FMO
Entrepreneurial
Development
Bank

PILLAR 3 DISCLOSURES 2016

Table of Contents

1. Introduction

In December 2010, the Basel Committee on Banking Supervision published its final standards on the revised capital adequacy framework known as ‘Basel III’.

Basel III has been implemented in the EU through CRD IV consisting of the CRD IV Directive and the CRR, which include a number of transitional provisions. The CRR entered into force on 1 January 2014, and has direct effect in the Netherlands. The CRD IV Directive was implemented in Dutch law as per 1 August 2014. There are three pillars of CRD IV to which FMO adheres:

Pillar 1: the minimum capital requirements for each category of risk: credit risk, counterparty credit risk, market risk and operational risk

Pillar 2: internal processes for risk management and setting internal capital requirements: Supervisory Review and Evaluation Process (SREP) and Internal Capital Adequacy Assessment Process (ICAAP), outlier criterion and stress tests.

Pillar 3: publication of financial headline figure requirements: market discipline and transparency. This document fulfils the Pillar 3 disclosure requirements of the CRD IV regulation, including the EBA Final Draft Implementing Technical Standards on Disclosure for Own Funds.

This Pillar 3 disclosure document fulfils the Pillar 3 disclosure requirements of the CRD IV regulation, including the EBA Implementing Technical Standards on Disclosure for Own Funds, the Guidelines on disclosure of encumbered and unencumbered assets, the Guidelines on materiality, proprietary and confidentiality and on disclosure frequency, the Regulatory technical standards on disclosure of information related to the countercyclical capital buffer and the Implementing Technical Standards on disclosure for leverage ratio.

2. Strategy

FMO is a Dutch development bank. FMO believes that that entrepreneurship is key in creating sustainable economic growth and improving people’s quality of life. FMO therefore finance businesses, projects and financial institutions in developing and emerging markets, with the aim of supporting sustainable private sector development.

Our investments (loans and equity investments) are focused in the sectors where our contribution can have the largest long-term impact: financial institutions; energy; and agribusiness, food & water. FMO’s strategy is to become the leading impact Investor by doubling impact and by halving footprint towards 2020: the number of jobs supported should be doubled by 2020 while greenhouse gasses avoided should be half by 2020. We believe in a world in 2050 in which 9 billion people live well and within the means of the planet's resources. In pursuit of this vision, FMO's mission is to empower entrepreneurs to build this better world.

3. Pillar 3 disclosure

Market discipline and transparency in the publication of solvency risks are important elements of the Basel III rules for Pillar 3. Central to these publications is information on the solvency and the risk profile of a bank, providing disclosures on such matters as its capital structure, capital adequacy, risk management and risk measurement in line with the objective of IFRS 7.

The objective of FMO’s disclosure policies is to practice maximum transparency in a practical manner.

4. Internal process

For assessment of the appropriateness of its disclosures, the following departments or parties of FMO are involved:

- Finance & Control – prepares the financial reporting and prudential reporting to DNB and related disclosures of Pillar 3

- Risk Management – prepares information following from its role of managing the risks associated with the banking operations and related Pillar 3 disclosures
- Corporate Secretary - prepares information of all other pillar 3 disclosure items, e.g. remuneration policy

FMO's financial statements and FINREP, COREP regulatory reports are audited by an external auditor, who provides an opinion regarding the financial statements and Finrep and Corep reports. The Internal Audit department has an independent verification and control function in support of the Managing Board, Supervisory Board and Audit and Risk Committee.

5. Frequency of the disclosure

FMO publishes the required Pillar 3 disclosures on an annual basis in conjunction with publication of the Annual Report.

6. Means of disclosure

FMO shall provide the disclosures on its website through its annual report, this Pillar 3 disclosure document and Additional Pillar 3 disclosures 2016 for quantitative disclosures.

