accrued liabilities			50,614	52,591
Provisions			22,839	24,104
Total liabilities			**4,224,373**	**3,749,865**
SHAREHOLDERS' EQUITY				
Share capital			9,076	9,076
Share premium reserve			29,272	29,272
Contractual reserve			1,020,547	892,508
Development fund			657,981	657,981
Available for sale reserve			215,889	193,009
Translation reserve			-644	239
Other reserves			25,540	25,782
Undistributed profit			5,296	6,724
Total shareholders' equity	**(4)**	**120**	**1,962,957**	**1,814,591**
Total liabilities and shareholders' equity			**6,187,330**	**5,564,456**
Contingent liabilities			106,470	92,392
Irrevocable facilities			1,408,148	1,281,687

*The comparative figures of 2012 have been restated as a result of IAS 19 Employee Benefits (revised 2011) as detailed under significant accounting policies of the consolidated annual accounts.

Company Profit and Loss Account

	Notes	Page number	2013	2012 Restated*
Profit after taxation			133,683	144,248
Income from subsidiaries, after tax	(3)	119	-348	962
Net profit			**133,335**	**145,210**

*The comparative figures of 2012 have been restated as a result of IAS 19 Employee Benefits (revised 2011) as detailed under significant accounting policies of the consolidated annual accounts.

Notes to the Company Annual Accounts

Notes to the Specific Items of the Balance Sheet

1. EQUITY INVESTMENTS

	2013	2012
Balance at January 1	890,525	753,366
Purchases and contributions	158,812	182,273
Re-class to/from loans	-41,774	3,940
Re-class to/from associates	-	20,480
Sales	-79,386	-51,114
Value adjustments	-22,087	-22,797
Changes in fair value	33,175	4,377
Balance at December 31	**939,265**	**890,525**

	2013	2012
Equity investments at fair value	704,595	698,606
Equity investments at cost less impairment	234,670	191,919
Balance at December 31	**939,265**	**890,525**

2. INVESTMENTS IN ASSOCIATES

	2013	2012
Balance at January 1	23,156	41,061
Purchases and contributions	8	8,151
Re-class to/from equity investments	-	-20,480
Sales	-	-6,059
Share in net results	-3,034	4,051
Translation differences	-884	-3,568
Balance at December 31	**19,246**	**23,156**

3. SUBSIDIARIES

	2013	2012
Balance at January 1	20,008	15,438
Purchases and contributions	-4,710	3,313
Share in results	-348	962
Translation differences	-	295
Balance at December 31	**14,950**	**20,008**

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

1. Nuevo Banco Comercial Holding B.V.: 100%.
2. FMO Antillen N.V.: 100%.
3. Blauser S.A.: 100%.
4. Industrias Andinas B.V. (liquidated early 2014): 100%
5. Asia Participations B.V.: 100%

The following table summarizes the carrying value of the subsidiaries.

	2013	2012
Nuevo Banco Comercial Holding B.V.	11,699	12,090
FMO Antillen N.V.	3,263	3,208
Blauser S.A., Industrias Andinas B.V. and Confoco S.A.	-	4,710
Asia Participations B.V.	-12	-
Balance at December 31	**14,950**	**20,008**

During 2013, FMO's stake in Confoco S.A. has been sold. Activities of FMO's related stakes in Blauser S.A. and Industrias Andinas B.V. (liquidated early 2014) have been discontinued.

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 to the State, after settlement of the contractual return to the shareholders.

	2013	2012
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**

	2012	2011
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

	2013	2012
Share premium reserve shareholder A, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	8,061	8,061
Share premium reserve shareholder B, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	21,211	21,211
Balance at December 31	**29,272**	**29,272**

Contractual reserve

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

Development fund

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

Available for sale reserve (AFS reserve)

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

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The following table shows the components of the available for sale reserve at December 31, 2013 and December 31, 2012.

	2013	2012
GROSS GAINS AND LOSSES IN THE AFS RESERVE		
Equity investments at fair value	200,247	167,074
Share in AFS reserve subsidiary	-	-
Interest-bearing securities at fair value	20,870	34,584
Subtotal gains and losses in the AFS reserve	**221,117**	**201,658**
DEFERRED TAXES ON GAINS AND LOSSES		
Equity investments at fair value	-	-
Share in AFS reserve subsidiary	-	-
Interest-bearing securities at fair value	-5,228	-8,649
Subtotal deferred taxes on gains and losses	**-5,228**	**-8,649**
NET GAINS AND LOSSES IN THE AFS RESERVE		
Equity investments at fair value	200,247	167,074
Share in AFS reserve subsidiary	-	-
Interest-bearing securities at fair value	15,642	25,935
Total available for sale reserve	**215,889**	**193,009**

The statement of changes in the shareholders' equity details the movements in the available for sale reserve during 2013. 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

Provision in the Articles of Association Concerning the Appropriation of Profit

The provision and the appropriation of the net profit is based upon the Articles of Association and the Agreement State-FMO of November 16, 1998.

The General Meeting will determine which portion of the result of a financial year is reserved or in which way a loss will be incorporated, as well as the appropriation of the remaining profit, with regard to which the Supervisory Board and the Management Board can make a non-binding proposal in accordance with the provision and dividend policy adopted by the General Meeting, taking into account the relevant provisions in the Agreement State-FMO of November 16, 1998.

PROPOSAL FOR APPROPRIATION OF PROFIT

A company net profit of €133,335 was recorded in 2013. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €128,039 to the contractual reserve. Therefore this profit is not completely distributable. The distributable element of the net profit amounts to €5,296 (2012: €6,724). The Management Board and the Supervisory Board propose distributing a sum of €5,296 (2012: €6,724) as cash dividend equaling €13.24 per A and B share (2012: €16.81 per A and B share).

