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FMO KEY FIGURES

	2012	2011	2010	2009	2008
DEVELOPMENT IMPACT					
Development impact indicator [1]	910	861	687	590	831
made up of:					
• amount of new investments (€xmln)	1,390	1,306	1,026	911	1,314
• Average EDIS score	65	66	67	65	63
BALANCE SHEET (IFRS, €XMLN)					
Net loans	2,817	2,585	2,269	1,942	1,763
Equity investments portfolio [2]	914	795	688	531	456
Shareholders' equity	1,822	1,665	1,514	1,327	1,229
Debt securities and debentures/notes	3,292	2,679	2,365	2,180	1,295
Total assets	5,561	5,059	4,305	3,772	3,654
Committed investment portfolio [3]	6,281	5,874	5,292	4,598	4,182
of which are government funds [4]	831	828	726	721	639
PROFIT AND LOSS ACCOUNT (IFRS, €XMLN)					
Income					
Net interest income	154	147	133	109	106
Income from equity investments	89	46	52	27	87
Other income including services	28	45	40	30	17
Total income	**271**	**238**	**225**	**166**	**210**
Expenses					
Operating expenses	-56	-52	-50	-52	-56
Operating profit before value adjustments	**215**	**186**	**175**	**114**	**154**
Value adjustments					
• to loans and guarantees	-23	-23	-18	-46	-96
• to equity investments	-23	-36	-11	-6	-28
Total value adjustments	**-46**	**-59**	**-29**	**-52**	**-124**
Share in the results of associates	4	-9	5	-1	7
Profit before tax (including results from associates)	**173**	**118**	**151**	**61**	**37**
Taxes	-27	-25	-25	-1	11
Net profit	**146**	**93**	**126**	**60**	**48**
FMO IN-HOUSE ENVIRONMENTAL AND SOCIAL RATIOS					
Average number of full-time employees	306	283	270	264	249
Compensated CO_2 emissions (tons)	not available [5]	3,600	3,791	2,227	2,379

1) The development impact indicator (DII) gauges the relationship between the volume of new investment and the development impact of the investment.
2) Including associates
3) Committed investment portfolio concerns both investments for FMO's account and for government funds managed by FMO.
4) The government funds include Massif, IDF, AEF and FOM OS
5) This figure is not available for 2012 due to a change in compensation methodology. In previous years the Climate Neutral Group provided us our total CO_2 emissions compensation. However we have chosen to compensate the largest share of our CO_2 emissions at their source. As employee flight travel is our largest source of emissions, this share will be compensated through our preferred carrier, KLM. This data will only become available in March, and will therefore not be included in this report.

AT A GLANCE

FMO is the Dutch development bank. We support sustainable private sector growth in developing and emerging markets by investing in ambitious companies. We believe a strong private sector leads to economic and social development, empowering people to employ their skills and improve their quality of life. We specialize in sectors where we believe our contribution can have the highest long-term impact: Financial Institutions, Energy and Agribusiness, Food & Water.

Suggested links

- Strategy 2009-12
- Strategy 2013-16
- Watch the FMO Corporate Animation on our website

VISION AND MISSION

FMO finances entrepreneurs from developing countries because we believe a thriving private sector fuels economic and social progress.

Entrepreneurship is the key to creating sustainable economic growth and improving people's living standards. We invest in companies, financial institutions and projects with capital and knowledge, and we do it with the ultimate goal of empowering people to employ their skills and improve their own quality of life.

Our business is fuelled by a vision that we share with the World Business Council for Sustainable Development: a world in 2050 in which nine billion people live well and within the limits of the planet's resources. Within this vision, FMO's mission is to empower entrepreneurs to build a better world.

STRATEGY

Our 2009-2012 strategy focused on sustainability, partnerships and several focus sectors: Financial Institutions, Energy and, until recently, Housing [1]. Agribusiness, Food & Water was added as a focus sector in 2011. These sectors are integral to economic, social and environmental progress. FMO selects projects in these sectors because, owing to their often large scales, use of natural resources and importance to human development, they have high potential to create significant, positive developmental impact.

Our expertise in our 'focus' sectors means we can offer clients extensive knowledge and added value. We also take on projects in other sectors where we expect positive development outcomes. In cases where we do not have the necessary expertise ourselves, we partner with banks or other institutions that do.

We aim to finance at least 35% of our portfolio in low-income countries. In the past, approximately 90% of people living under the poverty line [2] lived in these low-income countries. The composition of poverty is changing, however, and we see that a substantial amount of the people living below the poverty line now inhabit countries considered middle-income countries. Although we do not directly finance those below the poverty line, we do invest in companies, projects and financial institutions whose businesses have a positive impact on the livelihoods of those below the poverty line.

Taking into account the changing nature of development finance and of poverty, our 2013-2016 strategy is aimed at placing us at the forefront of inclusive and sustainable development finance.

WHO WE ARE

Founded in 1970, FMO is a public-private partnership, with 51% of our shares held by the Dutch Government and 49% held by commercial banks, a Dutch union and other

1) Housing was previously a focus sector, but was discontinued at the end of 2011 due to unfavorable market circumstances. This will be further elaborated on in the Housing section.
2) We use the commonly accepted international definition of poverty line: living on roughly US$1 per day.

COMMITTED PORTFOLIO PER INCOME GROUP (RATED ON DATE OF COMMITMENT) (%)

	2012		2011		2010		2009	
	FMO	Total (incl. government funds	FMO	Total (incl. government funds	FMO	Total (incl. government funds	FMO	Total (incl. government funds
Low	40	43	41	44	38	42	34	40
Lower-middle	40	39	39	38	43	40	48	44
Upper-middle	20	18	20	18	19	18	18	16
	100	**100**	**100**	**100**	**100**	**100**	**100**	**100**

representatives of the private sector. FMO has an AAA rating from Standard & Poor's. FMO's solid profile allows us to invest in higher-risk markets, either with our own capital or on behalf of the Dutch Government.

PRODUCTS AND SERVICES

Developing countries are often considered high risk. Because of this, even their most innovative, promising businesses often lack access to the financing needed to reach their potential. FMO meets this need with a range of services and products that include:

- Equity;
- Loans and guarantees;
- Long-term and short-term project finance;
- Mezzanine finance and other tailor-made solutions;
- Capital market transactions; and
- Access to our expertise, network and partnerships.

FMO tailors each financial service to meet the needs of each particular client. These financial services are often long-term and carry higher financial risks than commercial investors are willing or able to take. A minor part of our investment financing is partially guaranteed by the Dutch State under the Faciliteit Opkomende Markten (FOM).

Throughout the annual report all figures or percentages for 'FMO' refer to the financing activities from FMO's own resources including FOM.

For clients and projects whose risks are too high for our own account, we make use of our access to Government funds, providing clients with innovative financial structures. FMO has access to the Government funds Massif, Infrastructure Development Fund (IDF), Access to Energy Fund (AEF) and FOM OS which was newly set up in 2012. These Government funds are an important part of FMO's strategy. Unless specifically stated differently, all figures in the annual report regarding new commitments, committed portfolio and development impact include these financing activities from Government funds.

Alongside financing, we provide services such as environmental and social management support and assistance with corporate governance, which can mitigate many of the risks involved. We also have a Capacity Development program, which supports clients with the aim of improving their management skills and technical expertise.

SUSTAINABLE DEVELOPMENT IMPACT

Sustainability is a cornerstone of FMO's business and we seek to invest in projects that have high potential to positively affect all spheres of development – not just economic.

We invest with the goal of having broad positive economic, social, environmental and governance impact in our clients' countries. We work closely with our clients and

COMMITTED PORTFOLIO PER SECTOR PER REGION (€XMLN)

2012	Financial Institutions					
	Investment funds	Other	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
Africa	362	550	501	26	436	1,875
Asia	274	551	297	77	388	1,587
Latin America & the Caribbean	154	574	318	179	143	1,368
Eastern Europe & Central Asia	253	523	74	89	177	1,116
Non-region specific	136	114	11	42	32	335
Total	**1,179**	**2,312**	**1,201**	**413**	**1,176**	**6,281**

2011	Financial Institutions					
	Investment funds	Other	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
Africa	341	546	452	7	402	1,748
Asia	285	453	235	83	462	1,518
Latin America & the Caribbean	132	511	270	157	169	1,239
Eastern Europe & Central Asia	212	589	49	69	162	1,081
Non-region specific	137	86	12	14	39	288
Total	**1,107**	**2,185**	**1,018**	**330**	**1,234**	**5,874**

partners to assess the developmental impact of our investments and, if needed, help them improve on the most relevant sustainability criteria.

FMO considers expected environmental, social and governance (ESG) impact from the outset. We work with our clients to identify criteria and define action plans to optimize this impact, monitoring progress and offering support when needed.

Five years after a project is contracted an evaluation is conducted. We assess the business success of the project or company, but also its impact on the local economy, community and environment.

KNOWLEDGE AND INNOVATION

As global systems and economies grow more complex and volatile, companies must become more adaptable to remain successful. As FMO's markets become more competitive, it is imperative that we become ever more adaptable and innovative in order to maintain and improve our position. At FMO, we believe that knowledge building and sharing are integral to facilitating adaptive change and innovation. We pride ourselves on running a knowledge-based business.

STAKEHOLDERS

At FMO we strive to build long-term partnerships with our stakeholders. These include clients, employees, shareholders, financial partners, supervisors, the Dutch Government, non-governmental organizations, local communities in which we work and many more. We regularly engage our stakeholders throughout the year, with events ranging from more targeted meetings to multi-stakeholder conferences. Read more on how these relationships are addressed in the Stakeholder Engagement chapter.

Suggested links

- Stakeholder Engagement Chapter
- Governance Chapter
- MB Report Chapter
- SB Report Chapter

GOVERNANCE STRUCTURE

As a public-private development bank, it is crucial that our governance structure and reporting lines are sound and transparent. This is even more important for a bank that plays a prominent role in embedding good corporate governance practices in partner and client organizations.

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 we comply 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 management and strategic development 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.

REPORTING POLICY AND JUSTIFICATION OF CHOICES

Since 2006, we have integrated sustainability reporting into our annual report. We acknowledge that our environmental and social impact is most affected by our investments and thus by our clients, rather than by our own work at our office in the Netherlands, where labor, environmental and social standards are already high. As such, we are working towards more fully quantifying the elements of our business that have an impact on sustainability.
FMO publishes its integrated financial and sustainability report annually by April. It is then submitted for adoption to the Annual Meeting of Shareholders, which takes place in May.

Global Reporting Initiative

FMO follows the Global Reporting Initiative (GRI) 3.1 Sustainability Reporting Guidelines, including the Financial Services Sector Supplement, which sets the basis for our reporting method.

A self-assessment of our annual report according to the GRI 3.1 standards put us at Level B+. At present, GRI is preparing a new methodology called the G4. At the same time, FMO has begun to work towards a higher standard of integrated reporting. Given these developments, we have chosen not to pursue a GRI A+ level in the 2012 Annual Report. We will instead focus on maintaining our GRI B+, while following closely the developments of the IIRC draft framework.

For ease of reference, we have indexed the content of this report in a GRI matrix (available on-line). We use the 'comply or explain' principle.

Assurance

FMO reports according to the requirements of section 2:391 of the Dutch civil code. FMO asked KPMG Sustainability to provide limited assurance on the Report of the Management Board section of this integrated annual report. The assurance is conducted using the ISAE 3000 standard.

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 RJ400 Dutch legal guidelines for reporting and takes into consideration the suggestions of our stakeholders.

Quality of Data

The data presented in this annual report are taken from FMO's internal systems, which are integrated and used for registering and monitoring 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.

Manner of Reporting

This report was written and structured for the purposes of online publication. As a result, certain texts and tables may be repeated in several places. The intention is to provide as much information as we can for as diverse a group of stakeholders and readers as possible.

Use of Case Studies

Throughout this report, you can find a total of 15 case studies that clarify and contextualize our activities in 2012.
The cases selected are not necessarily representative of the entire portfolio or of new contracts throughout the reporting year. They do, however, exemplify projects located within FMO's strategic sectors and regions. All but one cases were contracted, paid out or exited during 2012. The remaining one was evaluated during the reporting year. References to transactions closed in 2012 can be found primarily in the sector chapters.

CONTACT US

We are keen for contact with all our stakeholders. If you have any questions or comments about FMO and our work, please contact:

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Report of the Management Board

FROM THE CHIEF EXECUTIVE OFFICER

Last year was a very successful year for FMO. We produced a better-than-expected Development Impact Indicator (DII) and at the same time good economic returns. We realized more than 85% of the environmental, social and governance (ESG) improvement targets we set with our clients, which we see as a major achievement. It is only in the area of catalyzing third-party funds that we did not meet our expectations. This was mainly due to the fact that a lot of Western commercial banks are drastically reducing their lending activities in emerging markets. In low-income countries we saw very limited activity from Western financial institutions.

In spite of this, FMO's economic performance was very good. These results signify the changes we see taking place around the world, with emerging markets becoming more and more important destinations for finance. FMO is very well placed to empower entrepreneurs. With all the global sustainability challenges it is increasingly important to support those businesses that contribute to a more sustainable future – a world in 2050 where we can live well and within the limits of the planets.

We are now at a point at which we can look back on our 2009-2012 strategy period. Despite the crisis in Europe and the United States, FMO's performance was very good. Over the 4-year strategy period we realized €4.6 billion in new commitments, with an average Economic Development Impact Score (EDIS) of 66. We integrated ESG in our front office and set SMART[1)] targets for our clients with the help of FMO management. We managed to increase our focus on low-income countries, from 30% of the committed portfolio in 2008 to 40% in 2012.

During the previous strategy period we decided to cease our activities in the housing sector for a lack of strategic partners and bankable projects. We began to focus strongly on agribusiness, food and water, because of the great importance of this sector in feeding 9 billion people in 2050.

Beyond being a profitable year for the business and a reflective period for our previous strategy, the past year was also a marker for transition. The last few years have highlighted the increasingly important role that the private sector plays alongside official development assistance in creating lasting development impact. We see our role growing in importance, as we strive to empower entrepreneurs to stimulate sustainable economic growth. This role becomes even more important as the composition of global wealth and poverty changes.

Three global trends are becoming increasingly evident. The first describes the push towards finding a way for nine billion people to live well in 2050, within the means of the planet. The second trend shows the emergence of a multi-polar world, where Western economies no longer dominate the East and South. The third is the reinvention of official development assistance, with many actors moving away from an annual volume target and towards achieving demonstrable, cost-effective impact.

The first trend is the most crucial in the long term, and is central to FMO's mission. Ultimately, we seek to contribute to this sustainable, inclusive future. We envision a world in 2050 that has achieved a sustainable way of living, producing and consuming, in which people can live good, peaceful lives.

This vision forms the basis of our new four-year strategy, whose development was an important part of the last year. Our 2013-2016 strategy builds on our 2009-2012 'Moving Frontiers' strategy but incorporates the global changes that have become apparent in the last three years.

Our new strategy is built around an audacious goal: to become the leading impact investor by doubling impact and halving footprint by 2020. While we continue to invest in the private sector in developing economies, we will do so in a manner that reflects the renewed urgency of our mission. The first step will be to establish measurements for impact and footprint in all our areas of operation. This will enable us to steer our business towards doubling that impact, while also halving the associated footprint.

With an eye on the future, we begin a challenging and highly motivating strategy period. We will actively align the selection of our investments with global sustainability challenges, such as resource depletion and climate change, while redesigning our impact measurement framework so that FMO's development impact becomes more transparent and accountability increases. We will broaden and deepen the communication channels with our stakeholders, involving them in the pursuit of this most audacious new goal.

I wish to thank all our employees for their sterling efforts and achievements in 2012. I look forward to continuing our journey and increasing our development impact even further in 2013 and beyond.

Nanno Kleiterp
Chief Executive Officer

1) Specific, Measurable, Attainable, Relevant and Timely.

STRATEGY: FROM MOVING FRONTIERS TO BECOMING A LEADING IMPACT INVESTOR

Strategy 2009-2012

2012 was the last year of our previous strategy period. The core ambitions of the Moving Frontiers strategy were creating more development impact by moving to low-income countries (LICs), developing leadership in sustainability and in our three focus sectors, and catalyzing commercial investors to invest in difficult markets. The strategy and its outcomes were thoroughly evaluated last year to assess whether we had achieved the desired increase in development impact. Please find below our main targets.

	Target	Realization
Total Portfolio including state funds	€5.8 billion	€6.3 billion
Total portfolio in LIC's excluding state funds	35%	40%
Renewable Energy	€400 million	€736 million
EDIS (average)	64	65
Net 5 year average return on share-holders' equity	6%	6.4%
Cost to income	25%	21%

Low-Income Countries (LICs)

We implemented the move to LICs successfully. By the end of the strategy period 2009-2012, we exceeded the target of having 35% of the FMO portfolio in low-income countries by 5 percentage points at 40%. When including the Government funds the portfolio in low-income countries amounted to 43%.

Sector-Based Approach

At the start of the strategic period, we set Energy, Housing and Financial Institutions as focus sectors. Agribusiness, Food & Water was added as a focus sector in 2011. Unfortunately, we were forced to discontinue Housing as a focus sector in 2012, due to unsatisfactory financial results, a lack of strategic partners and a largely undeveloped market for affordable housing.

In spite of the setback with Housing, our focus sector approach allowed us to develop considerable experience and expertise in specific operational areas, for example the energy industry in Africa. We were particularly successful in further expanding our renewable energy portfolio across all regions. Our ambitions to lead in terms of market position or innovation were only partially realized due to our small size in relation to our target markets. We will continue to pursue these ambitions in the coming strategy period.

Sustainability

We achieved good results in sustainability, an area where FMO is now viewed as one of the leading development finance institutions (DFI). As the only DFI to our knowledge with dedicated environmental and social (E&S) expertise embedded in our sector departments, we aim to add value not only in environmental, social and governance (ESG) risk management but also in advising our clients where ESG opportunities lie in their business. This year we increased our Development Impact Indicator to 910, up from 861 in 2011.

We are now intensifying our efforts in implementing good corporate governance throughout our business.

Stimulating Innovation

In the last two years, knowledge and innovation within FMO has focused mainly on improving the capacity for and culture of knowledge sharing. We have implemented new knowledge management systems and changes within FMO to foster a knowledge-sharing culture. Innovation is highly valued at FMO, and has been made more salient through initiatives such as innovation awards, the establishment of an innovation team and the building of an 'innovation pipeline'. We see knowledge sharing and innovation as complementary elements of FMO's business, the goal of both being the highest quality of service. In the coming years we will continue to enable innovation and strive to provide knowledge-based solutions for our clients.

Catalyzing Investment

Our results in catalyzing commercial investment undershot our target. This was due to the sharply decreased risk appetite among commercial investors amid the global crisis. As a result we were not able to fully realize our ambitions in third-party fund management.

Conclusion

Overall, we can conclude that our 2009-2012 Moving Frontiers strategy was successful. It led to strong financial performance and portfolio growth, allowing us to achieve our targeted return on equity of a five-year average minimum of 6%, to consistently outperform our cost-to-income target of between 25% and 30% and to maintain good portfolio quality. We were also happy to surpass our targeted Economic Development Impact Score (EDIS): we scored 65 in 2012, one point above our original target. The insights obtained regarding the requirements and expectations of commercial investors were instrumental in developing a new fund management strategy to be implemented in the years to come.

Building on the success of and learning from the Moving Frontiers strategy, we will continue along the same strategic lines for the 2013-2016 period. Our intention is to further increase development impact and to add more value for our clients.

Strategy 2013-2016

The starting point for our 2013-2016 strategy is an audacious goal: by 2020, FMO will be the leading impact investor by doubling impact and halving footprint.

In the next four years, we will deepen our focus on our Financial Institutions, Energy and Agribusiness, Food & Water focus sectors, which are integral to economic development and a more sustainable world as the global population moves towards nine billion by 2050. A newly created team will also begin the operations of FMO's Investment Management arm.

We aim to increase our catalyzing role through fund management for third parties and syndicated loans, in order to maximize the development impact of our projects. We will also tighten our link to the Netherlands by partnering with Dutch companies and making use of the growing network of similarly oriented organizations within the Dutch market.

Within this new strategy, our goal is to be the first financial institution that sets measurable targets for both our development impact and our environmental footprint – comprising both FMO's activities and those of the clients we finance. These will also go towards further refining our integrated reporting efforts.

Instrumental to the success of our new strategy is the choice of countries and sectors in which we operate. In the coming years, we will invest at least 70% in low and lower-middle income countries, and at least 35% in the 55 poorest countries[1] through own financing. Please refer to the table below for more information on our portfolio commitment in 2012.

Underlying our new strategy is our financial sustainability and efficiency in which we target a return on shareholders' equity of a minimum of 6% and a cost to income ratio between 25% and 30%.

Catalyzing Investment

Provided that investments meet our criteria, more investments create more impact. To maximize impact, we will increase both our own investment volumes and those catalyzed from others so that by 2020 we are catalyzing one euro for every euro we invest. We will do this in three ways:

1. Catalyze commercial investors from the North and South, particularly in more developed countries, through syndications and risk sharing. We will focus on investors from the South to partially replace the crisis-induced withdrawal of investors from the North.
2. Become a fund manager for investors who seek broad exposure in emerging markets and/or wish to make a positive developmental impact. This growing appetite for impact investing presents an opportunity to access a new pool of funds and for FMO to lead investors towards emerging markets.
3. Mobilize other DFIs to efficiently serve larger demands from clients in less developed countries.

Clients

Clients are the means by which FMO achieves its objectives. Based on client feedback, we

1) Based on World Bank GNI/capita data per April 2012.

FMO COMMITTED PORTFOLIO IN 55 POOREST COUNTRIES AS PERCENTAGE OF TOTAL PORTFOLIO (%)

	Financial Institutions					
2012	Investment funds	Other	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
Africa	4	6	6	0	5	21
Asia	2	5	2	1	4	14
Latin America & the Caribbean	0	0	1	1	0	2
Eastern Europe & Central Asia	0	1	0	0	0	1
Non-region specific	0	0	0	0	0	0
Total	**6**	**12**	**9**	**2**	**9**	**38**

have identified three principal areas in which we can add value in addition to providing financing, and can ensure we remain a relevant partner for clients in the future.