7. Pillar 3 disclosures in accordance with Part Eight Title II Articles 435 - 451 of the CRR and Article 492 of the CRR

7.1 Overview of Risk Management and Risk Weighted Assets

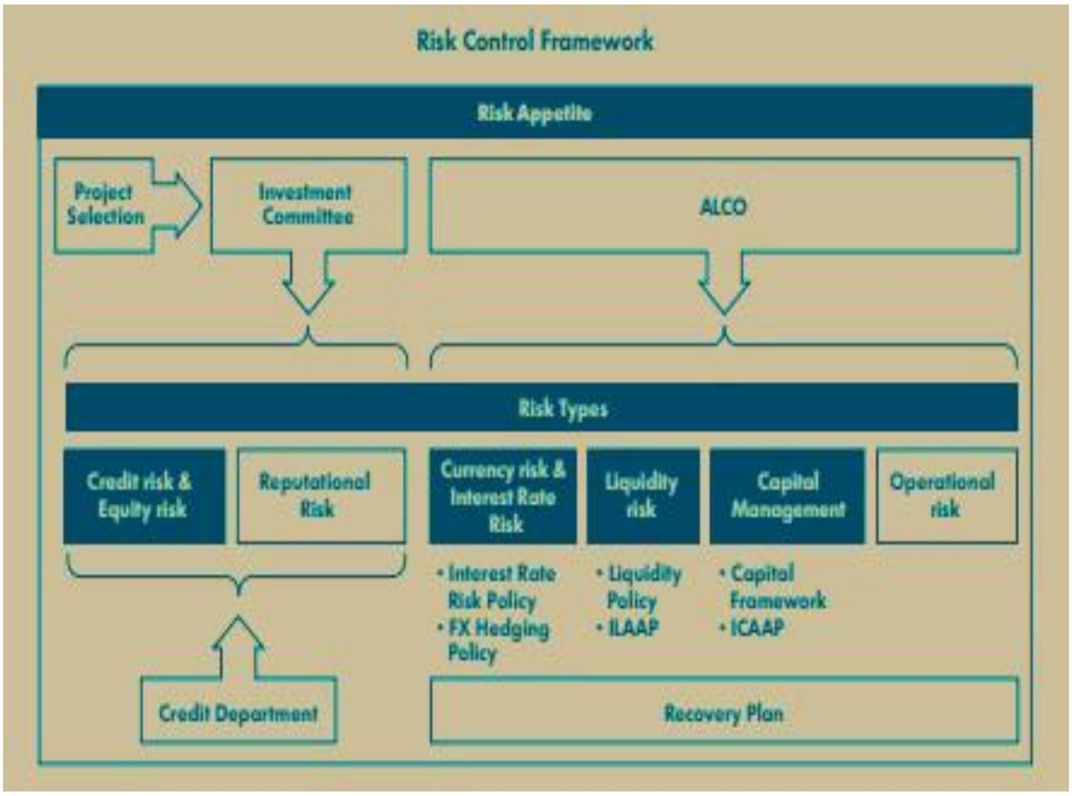
ORGANIZATION OF RISK MANAGEMENT

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

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

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

Figure 1: Risk Control Framework and Risk Types



RISK CONTROL FRAMEWORK

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

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

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

Refer to ***Annual Report 2016 page 50*** for "In Control Statement" for declaration approved by management body on the adequacy of risk management arrangements.

RISK PROFILE & APPETITE

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

For Extensive Information about Risk Organization, please refer to our ***Annual Report p.97 - 98***

OVERVIEW OF RISK WEIGHTED ASSETS (RWA)

Here below an overview is provided of the overview of Risk Weighted Assets (RWA) and capital requirements at 31 December 2016 and an overview of the RWA of at 31 December 2015.

The figures as provided in the overview are figures as reported in the Regulatory Reports of our consolidated accounts.