Guarantee Provisions in the Agreement State-FMO of November 16, 1998

ARTICLE 7: MAINTENANCE OBLIGATIONS IN THE EVENT OF DEPLETION OF GENERAL RISKS RESERVE (GRR) FUND AND INADEQUATE COVER FOR EXCEPTIONAL OPERATING RISKS

7.1 To determine whether FMO has grounds for invoking the maintenance obligation (the 'State's Maintenance Obligation') as referred to in Article 7.2.1, the losses incurred by FMO as referred to in Article 7.2.2, as shown by the annual accounts drawn up for the relevant year in accordance with generally accepted accounting principles and in conformity with Part 9 of Book 2 of the Dutch Civil Code and duly adopted by the competent corporate body, shall first be charged to the GRR fund.

7.2.1 The State undertakes vis-à-vis FMO to defray losses on its operations pursuant to Article 3.1 and 3.2 of this Agreement, as determined in Article 7.2.2, to the extent that such risks have not been covered by specific value adjustments and/or compensation and/or insurance benefits received or yet to be received, provided that:
a) the amount of such losses exceeds the size of the GRR fund as at December 31 of the year in which these losses were incurred; and
b) the inadequacy of the cover for general value adjustments under the GRR fund is due to abnormal operating risks, such as unforeseen political difficulties in, or transfer problems with, particular countries or the collapse of the world economy or a regional economy.

7.2.2 The parties shall consult together to determine the magnitude of such losses. Should they fail to agree, FMO's auditors and an auditor designated by the State shall make a reasonable and equitable calculation of the losses in accordance with generally accepted accounting principles.

7.3 If the circumstances arise as described in Article 7.2.1, under a) and b) and FMO requests the State to fulfill its obligations as referred to in Article 7.2, this shall give rise to a claim against the State, which shall be duly acknowledged by the State, on the first business day of the first financial year following the date of the request. Such request shall be in writing.

ARTICLE 8: OTHER FINANCIAL SECURITY OBLIGATIONS

8.1 Without prejudice to the other provisions in this Agreement, the State shall prevent situations arising in which FMO is unable to meet the following (comprehensive enumerated) commitments on time: FMO's commitments in respect of:
(i) loans raised in the capital market;
(ii) short-term funds raised on the money market with maturities of two years or less;
(iii) swap agreements involving the exchange of principal and payment of interest;
(iv) swap agreements not involving the exchange of principal but with interest payment;
(v) foreign exchange forward contracts and forward rate agreements (FRAs);
(vi) option and futures contracts;
(vii) combinations of the products referred to in (i) to (vi);
(viii) guarantees provided by FMO to third parties in respect of the financing of private companies in developing countries;
(ix) commitments relating to the maintenance of an adequate organization.

NOTES TO THE GUARANTEE PROVISION

The GRR fund referred to in Article 7 is defined in Article 6 of the Agreement State-FMO of November 16, 1998, and consists of the share premium reserve of €21,211 plus the group-specific provision (formerly the general value adjustments) and the contractually required reserve. On December 31, 2013, the fund amounted (rounded) to €1,216,201 (2012: €1,138,198).

List of Abbreviations

GENERAL ABBREVIATIONS

AGM: Annual General Meeting of Shareholders
Basel II: Basel Committee on Banking Supervision
Basel III: Basel Committee on Banking Supervision
DFI: Development Finance Institution
EDIS: Economic Development Impact Score
E&S: Environmental and Social
ESG: Environmental, social and governance
FTE: Full-Time Equivalent
FX: Foreign exchange
IBNR: Incurred but not reported
IRIS: Impact Reporting and Investment Standards
LCR: Liquidity Coverage Ratio
LICs: Low-income country
LMIC: Lower-middle-income country
MSMEs: Micro, small and medium enterprises
MW: Megawatt
NGOs: non-governmental organizations
NPL: Non-Performing Loan
QI: Quantitative indicator
REDD: Reduced Emissions from Deforestation and Degradation of forests scheme
SME: small- and medium-sized enterprises
UMIC: Upper-middle-income country

ORGANIZATIONS

ABB: Association of Banks Bangladesh
BIS: Bank for International Settlements
BSBA: Bangladesh Ship Breakers Association
DEG: Deutsche Investitions- und Entwicklungsgesellschaft mbH (German Investment Corporation)
EDFI: European Development Finance Institutions
FMO: Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company)
GRI: Global Reporting Initiative
IFRS: International Financial Reporting Standard(s)
IUCN: International Union for Conservation of Nature
KPMG: KPMG N.V.
MDB: Multilateral development bank
NMB: National Microfinance Bank (of Tanzania)
NOCH: Netherlands-Ukraine Chamber of COmmerce
NVCC: Netherlands-Vietnam Chamber of Commerce
Proparco: Promotion et Participation pour la Coopération économique (Promotion and Participation for Economic Cooperation)
RVO: Rijksdienst voor Ondernemend Nederland
Sanec: South Africa-Netherlands Chamber of Commerce
VBDO: Dutch Association for Investors in Sustainable Development
VCO-NCW: The Confederation of Netherlands Industry and Employers

FUNDS

IDF: Infrastructure Development Fund
AEF: Acces to Energy Fund
FOM: Faciliteit Opkomende Markten (Facility Emerging Markets)
FOM OS: Fonds Opkomende Markten Ontwikkelings Samenwerking

Additional Information

REPORTING SCOPE

This annual report covers activities that took place or had effect on the reporting year.

FMO publishes its integrated financial and sustainability report annually in March. The annual shareholders meeting is held in May. Both elements of the report are audited by an external auditor. Please read the KPMG auditor's report for detailed information on the scope of their work. Previous reports are available on www.fmo.nl/reports.

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