1. We will enhance our transfer of knowledge through advisory services, with a specific focus on environmental, social, and governance aspects.
2. We will promote networking and matchmaking between clients and with parties in the Netherlands.
3. We will increase client intimacy by building on the strength of our client interaction and account management.

Dutch Interest

FMO has a unique position between the Netherlands and developing markets. This position can be used to benefit both our clients overseas and our stakeholders at home. We will tighten our Dutch link by combining the assets of FMO and those of universities, knowledge centers, businesses and networks in the Netherlands. We will focus on four areas:

1. Knowledge-sharing per focus sector through partnerships with relevant Dutch knowledge centers, such as universities. There is great potential for establishing partnerships on sustainability and climate change.
2. Providing finance to or for the benefit of Dutch companies. This can be through direct finance to Dutch companies expanding into emerging markets or enhancing trade finance for Dutch banks, which further benefits Dutch exporters.
3. Fund management for Dutch institutional investors who often lack the scale and experience to invest directly in emerging markets. FMO is a knowledgeable partner with a good track record, and offers a diversified portfolio that smaller investors would be unable to build themselves.
4. Matchmaking between clients and with parties in the Netherlands.

Outlook 2013

2013 is the first year of our new four-year strategic period. We expect to invest substantially in the new strategic initiatives we have set. One initiative that stems directly from our new strategy is our Strategic Horizon for Impact and Footprint Transition (SHIFT) project. Launched in the third quarter of 2012, the SHIFT project team is responsible for defining draft targets, indicators, deliverables and methodologies in line with our commitment to double our impact and halve our footprint by 2020, as well as kicking off their implementation throughout FMO. This work will pick up pace in 2013, when we plan to draft a baseline measurement for impact and footprint, which in time will form the basis of individual targets for the bank, sectors and/or departments.

Another important strategic initiative is a drive to increase efficiency. This will help FMO to serve clients better, remain competitive, to be prepared for growth and to be an attractive catalyzer of commercial and impact investors.

The year ahead holds potential and uncertainty in equal part. Although it began with signs of an upswing, the Eurozone remains fragile and economic growth in the West is set to remain sluggish. As Western commercial banks remain under regulatory and capital pressure, they are unlikely to invest more in developing countries. Within this global economic environment FMO will have an increasingly important role to play. We enter 2013 with a strong investment portfolio, a healthy pipeline, a well-diversified funding base and a solid capital position; these place us in an excellent position to continue pursuing greater sustainable and inclusive development impact.

FMO IN 2012

Global Economic Challenges

The world's economic challenges certainly did not dissipate in 2012, but the markets in which we operate continued to fare well. Demand for FMO financing was buoyant and we enjoyed a strong year with record volumes of new investments.

Commercial banks in the North and West continue to experience financial turbulence. At the same time, regulatory requirements are pushing up the cost of lending for both commercial and development finance institutions. Persistent global economic uncertainty has fostered a more cautious atmosphere, and even emerging market financial institutions, which have generally been less affected by the crisis, have a smaller appetite for extending credit to companies.

The global economic situation left demand for FMO funding relatively unscathed in 2012. We again achieved most of our targets and key strategic objectives in terms of both financial performance and development impact.

Suggested links

• Financial Results Chapter

FMO Portfolio Developments

A priority of FMO's 2009-2012 strategy was focusing on low-income countries, where access to long-term finance is even more limited than in other developing countries. The share of low-income countries in the FMO portfolio was 40% in 2012 compared to 41% in 2011. This was well above our long-term target of 35%, and compares with 34% in 2009.

Our average Economic Development Impact Score (EDIS) in 2012 was 65, above the target of 64 we set for each year of our 2009-2012 strategy.

Total income rose compared to 2011 and surpassed our expectations for 2012. Our investments in energy projects were innovative and satisfying, and we were pleased to act as mandated lead arranger in a number of transactions in that sector.

Our 2012 income was boosted by good results in private equity exits. Our overall portfolio quality remained in excellent shape, with only 3.5% of non-performing loans, and broad diversification of assets across geographies and sectors.

Among the countries to which FMO has major exposure, India saw some economic slowdown. It nevertheless continues to offer plentiful investment opportunities. Some sectors, such as solar, are showing signs of overcapacity. Turkey, where we had our biggest private equity exit last year, continued to flourish.

Nigeria remains a compelling market. We are heavily involved with its banking sector, and see opportunities in its energy industry, which is ripe for reform. South Africa has grown considerably as a share of our portfolio, especially in the renewable energy area. Less promising were countries such as the Ukraine, which has considerable economic potential but is hamstrung by political instability. Argentina's economic and political turmoil forced us to focus on supporting existing clients rather than courting new business.

The downside of European and US commercial banks' withdrawal from developing markets is the difficulty of catalyzing commercial third-party funds to join our transactions. We therefore relied on other development finance institutions and Southern banks for our catalyzing activities in 2012.

New ratings

We were delighted to be ranked number 1 in sustainability by Sustainalytics, a global responsible investment research firm. In a peer group of 24 financial institutions we received an overall sustainability score of 86%, significantly above the sector average of 54%. We received high scores on all three themes – environment, governance and social. We were also assessed by Oekom Research, another rating agency. We scored a B or 'prime' rating – the highest within our peer group.

Our Sustainalytics and Oekom Research ratings helped ensure the successful issue of our first ever 'sustainability bonds', which are placed under FMO's Global Medium Term Note (GMTN) program. These bonds subscribe to the same criteria as our other financing activities, including best practices in ESG risk management and compliance with the FMO exclusion list, which clearly identifies trades and industries that FMO does not invest in. They signify a commitment to sustainability on a deeper corporate level. This year they were placed with KLM and Triodos, two companies who strive to make sustainable investment a part of their business.

Partnership is integral to the FMO approach. In April 2012, we opened a joint office in Johannesburg with DEG, the German development finance institution. The Johannesburg office is our only regional office at present, and currently employs three FMO and seven DEG staff. This office is expected to increase efficiency for and contact with our shared clients in Southern Africa, and facilitate further growth in our operations in Southern Africa. We closed several joint transactions with DEG in Southern Africa in 2012, such as solar and wind projects in South Africa. In the coming year we will explore whether this office could be a model for further cooperation with DEG in other regions.

Suggested links

- Read more about FMO's sustainability bonds on our website

Sector Outcomes

Last year was the first full operational year for our Agribusiness, Food & Water team. We cooperated closely with Rabobank and other international financial institutions on a number of projects, making use of their experience and expertise in this area. This sector is important but highly challenging, and raises a host of dilemmas not least of which is the critical attention of non-governmental organizations, which closely monitor us on issues such as animal welfare, land-grabbing and local community involvement.

In 2012, we ceased our investment activities in the Housing sector. When we introduced it as a focus sector in 2009, we were convinced of its high development impact, seeing affordable housing as a means to stimulate development and lift people out of unacceptable living conditions. While this remains true, market circumstances were such that developing a sizeable Housing portfolio with satisfying financial performance would have remained a major challenge in the coming years. In a sense, we started our focus on Housing too early, and faced not only a tumultuous sector but also an underdeveloped market. Although major efforts were put into developing our Housing focus, we judged that it would be prudent to discontinue it in 2012 and invest resources in our other focus sectors.

GROUP PERFORMANCE

Financial Highlights

Key financial results in 2012 include:

- €1,390 million in new investments (2011: €1,306 million) and catalyzed €632 million (2011: €634 million) from third parties
- €6.3 billion total committed portfolio (2011: €5.9 billion)
- €146 million net profit (2011: €93 million)

Please refer to the table below for more detail on new contracts in 2011 and 2012.

NEW CONTRACTS PER SECTOR PER REGION (€XMLN)

	Financial Institutions					
2012	**Investment funds**	**Other**	**Energy**	**Agribusiness, Food & Water**	**Diverse Sectors**	**Total**
Africa	35	125	168	19	116	463
Asia	30	168	92	0	6	296
Latin America & the Caribbean	33	160	79	43	37	352
Eastern Europe & Central Asia	39	79	25	31	23	197
Non-region specific	5	44	0	29	4	82
Total	**142**	**576**	**364**	**122**	**186**	**1,390**

	Financial Institutions					
2011[1)]	**Investment funds**	**Other**	**Energy**	**Agribusiness, Food & Water**	**Diverse Sectors**	**Total**
Africa	0	154	160	0	142	456
Asia	37	127	60	16	67	307
Latin America & the Caribbean	8	131	88	26	26	279
Eastern Europe & Central Asia	0	103	45	13	64	225
Non-region specific	20	12	0	0	7	39
Total	**65**	**527**	**353**	**55**	**306**	**1,306**

1) As Housing sector was ceased by the end of 2011, comparative figures have been adjusted accordingly.

Operational Highlights

Highlights of 2012 can be found throughout this report. Here are some of our key operational achievements:

- We developed an audacious new strategy for the next four-year period. The 2013-2016 strategy aims at FMO becoming the leading impact investor by doubling impact and halving footprint by 2020.
- We created FMO Investment Management, a dedicated fund management team that will contribute to our strategic goal of catalyzing one euro for every euro we invest ourselves by 2020.
- We opened a joint office in Johannesburg with DEG, FMO's only office outside the Netherlands. Through a stronger regional presence we hope to greatly increase efficiency for our shared clients in Southern Africa, better position ourselves to grow our business further in Africa and strengthen our strategic partnership with DEG.
- FMO was rated number 1 on sustainability in a peer group of 24 institutions by highly-respected rating agency Sustainalytics. We received an overall sustainability score of 86 out of 100, significantly above the sector average of 54, and high scores on all three themes rated: environmental, governance and social. We also scored a B, or 'prime' rating, with Oekom Research, another sustainability rating agency.
- Our private equity investment level returned to the robust levels of the 2007-2008 pre-crisis period. We realized outstanding results on private equity exits and participated in an exceptional number of direct private equity investments, which were all co-investments with fund managers.
- We maintained our focus on low-income countries. Some 43% of our total portfolio (including Government funds) was committed to these markets at end-2012, versus 44% at end-2011.
- We maintained a diversified portfolio centered around on our three key sectors. Our projects are spread across more than 90 countries and a range of sectors, helping us to substantially mitigate our risks.
- We were ranked 'Best Employer in the Dutch Financial Sector' by research company Effectory and publisher VNU Media. The ranking was based on a survey of banks, insurance companies and financial consultants.

DII (DEVELOPMENT IMPACT INDICATOR) NEW CONTRACTS PER SECTOR PER REGION

	Financial Institutions					
2012	**Investment funds**	**Other**	**Energy**	**Agribusiness, Food & Water**	**Diverse Sectors**	**Total**
Africa	20	80	115	11	76	302
Asia	21	108	59	0	4	192
Latin America & the Caribbean	23	103	50	30	25	231
Eastern Europe & Central Asia	27	50	19	20	13	129
Non-region specific	3	30	0	20	3	56
Total	**94**	**371**	**243**	**81**	**121**	**910**

	Financial Institutions					
2011	**Investment funds**	**Other**	**Energy**	**Agribusiness, Food & Water**	**Diverse Sectors**	**Total**
Africa	0	103	115	0	98	316
Asia	24	82	32	10	44	192
Latin America & the Caribbean	5	86	58	15	17	181
Eastern Europe & Central Asia	0	67	32	8	40	147
Non-region specific	13	8	0	0	4	25
Total	**42**	**346**	**237**	**33**	**203**	**861**

SUSTAINABILITY

Sustainability is integral to FMO's business. We believe that sustainable environmental, social and governance (ESG) business practices are invaluable in a world facing a surging population and limited resources. As well as holding our own business up to the highest sustainability standards, we seek clients and partners who share our vision. We are committed to sharing our sustainability expertise and knowledge with our peers, partners and clients. We work closely with the latter to help them implement ESG criteria and reach their sustainability goals.

Our experience has shown that incorporating ESG opportunities into business models is essential both for mitigating risk and creating development impact. Solid sustainability practices also go hand in hand with strong financial results. An internal analysis of private equity funds found a strong positive correlation between ESG performance and financial performance[1)]. In addition to this, attention to ESG stimulates innovation and can improve a company's bottom line by, for example, lowering costs or reducing waste. It can also help businesses increase productivity, enhance access to capital and open up new markets.

Sustainability Management Approach

Sustainability is embedded throughout the organization. The strategic responsibility lies with a core Sustainability team, which consists of a Sustainability Manager and a Sustainability Development Analyst. Radiating out from this core is a wider group of E&S specialists that are embedded within each team and department in the bank. The Management Board is responsible for setting the sustainability agenda and developing policies, while front office directors are involved in strategy implementation and supporting sustainability initiatives. On an operational level, sustainability is monitored through our proprietary system, SusTrack. The system allows specialists to track and monitor clients' ESG action items and progress. To our knowledge, FMO is unique in its level of sustainability integration.

Major Developments in 2012

FMO made several new achievements in sustainability in 2012. Our commitment to embedding sustainability and pursuing responsible investment was confirmed by the high ratings FMO received from both rating agency Sustainalytics and German rating agency Oekom Research.

Two third-party assessments placed FMO at the forefront of its industry in terms of sustainability. In the Sustainalytics survey, FMO came out number 1 among a peer group of 24 financial institutions, which included the European Investment Bank and the World Bank. In its study, Oekom Research classified FMO as "Prime" with a B-score, the highest ranking among a group of industry peers.

In 2012 FMO placed its first 'sustainability bonds' with Triodos and KLM, two leading Dutch companies interested in sustainable investing. The bonds make explicit FMO's adherence to ESG criteria, as well as an exclusion list, which details activities that FMO does not finance (such as child labor and weapon production). The bonds demonstrate investors' commitment to sustainability.

We strengthened our partnership with the World Wildlife Fund (WWF) in 2012. FMO and WWF signed a provisional cooperation agreement outlining our intention to participate in joint events and knowledge-sharing activities. WWF's expertise as an established and respected NGO is highly valuable for FMO, providing, among other things, a sounding board for the exchange of ESG ideas and strategies.

We collaborated with WWF and UK development finance institution Colonial Development Corporation (CDC) on the presentation of a joint study on the palm oil industry. Profitably and Sustainability in Palm Oil Production is the first study made of the financial costs and benefits of producing palm oil sustainably under the Roundtable on Sustainable Palm Oil (RSPO) guidelines. While FMO does not at present finance any palm oil projects, we see this study as an excellent insight into the 'business case' for, or financial logic of, sustainability.

We also partnered with WWF and International Finance Corporation (IFC) in a survey of the soy sector. The report was structured in a balance sheet format, which to our knowledge makes it the first of its kind. This study shows there are financial benefits for soy producers in Brazil and Argentina who comply with industry criteria for responsible soy farming. The study demonstrates positive returns on compliance investments within three years.

ESG Action Plans and Incentives

Putting together ESG action plans for our clients has been part of FMO's financing process for many years. The ultimate goal of these plans is to mitigate a client's ESG risks and, if possible, capitalize on opportunities to enhance ESG. Over the past few years we have made these plans SMART – specific, measurable, achievable, relevant and timely. This means that for each action plan, we identify the most relevant ESG criteria, determine which criteria have been met and identify the measures that need to be taken to meet those still outstanding. We help clients to meet ESG requirements where possible, helping them to make changes such as

1) Bastiaan Quast, Hans-Stefan Michelberger, et al. (2012) "On Correlation Between PE Funds' Environmental, Social and Governance Management and their Financial Performance".

cutting carbon dioxide emissions, improving labor conditions, meeting legal minimum wage requirements and implementing policies for governance.

We oversee the implementation of these action plans through our proprietary Sustrack monitoring system, which allows us to monitor the ESG performance of clients on a continuous basis and enables swift intervention when necessary.

In 2012, 8% of our clients had action items due. We assisted these clients in achieving 88% of these action items (149 actions completed out of 169 actions due in 2012), exceeding our company wide target that was set to 85%. In 2013 we aim to again realize at least 85% of all the agreed action items due in the year FMO's price incentive mechanism also encourages clients to put ESG into practice. To our knowledge, we are the first development bank in the world to have developed a framework for offering a reduced interest rate to borrowers who complete ESG action items within a set timeframe. We term this pricing incentive a 'margin reduction incentive'. The margin reduction pilot was launched in 2009, and last year we performed the first evaluation. As of the second quarter of 2012 FMO had 25 transactions with a margin reduction incentive. Between 2009 and 2011 all four eligible margin reductions were triggered on schedule. In 2012 another seven became eligible, of which three were triggered. The margin reduction incentive has indeed proved a useful tool in motivating clients to invest more energy in completing ESG action items. However, further research is needed to clarify whether this finding is applicable to all our clients or only true for clients already interested in ESG. FMO works with third-party consultants to assess whether client agreements have been fulfilled.

FMO's Financial Institutions team held a roundtable event in Paraguay last year to help raise ESG standards in the country, bringing together industry peers to discuss issues and possibilities for implementing best practice. In Bangladesh, FMO organized an E&S study tour to the textile, ready-made garments, ship building and ship recycling industries for DFI partners. The tour was organized in partnership with our client Eastern Bank Limited (EBL), one of the leading commercial banks in Bangladesh. The study tour focused on gaining insight into the environmental and social improvements taking place in the textiles industry and understanding the E&S challenges in the ship recycling industry. This can be regarded as a first step towards jointly defining sustainable approaches to improving E&S standards in the industry. A client-focused E&S awareness event was also co-organized with EBL, bringing together the bank's clients operating in sectors with high E&S risks to exchange knowledge, ideas and best practices.

FMO also played a key role in supporting the Nigerian banking sector and Central Bank in efforts to integrate E&S awareness in the industry. In 2012, the banking sector officially commenced implementation of the Nigeria Sustainable Banking Principles, which were developed by the banks themselves with technical advisory support from FMO and IFC. These banking principles and guidelines cover the power, oil and gas and agriculture sectors in Nigeria, providing a framework to enable the financial sector to address E&S issues in its lending and investment decisions. FMO uses the Performance Standards developed by the International Finance Corporation (IFC) as one of its E&S tools. Another important guiding tool is our exclusion list, which clearly identifies businesses that FMO does not finance. This includes any activity, production, use, distribution, business or trade involving forced or child labor, radioactive materials, the destruction of High Conservation Value areas and more. We follow best practices in our governance standards, though these are based on independent regulatory requirements per country. We are also member of various national and international associations in the fields of responsible finance, poverty alleviation and sustainability. Please visit our website to learn more about the organizations we partner with in our pursuit of industry standards and operational criteria that contribute to a fairer and more sustainable future.

Improving Corporate Governance

Improving our clients' corporate governance is a key part of our ESG focus. In 2012, FMO continued to play a leading role in developing corporate governance standards within the DFI community.

In 2012 we made progress in formulating a new corporate governance strategy that will be rolled out in 2013. The strategy has implications for FMO's portfolio, especially in terms of our equity investments in client companies and the process through which we nominate board members to retain overview and influence. The corporate governance strategy also addresses the interaction with independent nominee directors in our portfolio and processes for improving corporate governance training at FMO.

FMO uses the DFI Toolkit on Corporate Governance, which sets a clearly structured roadmap that we and our clients can both consult. This roadmap is flexible enough to differentiate between clients according to their development stage. Last year, we organized two sessions to educate FMO investment officers about our corporate governance policy and tools, and organized a corporate governance roundtable for our nominee directors. We also extend these corporate governance trainings to EDFI members in order to enhance understanding throughout the industry of how best to use the toolkit. We actively participated in corporate governance conferences and knowledge-sharing activities with sister DFIs in 2012.

Reducing FMO's Footprint

At FMO we try in every sense to embody our attitude towards ESG and our footprint. In 2012, we took steps to further embed sustainability in our operations. In the third quarter, we set up the SHIFT Project, which will define the changes required across the business in order to meet the targets of our new 2013-2016 strategy: becoming the leading impact investor by doubling impact and halving footprint.

In addition to a Corporate Governance Officer, FMO appointed 3 new environmental and social specialists, raising the total number of E&S specialists at FMO to 16 from 13.

FMO proactively minimizes its environmental footprint and has a 'climate neutral' rating. We compensate for our CO_2 emissions by complying with the Gold Standard and purchasing verified emission rights through the Climate Neutral Group, though our Southern Africa regional office is not yet included in this compensation. In 2012 we changed our CO_2 compensation methodology, and therefore cannot report on this figure at this time. In previous years the Climate Neutral Group provided us our total CO_2 emissions compensation. However we have chosen to compensate the largest share of our CO_2 emissions at their source. As employee flight travel is our largest source of emissions, this share will be compensated through our preferred carrier, KLM. This data will only become available in March.

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

Despite these initiatives, measuring our overall footprint remains a challenge, particularly when it comes to emissions. Given our target of halving our footprint by 2020, quantifying this reduction accurately is a major priority. In 2013, we will step up efforts to define FMO's impact and footprint framework and make our targets measurable.

CASE STUDY

Client Protection Principles for Healthier Microfinance

Cambodia's microfinance market is maturing rapidly and has been successfully funding small businesses for many years. However, it has recently begun to show signs of overheating. The saturation of the market, increased competition and high penetration levels have made borrowers more vulnerable to unethical lending practices.

As a shareholder of the three largest microfinance institutions (MFIs) in Cambodia – Prasac, Amret and Sathapana – FMO recognized the role it could play in contributing to the healthy development of the microfinance sector.

In 2012, FMO began capacity development programs with all three institutions. The first step was a Client Protection Principle assessment, followed by the development of an action plan and its subsequent implementation. The MFIs are currently in the process of implementing their action plans, which include items such as staff training. These action plans were also tied to a pricing incentive: upon completion of their action plan, the MFIs will be offered a reduction in the margin on their loans. All three clients have been assessed by a SMART Campaign consultant and an action plan has been delivered and partially implemented.

The social and sustainability impact of the capacity development program has been high. We have witnessed an increased awareness among our clients of the importance of client protection and improving lending practices. The impact of this project will not only be visible for the participating MFIs, but will extend further by contributing to a much more sustainable Cambodian microfinance sector. Prasac has indicated that it aims to achieve full SMART Campaign certification in 2013, setting a pioneering example for the Cambodian microfinance industry as a whole.