Figure 2: Overview of risk weighted assets (RWA) and minimum requirements

	a	b	c
	RWA	RWA	Minimum Requirements
	2016-12	2015-12	2016-12
1 Credit risk (excluding CCR)	8,965,770	8,184,549	717,262
2 Of which the standardised approach	8,965,770	8,184,549	717,262
3 Of which the foundation IRB (FIRB) approach			
4 Of which the advanced IRB (AIRB) approach			
5 Of which equity IRB under the simple risk-weighted approach or the IMA			
6 CCR	99,604	336,638	7,968
7 Of which mark to market	48,168	170,091	3,853
8 Of which original exposure			
9 Of which the standardised approach			
10 Of which internal model method (IMM)			
11 Of which risk exposure amount for contributions to			
the default fund of a CCP			
12 Of which CVA	51,436	166,547	4,115
13 Settlement risk			
14 Securitisation exposures in the banking book (after the cap)			
15 Of which IRB approach			
16 Of which IRB supervisory formula approach (SFA)			
17 Of which internal assessment approach (IAA)			
18 Of which standardised approach			
19 Market risk	1,709,823	1,230,780	136,786
20 Of which the standardised approach	1,709,823	1,230,780	136,786
21 Of which IMA			
22 Large exposures			
23 Operational risk	439,334	387,313	35,146
24 Of which basic indicator approach	439,334	387,313	35,146
25 Of which standardised approach			
26 Of which advanced measurement approach			
27 Amounts below the thresholds for deduction (subject to 250% risk weight)			
28 Floor adjustment			
29 Total	**11,214,531**	**10,139,280**	**897,162**

7.2 Linkages between financial statements and prudential exposures

The scope for compliance with CRR applies to FMO - Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

The consolidation scope for prudential reporting is equal to the accounting scope for FMO. Note that for Regulatory Reporting some reclasses are performed from assets to liabilities and vice versa in order to comply with Regulatory definitions and standards.

The following entities of FMO are part of the consolidation scope for consolidated reporting and compliance:

001 – FMO N.V.

004 – Nuevo Banco Commercial Holding B.V.

005 – FOM

022 – Asia Participations B.V.

023 – FMO Medu II Investment Trust

024 – FMO Investment Management B.V.

026 – Equis Asia Fund III

Solo waiver: as per 30 June 2016 FMO was granted the Solo Waiver for prudential reporting on basis of Article 7 and therefore only reports figures related to CRR capital reports only on consolidated basis

7.3 Own funds and Capital Requirements, Capital Buffers

7.3.1 Own funds and Capital Requirements

CAPITAL MANAGEMENT: OWN FUNDS AND CAPITAL REQUIREMENTS

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

FMO has an external and internal ratio to express its capital position. The external ratio is calculated based on the standardized approach of the CRD IV/CRR regulation and takes credit, market, operational and credit valuation adjustment risk into account. FMO complies with the CRD IV/CRR requirements and reports its capital ratio to the Dutch central bank on a quarterly basis. FMO calculates the external capital requirement for its entire portfolio based on the standardized approach.

Reference is made to our ***Annual Report 2016 page 115 – 117*** for extensive information on Capital Management.

The annual internal assessment of capital adequacy, the Internal Capital Adequacy Assessment Process (ICAAP) is a key activity within capital management. Within the ICAAP, it is being assessed if the amount of capital is adequate to cover all material risks to which FMO is exposed. The ICAAP requires approval of the Supervisory Board.

OWN FUNDS COMPONENTS

FMO's Own Funds consists of share capital which is mainly owned by Dutch State and a limited number of Dutch banks. These instruments are only placed privately with a limited number of investors. Therefore, the terms and conditions for these instruments are only made available to these parties on basis of confidentiality. The share capital is a part of the Common Equity Tier 1 component of FMO. FMO does not have additional Tier 1 instruments. FMO does have Tier 2 instruments, which are incorporated in the calculation of Total Own Funds according to CRR. Reference is made to our issuance programs page on our website:

https://www.fmo.nl/funding-programs

Furthermore, FMO applies a prudential filter as per Article 35 of the CRR according to Standardized Approach. As per December 2016, prudential filter of ***3.7 million EUR*** was applied during the calculation of Common Equity Tier 1 and Total Own Funds.