Sector: Financial Institutions
Region: Asia
Investment: Capacity Development

Development Impact Evaluation Results

FMO's investment selection process is focused on optimizing sustainable growth and development impact – this we ensure using our own assessment tools. Our tools comprise three main components: the ex-ante Economic Development Impact Score (EDIS) system that assesses a business's contribution to the local economy, the Development Impact Indicator (DII) that gauges the relationship between development impact and volume of new investment, and a set of development monitoring indicators (quantitative indicators, or QIs). To verify whether the anticipated (ex-ante) development impacts have been realized, we use our evaluation assessment tool to evaluate project development and investment outcomes of projects or client companies five years after contracting or on exit.

Business success is the most important driver for overall development outcomes. Clients must be profitable in order to be financially sustainable, which is necessary if they are to have lasting positive effects on the local economy and to improve on environmental and social issues. Our evaluation tool also assesses projects' impact on the local economy and environment. Furthermore, we look at the role FMO played in the project: whether we were additional, whether we catalyzed commercial financiers and whether we added value to the client's environmental, social, governance performance and business operations. We investigate the extent to which the various outcomes are interrelated, as well as

CASE STUDY

From Energy Shortage to Overcapacity in Uganda

Access to energy is a cornerstone of a country's development. Not only does it increase quality of life, but it also fuels businesses, supports healthcare and education facilities and powers many other social institutions. In 2007 Uganda was facing a serious energy crisis, with severe load shedding and rising cost of energy production due to increasing fuel prices. The power shortage caused severe disruptions to economic activity and forced reliance on expensive and dirty emergency diesel generators.

In the same year FMO signed a deal with Bujagali Energy Limited (BEL), a company jointly owned by affiliates of Sithe Global Power, the Government of Uganda and IPS Kenya Limited, an affiliate of the Aga Khan Fund for Economic Development. The facility involved several DFIs, including IFC, DEG, Proparco and AfDB. Of the total US$906 million, FMO contributed US$83 million, which included a US$28 million subordinated mezzanine loan from the Dutch Government's Infrastructure Development Fund.

The project in question was a hydropower production facility that would be located on the White Nile near the town of Jinja, Uganda. The project was one of the largest privately financed hydropower projects in Africa, and was expected to supply about half of the country's energy production upon completion. In addition to providing the necessary additional power, Bujagali would push down the cost of energy, allowing the Government of Uganda to reduce its unsustainable level of energy subsidies.

Although Bujagali experienced some delays, it was fully functional by August 2012. In the same year the project was evaluated by FMO's Investment and Mission Review team, who gave it an Economic Development Impact Score (EDIS) of 82. This is considered a high score for this kind of project.

The exceptionally high development impact of the 250MW Bujagali plant is related to its substantial megawatt contribution to the Ugandan grid. In 2008 the total generation capacity in Uganda was 380MW. After the completion of Bujagali in 2012, the total capacity was 595MW, surpassing peak demand by 108MW and effectively moving Uganda form a state of energy deficiency to slight over capacity.

This low cost of electricity from the project facilitated the removal of expensive emergency generation capacity and the removal of costly government subsidies in the energy sector, and provided a long-term clean energy source in a low-income country. The project won Euromoney's Project Finance Magazine Africa Power Deal of the Year in 2007, and was more recently registered as a Clean Development Mechanism under the Kyoto Protocol, based on Bujagali's capacity to yield an average of 860,000 Carbon Emission Reductions per year.

Sector: Energy
Region: Africa
Loans outstanding: US$83 million

factors leading to the success or failure of projects. This allows us to understand what we need to do more or less of in order to continue achieving our objectives. Please visit our website to learn more about our approach to development impact.

2012 Evaluation

In 2007, commercial flows to our clients' markets were at their boom. Liquidity increased such that FMO moved up the risk ladder and down the market, targeting deprived segments and mid-tier companies lacking access to commercial financing. We ensured our 'additionality' through higher numbers of investments in higher risk-segments and riskier products. At the end of 2007, FMO was able to enter into record levels of new commitment, reaching over €1 billion. The years following the economic boom in 2007 saw an economic crisis that affected emerging markets, particularly in Eastern Europe and Central Asia. Our clients in emerging markets saw the effect of the crisis as well, which manifested itself in a declining percentage of successful projects, from a business point of view.

Development Outcomes of Projects Financed from FMO Capital

For evaluation purposes, projects financed from FMO's capital only include projects financed as FMO's risk and do not include the projects guaranteed by the Government (FOM). The evaluation outcome of these guaranteed projects is included in the development outcomes of the Government funds.

The overall development outcome rating is the result of evaluating various dimensions and indicators of development outcome: the project's business success (whether it was viable and profitable for its shareholders and financiers, and thus financially sustainable), its contribution to economic growth (including broader private sector development beyond the project company), and the environmental and social outcomes of project. Business success is strongly correlated with other development outcome indicators and, of course, with investment outcomes (in other words returns) for FMO. In 2012, we evaluated fifty percent of the projects that were contracted in pre-crisis 2007 and that have been in our portfolio during the last five years. Among the 2007 evaluated projects, 54% (2011: 67%) produced good ('satisfactory' or 'excellent') development outcome. Development outcomes for the remaining projects were below our evaluative benchmarks. Looking on a three-year moving average (to smooth out year-on-year variations), 61% were developmentally successful. Development outcomes have been under pressure during the last few years, mainly due to the direct and indirect effects of the global financial crisis. In particular in Eastern Europe, the business climate deteriorated sharply in 2008-2009. This deteriorating business climate has resulted in several projects where financial projections have not been met. Business-cycle-sensitive industries, such as car manufacturing, have been confronted with falling domestic and international demand, and a lot of financial institutions have reduced their loan portfolios as a consequence of deleveraging and declining credit demand. Although FMO clients in most cases reacted relatively well to the financial crisis – in some instances supported by FMO financing – the business projections at contracting of many projects in 2007 have not been met due to limited growth in sales and/or loan portfolio. This, in turn, led to 'unsuccessful' development outcome ratings based on our evaluative benchmark.

Investment Outcomes of Projects Financed from FMO Capital

Despite the crisis, FMO's investment outcome success rates (based on approval year) for 2012 remained relatively stable at 77% (2011: 83%) when compared with last year – often reflecting FMO's choice for loan products that generally come with a downside protection for investors. That is, an obligation on clients to repay loans. This has also been confirmed by the stable quality of FMO's loan portfolio in the last few years. In addition to the crisis, weaker performance of our equity returns on investments made in 2006-2007 – the peak in emerging markets equity valuations – also contributed to slightly deteriorated investment outcomes. During the last five years, stock markets in emerging markets have been fairly volatile, with limited net returns that manifested as a drop in the percentage of successful projects from a business point of view, and consequently on development outcomes and returns to shareholders. An important point is that most of the projects approved in 2005-2007 are still in our portfolio; most evaluation assessment is based on interim market valuations (while most of them still have a positive outlook).

Correlation between Investment and Development Outcomes of Projects Financed from FMO Capital

The graph below shows the results of project evaluations on a three-year moving average (i.e. projects committed 2005-2007) for FMO projects: 57% (2011: 65%) realized a win-win outcome (simultaneously good development and investment outcomes) and 16% (2011: 13%) a lose-lose outcome. In other words, for 73% (2011: 78%) of projects FMO financed in this period, there was a direct correlation between development outcomes and FMO investment outcomes.

1) A number of QI definitions are standardized (and limitations are common) among the EDFIs. EDFI reports on these indicators in an aggregated level.

There is hardly any trade-off between good development outcomes and FMO's investment outcomes as long as clients are selected based on their potential for good contributions to development as well as on financial sustainability. In that case, projects which succeed in reaching their expected business objectives both contribute to development and are able to meet financial obligations to FMO.

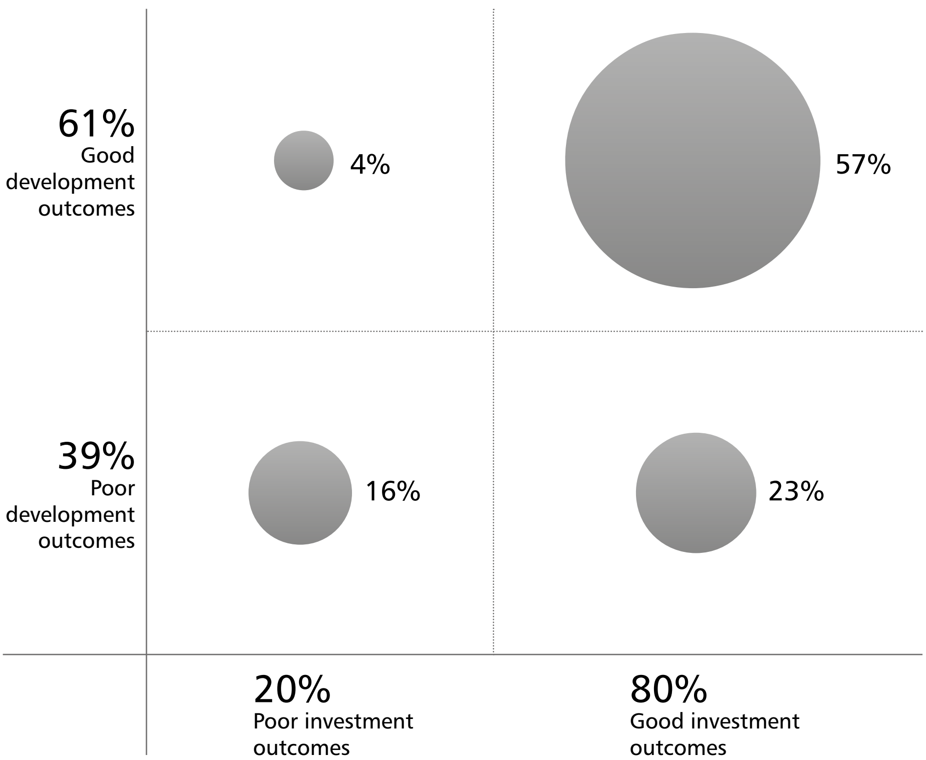
The most remarkable difference between the previous year's graph is the increase in the proportion of projects with poor development outcome in combination with good investment results. This is mainly due to clients who failed to fulfill their business projections but were still able to repay their loans. This was particularly noticeable in Eastern Europe.

We also noted an increase in the incidence of poor development outcomes combined with an adequate return on FMO's investment. Among the evaluated projects, there were a few with poor business success and poor overall development outcomes that nevertheless managed to service (and even prepay) their loan obligations from additional capital injections, and equity investments where FMO's return was rated as satisfactory.

Development and Investment Outcomes for Government Funds

With regards to projects funded and guarantee by the Government, 53% and 64% of evaluated projects produced good development and investment outcomes, respectively. These figures are based on a 3-year moving average (committed 2005-2007) and assessed based on our evaluative benchmarks. In comparison to projects financed with FMO's own capital, those financed by Government funds have a higher incidence of failing. This is understandable given their higher risk levels. Those that are successful, however, produce very good development results much more frequently, whereas FMO projects are concentrated in the moderately successful categories.

90 INVESTMENTS FROM FMO-A, 2005-2007 – DEVELOPMENT VERSUS INVESTMENT OUTCOMES



Measuring Development

Measuring the development impact of our work is critical to understanding the extent to which we are in line with our strategy and mission. Understanding the impact in turn helps drive FMO's strategy and decision-making. Our tool comprises three main components: ex-ante development effectiveness assessments (EDIS/DII), a set of monitoring indicators (quantitative indicators, or QIs) and a system to evaluate project development and investment outcomes. We also assess the extent to which FMO is additional, or fills a financing gap, in each transaction it finances. We measure our 'additionality' along three dimensions. The first relates to the nature of the product we offer; that is, the extent to which tenor, currency and product risk are accepted by FMO and not by commercial banks. The remaining two dimensions relate to FMO's acceptance of country and client risks that are not generally accepted by commercial parties. This systematic approach allows FMO to track progress and outcomes of our investments and incorporate lessons learned into future investments – it is fundamental to FMO's accountability to stakeholders.

It should be noted that FMO often invests with other investors. In these cases development impact cannot be attributed wholly to FMO.

Quantitative Indicators (QIs)

Beyond making financial returns in investments, FMO aims to show development results through for example increased employment, access to finance and contribution to Government revenues. FMO currently reports on a broad level, addressing the non-financial outcomes of our investments as well. However, a more holistic methodology that filters out other contributors to a project's failure or success has yet to be developed.

As FMO is active in many sectors, we monitor developments using a set of sector-specific QIs that have been selected by the (E) DFIs[1]. These QIs measure our clients' direct development reach in terms of: number of jobs, net contributions to government revenue (taxes minus subsidies), access to finance (microenterprises and SMEs) and electricity connections. We aggregate and report these QIs on a portfolio level, irrespective of FMO's investment size at the client level. We therefore interpret reported QIs as indicators of FMO's development impact. Furthermore research[1] based on three EDFI energy infrastructure investments in sub-Saharan African indicated a potential multiplier effect.

Beyond KPIs

We published the QIs for the first time in our 2010 Annual Report, but refrained from doing so in 2011. An important factor to consider is the incomparability of yearly QI figures: portfolios change, companies repay their loans or are exited and new companies enter the books. Comparing overall figures could thus possibly lead to incorrect conclusions. We therefore decided to postpone publishing our QIs until this issue has been addressed. We also found some issues with the accountability, and therefore the quality, of the data. In 2012 we improved the processes of gathering sound QI data in order to increase the quality of our reporting. Yet, we still note that our clients' non-financial figures are not currently reconcilable to audited financial statements.

RESULT MONITORING PROCESS IMPROVEMENTS

At the project approval stage, FMO investment staff collects QI information (baseline information and five-year expectations) and inputs them into the FMO scorecard application. Our investment staff track and monitor the QIs yearly until they are out of our portfolio. Further quality assurance is carried out by our Evaluation unit, which checks the QIs by comparing them with available internal and external documentation on respective clients/projects.

1) Dalberg (2012) "EDFI Joint evaluation on EFP Energy infrastructure projects" Website link.

DEVELOPMENT REACH BY FMO CLIENTS

	Portfolio FY2012
PORTFOLIO-WIDE PERFORMANCE INDICATORS [2]	
Number of employees – all sectors (xmln) [3]	1.26
MICROFINANCE LOANS [4]	
Volume (€xmln)	20,204
Number (xmln)	23.63
SME LOANS [4]	
Volume (€xmln)	35,720
Number (xmln)	0.92
CUSTOMERS REACHED WITH SERVICES	
Number of electricity connections (xmln) [5]	6.71
PAYMENTS TO GOVERNMENTS	
Contribution to government revenues (€xmln) [6]	746.71

FY2012 QIs is not compared with previous years QIs because: FY2012 is based on a changed portfolio of FMO.
2) It should be noted that FMO often invests with other investors. In these cases development impact cannot be attributed wholly to FMO.
3) Portfolio reach figures consist of YE 2011 jobs provided by 437 clients: financial institutions (including private equity funds through investees) and companies/projects who have reported complete QIs in FY2012.
4) Portfolio reach figures represent YE2011 microfinance and SME outstanding loan portfolio of FMO financial institution clients. Data is based on 153 clients that have reported complete information as of FY2012. Microfinance loans are outstanding loans between "€0-€10,000"; SME loans are outstanding loans between "€10,001-€1million".
5) FMO helps to increase access to energy by financing energy projects. In FY2012, 72 FMO's investment clients were reported to have provided for (estimated) 6.71 mln electricity connections (this is the number of customers served). This figure is automatically derived in our scorecard application as: Client's installed generation capacity in MW/Total installed capacity in the country MW * number of electricity connections in the country. It gives an approximation of how much electricity connections the project that FMO financed contributes to the host countries' number of electricity connections. Underlying reasoning is that MW is translated into customers/households served). The MW installed and number of electricity connections in the country is obtained from different sources such as host countries' distribution company, project's consultants, market studies, World Bank publications and country energy strategy papers and in few cases estimates which is inputted into the scorecard for the calculation.
6) In FY2012, €746,71 mln was contributed in the form of taxes and other payments to the government by 170 FMO's investment clients (excluding financial institutions and private equity funds) for which we received completed QIs, subsidies received are deducted where applicable. This number includes three financial sector clients for whom we have registered as 'companies' in our internal scorecard application.

The reported QIs provide a snapshot of the portfolio but are not used as KPIs. The portfolio we report on shifts year by year. We have noticed that the dynamic nature of our investment portfolio can lead to volatility in the reported data, for example in cases where a few very large clients contribute substantially to the reported data or where a new facility is registered. We therefore publish a snapshot of the QIs for the full year 2012. For clarity to the reader, these limitations should be taken into consideration while interpreting the QI data.

The 2012 figures

The 2012 financial year QIs (Development Reach by FMO clients) measure the number of persons reached by FMO's clients and the euro benefit to stakeholders regardless of FMO's investment size (no attribution). These are indicative of FMO's development impact. The 2012 QI data is based on 437 clients for whom we received complete QI information out of 543 clients (an 80% coverage ratio) – after certain exclusions[1)] of FMO's portfolio, missing data are not extrapolated. The 2012 data reflects our clients' 2011 data. QIs are currently not targets within FMO.

In the future FMO would like to be able to report more comprehensively on our own impact. Indeed, our newly defined strategy is centered on doubling impact by 2020. In 2013 we plan to put in place the processes that will enable us to target and report on impact (attributable to FMO) in the future. This will be an iterative learning process, and we welcome the challenges that lie ahead of us.

1) Sixty-six (66) where FMO either provided with grants or clients who are 100% provisioned/impaired, facility ended are currently excluded. Where we have exposures on both a holding and subsidiaries, we collect QIs at the holding level to avoid double counting.

DEVELOPMENT REACH BY FMO SECTORS

	Portfolio FY2012
FINANCIAL SECTOR	
Financial Institution:	
Number of employees (x1,000)	353.56
Microfinance loans	
Volume (€xmln)	20,204
Number (xmln)	23.63
SME loans	
Volume (€xmln)	35,720
Number (xmln)	0.92
Private Equity Fund:	
Employment at investees (x1,000)	715.29
Number of investees	903
Amount invested at investees (€xmln)	4,811
ACCESS TO ENERGY	
Employment (x1,000)	14.66
Number of electricity connections (xmln)	6.71
Contribution to government revenues (€xmln)	74.31
AGRIBUSINESS	
Employment (x1,000)	61.21
Contribution to government revenues (€xmln)	111.83
OTHERS - DIVERSIFIED SECTOR	
Employment (x1,000)	106.81
Contribution to government revenues (€xmln)	533.31

STAKEHOLDER ENGAGEMENT

FMO's stakeholders are increasingly focused on private sector development and on concrete, measurable development impact. This makes engaging with stakeholders and communicating transparently about our activities and impact more important than ever.

FMO has a wide variety of stakeholders with whom we regularly communicate and interact. In 2010 we finalized an extensive analysis in which we defined all our stakeholders and identified those most relevant to FMO. In the last few years we have been taking steps towards formalizing and intensifying our contact and cooperation with external stakeholders. In 2012, we continued to work on formalizing our stakeholder identification and bringing more structure to our interaction with FMO's wider network.

Clients

Every two years we conduct a Client Satisfaction Survey. In 2012 we conducted our first joint Client Satisfaction Survey with fellow DFIs DEG and Proparco. We saw the joint survey as an opportunity to benchmark and to learn from each other's strengths and weaknesses. The survey was conducted by Effectory, a Netherlands-based research agency. Some 1,011 of our clients received an online questionnaire, of which 510 responded. This produced a satisfying response rate of 50.4%.

FMO scored 8.3 out of 10, with customers reporting most satisfaction with reliability and reputation, communication information requirements and business understanding. Although scores were still good in these areas, clients were less satisfied with knowledge transfer, innovativeness, competitiveness of terms and conditions and extended network. A Net Promoter Score of 76.1% showed clients to be very loyal to FMO. The scores of the survey will be shared within the organization and compared with the 2010 survey to see were improvements have been and can be made.

Clients were also involved in the development of our 2013-2016 strategy. During the preparation of the new strategy, we interviewed 28 client CEOs, asking them about trends that affect their businesses and about their opinion of FMO, our product range and our service delivery. Other important contact points with our clients are conferences. We held several conferences in 2012, including a successful Financial Institutions conference on the future of banking. During these events clients, FMO staff and various external participants, such as Government officials, have the opportunity to meet and discuss topics relevant to their own and the collective interests. These conferences are a valuable tool for knowledge sharing and networking.

On an ongoing basis, we send management letters to Financial Institutions clients containing key findings from due diligence processes. We send a client questionnaire after every transaction is closed, followed up by a phone call from an FMO manager to discuss the outcome. Outcomes are shared among staff and used for internal improvements.

Every year, we organize a 'client board' in Latin America. Current and former clients join FMO representatives in discussing topics such as the regional economic, social and political environment, the role of development banks, FMO's focus sectors and our strengths and weaknesses. Outcomes are shared within FMO to improve our business.

Suggested links

- Read more about FMO's FI Conference on our website

Shareholders

We hold at least one shareholder's meeting per year. Our biggest shareholder is the Dutch State, with whom we meet throughout the year. Other shareholders include large Dutch banks, employers' associations, a Dutch union, various companies and individual investors. Last year, 81.4% of shares were represented at the annual meeting of shareholders.

Suggested links

- See the FOM team opening the Amsterdam Stock Exchange

Dutch Government, Embassies and Politicians

We hold regular discussions with politicians and Government policy workers. FMO participates in policy meetings with the Ministries of Foreign Affairs, Economic Affairs and Finance on a regular basis. These cover several topics, including the role of the Dutch Government as shareholder and the funds we manage on its behalf. FMO also organizes visits for Members of Parliament and their staff to discuss FMO's role in social issues in the countries we invest in. In addition, we send a biannual newsletter to the Dutch embassies around the world, providing an overview of FMO's highlights. This year the Facility Emerging Markets (Faciliteit Opkomende Markten, FOM) celebrated its 20th anniversary. To mark this special occasion, FMO and the Ministry of Economic Affairs, Agriculture and Innovation organized a seminar for Dutch small and medium enterprise clients. The event was held on October 25, 2012 in Rotterdam and was well attended.

Partners

FMO is a member of the association of European Development Finance Institutions (EDFI). EDFI members are bilateral institutions operating in developing or reforming economies, and are mandated by their governments to foster growth in sustainable business and contribute to achieving the Millennium Development Goals. FMO's Chief Executive Officer has been Chairman of EDFI since September 2010. A delegation usually represents FMO at EDFI's annual meetings, as well as at bilateral meetings with our fellow DFIs. Partnering with other DFIs through EDFI allows FMO to enjoy a strong information flow and cooperation with its peers.

We took our partnership with fellow EDFI DEG a step further last year, when we launched a joint office with DEG in Johannesburg. The initiative is intended to strengthen our regional presence and our cooperation with DEG. The success of the regional office will be evaluated in 2013.

Throughout 2012, we held and attended many forums on the future of global development cooperation. One particularly prominent forum was on 'Future of Development Cooperation: Beyond Official Development Assistance (ODA)'. This three-part series was organized in cooperation with the International Institute of Social Studies (ISS), the Society for International Development (SID) and the NCDO, the Dutch national commission for international cooperation and sustainable development. The sessions focused on development cooperation after 2015, when the criteria for Dutch ODA will change. Each meeting was well attended by representatives of Dutch business, the Government, the scientific community and the NGO community. On March 7, 2013 a summary of the discussions will be presented to the Dutch Minister of Foreign Trade and Development Cooperation.

We strive to engage with our partners and other stakeholders often with the aim of improving cooperation, exchanging knowledge and seeking new and fruitful opportunities.

Suggested links

- Visit the EDFI website
- Read more about our Johannesburg office in FMO in 2012
- Our People Chapter

Employees

At FMO we strive for an open culture and organize various formal and informal gatherings for staff throughout the year. We were proudly ranked 'Best Employer in the Dutch Financial Sector' by research company Effectory and VNU Media. For more information on this please refer to the Our People chapter.

An important initiative in 2012 was the development of FMO's next four-year strategy, a process in which employees were deeply involved. A core group of managers developed the strategy in close cooperation with a larger employee group around it. FMO directors and managers first consulted with inspirational figures outside the bank in order to generate input for the strategy. This input was then used, along with further market research, to take the strategic development process further. This inclusive process typifies FMO's team-oriented way of working. It not only created enthusiasm but also a better understanding of and commitment to the new strategy.

Non-Governmental Organizations (NGOs) and Local Communities

Last year we noted increasing attention from NGOs, especially because of our growing activity in the food and agriculture sector. In order to proactively engage with these external stakeholders we defined the key themes around which we communicate and began to analyze how to most effectively exchange knowledge with the NGO community. One instance of knowledge exchange was a discussion of the Organization for Economic Cooperation and Development (OECD) Guidelines with several NGOs, including SOMO, a non-profit organization working on social, ecological and economic issues related to sustainable development.

Local communities and NGOs often have the same goals. Their knowledge and understanding of the possible outcomes of an envisaged project are of the utmost importance to its acceptance and success. That is why we believe that we and our clients must pay due attention to these stakeholders and take action where needed.

We have formally identified a number of NGOs we feel are relevant for FMO to actively work with, such as the World Wildlife Fund (WWF). We worked closely with the WWF on various initiatives in 2012. Among these was a joint report on sustainable palm oil production, which we produced together with UK development finance institution CDC.

As we enter 2013, we are making an inventory of the major issues for NGOs and where we stand on each, such as hydropower, production of foodstuffs such as soya and palm oil and mega stables. We will then identify the NGOs that are most involved with each topic and define how we can work together with them to develop or refine our policies.

Suggested links

- Read the report on Profitability and Sustainability in Palm Oil Production

Accountability and Transparency

FMO and the development finance industry in general face heightened scrutiny from stakeholders such as politicians and NGOs, both in the Netherlands and abroad. FMO's growing public presence in the last few years has brought an increasing demand for information on our projects, clients and our impact. At the same time, FMO's status as a bank with the Dutch Government as majority shareholder makes transparency and accountability even more important.

One important platform for accountability is our interaction with NGOs, both local and international. A notable point of NGO contact in 2012 was triggered by a hydroelectric dam project in Panama, which FMO is co-financing with DEG and the Central American Bank for Economic Integration. The project has come under some scrutiny due to its potential effects on the surrounding land and community. A process of independent verification was initiated under the moderation of the United nations representative in Panama. Further steps are currently being taken to assess the full consequences of constructing the hydroelectric dam and to identify the needs of the affected local communities. Further detail on this process is at present unavailable. FMO openly engages with NGOs and other civil society organizations on these and other topics, and invites dialogue regarding our operations and activities.

In 2013 we will prioritize transparency and accountability. A first step is improving our communication on the deals we invest in. In 2012 FMO adopted a disclosure policy, which outlines the scope and nature of the information that FMO will make available to the public. The policy will apply to Government-funded projects contracted from 2012 onwards and to FMO-funded projects contracted from 2013 onwards.

We plan to further open up communication with third parties by setting up an independent complaints panel, as well as an ombudsman. We will strive to extend and deepen our stakeholder relations as we expand our operations in the years ahead.

We believe that transparency in our financing and investment activities is fundamental to fulfilling our development mandate. Far from making us vulnerable, we believe that opening our books up will only make our business activities stronger. We strive to play a leading role, not just in sustainable and inclusive finance but as an open and well-governed business ourselves.

FMO also participates in the Dutch Transparency Benchmark. This annual survey is performed under the aegis of the Dutch Ministry of Economic Affairs, Agriculture and Innovation and charts transparency in sustainability reporting and measures trends in the quality and quantity of corporate social responsibility (CSR) reporting in the largest companies in the Netherlands.

FMO scored 142 points out of a possible 200 for our 2009 annual report. We were pleased to bring this score up to 152 for the 2010 annual report and 175 for 2011. An overview of the scores for these three years is available on the website of the Transparency Benchmark. For ease of reference, we have created an index based on last year's Transparency Benchmark matrix to provide a quick-reference guide to all available information.

Suggested links

- Read more about Disclosure Policy on our website
- Read more about FMO Key Policies on our website
- Read more about FMO Investment Criteria on our website
- Read more about the FMO's Exclusion List on our website
- Read more about Previous Annual Reports on our website

Looking Ahead

In 2013 and beyond, we will continue to intensify cooperation with stakeholders and bring greater structure to our interactions with our wider network. We will hold regular conferences and meetings to engage our stakeholders and maintain an open flow of communication. One such conference will soon be held for pension funds. These funds will gain prominence among clients and/or investors in 2013 as we begin our FMO Investment Management business line.

FINANCIAL RESULTS

KEY FINANCIAL FIGURES

	2012	2011	2010	2009	2008
BALANCE SHEET (€XMLN)					
Net loans	2,817	2,585	2,269	1,942	1,763
Equity investments portfolio (including associates)	914	795	688	531	456
Total assets	5,561	5,059	4,305	3,772	3,654
Shareholders' equity	1,822	1,665	1,514	1,327	1,229
Debt securities and debentures/notes	3,292	2,679	2,365	2,180	1,295
Committed investment portfolio	6,281	5,874	5,292	4,598	4,182
of which government funds	831	828	726	721	639
PROFIT AND LOSS ACCOUNT (€XMLN)					
Income					
Interest income	227	195	181	177	175
Interest expenses	-73	-48	-48	-68	-69
Net interest income	**154**	**147**	**133**	**109**	**106**
Income from equity investments	89	46	52	27	87
Other income including services	28	45	40	30	17
Total income	**271**	**238**	**225**	**166**	**210**
Expenses					
Operating expenses	-56	-52	-50	-52	-56
Operating profit before value adjustments	**215**	**186**	**175**	**114**	**154**
Value adjustments					
• on loans and guarantees	-23	-23	-18	-46	-96
• on equity investments	-23	-36	-11	-6	-28
Total value adjustments	**-46**	**-59**	**-29**	**-52**	**-124**
Operating profit after value adjustments	**169**	**127**	**146**	**62**	**30**
Share in the results of associates	4	-9	5	-1	7
Profit before taxation	**173**	**118**	**151**	**61**	**37**
Income tax	-27	-25	-25	-1	11
Net profit	**146**	**93**	**126**	**60**	**48**
RATIOS AT END OF YEAR (%)					
Shareholders' equity/Total assets	32.8	32.9	35.2	35.2	33.6
Return on average shareholders' equity					
• Operating profit before taxation	9.9	7.4	10.7	4.8	3.1
• Net profit	8.4	5.9	8.9	4.7	4.0
Net profit/Total assets	2.6	1.8	2.9	1.6	1.3
Cost to income ratio	21	22	22	31	27
Net 5 year average return on shareholder's equity	6.4	6.6	7.9	7.6	7.6

General

Despite the turbulence in the Eurozone and other international markets, 2012 was a very successful year for FMO. The markets we invest in showed sustained economic growth in spite of some impact from the global financial crisis. Deep knowledge, expertise of our markets and close relationships with our clients helped us to reach €1,390 million in new commitments (of which €160 million represented the State funds) – an increase of 6% from the previous year. Of the new commitments, 40% were made in low-income countries (2011: 45%).

Our investment strategy shows continuous and sustainable profitability. In 2012 we achieved record net profits of €146 million (2011: €93 million) mainly as a result of substantially higher results from equity investments and decreased value adjustments on our loan and equity portfolio. In 2012 we have refined our group specific provisioning model for our loan portfolio. A provision for information backlog used to be taken during the first two years of a loan. However, FMO's loss history has shown that no structural significant losses have occurred in the first two years after disbursement as a result of information backlog. Therefore this part of the provision has been released. This has led to a release of €32 million of the group-specific value adjustments.

FMO finances sustainable private sector growth in developing and emerging markets. Currently 43% of FMO's committed portfolio consists of investments made in low-income countries (LICs) and 39% in lower-middle-income countries. This underlines the potential of these countries and FMO's capability of achieving good profitability and healthy growth in these markets. The return on equity increased by 2.5 percentage points from 5.9% in 2011 to 8.4% in 2012.

Committed Portfolio

Our committed portfolio grew by €407 million

HISTORICAL OVERVIEW

	2012	2011	2010	2009	2008
Committed portfolio (including government funds €xmln)	6,281	5,874	5,292	4,598	4,182
• *Share in Africa (%)*	*30*	*30*	*28*	*29*	*28*
• *Share mezzanine and equity (%)*	*44*	*45*	*46*	*45*	*43*
• *Local currency (%)*	*12*	*13*	*16*	*15*	*16*
New contracts (including government funds €xmln)	1,390	1,306	1,026	911	1,314
Net profit (€xmln)	146	93	126	60	48
Result sale of equity (€xmln)	72	32	36	16	78
Government funds of committed portfolio (%)	13	14	14	16	15
Shareholders' equity (€xmln)	1,822	1,665	1,514	1,327	1,229

COMMITTED PORTFOLIO PER REGION PER PRODUCT (€XMLN)

2012	Commercial loans	Equity	Guarantee	Mezzanine	Total
Africa	924	609	66	276	1,875
Asia	771	336	49	431	1,587
Latin America & the Caribbean	999	202	16	151	1,368
Eastern Europe & Central Asia	531	228	51	306	1,116
Non-region specific	47	140	68	80	335
Total	**3,272**	**1,515**	**250**	**1,244**	**6,281**

2011	Commercial loans	Equity	Guarantee	Mezzanine	Total
Africa	875	526	49	298	1,748
Asia	724	302	47	445	1,518
Latin America & the Caribbean	897	175	17	150	1,239
Eastern Europe & Central Asia	539	177	50	315	1,081
Non-region specific	25	135	31	97	288
Total	**3,060**	**1,315**	**194**	**1,305**	**5,874**

to reach €6,281 million at year end. All of our sector focus portfolios grew, though there was a marked increase in Energy investments with the portfolio almost tripling in size. Please refer to the tables below for more information on our portfolio by region, sector and product.

Loan Portfolio

The FMO on balance net loan portfolio grew by €232 million to €2,817 million. The portfolio quality remained stable, as shown by a non-performing loan (NPL) ratio of 3.5% (2011: 3.4%). Although the financial crisis has had some effect on the emerging markets we invest in, we see as of yet no trend that indicates a deterioration of the quality of our portfolio.

Equity Portfolio

Our FMO on balance equity portfolio showed a growth of 15% to €914 million. This

DEVELOPMENTS OF THE LOAN PORTFOLIO (€XMLN)

	2012	2011
Gross loan portfolio	3,113	2,871
Net loan portfolio	2,817	2,585
Written off amounts	15	18
NPL (principals with arrears > 90 days)	108	97
NPL as % of gross portfolio	3.5	3.4

COMMITTED PORTFOLIO PER SECTOR PER PRODUCT (€XMLN)

2012	Commercial loans	Equity	Guarantee	Mezzanine	Total
Financial Institutions – Investment funds	8	883	15	272	1,179
Financial Institutions – Other	1,377	260	206	470	2,312
Energy	800	204	4	193	1,201
Agribusiness, Food & Water	301	40	6	66	413
Diverse Sectors	786	128	19	243	1,176
Total	**3,272**	**1,515**	**250**	**1,244**	**6,281**

2011	Commercial loans	Equity	Guarantee	Mezzanine	Total
Financial Institutions – Investment funds	4	809	15	279	1,107
Financial Institutions – Other	1,320	190	124	551	2,185
Energy	681	159	8	170	1,018
Agribusiness, Food & Water	208	41	5	76	330
Diverse Sectors	847	116	42	229	1,234
Total	**3,060**	**1,315**	**194**	**1,305**	**5,874**

PERFORMANCE EQUITY & ASSOCIATES (€XMLN)

	2012	2011
Results from equity investments	72	32
Dividend income	17	14
Value adjustments	-23	-36
Share in the result from associates	4	-9
Realized performance profit before taxation	**70**	**1**
Available for sale movements	4	54
Total comprehensive income before taxation	**74**	**55**
Realized performance average outstanding portfolio (%)	8.3	0.0
Total performance average outstanding portfolio (%)	8.8	7.3
Value adjustments on portfolio (%)	8.5	10.6
Carrying amount/cost price minus impairments (%)	121	122

growth is mainly driven by new investments of €190 million (equity investments and associates). We realized a number of successful exits this year, with gross proceeds amounting to €131 million, of which €72 million was recognized in the income statement.

The realized results from equity investments (consisting of exits, dividend, share in the results of associates and value adjustments on equity investments and associates) amounted to €70 million in 2012 (2011: €1 million). The high level of realized results reflects both the improved appetite for equity as well as the increasing size and maturity of the portfolio, When including the unrealized capital gains, the total performance of the equity portfolio was €74 million (2011: €55 million).

Cumulative impairments as a percentage of the portfolio decreased from 10.6% to 8.5% which indicates the good quality of our equity portfolio.

Income

Net interest income increased to €154 million (2011: €147 million) as a result of the growth of our loan portfolio and increasing credit spreads.

As a result of uncertainty within the financial markets FMO's cost of USD funding increased slightly. However due to our AAA rating, stable financial performance and solid capital base, we were able to attract sufficient funding at a still competitive price. The results from financial transactions were positively influenced by the sale of some interest-bearing securities which were no longer considered a fit with our investment policy. The value of embedded derivatives in the emerging markets portfolio declined. FMO receives fees for the management of Government funds. This remuneration amounted to €17 million (2011: €17 million).

Operating Expenses

Total operating expenses grew from €52 million in 2011 to €56 million in 2012, which was in line with expectations. The growth of our investment portfolio and further increased focus on sustainability went hand in hand with staff expansions. Hence, the staff cost increased from €39 million in 2011 to €43 million in 2012. The number of employees grew from 314 at the end of 2011 to 330 at the end of 2012.

In 2012 we defined our new strategy for the 2013-2016 period and started up the SHIFT and FMO Investment Management strategic initiatives. Although operating expenses increased, our cost to income ratio improved from 22% in 2011 to 21% in 2012.

Value Adjustments

The level of provisioning on our loan and guarantee portfolio remained stable in 2012 at €23 million (2011; €23 million), whereas the level in 2012 was driven by the one-off release of the group specific provision related to the information backlog as explained earlier. The net additions to the value adjustments recorded on our total investment portfolio amounted to €46 million (2011: €59 million). The total provisioning (counterparty-specific and group-specific) as a percentage of the gross loan portfolio decreased slightly to 10.4% (2011: 11.0%).

The level of impairments on our equity investment portfolio improved compared to the previous year. For 2012 impairments amounted to €23 million (2011: €36 million). The impairments were driven by individual circumstances; no general trend in impairments has been identified.

Focus Sector Financial Performance

FMO's primary goal is development impact. We take a sector approach, focusing on Financial Institutions, Energy and Agribusiness, Food & Water in order to guide our strategy and optimize development impact.

All focus sectors were profitable during 2012. The main contributor to net profit in 2012 was the Financial Institutions sector, following strong results from equity investments and a release on value adjustments. The positive financial performance of the Financial Institutions sector is partly driven by the one-off release of the group-specific provision. As this sector makes up about 50% of FMO's on balance loan portfolio, with most loans having a shorter tenor compared to other sectors, a large part of the information backlog was connected to this sector.

The Energy sector showed the highest portfolio growth, while also improving the level of income. Performance by Diverse Sectors was influenced by two substantial additional specific value adjustments (together making up €22 million) on projects related to the former Housing sector. For further details please refer to the Segment Information included in the Annual Accounts.

FMO also executes Government funds and programs at the risk and expense of the State, and receives remuneration for services rendered. This remuneration is allocated to the sectors for financial performance segmentation.

Balance Sheet

In 2012 our total assets increased by 9.9% from €5.1 billion to €5.6 billion, mainly due to the larger loan portfolio and equity portfolio. Our on-balance loan portfolio grew by €232 million to €2,817 million. Our equity portfolio (including investments in associates) is now over €900 million, an increase of 15%.

The growth of our total assets was financed by long-term funding. In 2012 short-term funding was replaced by long-term funding. Our broad investor base allowed us to further diversify our funding portfolio. In 2012 we raised almost €1 billion (2011; €0.5 billion) from diverse markets and currencies. We also placed several sustainability bonds and obtained ratings from two leading sustainability rating agencies, Sustainalytics and Oekom Research which support further issuance going forward. Tenors vary from 2 to 10 years. In 2012 we successfully issued a benchmark bond of USD 500 million, 3 years floating rate note, which resulted in an increase of Debentures & Notes from €2.7 billion to €3.3 billion. Our liquidity position is well within our limits and even under various stress tests the liquidity position remains within limits.

Shareholders' equity increased significantly, rising 9.4% to €1,822 million mainly due to the record-breaking net profit.

BIS Ratio

Our solid risk management and robust investment selection process have contributed significantly to FMO's strong capital base, which is reflected by a Bank for International Settlements (BIS) ratio of 29.0% (2011: 29.4%). FMO has a prudent internal approach to assessing the risk weighting of our investments in emerging markets.

The leverage ratio, which will be mandatory under Basel III, amounts to 25.7% – far above the minimum required 3%.

The calculated internal capital ratio, using a FMO specific internal rate based method for calculating credit risk, taking into account the relevant other risks, amounts to 14,2% at the end of 2012 (2011: 14,0%).

SECTOR FOCUS

FMO services sectors that we believe can have high long-term impact – Financial Institutions, Energy and Agribusiness, Food & Water. Access to finance, sustainable energy and secure food supplies are important for achieving economic and social progress in developing countries.

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 bolster their developing markets and communities.

We also support financial institutions in reaching international best practices, for example, in asset liability management, risk management, product development, environmental risk management and implementation of client protection principles.

For developing countries, access to reliable and affordable energy is essential for economic and social progress.

Energy is crucial for running businesses, institutions and households alike. Renewable energy is an integral part of making a positive impact in terms of sustainability and climate. Without renewable alternatives, fragile fossil fuels such as oil, coal and gas continue to be depleted. And natural disasters from climate change are more frequent and devastating – putting even more pressure on resources.

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

Achieving long-term sustainability in global agribusiness production requires large investments targeted at improving farming practices, increasing yields and reducing waste. FMO finances agribusiness companies throughout the value chain, including farming, processing and distribution operations.

Initiatives from other diverse sectors that promise sustainable impact can also benefit from FMO's services, expertise and global network. We support businesses from other sectors that demonstrate such impact potential. In cooperation with our partners, we are active in a diverse range of non-focus sectors. These include infrastructure, such as telecommunications, airports, roads, railways, manufacturing and mining.

Financial Institutions

Highlights

Our Financial Institutions business enjoyed another successful year as the Eurozone turmoil and global economic crisis left unscathed most of the emerging markets in which we operate.

However, the economic crisis and accompanying increased regulatory pressure continued to quench Western European and US commercial bank activity in emerging markets. Although we did catalyze the amount of third-party money into developing countries as we had targeted, it did mean that most of the funds we mobilized came from development banks.

All the same, we were delighted to sign risk-sharing agreements with two Dutch banks, ING and Rabobank, to cooperate on trade finance transactions for developing countries, starting in Africa.

We closed our first syndicated transactions in Sri Lanka – two loans totaling a US$43 million to microfinance institution Lanka Orix Micro Credit – and a US$94 million syndicated loan to Khan Bank, one of the leading banks in Mongolia.

We expect to do more such syndicated facilities in years to come, especially in Latin America and in Asia.

FMO made a debut transaction in Uzbekistan with a US$9 million loan to Hamkorbank, the only Uzbek bank with its head office outside the capital, Tashkent, and one of the country's few fully privately-owned banks. The loan is earmarked for lending to small and medium-sized enterprises.

NEW CONTRACTS PER SECTOR PER REGION (€XMLN)

	Financial Institutions					
	Investment funds	Other	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
2012	142	576	364	122	186	**1,390**
2011	65	527	353	55	306	**1,306**

For more information on our investments in 2012, please refer to the tables below.

Strategic Priorities

We believe financial institutions have a vital environmental and social role to play. Uniquely placed at the center of the economy, they can engage in constructive discussions with their clients to improve environmental and social performance.

In 2012, FMO continued to encourage banks to play a role in society beyond the purely financial. As shown by our 83% score on our Client Satisfaction Survey, FMO's clients highly value the experience and expertise we bring in environmental, social and governmental (ESG) issues, as well as our role in bringing parties together to promote positive change in ESG.