According to Articles 36, 56 and 66 of the CRR, deductions for subordinated loans and (in) direct holdings of financial entities, where FMO does (not) have a significant investment, are applied during the calculation of Total Own Funds according to Standardized Approach. Note that amount below the 10% threshold related to deductions for subordinated loans and (in) direct holdings of financial entities is not deducted from total Own Funds of FMO.

Moreover, transitional adjustments related to unrealised gains and losses on fair value are applied during calculation of Own Funds position. As per December 2016, 60% of unrealised losses and 40% of unrealised gains related to fair value positions excluding equity investments are adjusted in the calculation of Common Equity Tier 1 and Total Own Funds. As per December 2016, transitional adjustments of 3.5 million EUR were performed for calculation of Common Equity Tier 1 and Total Own Funds.

Refer to ***Additional Pillar 3 Disclosures (1)*** for main features of Tier 2 instruments and Refer to ***Additional Pillar 3 Disclosures (2)*** for detailed composition of Own funds as per December 2016.

7.3.2 Capital Buffers

For December 2016, FMO calculates an institution specific countercyclical buffer of 0.2 million EUR. FMO has exposures in the private sector in Sweden for 47 million EUR and is the only country relevant for calculation of FMO's countercyclical buffer. Refer to ***Additional Pillar 3 disclosures 2016 (3)*** for geographical breakdown of countercyclical capital buffer

Furthermore, according to CRD IV, a capital conservation buffer is calculated as 0.625% of total RWA - ***70 million EUR*** as per December 2016.

7.4 Credit Risk

7.4.1 General Information about Credit Risk

Credit Risk - Loans (emerging market portfolio)

Credit risk is defined as the risk that the bank will suffer economic loss because a counterparty cannot fulfil 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.

For accounting policies applied by FMO on their loans and the policies for Impairments (value adjustments to loan) as per December 2016, reference is made to ***Annual Report p. 88.***

Credit Risk – credit quality of assets (loan portfolio)

For accounting purposes, a loan is indicated as non – performing in case of past due amounts of more than 90 days or in case the loan (exposure) is impaired.

According to Regulatory Reporting (Annex V), FMO applies a broader scope when bucketing in the non – performing loan category. In case a customer has more than 20 percent of the gross exposure impaired, all exposures of the direct customer are reported as non – performing. In the quantitative Pillar 3 disclosure, the figures regarding non – performing loans refer to Regulatory Reporting standards. (see Additional Pillar 3 disclosure 2016, for figures).

At 31 December 2016, information regarding forbearance of loans is not reported in our Annual Report, but in Regulatory Reporting.

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 risks are assessed during the credit approval, credit review process and administrated via internal scorecards. The lending process is based on formalized and strict procedures.

Decisions on authorizations depend on both the amount of economic capital and the risk profile of the financing instrument. For distressed assets, the Special Operations department applies an advanced workout and restructuring approach.

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

Credit Risk – Equity

With regard to equity risk that results from equity investments, a distinction can be made between:
1. Exit risk, the risk that FMO's equity stake cannot be sold for a reasonable price and in a liquid market
2. Equity risk, the risk that the fair value of an equity investment decreases.

FMO however has a long-term view on its equity portfolio, usually selling its equity stake within a period of 5 to 10 years. FMO can accommodate an increase in the average holding period of its equity investments and so wait for markets to improve again to realise exits. We have no deadlines on the exit date of our equity investments. Equity investments are assessed by the Investment Committee in terms of specific obligor as well as country risk. The Investment Review Committee assesses the valuation of the majority of equity investments quarterly. The performance of the equity investments in the portfolio is periodically analysed during the fair value process. Based on this performance and the market circumstances, exits are pursued in close cooperation with our co-investing partners.