FINANCIAL INSTITUTIONS (INVESTMENT FUNDS) – NEW CONTRACTS PER REGION (€XMLN)

	2012	2011
Africa	35	0
Asia	30	37
Latin America & the Caribbean	33	8
Eastern Europe & Central Asia	39	0
Non-region specific	5	20
Total	**142**	**65**

FINANCIAL INSTITUTIONS (OTHER) – NEW CONTRACTS PER REGION (€XMLN)

	2012	2011
Africa	125	154
Asia	168	127
Latin America & the Caribbean	160	131
Eastern Europe & Central Asia	79	103
Non-region specific	44	12
Total	**576**	**527**

COMMITTED PORTFOLIO PER REGION (€XMLN)

	2012		2011	
	Investment funds	Other	Investment funds	Other
Africa	362	550	341	546
Asia	274	551	285	453
Latin America & the Caribbean	154	574	132	511
Eastern Europe & Central Asia	253	523	212	589
Non-region specific	136	114	137	86
Total	**1,179**	**2,312**	**1,107**	**2,185**

NEW CONTRACTS PER SECTOR PER REGION (DEVELOPMENT IMPACT INDICATOR)

	2012		2011	
	Investment funds	Other	Investment funds	Other
Africa	20	80	0	103
Asia	21	108	24	82
Latin America & the Caribbean	23	103	5	86
Eastern Europe & Central Asia	27	50	0	67
Non-region specific	3	30	13	8
Total	**94**	**371**	**42**	**346**

CASE STUDY

Nigeria Implements Sustainable Banking Principles

FMO has been active in Nigeria for nearly a decade. During this time we have met with many challenges, particularly in the areas of environmental, social and governance (ESG) improvement. In 2012, major strides were made in Nigeria on the ESG front, as the Central Bank of Nigeria officially began implementing the Nigeria Sustainable Banking Principles.

FMO was involved in the development of these banking principles and guidelines. They cover the power, agricultural and oil and gas sectors, creating a framework that enables the financial sector to address environmental and social (E&S) issues in its lending and investment decisions. Since September 2012, the Central Bank of Nigeria has required all banks to establish internal E&S frameworks to identify, assess and mitigate E&S risks in their lending activities. Nigerian banks are also required to establish sustainability desks, responsible for actively implementing the principles.

FMO and the IFC have acted as sparring partners for the Nigerian banking industry since day one of the process. Our activities have ranged from convening a CEO roundtable to serving as technical advisors during the development of the principles and commissioning E&S case studies through our Capacity Development program. These studies profile banks that experienced significant losses as a result of not taking E&S risks into due consideration and those who benefited from incorporating E&S into their lending decisions, thereby making a strong argument for the integration of E&S guidelines. FMO also co-sponsored a sector-wide workshop to support the industry in implementing the principles.

FMO's involvement has helped the Nigerian financial industry create a level playing field, in which banks can successfully address environmental and social issues without fear of losing business to competitors. The involvement of the Central Bank and the collective effort of the entire Nigerian banking sector makes this initiative truly remarkable, holding tremendous potential for development impact as the financial sector integrates sustainability into mainstream business activities.

Region: Africa

This approach continued to yield results in Nigeria, where FMO brought together the banking sector for an ESG roundtable. We have worked in the country for eight years, during which time ESG has posed quite a challenge. Through the sector-wide ESG initiative, FMO catalyzed the Nigerian financial industry to create sustainable banking principles that level the playing field by allowing banks to address environmental and social issues without fear of losing business to rivals. The involvement of the Nigerian Central Bank was a boon, and will help increase the chances of long-term success.

Our efforts in Nigeria included helping develop and ensure the adoption of a set of principles and sector guidelines on agriculture, oil, gas and power by the Nigerian Bankers' Committee, a forum of all the banks' CEOs and the Nigerian Central Bank. We also co-convened a sector-wide workshop to support the industry in implementing the principles and guidelines.

In Bangladesh, we brought together DFIs and Financial Institution clients in a study tour intended to familiarize them with environmental and social challenges in the ship demolition, garment and textile industries. In Paraguay, we convened CEOs of several local banks to discuss sustainability challenges, resulting in the signing of an agreement to start developing sustainable banking principles in the country.

We see and increasing demand for financing for micro, small and medium-sized enterprises (MSMEs) in many developing countries. These MSMEs are the motors of local economies yet lack access to finance in many of the countries where we work. Our loans to local banks help ensure that these vital companies receive the financing they need, which in turn gives many people access to finance. We supplement our financial services with capacity development, for example by hiring an MSME development consultant for a bank in Costa Rica.

FMO continues to believe in microfinance as a strong tool for development, provided that it is applied to productive ends and everything is done to prevent client over-indebtedness. Our direct investments in consumer finance are low, but when one of our clients is engaged in consumer finance, we apply the

CASE STUDY

Rebuilding Haiti, One SME at a Time

In July 2012, FMO helped realize the first closing of Leopard Haiti Fund (LHF) as one of three anchor investors through financing from the Government funded Massif fund. LHF is the world's first private equity fund focusing exclusively on Haiti since the January 2010 earthquake, which tragically took the lives of 230,000 people, injured 300,000 more and left over a million people homeless. While aid and donor contributions were pledged quickly, mobilizing commercial funding to grow the Haitian economy remained a challenge.

The fund's US$20 million first close is the first step in a longer process, in which LHF will provide Haitian SMEs with much-needed risk capital, focusing on the food processing, tourism, affordable housing and renewable energy sectors.

LHF is expected to deliver a strong development impact by supporting SMEs with more than just funding. Managerial guidance and operational support will also be extended, helping companies to professionalize their businesses by strengthening management capacity, worker skills, financial reporting, corporate governance and social responsibility policies.

Demonstrating successful private equity investing in Haiti is expected to build confidence among institutional investors, mobilizing additional equity to the country. FMO and IFC conducted a market survey to identify private equity managers suitable for the task. Leopard Capital emerged as the best choice, with a positive track record in post-disaster countries and the ability to hire high-quality, locally-based staff.

FMO's participation in LHF is an excellent opportunity to provide Haitian SMEs with growth capital under the highest environmental and social standards, helping rebuild the country one business at a time.

DII: 5
Sector: Financial Institutions
Region: Latin America and Caribbean
Investment: US$8.5 million equity investment

Smart Campaign's Client Protection Principles (CPP) using a risk-based approach. These cover areas including avoiding over-indebtedness and ensuring transparent pricing and ethical staff behavior. In 2012 we worked on a new policy to formulate guidelines for a risk-based selection of those financial intermediaries with whom FMO should work on CPPs. For high-risk clients, our aim is to incorporate the CPPs in every step of the investment process, including assessment of the client, implementation of a CPP action plan and monitoring.

FMO is also a signatory to the UN Principles for Responsible Investment (UNPRI), and a founding signatory sponsor of the UNPRI Principles for Investors in Inclusive Finance (PIIF).

Suggested links

- Visit the UNPRI website

Partnerships

We partnered with European Bank for Reconstruction and Development (EBRD), IFC, European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau Bankengruppe (KfW) on a noteworthy transaction of 2012: a €25 million investment in Green for Growth, a structured debt fund that invests in both financial and non-financial institutions in order to enhance their participation in energy efficiency and renewable energy in Southeast and Eastern Europe.

Our partnership approach was also demonstrated by the conference we held on the Future of Banking in Amsterdam. More than 200 clients and partners participated in the November conference, which featured speakers such as Princess Máxima of the Netherlands and the governors of the Dutch and Peruvian central banks. Topics included financing micro, small and medium enterprises (MSMEs) and the lessons developing countries and Europe can learn from each other.

Outlook 2013

The outlook for our Financial Institutions business in 2013 is healthy. We expect demand from financial institutions in developing countries to continue to grow, as banks need the funding to finance their growth. We will intensify our efforts to catalyze commercial investors from developing countries.

In the coming year we will invest in deepening our ESG knowledge in order to add further value to our clients, as well as continuing to bring together financial institutions to network and share knowledge.

Energy

Highlights

Our Energy focus sector enjoyed a highly successful 2012, with a record number of transactions. We committed €364 million in new projects, almost 70% of them in sustainable and renewable energy. This brought the portfolio to more than €1.2 billion. Technological developments in solar and wind are quickly pushing down equipment prices. Combined with persistently high prices for fossil fuels and government policies to stimulate renewables, this is stoking demand for renewable energy. We are encouraged to witness these developments and happy to be able to contribute to them.

We believe this trend will continue, and we will continue to focus increasingly on renewable energy. Nevertheless, the substantial demand for fossil fuel-based energy will by no means disappear, with fossil fuels still needed for a stable energy grid supply in most countries. We will therefore continue to finance such transactions in lower-income countries if they meet our regular ESG criteria (based on the IFC Performance Standards), and only if no viable renewable alternative is available in the short term.

Last year saw our first rural energy transactions, all of which are in Africa and have already been closed. These small-scale yet significant projects were financed by the Access to Energy Fund, which we manage on behalf of the Dutch Government. The projects provide local, mostly off-grid and renewable energy solutions such as windmills or roof-based solar panels to people living too far from the grid. In the future we expect to contract more such projects, which we will also finance through the Access to Energy Fund.

The year saw construction completed on the first FMO-financed solar energy project in Peru. Two more large-scale solar projects were financed in India and South Africa. We began investing in developing innovative new climate business projects in areas such as sustainable agriculture, energy efficiency and forest conservation, another area in which we wish to expand.

Another highlight of 2012 was our first energy venture in Mongolia and the country's first wind project and independent power venture. We acted as lead arranger of financing for a large combined cycle energy plant in Ghana, where we arranged more than US$200 million in financing (including our own share), and a wind project in Nicaragua. It remains our aim to secure more lead arranger roles so we can catalyze more financing.

As developing countries are hit by climate change yet have scarce financial ability to mitigate its effects or invest in sustainable energy, forestry or agricultural projects, we believe that the financing of climate business will become increasingly important. FMO has a clear role to play.

Strategic Priorities

Providing access to energy in low-income countries was a major priority of our 2009-2012 Moving Frontiers strategy. We are satisfied with what was achieved on this front last year, which included a record number of transactions in LICs and strong volumes,

CASE STUDY

Supporting Solar Energy in India

FMO arranged a US$105 million in debt financing to help realize a 100MW concentrated solar power project in Rajasthan, India. Along with funding from the Government's Infrastructure Development Fund (US$15 million) and from the Interactive Climate Change Fund (which comprises 11 European DFIs), FMO financed US$30 million to our first concentrated solar power project.

The project is being developed by Reliance Power, which is also 100% shareholder of the project. The company is part of the Indian Reliance Group, a diversified conflomerate active in the telecommunication, financial, healthcare and energy sectors. This project aims to deliver 100MW of solar power for India by 2013.

The project will employ the innovative Compact Linear Fresnel Technology. This advanced solar thermal technology uses rows of parallel mirrors to reflect solar radiation onto a linear receiver. Water is then pumped through the linear receiver and heated to become steam, which drives the steam turbine and generator.

This landmark development will help support the renewable energy matrix in India, making it cleaner and more sustainable. The project marks a step forward in the adoption of renewable energy alternatives in India, a welcome step for a country largely dependent on thermal power

DII: 23
Sector: Energy
Region: India

despite challenging circumstances in many of the countries where we are active.

Under FMO's new 2013-2016 strategy, a priority for sustainable energy will intensify as the department's focus on renewables continues and activities in climate business will begin to play an increasingly important role. As before, we will continue to finance some fossil fuel projects, but only in lower-income countries where access to energy takes precedence. In more developed countries, a preference will remain for financing renewable energy.

As FMO's portfolio grows, so too has the attention we receive from non-governmental organizations (NGOs), particularly for transactions where environmental and social impacts can be considerable. During 2012, the Energy department in particular was targeted for two of its financings. The first was a hydroelectric plant in Panama, where sufficient consultation with local indigenous people had been disputed and the second, a biofuel project in Sierra Leone, where critique has centered on the conflict between land use for food and for fuel. In both cases, FMO discussed these projects on several occasions with government, media and NGOs, explaining our 'ESG' approach and our confidence in our decision to finance such transactions. Investigations into the Panama project are still being conducted, and no further detail on the outcome is presently available.

Prior to all its investments, FMO implements the use of strict ESG criteria, used both for evaluating the risks and potential mitigants, as well as for seeking opportunities and benefits for those in the project area. Where red flags exist without appropriate mitigants, FMO will not step into the transaction. FMO remains committed to continuing proactive discussion on our activities as well as on any sensitive issues that may surround them.

Energy

NEW CONTRACTS PER REGION (€XMLN)

	2012	2011
Africa	168	160
Asia	92	60
Latin America & the Caribbean	79	88
Eastern Europe & Central Asia	25	45
Non-region specific	0	0
Total	**364**	**353**

COMMITTED PORTFOLIO PER REGION (€XMLN)

	2012	2011
Africa	501	452
Asia	297	235
Latin America & the Caribbean	318	270
Eastern Europe & Central Asia	74	49
Non-region specific	11	12
Total	**1,201**	**1,018**

NEW CONTRACTS PER REGION (DEVELOPMENT IMPACT INDICATOR)

	2012	2011
Africa	115	115
Asia	59	32
Latin America & the Caribbean	50	58
Eastern Europe & Central Asia	19	32
Non-region specific	0	0
Total	**243**	**237**

Outlook 2013

Our pipeline for 2013 is healthy and we are optimistic of another good year. Lead times for projects in Africa in particular are long and it can take many years of patience for projects to come to fruition. But we are confident these lead times will decrease as appetite and available financing increase, and governments increasingly encourage the necessary power sector reforms.

CASE STUDY

Winds of Change in Nicaragua

FMO acted as lead arranger in the debt financing of the Eolo wind project, located on the shores of Lake Nicaragua. This renewable energy source will generate 44MW of electricity, using 22 2MW wind turbines. Project financing has also been used to construct a new sub-station and interconnection lines, enabling widespread connection to the national grid.

The project, owned by Eolo's parent company Globeleq, will have significant long-term economic and environmental benefits for Nicaragua. Eolo was registered on June 8, 2012 as a Clean Development Mechanism (CDM) under the Kyoto Protocol, which will enable it to earn carbon credits to sell into the international carbon trading markets.

FMO's involvement in Eolo marked the first transaction catalyzed through our Friendship Facility, which was created with our long-standing DFI partners Proparco and DEG. FMO's share of the debt was US$40 million, while Proparco and DEG contributed debt financing of US$26.5 million and US$25 million, respectively. The facility formally strengthens our cooperation and our shared goal of collaborating on projects with high development impact, such as Eolo.

Eolo was a long-running transaction that began in mid-2011, with FMO disbursing the first part of its subordinated debt in May 2012 and the Eolo turbines becoming operational in November 2012. The project will helpreduce the country's dependence on thermal plants and imported fuels. The addition of 44MW in wind energy generation adds to Nicaragua's 750MW capacity, which has been growing steadily since 2009. Eolo's sustainable energy source is estimated to reduce greenhouse gas emissions by 113K metric tons per year, charting a strong course towards a cleaner energy matrix in Nicaragua.

DII: 19
Sector: Energy
Region: Latin American and Caribbean
Investment: US$40 million loan (US$12 million from IDF)

Agribusiness, Food & Water

Highlights

Last year marked our Agribusiness, Food & Water's first full year of operations, following its establishment as an FMO focus sector in July 2011. We focused on completing the staffing of the team, building our sector knowledge and strengthening relationships with clients and partners.

We also further defined our strategy, both geographically and in sub-sectors. Our primary focus areas are seeds and fertilizers, primary production and farming, infrastructure, such as storage/warehouses and irrigation, commodity and food processing, and trade and distribution (wholesale/retail). The majority of our deals are in Latin America and Eastern Europe, although we plan to become more active in Africa and Asia. With a still relatively small team we will focus on specific agriculture producing and/or processing countries in each region.

Activity in this sector increased significantly in 2012. We participated in 12 new agribusiness transactions, valued at a collective €122 million. We mostly provided working capital or investment capital to our clients, enabling them to invest in storage capacity or to finance their trade flows.

We were mandated lead arranger for a US$110 million DFI facility for Swiss-based agricultural commodity merchant ECOM, financed in collaboration with our partners DEG and Proparco. The loan will help ECOM finance coffee and cocoa operations in a number of low-income countries, including Kenya, Vietnam, Papua New Guinea and Ivory Coast. ECOM also supports farmers by organizing training and certification in sustainable agricultural practices, supporting our ESG objectives.

We arranged US$50 million in funds, mobilizing funds from DEG (US$35 million), Proparco (US$15 million) and commercial financier Deutsche Bank (US$5 million) to arrange a loan for Tiryaki, an agricultural trading company in Turkey. The funds will be used to construct a large silo complex where commodities can be held and used as lien in warehouse receipt financing.

A final highlight for 2012 was our second syndicated facility for Argentine agribusiness group El Tejar, one of the world's largest producers of vegetable proteins. We committed US$30 million and catalyzed a further US$70 million from commercial banks, providing El Tejar with permanent working capital. This deal is in line with our strategy to support global food security as it will help improve yields and efficiency in primary agricultural production – integral to feeding a growing world population.

CASE STUDY

Sustainable Supply Chain Certification for Coffee and Cocoa Farmers

FMO acted as lead arranger for a US$110 million DFI facility for ECOM, one of the world's largest agricultural commodity merchants. The loan was co-financed by our partners DEG and Proparco, and will help ECOM to increase its purchase of certified coffee and cocoa in Uganda, Vietnam, Papua New Guinea and Ivory Coast.

ECOM is headquartered in Switzerland and has 75 operating companies in 35 countries around the world. ECOM acts as a supply chain manager from farm to factory, offering commodity origination, processing and merchandising services, as well as logistical and risk management services. ECOM's clients are small- and medium-size farmers.

Alongside the loan, FMO also provided technical assistance funds in order to assist farmers in adopting better farming practices. Farmers will be trained in sustainable farming, waste management and best labor practices, which will help them to improve both their crop yield and crop quality and allow them to certify their produce. In this way the farmers can add value to their crops, thereby broadening the marketing possibilities and enabling the farmers themselves to trade into higher value markets. At the same, ECOM's exporting operations enhance the exports of the producing countries and add value to the products of the consumers.

Kawacom is one of ECOM's subsidiaries whosesustainable projects department assists farmers in adopting better farming practices and obtaining certifications. The year-round efforts in 7 projects across Uganda help farmers to add more value to their crops. Ecom, as an exporter, then ensures that value is added to the final consumer's cup and to the Ugandan coffee exports.

FMO's joint investment in ECOM's supply chain infrastructure will help to certify an estimated 37,300 farmers, improving their livelihoods and reducing their companies' environmental footprints. The investment also includes pricing incentives related to meeting certification targets. If ECOM gets these certifications, they will greatly contribute to supply chain sustainability in the major agricultural sectors in which the company operates. The scope and reach of this company provides FMO with a unique opportunity to instill better and more sustainable business practices in a very large group of practitioners, all around the world.

DII:19
Sector: Agribusiness, Food and Water
Region: Africa and Asia
Investment: US$110 million loan (US$40 million from FMO)

From a development impact perspective, 2012 was also a successful year. We met our development impact target. Our investments added value to our clients by generating jobs, bringing in new technologies, generating tax revenues and/or having a positive impact on the balance of payment.

In selecting our agribusiness projects, we seek investments that are sustainable and contribute to food security and rural development. We use our knowledge of environmental, social and corporate governance to support our clients in practicing sustainable business. ESG action plans are in place with many of our client in this sector.

Suggested links

- ECOM case study
- Tiryaki case study

Strategic Priorities

The production of food must increase by 70% if we are to sustain a global population that will reach nine billion by 2050. Agribusiness, Food & Water (AF&W) aims to contribute to a sustainable solution by financing companies throughout the agribusiness value chain, pursuing investments that promote long-term food security.

We take a global value chain approach when investing in farming, processing and distribution, with the goals of improving farming practices, increasing yields and reducing waste.

All sectors have their own dilemmas and challenges, but in our experience agriculture can be particularly complex. Financing primary agriculture and livestock carries a range of risks, including pricing, seasonality and disease. Furthermore, NGOs tend to be particularly critical of the agricultural projects we finance, due to the sensitivity of issues such as animal welfare, land-grabbing, community involvement, food security, financing of large scale farming at the expense of small land owners, use of GMO seeds, usage of (scarce) water and the cultivation of food for fuel.

FMO continues to take a highly selective approach to choosing clients. We also bring much added value to deals when it comes to social and environmental issues, which can pose major challenges in the agricultural industry.

Partnerships

Our key partners in the agricultural sector are our peer development finance institutions DEG and Proparco, with whom we regularly share deals and exchange knowledge. In 2013 and beyond, we aim to continue combining our marketing strategies to attract new and larger clients.

In the coming years, FMO aims to boost its partnerships with Dutch companies. Agribusiness, Food & Water will extend its network by visiting agriculture-related companies in the Netherlands and continuing to pursue partnerships on agribusiness-related deals with Rabobank, a financial institution with extensive knowledge on this sector. We will also intensify our partnership with the University of Wageningen, which excels in knowledge of the agricultural sector, and seek out new partnerships with NGOs active in agribusiness in emerging markets.

Outlook 2013

In 2013, we plan to increase our market presence in the agricultural sector in Africa by building and expanding our knowledge of the market and growing our portfolio. Latin America, a major agricultural producer, will remain a key focus area for FMO as we strengthen our expertise in the region while broadening our sub-sector knowledge in grains & oilseeds, soft commodities and farm inputs. Our pipeline is promising and there is sufficient market demand to anticipate a fruitful year.

Although we currently finance some biofuel projects, such as those using leftover materials from the food production of soy and sugar for ethanol and biodiesel, we will not finance projects where the sole purpose is to use agricultural products for fuel.

Going forward we will focus on contributing to a more efficient use of land and water. The main focus will be on sustainable production methods and boosting productivity while reducing waste. We aim to develop methodology to measure the footprint of our investee companies (emission/water usage) and set a portfolio reduction target.

Looking further ahead, our development impact objectives include increasing our exposure in the Agribusiness, Food & Water sector, developing sector-specific impact indicators and increasingly moving into low-income countries. Partnerships with other banks, as well as with Dutch companies active in emerging markets, will continue to play an important part in this strategy.

Agribusiness, Food & Water

NEW CONTRACTS PER REGION (€XMLN)

	2012	2011
Africa	19	0
Asia	0	16
Latin America & the Caribbean	43	26
Eastern Europe & Central Asia	31	13
Non-region specific	29	0
Total	**122**	**55**

COMMITTED PORTFOLIO PER REGION (€XMLN)

	2012	2011
Africa	26	7
Asia	77	83
Latin America & the Caribbean	179	157
Eastern Europe & Central Asia	89	69
Non-region specific	42	14
Total	**413**	**330**

NEW CONTRACTS PER REGION (DEVELOPMENT IMPACT INDICATOR)

	2012	2011
Africa	11	0
Asia	0	10
Latin America & the Caribbean	30	15
Eastern Europe & Central Asia	20	8
Non-region specific	20	0
Total	**81**	**33**

CASE STUDY

Investing in Turkey's Agricultural Infrastructure

With nearly 45% of the population living in rural areas and with agriculture accounting for just 13% of GDP, Turkey faces a number of challenges in the agribusiness sector. Some of these challenges inclu-dethe lack of specialised trade and storage infrastructure and a need for market-based mechanisms to finance agricultural inventories.

In 2012 FMO arranged a US$50 million loan for Tiryaki Agro, a Turkish agricultural trading company dealing in commodities such as grains, pulses and nuts. The funds have been used to construct a large silo complex in Mersin in southern Turkey, contributing to the development of the country's agricultural infrastructure. The loan was syndicated through the Friendship Facility with our long-standing partners DEG and Proparco, and commercial investor Deutsche Bank.

When completed, the silo complex will encompass over 500,000 tons of storage capacity and include small commodity processing units. These processing units will allow the company to make better margins because it will then be able to guarantee and standardize product quality. In 2012 Tiryaki was licensed to issue warehouse receipts, which allow third parties to store their goods in Tiryaki's facilties and receive bank financing against the issued warehouse receipts.

Tiryaki is the first private company in Turkey licensed to issue such receipts. In combination with the silos being constructed, this license will enable Tiryaki to significantly increase liquidity in and help develop the agricultural sector.

In addition to mobilizing both DFI and commercial bank investment, FMO has assisted Tiryaki to implement a robust risk management framework that will help the company to grow in a sustainable manner. FMO also worked closely with IFC and EBRD, subsequent investors in Tiryaki, to create a joint environmental and social (E&S) action plan. This will ensure that financial sustainability goes hand in hand with E&S sustainability.

DII: 7
Sector: Agribusiness, Food and Water
Region: Europe and Central Asia
Investment: US$50 million loan (US$15 million from FMO)

Diverse Sectors

Highlights

Diverse Sectors closed a number of transactions last year in a range of industries, including telecoms, ports, aviation, greenhouses and tourism. Our activities in this sector are primarily focused on infrastructure deals.

We closed €186 million in new transactions in 2012.

Diverse Sectors infrastructure transactions in 2012 included FMO's financing of a port facility in Togo and a toll bridge in Abidjan, Ivory Coast. Financed by our Infrastructure Development Fund, the toll bridge will alleviate long-standing traffic problems in the city. We are proud of having contributed to an innovative financing package for this.

We also provided a US$30 million loan to Continental Towers (CT), a wireless telecommunication tower infrastructure company with a current portfolio of 369 operational tower sites spread across Central America. FMO played a leading role in financing a new waste processing plant in Bangkok for BMT-Group [link to case study], which specializes in the recycling and purification of mercury-contaminated waste, mainly produced by the natural gas and chlorine industry.

Another notable loan was made to Molecaten, a FOM client. The loan will help Molecaten expand its Robin Pope Safaris tourist activities in Malawi and Zambia, where it leads in the field of sustainable tourism. Alongside the infrastructure projects in our portfolio, the range of transactions FMO is involved in reflects the varied nature of Diverse Sectors and the breadth of our local and global networks.

Suggested links

- Read more about Diverse Sectors client Robin Pope Safaris on our website

Strategic Priorities

Diverse Sectors is responsible for FMO's portfolio in non-focus sectors, such as telecommunications, mining, infrastructure, manufacturing and raw materials. We strive to maximize development impact in all of our Diverse Sectors projects. Supporting infrastructure projects, for example, allows us to play a vital role in a country's development. Our aim within Diverse Sectors is to help advance development projects by mobilizing commercial and institutional parties into higher-risk, frontier markets, while supporting clients in integrating sustainability into their business models.

Partnerships

FMO works with a network of selected partners across the world whose knowledge and expertise of specific sectors or developing countries enhances our own knowledge. Together with our financial partners, we finance projects and companies in all sectors that generate positive development impact. We also offer our partners long-term financial products and access to our global network and expertise in development finance, adding value to the transactions on which we collaborate.

The main challenge we face within Diverse Sectors is that it is difficult to find good deals that on the one hand fit our portfolio and on the other hand are large enough to be shared with our partners. Nevertheless we continued to strengthen relationships with our core partners and succeeded in sealing strong new partnerships in 2012. We reaped the benefits of the strategic partnership we entered into in 2011 with our German and French counterparts, DEG and Proparco, respectively, sourcing joint deals and improving efficiency for our clients. To cement this cooperation we signed a cooperation agreement and operational guidelines with these two parties.

IFC remains an important partner for FMO in sourcing Diverse Sectors deals.

FMO also has good relationships with the African Development Bank and EBRD, resulting in deals in Africa (mainly in energy and infrastructure) and Eastern Europe (in the financial sector and infrastructure), respectively.

CASE STUDY

A Sustainable Solution for Difficult Waste

FMO provided a €3.6 million loan to Thai company Begemann Mercury Technology Pacific Co., Ltd., a 100% daughter company of the Dutch company BMT Begemann Milieutechniek B.V. The loan was funded through our Government-backed Facility Emerging Markets Fund (Faciliteit Opkomende Markten, or FOM).

BMT purifies and recycles mercury-contaminated waste substances – hazardous by-products of the natural gas and chlorine industries. Potential environmental contamination by mercury is a fast-growing international problem. Such toxic waste must be handled extremely carefully to minimize environmental and public health risks.

FMO's loan to BMT will help finance a new mercury waste processing plant, located near Bangkok in Thailand. The plant will use BMT's internationally patented vacuum distillation method, and will have the capacity to serve both the Thai and neighboring markets.

BMT's plant will contribute towards, reducing international waste transports and thereby reducing the risk of dangerous accidents while transporting this hazardous material. In order to ensure operational excellence, the plant will be audited and certified at the highest levels for occupational health and safety, for sound community relations and minimal environmental impact. It also will certify its operations according to the ISO 14001 and ISO 9001 guidelines.

FMO's investment in BMT helped the company expand to Asia, where such mercury waste handling was previously unavailable. With its pioneering method, BMT's prospects for further expansion throughout Asia and the Middle East look promising. Helping to introduce and increase the use of such waste recycling technology is an important part of FMO's larger strategic goal of supporting businesses that promote cleaner, greener development.

DII: 2
Sector: Diverse Sectors
Region: Asia
Investment: €3.6 million loan

Faciliteit Opkomende Markten

The Faciliteit Opkomende Markten (FOM), or Facility Emerging Markets, is a Government fund managed by FMO to service joint ventures and subsidiaries of Dutch enterprises. In 2012 FOM celebrated its 20th anniversary with a seminar organized in cooperation with the Ministry of Economic Affairs, Agriculture and Innovation. The seminar was attended by over 200 existing and prospective clients, various intermediaries and Government officials. The seminar focused on discussing opportunities and risks in setting up enterprises in emerging markets. Several panel sessions took place, during which knowledge and expertise were shared by FMO clients, bankers, representatives the Ministry of Economic Affairs, Agriculture and Innovation and members of the largest SME entrepreneurs' organization in the Netherlands, MKB Nederland.

As an example, we invested in Core-TeQ, the Malaysian subsidiary of Scherpenzeel Group. This was our first financing in Malaysia funded through FOM. Scherpenzeel develops high precision shafts, rollers and roller-assemblies. FOM also granted a loan of €3.1 million to the Dutch company Koppert BV for the acquisition of Brazilian company Itaforte. Koppert supplies greenhouses with bees that act as an innovative bio-alternative to pesticides.

Outlook 2013

From a transaction perspective, 2013 looks promising for Diverse Sectors. Our main challenge will be to close the transactions under management at the end of 2012, which required more time to bring all the involved parties together.

We will focus on strengthening cooperation with DEG, Proparco, the EBRD and Rabobank, key partners in sourcing Diverse Sectors transactions, which should enhance our ability to source transactions that fits

CASE STUDY

Dutch Company Taking on Brazilian Agricultural Business

In mid-2012 FMO provided a €3.1 million loan to Koppert Beheer BV (Koppert), a Dutch company preparing to take over Brazilian company Itaforte Bioprodutos LTDA. The loan was funded through the Government-backed Facility Emerging Markets (Faciliteit Opkomende Markten, FOM).

Koppert is a family company and the international market leader in the field of biological crop protection and natural pollination. The company is headquartered in the Netherlands and has an excellent international reputation for reliability, innovation and quality. Observing strong annual average global market growth, Koppert decided that investing in emerging markets such as Brazil would be prudent. Part of this plan is the 100% acquisition of Itaforte, which is leading the market in microbiological products in Brazil. It proved impossible to borrow the amount required for this investment via commercial financial institutions; therefore FOM's participation was needed.

At the time of its acquisition, Itaforte's business conduct was already in accordance with local labor laws and regulations. FMO requires compliance with the stricter IFC Performance Standards, however, necessitating a bridging of the small gap between the different standards. Koppert itself was already very proactive in further improving the labor conditions of the acquired firm. One example was the provision of weekly English classes to all their staff members. Another point of improvement was the contracting of external security personnel.

From a wider development impact perspective, Koppert's core business is creating innovative new ways to reduce the environmental damage associated with agriculture. The company aims to reduce the use of pesticides and traditional chemical fertilizers through the use of natural alternatives. This will contribute to ecological balance and health for both the workers of Itaforte and the users of their products. This loan also helped to creat considerable social value by creating 50 new jobs. http://www.fmo.nl/k/n114/news/view/4431/179/FMO-invests-in-Koppert.html

DII: 2
Sector: Agribusiness, Food & Water
Region: Latin America & the Caribbean
Investment: €3.1 million

FMO's objectives. We expect the joint office in South Africa to continue boosting FMO's profile and business in the region.

Sustainability objectives for Diverse Sectors in the upcoming strategy period include gradually shifting to more environmentally-friendly industries and to cleaner technology for less environmentally-friendly industries. Where we are involved in projects with a significant negative environmental impact, the development impact must be very high. The measurement and assessment of these targets are currently being developed internally as part of our SHIFT project.

Diverse Sectors

NEW CONTRACTS PER REGION (€XMLN)

	2012	2011
Africa	116	142
Asia	6	67
Latin America & the Caribbean	37	26
Eastern Europe & Central Asia	23	64
Non-region specific	4	7
Total	**186**	**306**

COMMITTED PORTFOLIO PER REGION (€XMLN)

	2012	2011
Africa	436	402
Asia	388	462
Latin America & the Caribbean	143	169
Eastern Europe & Central Asia	177	162
Non-region specific	32	39
Total	**1,176**	**1,234**

NEW CONTRACTS PER REGION (DEVELOPMENT IMPACT INDICATOR)

	2012	2011
Africa	76	98
Asia	4	44
Latin America & the Caribbean	25	17
Eastern Europe & Central Asia	13	40
Non-region specific	3	4
Total	**121**	**203**

CASE STUDY

Towering Ahead in Central America

In 2012, FMO invested US$30 million in Continental Towers (CT), a wireless telecommunication infrastructure company with mobile tower sites across Central America. The company was founded in 2008 with operations in El Salvador, Guatemala, Honduras and Panama. FMO acted as lead arranger in this loan, which totaled US$120 million with the other investors included.

CT constructs towers on a build-to-suit basis, but also leases space on its mobile towers to telecommunications companies. This offers smaller companies affordable access to existing facilities and allows larger operators to expand into remote areas that would otherwise be unprofitable to service. This innovative lower-cost approach aims to boost service offerings and lower mobile prices, eventually creating substantial benefits for consumers.

The company's unique business model also includes providing free space on its towers to local municipalities to install street lights, Wi-Fi and security cameras. This groundbreaking municipal cooperation is known as the 'Luminarias' project. One of the positive social effects has been to consistently reduce crime levels in the areas where street lights and cameras have been installed.

The loan will enable CT to construct new towers across Central America, more than doubling the company's existing shared telecommunication infrastructure network. The investment will also be used to finance CT's expansion into Costa Rica and Nicaragua, further extending access to affordable mobile telecommunications services.

DII: 16
Sector: Diverse Sectors
Region: Central America
Investment: US$30 million loan

PRIVATE EQUITY

COMMITTED EQUITY PORTFOLIO – PER SECTOR PER REGION 2011 VS 2012 €XMLN

	Financial Institutions					
2012	**Investment funds**	**Other**	**Energy**	**Agribusiness Food & Water**	**Diverse Sectors**	**Total**
Africa	294	121	107	0	87	609
Asia	196	56	65	13	6	336
Latin America & the Caribbean	116	20	22	20	24	202
Eastern Europe & Central Asia	196	21	0	0	11	228
Non-region specific	81	42	10	7	0	140
Total	**883**	**260**	**204**	**40**	**128**	**1,515**

	Financial Institutions					
2011	**Investment funds**	**Other**	**Energy**	**Agribusiness Food & Water**	**Diverse Sectors**	**Total**
Africa	272	86	91	0	77	526
Asia	202	32	47	15	6	302
Latin America & the Caribbean	100	23	9	19	24	175
Eastern Europe & Central Asia	153	15	0	0	9	177
Non-region specific	82	34	12	7	0	135
Total	**809**	**190**	**159**	**41**	**116**	**1,315**

DII NEW CONTRACTS EQUITY PER SECTOR PER REGION 2011 VS 2012

	Financial Institutions					
2012	**Investment funds**	**Other**	**Energy**	**Agribusiness Food & Water**	**Diverse Sectors**	**Total**
Africa	20	33	19	0	18	90
Asia	21	19	5	0	0	45
Latin America & the Caribbean	18	0	11	0	4	33
Eastern Europe & Central Asia	27	4	18	0	2	51
Non-region specific	3	4	0	0	0	7
Total	**89**	**60**	**53**	**0**	**24**	**226**

	Financial Institutions					
2011	**Investment funds**	**Other**	**Energy**	**Agribusiness Food & Water**	**Diverse Sectors**	**Total**
Africa	0	15	25	0	26	66
Asia	24	3	15	0	0	42
Latin America & the Caribbean	0	2	0	0	0	2
Eastern Europe & Central Asia	0	0	0	0	1	1
Non-region specific	0	8	0	0	0	8
Total	**24**	**28**	**40**	**0**	**27**	**119**

Highlights

Last year was a breakthrough year in terms of private equity deal flow, where our long-running efforts to be a leading investor in our focus sectors proved successful. We participated in an exceptional number of direct private equity investments, which were all co-investments with fund managers. The increase in deal flow from 2011 shows that our top-down market approach to sourcing deals is paying off. In 2012, direct investments outnumbered investments in funds and most of these equity deals were in our focus sectors, in line with our strategy.

The overall private equity market saw some growth in 2012, and FMO's own private equity investment volumes returned to the robust levels seen in the 2007-2008 pre-crisis period. FMO participated in a range of high-quality and high-impact private equity deals. We completed 16 new direct investments and increased our exposure in 14 existing direct investments in companies. Most of our direct investments were in Africa, which remains the most important region for our private equity activities. We aim to maintain a well-diversified global portfolio, however, and are also active in Asia, Latin America and Eastern Europe.

While the majority of our private equity deals were in the Energy sector, we also invested in Financial Institutions and Agribusiness, Food & Water. Notable deals for 2012 included five renewable energy projects: a solar and a wind project in South Africa, both of which were part of the South African Government's REFIT program aimed at boosting renewable energy in the country, two hydro-power projects in Latin America, and the first wind farm in Mongolia. We also closed our first private equity deal in Agribusiness.

FMO also made a direct investment with one of FMO's fund managers in a bank in Nigeria, supporting its restructuring alongside a consortium of investors. We fully closed and partially disbursed our co-investment in a large refinery project in Egypt, which was initially closed in 2010 but later put on hold with the development of the Arab Spring.

FMO exceeded its targets for exits in 2012, with 27 private equity exits. These included a profitable exit from Pronet, a Turkish alarm services company, in which we co-invested with a local fund manager. Following a challenging exit environment in 2011, we saw the investment climate in emerging markets improving. Our global private

CASE STUDY

Private Equity Success in Turkey

Our exit from International Alarm Services B.V. (Pronet) was a major highlight in 2012. Pronet is the market leader in Turkey in alarm installation and monitoring services, providing security systems to commercial clients and government institutions.

In 2006, FMO helped the company achieve its growth goals by co-investing €1.5 million in equity alongside our local partner, Turk Venture Partners Fund (TVP). FMO also provided a subordinated loan of US$4.9 million, which was fully repaid in 2007.

In August 2012, Pronet was purchased by London-based private equity fund manager Cinven. This transaction saw FMO exit its equity investment with a profit of €22 million.

As an equity investor in high-risk enviroments, FMO brings more to the table than financing alone: we stay close to our investee companies, supporting the integration of ESG into their operations. Throughout FMO's involvement, we supported Pronet by helping to strengthen its financial stability and by offering guidance ESG. We worked closely with local fund manager TVP, sharing knowledge and best practice to help it actively assist in Pronet's management processes during the investment and Cinven acquisition period.

Pronet is a prime example of what we at FMO aim to achieve in our private equity transactions: partnering with local fund managers to achieve highly successful transactions with highly profitable exits, while providing the risk capital businesses needed to achieve their growth ambitions.

Sector: Diverse Sectors
Region: Eastern Europe and Central Asia
Investment: €1.5 million equity investment (in 2006) and US$4.9 million loan (in 2007)

equity portfolio proves to be sufficiently robust to generate a good flow of exit revenues year by year.

Commercial investors remained fairly risk-averse in 2012. Lingering effects of the credit crisis and financial industry regulation made mezzanine financing less prominent in our deal flow. This is the case for both Private Equity and our Financial Institutions lending business, as market-related factors such as Basel III regulation make it less attractive for financial institutions to issue Tier 2 capital.

Strategic Priorities

Risk capital in the form of private equity and mezzanine finance is crucial for helping businesses grow. As an equity investor in higher-risk environments, FMO has a clear role to play. We bring more to the table than financing alone: we stay close to the companies we invest in, supporting the integration of ESG into their operations. Private equity and mezzanine also offer attractive returns, which contribute to our long-term financial strength.

Our private equity model is based on partnerships with fund managers. We invest in a wide range of funds and co-invest directly in projects alongside these funds.

We select our investments primarily based on impact and return potential. FMO also actively seeks out investments where we can play a supporting role, for example when working with (often first-time) fund managers in our focus sectors, in low-income countries and in frontier markets. Our experience shows we can have the highest relevance and development impact in these sectors and markets, where we can put our substantial network and knowledge of best practices to good use.

Partnerships

Partnerships are an important part of FMO's private equity approach. Fund managers as well as our direct investee companies increasingly expect FMO to play a more active role, using our networks, experience and expertise in areas ranging from ESG, knowledge of markets and regional best practices to asset and liability risk management.

Growing businesses need knowledgeable investors that not only provide funding, but also share a long-term vision. We continued to work closely with fund managers in 2012, supporting the implementation of pragmatic and workable environmental and social management systems in their operations through one-on-one visits from our E&S specialists.

Our proprietary environmental, social and governance (ESG) toolkit for private equity fund managers provides an overview of all relevant ESG risks and policies per sector and country, as well as showing potential opportunities applicable to specific types of investment.

NEW CONTRACTS EQUITY PER SECTOR PER REGION 2011 VS 2012 (€XMLN)

	Financial Institutions					
2012	**Investment funds**	**Other**	**Energy**	**Agribusiness Food & Water**	**Diverse Sectors**	**Total**
Africa	30	53	31	0	28	142
Asia	30	25	8	0	0	63
Latin America & the Caribbean	23	0	16	0	6	45
Eastern Europe & Central Asia	39	6	0	0	4	49
Non-region specific	5	6	0	0	0	11
Total	**127**	**90**	**55**	**0**	**38**	**310**

	Financial Institutions					
2011	**Investment funds**	**Other**	**Energy**	**Agribusiness Food & Water**	**Diverse Sectors**	**Total**
Africa	0	24	36	0	35	95
Asia	37	3	25	0	0	65
Latin America & the Caribbean	0	3	0	0	0	3
Eastern Europe & Central Asia	0	0	0	0	1	1
Non-region specific	0	12	0	0	0	12
Total	**37**	**42**	**61**	**0**	**36**	**176**

Encouraging good corporate governance remains a priority for FMO, particularly when investing in financial institutions, which often lend to sensitive sectors such as infrastructure, agribusiness or oil and gas.

Suggested links

- Read more about Private Equity on our website

Outlook 2013

As we pursue our ambition of accelerated growth in 2013-2016, we expect significantly higher commitments in private equity.

As our private equity portfolio continues to mature, we expect a steadier flow of exits in 2013 and beyond. We will continue pursuing our strategy of making fund investments and co-investing alongside those funds, while strengthening our presence in Agribusiness, Food & Water and maintaining our strong presence in Financial Institutions and Energy. As we grow, we aim to further enhance our portfolio management and monitoring processes.

We intend to play an anchor role in private equity deals increasingly in 2013, especially in combination with our fund management activities, by committing larger amounts while also boosting efficiency. FMO will commit a substantial amount to the FMO-Fairview African Fund, our pan-African private equity fund-of-funds proposition, which was in an early stage at end-2012 and through which we hope to catalyze significant institutional investment. Our longstanding successful experience in African private equity provides comfort to commercial investors not yet familiar with the African market that seek to access the growth opportunity in a responsible manner. We are also exploring possibilities to launch a financial sector private equity fund in Asia.

We see promising opportunities in SME-focused banks and sector-specific renewable energy funds. Our private equity investment focus will reflect the high-impact and lower-footprint choices that are required to realize our ambition of being the leading impact investor by 2020. At the same time, portfolio quality will remain a strong guiding principle, ensuring that private equity will continue to cement FMO's long term financial sustainability.