In recent years, FMO has further improved its valuation process for equity investments and in addition more reliable information has become available. As per December 2015, a part of the equity investments was measured at cost price as best estimate for fair value.

As of first half of 2016, FMO was able to reliably estimate fair value of all its equity investments resulting in an unrealized gain that is reflected in the available for sale reserve

For accounting policies applied by FMO on their equity investments and investments in associates as per December 2016, reference is made to ***Annual Report p. 88 – 89 + p.124 + p.130 + p.131***

Credit Risk – Treasury

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.

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. Risk Management department is responsible to provide the ALCO with recommended actions.

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

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

7.4.2 Protections available for Credit Risk exposures – collateral management

Main types of collateral taken by FMO are real estate, business assets, mainly financial instruments i.e. guarantees, and collateral between derivative counterparties.

For prudential reporting, guarantees received and financial collateral are only used for credit risk mitigation as other collateral in emerging markets is not used for credit risk mitigation but to support FMO's position in renegotiation of loans.

7.4.3 Credit Risk under Standardized Approach

GENERAL INFORMATION CREDIT RISK UNDER STANDARDIZED APPROACH

FMO complies with the CRD IV/CRR requirements and reports its capital ratio to the Dutch central bank on a quarterly basis. FMO calculates the external capital requirement for its entire portfolio based on the Standardized Approach.

The Pillar 3 disclosure requirements prescribe that a credit institution classifies its assets into a number of standard exposure classes. For a credit institution using the standardized approach, these exposures are defined in the CRR as follows:

1. Central Government and Central Banks
2. Multilateral Development Banks
3. Public Sector entities
4. International Organizations
5. Corporates
6. Institutions
7. Items associated with high risk
8. Other items
9. Covered bonds

The classification above implies that CRR classification for Credit Risk is not based on the classification of assets as in the Annual Report. Apart from the classification of assets, numbers as reported in the Risk Management Chapter and Annual Report could also differ from the numbers reported for Credit Risk under Standardized Approach.

USE OF ECAIs

FMO uses the credit ratings of Moody’s, Standard & Poors (S&P). S&P is the primary rating agency of FMO

FMO applies ECAI ratings for exposure class institutions (securities rating or client rating if available), corporates (based on country ratings) and covered bonds.

Article 120 and Article 121 are applied in order to determine Risk weights for institutions. In case of corporates, a floor of 100% RW is applied in general. Furthermore, FMO uses country ratings to determine the appropriate quality step to assign the correct risk weight. In case the country rating of a counterparty, is not available, a 100% risk weight is assigned to these exposures conform Article 122. For calculation of capital charge for CVA risk, ECAI ratings of derivatives counterparties are used according to article 384 paragraph 2

FMO complies with the standard association published by EBA. The association is used to determine credit quality steps on basis of Moody's and S&P ratings and feed the systems in order to calculate credit risk capital requirements

Quantitative disclosure Credit Risk Standardized Approach

Reference can be made to several tables in ***Additional Pillar 3 disclosures 2016***

7.5 Counterparty Credit Risk

Qualitative disclosure Counterparty Credit Risk

Reference to point 7.4.1 of this document related to Credit Risk – Treasury

Quantitative disclosure Counterparty Credit Risk

According to the CRR, a credit institution should calculate the Own Funds requirement for credit risk for derivatives on its balance sheet. In order to calculate the exposure value for derivatives, financial collateral (cash collateral posted and received) are taken into account as well.

FMO is engaged in derivatives transactions with financial sector entities in Eurozone (banks or other financial institutions) in order to hedge currency risk (via cross currency swaps) and till some extent interest rate risk (via interest rate swaps). FMO does not have derivatives for trading purposes.

For external reporting according to Standardized Approach, FMO applies the Mark to Market Method according to Article 274 of the CRR. Furthermore, netting of derivatives transactions is performed according to Articles 295 – 298 of the CRR. According to credit risk mitigation chapter of the CRR cash collateral received is recognized as financial collateral and therefore, FMO applies Article 222 i.e. Financial Collateral Simple Method during the calculation of credit exposure related to derivatives.

Furthermore, according to CRR Articles 381 and 382, FMO calculates own funds requirement for CVA risk for all OTC derivative instruments in respect of all of its business activities on basis of Standardized Approach.

The CVA calculated for derivatives at 31 December 2016 is ***4 million EUR***.

For extensive quantitative information, refer to ***Additional Pillar 3 Disclosures 2016***

7.6 Securitisation

FMO does not hold any securitised positions as per December 2016

7.7 Market Risk

FMO is exposed to currency risk as FMO offers loans in emerging market currencies; FMO's aim is to match the currency needs of local banks and corporates. For this purpose, emerging market currency loans are swapped to USD.

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

For calculation of Own Funds Requirement for Market Risk, FMO applies the Standardized Approach according to Articles 351 until 353 of the CRR:

- Calculation of Own Funds Requirement for FX risk due to direct foreign exchange exposures, in emerging markets according to Article 351 of the CRR.

- Calculation of Own Funds Requirement for FMO's investments in CIU's where FMO is not aware of foreign exchange exposure, according to Article 353 of the CRR

For quantitative disclosure for Market Risk, please refer to Additional Pillar 3 disclosures 2016 (24)

7.8 Operational Risk

When calculating qualifying capital for operational risk, FMO uses the basic indicator approach. Under this approach, 15% of the relevant indicator is taken as a benchmark for the operational risk. The relevant indicator is the three-year average of the total of the annual net interest income and the annual net non-interest income at the end of the financial year. For FMO, the indicator is limited to the net interest income. The own funds requirement as per December 2016 for operational risk is ***35 million EUR***. The own funds requirement as per 2015 was ***31 million EUR.***

7.9 Interest Rate Risk in the banking book

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

FMO has no trading book and all assets (loans and investments) are part of the banking book. FMO's policy with regard to interest rate risk is to match funding within set boundaries: to match interest rate characteristics for assets, liabilities and derivatives per currency, and per remaining term as much as possible.

The interest rate risk is mainly coming from where fixed loans or bonds are funded by floating funding or where there is a difference in reference rates or currencies, resulting in basis risk. The marked to market volatility during the holding period of the asset is less of concern for interest rate risk management as it will be held to maturity.

For extensive information regarding interest rate risk policy and quantitative information refer to our ***Annual Report 2016 p 109 – 111.***

7.10 Leverage

Additional Pillar 3 Disclosures 2016 (3) provides information regarding the composition of Leverage Ratio as per year – end 2016 as calculated according to the Delegated Act.

FMO's leverage ratio exceeds the minimum target of 3% with enough cushion and is correlated to the Regulatory Capital Ratios. By monitoring the capital ratios, leverage ratio is managed simultaneously.

FMO' leverage ratio changed to 25.5% in 2016 from 22.8% in 2015.

The ratio improved in 2016 as Market to Market and add – on amounts for derivatives declined as FMO started applied netting for derivatives from Q2 2016 onwards. Furthermore, a reassessment was performed in Leverage Ratio for credit conversion factors(CCF) of off balance positions, leading to a shift from 50% to 20% CCF, leading to a lower Total Leverage Ratio exposure.

7.11 Unencumbered assets

All assets are unencumbered except cash collateral related to Credit Support Annex (CSA) agreements for derivatives.

FMO does not issue any securitised funding or covered bonds and is not engaged in securitised lending.

The tables in ***Additional Pillar 3 Disclosures 2016 (4)*** provide information regarding encumbrance of assets as per December 2016.

7.12 Governance arrangements and Remuneration Policy

7.12.1 Governance arrangements

Number of directorships held by the Members of the Management Board: At December 2016, the CEO, CRFO holds two directorships, next to his FMO Management Board role. The CIO also holds two directorships, next to the FMO Management Board role. The former CEO, Nanno Kleiterp, who retired in October 2016, held until his retirement two directorships, next to his CEO position.