CASE STUDY

Funding Green Growth in Southeast Europe

In October 2012 FMO invested in the Green for Growth Fund (GGF), a structured debt fund aimed at advancing energy efficiency and renewable energy in Southeast and East Europe. GGF provides dedicated financing to businesses and households through local financial institutions.

Improving the quality of energy and increasing the efficiency with which it is used are imperative to ensuring that by 2050 people can live well and within the limits of the planet's resources. Green for Growth aims to contribute to a three-pronged 2020 goal (the "20/20/20 goal"): reducing energy consumption (MWh savings) by 20%; reducing greenhouse gas (CO_2) emissions by 20%; and reaching a 20% share of renewables in total energy consumption.

This investment highlights FMO's strategic priorities: by investing in ventures that are at the forefront of sustainability, and by catalyzing and partnering with strong institutions, we hope to maximize our development impact.

In addition to making a profound contribution to CO_2 reduction and energy savings, the fund will also improve liquidity and financial services. This last point refers to the products offered by GGF, which are scarce and innovative in the markets it operates in. There is sizeable but latent demand in these markets, which is met with inadequate financing mechanisms for capital-intensive projects that might not seem instantly bankable. In addition, the fund is expected to transfer and build expertise among banks, particularly in the area of assessing the risk and creditworthiness of clients for energy efficiency loans.

It is these kinds of investments, with significant environmental benefit and developmental impact, that FMO prioritizes. FMO's investment will allow the fund to build up the necessary track record and geographical reach to attract commercial investors that it might otherwise be unable to. In the long run, FMO funding will support the laudable 20/20/20 goal.

DII: 18
Sector: Energy
Region: Southeast Europe
Investment: €25 million loan

FMO INVESTMENT MANAGEMENT

We took important steps in 2012 to establish FMO's own fund management activities. FMO's dedicated Investment Management team will play an important role in making FMO's significant expertise in responsible emerging market investing available to commercial investors and in catalyzing third-party money to our markets.

Our fund management activities are already well under way. In 2012, we strengthened our expertise in this area by forming a partnership with US fund-of-funds manager Fairview Capital Partners. Our joint FMO-Fairview Africa Fund will provide institutional investors with new opportunities to invest in high-growth markets in Africa. Last year, we prepared this pan-African fund-of-funds for formal marketing, which is due to commence in early 2013.

Suggested links

- Read more about the FMO Fairview Africa Fund on our website

Fund management activities will play a key role in our new strategy for 2013-2016, as we focus on increasing our added value for clients and catalyzing more funds from commercial investors. Through an investor-driven approach, we will match investor appetite with FMO's experience in selected sectors, products and regions. The resulting fund propositions aim for a diversified portfolio with healthy financial results and high impact. We believe commercial viability and sustainability can go hand in hand, as demonstrated by FMO's profitable track record and our high sustainability rating. Our dedicated FMO Investment Management team will offer investors focused and professional investment management services.

GOVERNMENT FUNDS AND PROGRAMS

For clients and projects whose risks are too high for our own account, we make use of our access to Government funds, providing clients with innovative financial structures. FMO has access to the Government's Massif, Infrastructure Development Fund (IDF), Access to Energy Fund (AEF) and FOM OS funds, the last of which was set up in 2012.

MASSIF

2012 was a very productive year for MASSIF, financing 21 different clients with examples in local currency, start-up funds, technical assistance combinations, new ventures in existing networks, and a first local syndicate behind MASSIF. 18 of these financial institutions serve small and medium enterprise (SME) clients, the other 3 focus on rural microfinance. Of the 21 clients, 12 received equity and 10 received debt financing.

New Government funding of €80 million was awarded to MASSIF in December 2012, to be applied toward final clients in the agricultural and rural sectors. In the coming year our revolving portfolio will also be more geared towards SME financing. These new ambitions will be supported by the €15 million new Capacity Development funding. In 2013, MASSIF will further develop its diversified portfolio, with a solid balance between equity and debt and an increased focus on innovative agribusiness and rural clients.

For MASSIF, 2012 was also a year of focus on impact and performance measurement. In line with the 2013-2016 strategy, we will strengthen our efforts to further develop reporting on impact – monitoring both financial and social impact – and contributing to full financial inclusion, wherein everyone has access the financial services needed to improve their lives.

Infrastructure Development Fund

The Infrastructure Development Fund (IDF) was established by the Dutch Ministry of Development Cooperation and FMO to facilitate economic growth and create sustainable development impact through the provision or improvement of essential basic infrastructure. Through the establishment of reliable infrastructure the IDF aims to con-

CASE STUDY

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DII: 18
Sector: Energy
Region: Southeast Europe
Investment: €25 million loan

tribute toward the creation of employment and to widen prospects for local businesses. By extending high-risk financing and providing long-term debt solutions, the Fund aims to catalyze private sector investors in order to stimulate the development and realization of sustainable infrastructure transactions throughout the developing world. The IDF is a diversified fund with a committed portfolio of over €340 million in assets in energy, transport, ports, agribusiness, water, environment and social infrastructures.

Access to Energy Fund

The Access to Energy Fund (AEF) was established by the Dutch Government and FMO to fund private sector projects that create sustainable access to energy services. By providing financing for projects involved in the generation, transmission or distribution of energy, the Fund aims to ultimately connect 3 million people in developing countries by 2015. FMO will play a significant role in establishing the necessary conditions required to boost economic development and ultimately alleviate poverty. Total committed capital to the Fund is €102 million. The AEF can provide equity financing, subordinated debt/senior loans and it can also selectively play a role in the development of new projects by providing early stage risk capital.

Capacity Development

During 2012, FMO made contributions to the value of €2.7 million to a total of 33 Capacity Development projects. The financing made available for capacity development comes from both the Ministry of Foreign Affairs (€2.2 million in 2012) and FMO (€0.5 million).The majority of the CD projects were focused on supporting the development of SMEs through our Financial Institution clients based primarily in Africa and Asia.

The aim of CD is to facilitate knowledge

FUNDS TOTAL COMMITTED PORTFOLIO (€XMLN)

FMO or Fund	2012	2011
FMO	5,450	5,046
MASSIF	432	442
IDF	343	316
AEF	53	70
FOM OS	3	0
Total	**6,281**	**5,874**

NEW CONTRACTS GOVERNMENTS FUNDS PER SECTOR PER REGION 2011 VS 2012 (€XMLN)

MASSIF – 2012	Financial Institutions	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
Africa	23	0	0	0	23
Asia	30	0	0	0	30
Latin America & the Caribbean	17	0	0	0	17
Eastern Europe & Central Asia	9	0	0	0	9
Non-region specific	9	0	0	0	9
Total	**88**	**0**	**0**	**0**	**88**

MASSIF – 2011	Financial Institutions	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
Africa	31	0	0	0	31
Asia	31	0	0	0	31
Latin America & the Caribbean	17	0	0	0	17
Eastern Europe & Central Asia	0	0	0	0	0
Non-region specific	18	0	0	0	18
Total	**97**	**0**	**0**	**0**	**97**

transfer to our clients at the managerial and operational level to enable them to do sound business. As the program is based on client need, a wide range of projects were undertaken. However, focus areas included environmental and social management, corporate governance and supporting innovation and product development.

In 2013 we expect an increase in the number of projects and commitments, especially in Africa, and more focus on impact-based measurement of the contributions of Capacity Development. In the coming year CD expects a €3-3.5 million commitment from the Government and a €1-1.2 million commitment from FMO.

Fonds Opkomende Markten OS

Another highlight of 2012 was a new fund developed in cooperation with the Ministry of International Trade and Development Cooperation, and will focus primarily on the agribusiness, food and water sectors. It will also finance SMEs in developing countries, particularly those that have a close link with Dutch enterprises. The Fund will have a relatively high risk profile, and is targeting a volume of €40 million at the end of 2015.

Suggested links

- Koppert case study
- Read more about FMO’s investment in Koppert on our website

NEW CONTRACTS GOVERNMENTS FUNDS PER SECTOR PER REGION 2011 VS 2012 (€XMLN)

IDF – 2012	Financial Institutions	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
Africa	0	0	0	16	16
Asia	12	16	0	0	28
Latin America & the Caribbean	0	9	0	6	15
Eastern Europe & Central Asia	0	0	0	0	0
Non-region specific	0	0	0	0	0
Total	**12**	**25**	**0**	**22**	**59**

IDF – 2011	Financial Institutions	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
Africa	0	28	0	18	46
Asia	0	0	0	0	0
Latin America & the Caribbean	0	6	0	0	6
Eastern Europe & Central Asia	0	0	0	0	0
Non-region specific	0	0	0	0	0
Total	**0**	**34**	**0**	**18**	**52**

AEF – 2012	Financial Institutions	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
Africa	0	10	0	0	10
Asia	0	0	0	0	0
Latin America & the Caribbean	0	0	0	0	0
Eastern Europe & Central Asia	0	0	0	0	0
Non-region specific	0	0	0	0	0
Total	**0**	**10**	**0**	**0**	**10**

AEF – 2011	Financial Institutions	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
Africa	0	16	0	0	16
Asia	0	0	0	0	0
Latin America & the Caribbean	0	0	0	0	0
Eastern Europe & Central Asia	0	0	0	0	0
Non-region specific	0	0	0	0	0
Total	**0**	**16**	**0**	**0**	**16**

FOM OS – 2012 [1)]	Financial Institutions	Energy	Agribusiness, Food & Water	Diverse Sectors	Total
Africa	0	0	0	2	2
Asia	0	0	0	0	0
Latin America & the Caribbean	0	0	0	0	0
Eastern Europe & Central Asia	0	0	1	0	1
Non-region specific	0	0	0	0	0
Total	**0**	**0**	**1**	**2**	**3**

1) The mandate to operate the Fund Emerging Markets for Development Countries has been received in September 2012 and the first two contributions of €5,35m each have been received in November and December. With the Ministry of Foreign Trade and Development Corporation it has been agreed upon to report on an extended 2012/2013 book year.

FINANCIAL MARKETS

Mobilizing funds for our markets is one of FMO's key strategic goals. Our reputation and experience in higher-risk countries and markets often gives other financial institutions and commercial banks the comfort to come on board. In this way, we catalyze commercial and institutional investors to frontier markets.

In 2012, we focused on finding opportunities to catalyze funds in which FMO was either joint or sole lead arranger of US$50 million or more. By year-end, we had mobilized a total of US$800 million through syndicated loans, parallel loans and/or risk-sharing agreements, and closed 10 large transactions of at least US$50 million as joint or sole lead arranger.

While we were successful in mobilizing funding from the international development finance community, it was increasingly challenging to catalyze commercial investors in 2012 as many of FMO's traditional commercial syndication partners and direct funders continued to feel the effects of the credit crisis and Basel III requirements.

Although many Western banks have limited appetite for high-impact investing in frontier markets, South-South financing is on the rise. Many emerging market banks, particularly in Asia and Latin America, have healthy liquidity, which presents new catalyzing opportunities for FMO. The financing needs of emerging markets may increasingly be met by regional offerings and FMO is responding to this trend by mobilizing funds regionally where possible, evidenced by our attracting more than a dozen Southern investors in 2012.

Suggested links

- Read more about FMO's investment in Takoradi 2 on our website
- Read more about FMO's investment in LOMC Sri Lanka on our website

Highlights

FMO led a number of significant financial market deals in 2012 as mandated lead arranger. We arranged a syndicate providing more than US$200 million in debt financing to Takoradi International Company Limited (TICO) to help expand its combined-cycle power plant in Ghana. This project marked FMO's largest individually-

CASE STUDY

Forestry for the Future

In 2012 FMO invested in the Tropical Asia Forest Fund (TAFF), a private equity fund managed by Australian-based fund manager New Forests. The fund will invest in sustainable forestry projects in South-East Asia, a region where timber demand is increasing amidst dwindling supply, resulting in the widespread and unsustainable logging of forests.

The fund will make investments in new and existing Forest Stewardship Council (FSC) certified timber plantations, natural forest concessions and timber processing facilities, primarily in Indonesia, Vietnam and Malaysia. The Fund is the first of its kind, as there are currently no comparable private equity funds active in this sector in South-East Asia.

With the US$15 million investment financed from the Government-funded Infrastructure Development Fund (IDF), TAFF has completed a first close with immediately investible capital of US$76 million and total commitments of US$100 million.

Alongside all investments, opportunities for carbon retention projects and bio-diversity conservation will also be investigated. For example, one project in Malaysia is expected to generate returns by protecting endangered species, while other TAFF investments may link with investments with the UN's REDD (Reducing Emissions from Deforestation and Forest Degradation) program. FMO is also providing a grant to stimulate the development of such initiatives.

This ground-breaking investment marks FMO's first venture into sustainable forestry, an initiative which will help reduce emissions from deforestation and forest degradation, which are currently responsible for about 15% of annual global greenhouse gas emissions. The investment will also stimulate rural employment and clear the way for a sustainable domestic timber supply for future generations.

DII: 10
Sector: Energy
Region: Asia
Investment: US$15 million equity investment

led syndicated loan to date, and will contribute to a cleaner and more efficient energy matrix while providing Ghanaian people with affordable energy.

FMO acted as lead arranger in the biggest microfinance syndicated facility ever, arranging US$43 million in syndicate financing to Lanka Orix Micro Credit. As one of the largest microfinance institutions in Sri Lanka, LOMC is the main source of financing for micro, small and medium enterprises mainly located in rural areas. FMO's loan will benefit private sector growth throughout Sri Lanka. FMO further arranged transactions for larger financial institutions, such as Banpais in Honduras and Federal International Finance in Indonesia.

In addition to arranging deals, we also acted as anchor investor in the Investec Africa Credit Opportunities Fund, which supports the development of African capital markets. We also made progress in setting up the first major fund intended to help Reduce Emissions from Deforestation and Forest Degradation (REDD), with other investors obtaining their approvals during the year. We can now proceed to a first close in early 2013.

When it comes to FMO's own funding, we achieved two major firsts in 2012. We closed our inaugural — and successful – US$500 million three-year benchmark transaction involving investors from Asia, the Middle East and Europe. The transaction was a major strategic advance in our funding program as it established FMO's name in the market and reached a large number of new investors. Given our growing funding need and the fact that our assets are mostly US dollar-denominated, we will certainly revisit this strategic investor base.

FMO also placed its first-ever 'sustainability bonds'. By explicitly subscribing to the same sustainability criteria as FMO's other activities, these bonds demonstrate investors' commitment to sustainable business. FMO's sustainability bonds target what is currently a niche investor base. This year FMO placed bonds with KLM and Triodos, two leading Dutch companies interested in sustainable investing.
The private placements are advancing FMO's ambition to make sustainable and responsible investing the gold standard in treasurers' toolkits.

Suggested links

- Read more about FMO sustainability bonds on our website
- Sustainability Chapter

Strategic Priorities

Sustainability is increasingly recognized as an integral part of business, both by our clients and by potential investors. Although FMO's sustainability bond activity is still in its infancy, interest in socially responsible investing is growing. It is promising to see a theme-driven 'green bond' market developing for investors who want to combine E&S impact with a relatively low-risk fixed income product.

Partnerships

Due to the Eurozone volatility and challenges in mobilizing Western commercial investors to finance long-tenor loans, FMO fell short of meeting its catalyzing goals for 2012 and the overall 2009-2012 strategic period. FMO was, however, successful in mobilizing commercial partners before the financial crisis, and in the coming year will focus on investors from the South to partially replace withdrawal from the North. Our syndications team plays an important role in this, and has the objective of increasing the share of non-DFI participation in FMO's syndicated transactions.

FMO's growing fund management activities will play an important role in attracting institutional investors to impact investing. We see this small but emerging segment as an opportunity to lead investors towards emerging markets, poverty reduction and sustainable finance.

Although our strategic aim is to be more active in low-income countries, opportunities for catalyzing funds are generally concentrated in upper-middle-income countries. In 2013, FMO will focus on catalyzing in the more advanced emerging markets in Asia and Latin America, such as India, Indonesia and Peru, where our experience has proven that we can successfully mobilize third-party funds. Strengthening ties with our network of investors and partners in these markets will be prioritized.

Outlook 2013

For 2013, catalyzing third-party funds remains high on our agenda. We will focus on taking more leading lead arranger roles in transactions in our focus sectors, especially in Energy, providing access to larger financing amounts and broader services. We will continue to mobilize funds from both commercial investors and other development finance institutions.

We expect to catalyze commercial funds mainly to more developed emerging markets, although we will pursue opportunities in both the North and South. At the same time, our partnerships with other international DFIs will enable us to mobilize money in countries where it is difficult for commercial investors to operate.

In 2013 we aim to improve our mobilizing processes and boosting efficiency with our DFI partners.

Under the new strategy, we will also focus on further professionalizing FMO's services by developing local and regional commercial investment networks for syndications and setting up our new fund management business. Setting up FMO Investment Management and building our investor network will help guide more third parties to our markets. By 2020, our strategic goal is to mobilize as many euros with third parties in our financings and investments as we do on our own account.

FMO's treasury will focus on growing our US dollar investor base, placing our sustainability bonds, continuing to professionalize and growing our own balance sheet. We believe there is a good market among Dutch investors for sustainability bonds and seek to further establish FMO in this area in 2013.

SPECIAL OPERATIONS

FMO aspires to be a responsible financier and to prevent financial distress among its clients. If companies run into trouble, they are transferred to our Special Operations department, where we provide support to help them get back on track where possible, offering intense supervision and tailor-made debt restructuring or rescheduling.

The number of new projects transferred to our Special Operations department in 2012 remained on par with 2011. Inflow broadly balanced outflow, with 21 new cases entering the department and 17 exiting. A host of factors were responsible for the individual companies becoming distressed; there was no one overriding cause.

Among the 17 outflowing projects, FMO was repaid by clients in 5 cases and realized an equity exit on one project. We went through an intensified effort to close projects in the portfolio that had not been operational for several years. This resulted in the writing off of 8 projects in our books. One project was transferred back to the front office, after having been restructured a few years ago. The remaining projects consisted of one debt-to-equity swap, one liquidation and one deregistration.

In recent years, we have improved our investigations into the reasons why Special Operations projects become distressed. Analyzing our distressed portfolio and whether problems could have been detected at an earlier stage is a key to ensuring FMO has done everything in its power to support its current and future clients.

By improving our understanding, we can feed lessons learned back to the front office. This valuable information can help the front office structure transactions better from the outset and equips us to better prevent problems recurring. Education around Special Operations cases remained a priority in 2012. The Special Operations department organized regular presentations and participated in FMO training courses.

For 2013 and beyond, we want to work towards increasing the value add by selecting certain distressed companies that have growth potential but are financially constrained, and working to unlock their value. For a small number of investments, we will dedicate more resources and make follow-up investments to enable the companies to emerge stronger from Special Operations.

OUR PEOPLE

At FMO, our people are our most valuable asset. Characterized by an entrepreneurial spirit and sense of personal involvement in the success of our business, FMO employees are highly committed to the bank's vision and mission.

The last year was a busy one for Human Resources, as we implemented a new management development program, opened a joint office with DEG in Johannesburg and worked on recruitment to support our expansion plans for the upcoming strategic period.

We helped employees of our former Housing department to transition into new positions, following the decision to discontinue Housing as a focus sector. The staff affected by this change have all succeeded in taking on new positions at FMO.

EMPLOYEE FIGURES

	2012		2011		2010	
HEADCOUNT						
Total headcount ultimo	330		314		293	
Male	176	53%	167	53%	161	55%
Female	154	47%	147	47%	132	45%
Average headcount	324		302		286	
FTE						
FTE ultimo	310		294		274	
Average FTE	306		283		270	
Average years in service	7.9		7.1		6.5	
Average age	41.2		40.8		40.7	
PARTTIMERS						
Male	35		37		34	
Female	75		74		74	
Total	**110**	**33%**	**111**	**35%**	**108**	**37%**
SENIOR MANAGEMENT (MB + DIRECTORS)						
Male	13	81%	15	94%	14	82%
Female	3	19%	1	6%	3	18%
Total	**16**		**16**		**17**	
MIDDLE MANAGEMENT (MANAGERS)						
Male	22	71%	19	63%	18	64%
Female	9	29%	11	37%	10	36%
Total	**31**		**30**		**28**	
NATIONALITIES						
Number Dutch employees	288	87%	275	88%	262	89%
Number non-Dutch employees	42	13%	39	12%	31	11%
Number of different nationalities	25		22		17	
VACANCIES PER ULTIMO						
Directorate Corporate	1		1		4	
Directorate Investment	5		3		9	
Directorate Risk Management & Finance	6		6		5	
Total	**12**		**10**		**18**	

Employee Satisfaction

A highlight of the year was FMO being ranked Best Employer in the Dutch Financial Sector by research company Effectory and publisher VNU Media, based on a survey of banks, insurance companies and financial consultants. FMO also ranked eighth Best Employer in the Netherlands among companies with up to 1,000 employees. We see this as an example of how social responsibility in the financial sector can create high employee satisfaction.

Every two years we administer an employee satisfaction survey. In 2012 92% of employees participated in the survey, and produced a high overall satisfaction score of 8.1 out of 10. This was a positive improvement on our 2010 score of 7.8. Employees also reported a score of 7.3 for motivation, 8.9 for commitment and 8.2 for engagement – all of which were improvements from the 2010 scores.

The survey also identified points for improvement. We will focus on implementing three key improvements in 2013: enhancing the efficiency of our processes, making it easier for people to give and ask for feedback and stimulating the cooperation within teams and between departments.

Diversity

FMO strives to create an inclusive and diverse workforce. We believe that diversity not only contributes to a richer and more enjoyable workplace but also gives FMO a long-term business advantage. We focus on three key diversity goals: increasing the number of women in management positions, accommodating ageing employees and managing cultural differences.

As a signatory to the ‘Talent to the Top’ Charter, one of FMO’s key diversity goals has been to increase the representation of women in the top three levels of FMO management to 30% by the end of 2012. The composition came close to the target, with women representing 26% of senior and middle managers by year-end. We are on target in our Supervisory Board, where two of the six members are women. There are no female members of the Management Board. We continue to strive for greater gender balance in our staff, but do take into consideration the limited number of open senior managerial positions.

With the retirement age in the Netherlands set to increase, we continued investigating ways to better accommodate ageing employees. One such initiative is the ‘Reflect and Act’ career check workshop, designed to help staff approaching retirement make the most of their final years of employment.