Recruitment policy for selection of Members of Management Board: The Selection, Appointment and Remuneration Committee (SARC) initiates recruiting new Management Board (MB) members and advises the Supervisory Board (SB) on amongst others a general profile for MB members, an individual profile and when a vacancy occurs, on long and short list of candidates and a preferred candidate. The Works Council is asked for an advice. The SB appoints the members of the MB. The Annual General Meeting is notified about the appointment. FMO is a 51% State participation. The Dutch State therefore applies the Appointment Policy State Participations to FMO.

Policy on diversity: FMO strives for diversity of culture, age and gender at all levels. In the Diversity approach, FMO puts focus on gender, cultural and generations. It is FMO's goal to make fullest use of the benefits FMO's diversity brings. FMO strives a good balance of gender, nationalities and ages within the company. Some legal positive discrimination can be used to stimulate minorities within departments in which they are under-represented.
The network FMO Femmes FMO Femmes supports female colleagues in their career ambitions. Gender diversity is always discussed in appointment and succession decisions.

Set up of Risk Committees: FMO has several risk committees which report to the MB and which judge various risks, which are of importance to FMO, amongst others: an Asset & Liability Committee (ALCO), a Compliance Committee (CC) and an Investment Committee (IC). FMO's Supervisory Board has a dedicated committee to advise the SB on risk issues: a combined Audit and Risk Committee (ARC).

Description of the information flow on risk: In the most important risk committees, FMO's MB members either Chair the committee or are a member. For instance, the ALCO is chaired by the CRFO (Chief Risk and Finance Officer), the CEO chairs the CC, and the CIO is a member of the latter committee. Furthermore, the MB receives the minutes of the most important risk committees and in some cases, a verbal update takes place as well.

For extra information about Corporate Governance, reference is made to the following webpage of FMO's corporate website:

www.fmo.nl/corporate-governance

7.12.2 Remuneration Policy

FMO's Supervisory Board has a dedicated (combined) Selection, Appointment and Remuneration Committee (SARC). The SARC meets 2-3 a year and more often if necessary. The SARC renders an advice regarding the Remuneration Policy for MB members to the Supervisory Board (SB)

The SB proposes the Remuneration Policy for MB members to the Annual General Meeting. Since FMO is a 51% State participation, the Dutch State requires a sound remuneration policy according to its standards. FMO's Works Council takes note of the proposal. The Management Board determines the remuneration policy for other employees. An external evaluator, e.g. Korn Ferryl or Hays Group, advises on and evaluates FMO's remuneration policies. The remuneration of the Supervisory Board members is determined by the Annual General Meeting of Shareholders and complies with the Dutch Corporate Governance Code.

The remuneration related to performance is based on:

1. Job evaluation (by using the Korn Ferryl ; Hays Group methodology) and
2. A peer group analyses which makes use of different related reference groups

In May 2016, the maximum fixed remuneration level for the (new) CEO was adjusted to a maximum of EUR 271,000. For all Management Board members and other members of the Identified Staff no variable remuneration is applicable.

For extensive information about our Remuneration Policy and Corporate Governance, reference is made to the following webpage on FMO's website:

www.fmo.nl/corporate-governance

Detailed information regarding the detailed amounts of Remuneration reference is made to **Annual report 2016 page 64** and **Annual Report 2016 page 144 – 145** (under Related Party Information)

LIST OF ABBREVIATIONS

ALCO	Asset and Liability Committee
CCF	Credit Conversion Factor
CEO	Chief Executive Officer
CIO	Chief Investment Officer
CRFO	Chief Risk and Finance Officer
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
MB	Management Board
RWA	Risk Weighted Assets
SARC	Selection Appointment and Remuneration Committee
SB	Supervisory Board