Respecting age diversity means considering the needs of employees across all stages of life, from young parents to those nearing retirement. We seek to provide workplace conditions that allow our employees to perform to the best of their abilities. A series of well-attended ‘Diversity Dinners’ were organized in 2012, bringing together employees of all ages, genders and cultural backgrounds to discuss diversity-related topics. We received very positive feedback on these dinners, as well as specific suggestions for improving cultural consideration and interactions.

EMPLOYEE FIGURES

	2012		2011		2010	
INFLUX						
male	15		14		6	
female	12		28		18	
Total	**27**	**8%**	**42**	**13%**	**24**	**8%**
EXIT						
Leavers (excl. early retirement)	13		16		12	
percentage	4%		5%		4%	
Average years in service leavers	4.5		5.0		5.5	
Average age leavers	38.4		41.6		38.1	
(early) Retirement	1		1		1	
ABSENTEEISM						
Percentage	2.40%		3.83%		2.84%	

Another internal goal we had set was to increase the number of non-Dutch nationals to 15% of our workforce by 2012. By the end of last year we were close to reaching this goal, with 25 different nationalities represented at FMO (not counting those with dual nationality if one of them was Dutch). This represents 13% of our workforce, helping us to create a more culturally diverse organization that is attractive for new international staff members.

We held trainings to help improve managers' awareness of the benefits of multicultural teams. We advocated English-language communications within FMO, encouraging Dutch employees to adopt English for all in-house communications, to strengthen FMO's international orientation.

For detailed information on FMO's employee figures for 2012 and organizational structure, please refer to the organizational chart and employee figures on our website.

Suggested links

- Organizational Chart
- Employee Figures

Career Development and Training

Stimulating the professional and personal growth of our employees and matching their ambitions with available opportunities is a priority at FMO.

Employee evaluations are held twice a year. FMO's Personal Development Plan helps staff assess their career and set long-term goals, which are supported by their managers and HR advisors. Employees can also make use of our Onboarding Program, which pairs new hires with more senior FMO staff in order to facilitate the acclimatization and learning process.

In 2012, we improved the structure of our management development program, which identifies candidates for senior management and Management Board positions. A Management Development Committee was set up, charged with appointing promising employees and supporting them with the development training necessary to potentially move into senior roles.

Other training opportunities include our FMO Academy, which enables our employees and partner organizations to enhance their knowledge on a variety of subjects relevant to our business. Through our 2011 pilot joint academy and training curriculum with DEG and Proparco, we continue to stimulate knowledge exchange and innovation via training and workshops, creating an international learning community and professional development finance network.

We continue to support young talent as a sponsor of the Student Entrepreneur Prize ('STUOP'). In addition, our Young Talent Program invests in three promising young graduates per year, offering an extensive training opportunity across the bank to prepare them for an analyst role. Interest in this program is large, with 187 applicants for three positions in 2012.

Suggested links

- Read more about FMO Academy on our website
- Read more about the Studenten Ondernemersprijs on the STUOP website
- Read more about FMO's traineeships on our website
- Works' Council

Knowledge Sharing and Innovation

In 2011, a Knowledge and Innovation (K&I) Officer was appointed to stimulate knowledge sharing and innovation at FMO and with clients. The K&I Officer is in charge of innovation throughout FMO, making innovations visible, managing innovations where needed and communicating about innovations inside and outside the company in order to stimulate employees. In 2012, this resulted in the FMO Innovation Awards, which celebrated the Best Innovation, the Best Stolen Innovation – a new innovation for FMO that has been borrowed from another company or organization – and the Best Failed Innovation – the innovation that, despite being a good idea, failed to land. In addition, an innovation team and innovation pipeline was set up to monitor, support and, where necessary, kill off innovations within the bank.

Workplace Health

FMO strives to foster a healthy working environment. We took steps in 2012 to formalize flexible or 'flex' working, which supports a healthy work-life balance by allowing staff to work remotely whenever they see fit. Flex working is already practiced by many of our front office staff, many of whom work from home at least once a week.

FMO also promotes health in the workplace through various sports events that we organize or participate in throughout the year. 2012 was the second year that FMO employees participated in the Roparun, a marathon relay race of approximately 520 kilometers from Paris and Hamburg to Rotterdam, which raises funds for people suffering from cancer.

FMO also offers all employees a periodic medical check-up program, with special attention to the impact of frequent travel when relevant.

Suggested links

- Visit www.roparun.org

Works' Council

The Works' Council ('Ondernemings Raad') represents all FMO employees and is an important platform for interaction between employees and senior management. The Works' Council is responsible for giving employees a voice and the chance to influence the culture and mindset of the organization.

As is customary, the Works' Council held seven formal meetings with the Management Board during 2012, providing advice and employee input on issues ranging from the discontinuation of Housing as a focus sector to changes in the remuneration of the Management Board and directors. The constructive and critical approach of the Works' Council this year was very much appreciated by FMO.

Outlook 2013

Under our ambitious new strategy, we aim to recruit more than 100 new employees over a four-year period, in addition to filling existing positions. We expect the total number of staff to grow to more than 350 by the end of 2013. This brings new organizational challenges for FMO.

To adapt to this growth, FMO will need to strengthen leadership in all layers of our organization and further standardize processes. Special attention will be paid to helping new hires adapt to the culture and values of FMO and improving cooperation within teams through an onboarding program. To strengthen leadership, we will further enhance the management development program, focusing on skills such as giving feedback and learning from one another.

In 2013 and beyond we will strive to uphold our reputation as an employer of choice and developer of talent. As FMO becomes a larger organization in the coming years, we will continually address the impact of growth on employees and respond effectively. Throughout, we will cultivate operational excellence and cooperation as pillars of FMO's workplace culture.

RISK MANAGEMENT

Since FMO's strategy and activities are targeted at maximizing development impact while remaining profitable in a sustainable way, taking risks is inherent to our core business. In doing sustainable, profitable business, however, our challenge lies in taking calculated risks. FMO's Management Board defines the risk profile and risk appetite under the supervision of the Audit & Risk Committee and the Supervisory Board. Within our risk appetite, FMO has a comprehensive, integrated In Control Framework that enables us to take and control these calculated risks.

This In Control Framework plays an integral role in the thorough analysis of risks. FMO identifies risks in the following categories: strategic, operational, financial and compliance. Important drivers in our risk universe are FMO's strategy, goals or objectives, stakeholder expectations and an increasing number of national and international laws and regulations. For these risks we have implemented controls whose effectiveness we continuously monitor. Within FMO this monitoring is conducted by three groups, or 'lines of defense'. Business management executes and reviews process controls and performs self-assessments. In the second line of defense there are specialized risk departments and committees, which review and advise. The third line consists of the internal audit function and external auditors.

In 2012 we paid special attention to a number of key risks, based on the market situation, regulations or internal circumstances.

Strategic risks

Business Risks and Strategic Planning

Macroeconomic factors and FMO's unique environment significantly affect the realization of our strategic objectives. In 2012 the recovery of the world economy was set back. One of the reasons for this was the continuing debt crisis in the Eurozone at the beginning of 2012. The investment climate in developing economies, on the other hand, was satisfactory. Nevertheless, economic activity did slow down somewhat, as a result of policy tightening, weaker demand or other specific factors.

FMO was satisfied to have met most of its targets for the 2012 strategic agenda. With the exception of mobilizing funds, which remained slightly behind target, all the financial performance and development impact goals were realized. Other successful initiatives were the establishment of a Joint Office in South Africa with our partner DEG and the finalization of our 2013-2016 strategy.

In this new strategy we defined an ambitious goal: to double our impact and halve our footprint by 2020. The first step in this journey is defining meaningful quantitative indicators for measurement, reporting and management of impact and footprint aspects. This step was taken by the SHIFT project group in 2012, and will continue until mid-2013. In 2013 we will also conduct a baseline measurement of our impact and footprint indicators. These will be critical for the successful implementation of our new strategy.

In the coming year we intend to further develop Investment Management activities for third parties and increasingly catalyze debt and equity finance. We strive to intensify relations with Dutch businesses that invest in FMO's markets, as well as with knowledge institutes and NGOs that are relevant to our business. We will increase our overall exposure, especially in our Energy and Agribusiness, Food & Water focus sectors.

The 2013 outlook for capital flows to emerging markets has slightly improved, but mainly for short term finance. Capital restrictions and economic uncertainty will see many western commercial banks steering clear of exposure in developing countries. FMO will keep a close watch on scenarios that can have a significant impact on business opportunities.

Suggested links

- Accountability Section
- Strategy 2013-2016

Stakeholder Management

In 2012 revealed growing interest in especially environmental and social impact from FMO's external stakeholders, such as NGOs, politicians and the media. This highlights an increased demand for transparency, which in turn requires more comprehensive measurement and reporting. In response to this, we will increase the size and depth of our project disclosure. In addition to this we will implement a complaint mechanism with an independent evaluation panel in 2013.

Sustainability Management

FMO maintains a strong focus on sustainability, highlighting initiatives that allow us to better support our clients in implementing best practices. Success in this area is central to our previous, and even more so to our new, strategy. The IFC Performance Standards form the basis for FMO's environmental & social (E&S) risk management approach. This approach comprises three parts: the selection and risk categorization of clients, the establishment of applicable E&S requirements, and, if necessary, the development of E&S action plans. In order to help clients implement E&S best practices FMO uses contractually binding action plans that are monitored over the duration of the loan period.

Throughout the investment process FMO uses its exclusion list to guide client selection. FMO does not finance any activity, production, use, distribution business or trade involving such things as forced or child labor, racist or anti-democratic media or activities or materials deemed illegal under the laws of the host country. For more information on the exclusion list, please visit our website.

This E&S risk management approach is fully integrated into FMO's credit approval process. E&S risks are evaluated by investment teams, which include E&S specialists. E&S analysts in the Credit Department review the E&S evaluations included in the credit proposals and provide advice to the Investment Committee. At FMO, we follow what we call the four-eye principle to evaluate E&S risks in a manner that mirrors the evaluation of credit risks. FMO's Investment Committee, which includes our Sustainability Manager, considers these E&S evaluations in addition to financial issues when making an investment decision. A total of 17 E&S professionals around the organization support this process along with investment and management staff who received topical E&S training.

E&S risk management continues after contracting through the annual monitoring of clients' E&S risks and their action plans. Our SusTrack system allows us to track clients' E&S reporting and action plan commitments. In 2012, FMO continued to work with the organization-wide E&S target of implementing 85% of the aggregate action items due during the reporting year, which we were happy to surpass.

In order to improve corporate governance (CG) in our client companies we use a toolkit to analyze CG risk. The toolkit was developed through the DFI Framework Agreement on Integrating Corporate Governance into investment decisions. During the second half of 2012, FMO hired its first Corporate Governance Officer who will support our investment staff in analyzing CG risks and enhancing the quality of such assessments. Since corporate governance is considered an integral part of the investment analysis, the responsibility will remain with the investment staff. For high-risk clients, however, the Corporate Governance Officer conducts an additional due diligence that results in an improvement program for the client.

Beyond the E&S target, FMO recognizes the need to measure and report on our sustainability impact. As such, towards the end of 2012, we initiated the SHIFT project to quantify our social, environmental and economic impacts through meaningful indicators. The purpose of these indicators is to ensure that we are able to steer our business in a sustainable manner and facilitate communication on this topic.

Our efforts in both the risk management and strategic sustainable development of our business have been recognized by prominent sustainability rating agencies. Both Sustainalytics and Oekom Research provided FMO with high sustainability ratings.

Operational Risks

Operational risks refer to inadequate or failed processes, people and systems or external events, which result in loss. Within our risk appetite we consider operational risks with a financial impact higher than €1 million as high. These risks can occur when the integrity or continuity of critical processes are endangered. They are unacceptable and require immediate action. For other operational risks clear remediation dates are set and monitored.

Within the Basel II framework FMO uses the Standardized Approach to measure and manage operational risks. To review and ensure the proper execution of FMO's operations, several tools are in place. Our internal audit function assesses the effectiveness and efficiency of the processes based on a risk analysis. FMO's directors also perform annual operational risk self-assessments, which evaluate controls and set action plans to improve these controls. Strict follow-up on the action plans and audit findings is carried out quarterly. If operations have not functioned properly, we record an incident. Each quarter, an overview of incidents is reported to FMO's Management Board. High operational risks or risks with a recurring character are also reported to the Audit & Risk Committee via a report by the Audit, Compliance & Control department (ACC). This report gives insight, for instance, into aspects that need to be improved and where FMO's key risks lie.

In terms of FMO's operations and Basel II definitions, the proper continuous performance of our processes carries the greatest risks. Knowledge of procedures and processes and effective coaching remain important priorities, especially when changes in regulations, for example, necessitate changes in internal procedures and processes. We therefore constantly review and improve process descriptions, which are accessible to everyone via the intranet. Knowledge and risk awareness are also an important aspect of management steering and control. Since FMO's workforce is likely to grow substantially in coming years, we intend to intensify employee training and mentoring on these aspects. As far as soft controls in our organization are concerned, we will continue investing in behavioral and leadership skills, such as awareness, coaching and maintaining clear accountability.

Control of sometimes complex financial products can be complicated, so to address this we implemented a Product Approval Process in 2010. It may be, for instance, that products do not meet clients' needs, that not all risks are identified or that the product cannot be registered properly. This Product Approval Process has proven to be a valuable tool.

Financial Risks

FMO finances companies, projects and financial institutions in developing countries and emerging markets. Developing countries are often considered high risk, and even their most promising businesses often have insufficient access to the financing needed to reach their potential. FMO fills this gap with a range of services and products.

In this context, FMO has a particular financial risk appetite. The only risk FMO is actively pursuing relates to credit risk stemming from debt and equity instruments and private institutions in developing countries. This credit risk profile is supported by holding very prudent levels of capital and liquidity and though strong diversification of the portfolio over regions and sectors. 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 has no appetite for foreign exchange (FX) risk and interest rate risk. Furthermore, FMO's risk management policies are supported by a governance structure that ensures application of a solid four-eye principle and proper involvement of an Investment Committee (for credit risk) and an Asset and Liability Management Committee (ALCO) for market risk.

Capital Management

FMO maintains a strong capital position by means of an integrated capital adequacy planning and control framework, regularly reviewed by the ALCO. This framework is meant to support our targeted and current AAA rating. FMO has an external and internal ratio to express its capital position. The external ratio is calculated based on the standardized approach of Basel II regulations 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 Internal Ratings Based (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%.

FMO's actual capital position in 2012 was more prudent than required under the standards that we set internally and the requirements put by the Dutch Central Bank.

Liquidity Risk

Liquidity risk can be defined as the potential risk that an organization will be unable to meet its obligations as they become due. 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 we match-fund the maturity of our liabilities with the maturity of our assets, so as to largely avoid refinancing risk. Thirdly, we ensure that our funding sources are well diversified in terms of geography and instrument type. And fourthly, we maintain a minimum Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Levels of these ratios are already comfortably above the new requirements of Basel III that are expected to be put in place by regulator in the coming years.

All requirements within the 4 pillars have been realized. Given our high credit rating (currently AAA), access to funding has not been a problem for FMO, but since the start of the crisis we have experienced an increase in our average cost of funding. This is in line with the experience of our European peers and other Dutch commercial banks.

Credit Risk

Credit risk in FMO's emerging markets portfolios is a combination of country risk, counterparty (debtor) risk and product-specific risk. Management of these risks is FMO's core business, both in the context of project selection and of project monitoring. As to project selection, the four-eye principle applies to all credit approvals, whereby the level of approval within the Risk column of the bank is determined by the nominal size of transactions. In this process, the front office and the Risk Management department use a set of investment criteria per sector that reflect benchmarks for the required financial strength of FMO's clients. This is further supported by internal scorecards that are used for risk classification and determine capital use per transaction. This methodology is in line with Basel's IRB approach for measuring credit risk. As to project monitoring, FMO's clients undergo periodic reviews, at least annually, by the Investment Review Committee, while distressed clients are intensively monitored by the Special Operations department. Strong diversification within FMO's emerging market portfolio is ensured through stringent limits on exposure to individual counterparties (single client and economic group limits), countries (from 8% to 20% of FMO's Capital, dependent on country rating) and sectors (50% of country limit).

Market Risk

The ALCO is the body responsible for setting market risk policies and monitoring the bank's adherence to them. Market risk is monitored daily by the Risk department. Market risk is the risk of losses in positions arising from movements in market prices. From a market risk perspective FMO is subject to interest rate risk, currency risk and price risk connected to the bank's liquidity portfolio. However, FMO ensures that it does not have trading positions and it mitigates market risks as much as possible.

The interest position is managed via a Price Value per Basis Point (PVBP) limit framework and the bank's Duration of Equity. We stayed within our defined PVBP limit range. The duration of FMO's equity is steered at a level of around 4 years. This ensures the generation of stable levels of interest income. FX positions are managed on a daily basis. FX results from equity investments are not reported as FX results, but are reported in the overall return on the investments. FX exposures from the loan portfolio, funding and other treasury activities are hedged. For operational purposes the limits for the daily monitored currency positions are set within a small bandwidth.

Compliance and Regulatory Risks

Partly stemming from the financial crisis, regulatory requirements and supervision are significantly increasing. Examples are laws and regulations like WFT, Basel III, IFRS, Banking Codes and Sanction Lists, for instance from the US Office of Foreign Assets Control. Regulatory developments are constantly monitored and translated into policies by specialists and a dedicated regulatory working group, which is supported by external specialists when needed.

In order to cover integrity and regulatory risks, FMO has strict legal and compliance procedures to control its business practices. Our risk appetite in this area is nil and FMO does not accept any breach of laws and regulations. If this should occur, immediate remediation and improved controls are mandatory.

FMO's reputation is an indispensable asset that needs to be protected against damage. We have implemented a Code of Conduct prescribing the behavior of FMO's staff, which all employees must receive and sign before starting their career with us. In this Code it is stated that FMO employees are not allowed to enter into private investment transactions that have been based on inside information or that could create an appearance of having been based on inside information (further explicitly elaborated in FMO's 'Regulation on Private Investments', which for instance also deals with Closed Periods for possible transactions in FMO shares).

Besides the Code of Conduct, FMO's values and culture are further discussed during trainings and receive constant management attention. Besides hard controls such as rules and procedures, we believe that soft controls, like tone at the top, exemplifying behavior and open feedback, are of vital importance.

Reputational and compliance risks are also created by FMO's clients. To mitigate these risks, FMO has, amongst others, a strict Know-Your-Customer and Anti-Money Laundering policy to guide our investment officers. This policy is reviewed on a yearly basis according to changing laws and regulations. Furthermore, FMO's compliance officers advise on the acceptability regarding all FMO's clients before a business relationship is established. In the area of compliance risk, continuous awareness and management monitoring are key controls. In 2011 FMO implemented an Anti-Bribery & Corruption policy. In 2012 we conducted assessments on possible situations with relevant sector management and introduced legal clauses for inclusion in client contracts.

To continuously improve awareness throughout the organization, all relevant departments receive annual training and are tested on compliance. Legal risks in transactions are assessed through the use of internal and external legal counsel, from which FMO receives confirmation on the validity of potential transactions between FMO and emerging market clients under local and international laws.

IN CONTROL STATEMENT

FMO uses an integrated In Control Framework that enables taking and controlling risks and which complies with international best practices. Adequate internal control strongly supports the achievement of objectives in the following categories:

1. Effectiveness and efficiency of processes
2. Reliability of financial reporting
3. Realization of operational and financial objectives
4. 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 significant related 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 as well as the defined risk appetite – are discussed with FMO's Audit & Risk Committee, which then 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 2012;
- 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 of the effectiveness of operations, realization of strategic and operational objectives and compliance with applicable laws and regulations.

We note that the proper design and implementation of internal risk management and control systems significantly reduce, 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.

Responsibility Statement

In accordance with article 5:25c sub 2 part c of the Dutch Financial Supervision Act (Wft) we state that, to the best of our knowledge:

- The financial statements give a true and fair view of the assets, liabilities, financial position and profit of FMO and its consolidated companies;
- The annual report gives a true and fair view of the position on the balance sheet date and developments during the financial year 2012 of FMO and its consolidated companies; and
- The annual report describes the material risks that FMO faces.

The Hague, March 11, 2013

Nanno Kleiterp, *Chief Executive Officer*
Jürgen Rigterink, *Chief Investment Officer*
Nico Pijl, *Chief Risk & Finance Officer*

Report of the Supervisory Board

INTRODUCTION TO THE REPORT OF THE SUPERVISORY BOARD

In spite of the challenging global economic environment FMO managed to achieve successful results once more in 2012. Profit exceeded budget and the bank remained capable of attracting funding under good conditions.

None of this would have been possible without the efforts and dedication of the Management Board and all FMO's employees, to whom the Supervisory Board would like to express its appreciation and thanks.

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 2012 annual accounts audited by KPMG Accountants N.V.

At the AGM of 9 May 2012 the State requested the Supervisory Board to look at FMO's dividend policy. Based on the outcome and a discussion with the State, the Supervisory Board proposes to amend the dividend policy. It is proposed to change the pay-out ratio to 100% of the distributable component of profits and to apply the policy already to the dividend over 2012. However, it can be proposed that no dividend is distributed, since every year will need to be determined e.g. whether the distribution fits within FMO's capital management policy and whether the Dutch Central Bank grants its approval.

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 approves the allocation of €139.2 million (2011: €88.8 million) to the contractual reserve. The remaining amount of €6.7 million (2011: €4.3 million) is the distributable component of profits. We recommend that the AGM adopts our proposal to pay a cash dividend of €16.81 (2011: €5.36) per share.

Furthermore, 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 term of Bert Bruggink has come to an end, the Supervisory Board requests that he be reappointed for a second term.

SUPERVISORY BOARD ACTIVITIES IN 2012

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 that they may 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.

The Supervisory Board held four regular meetings and four strategic sessions in 2012. 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%.

The Supervisory Board evaluated the 2009-2012 strategy explicitly. The board concluded that this strategy was very successful in terms of development impact and economic profitability. A point of concern, however, was the focus on low-income countries. A reconsideration of this focus was appropriate for two reasons: Approximately 75% of the poor currently live in middle-income countries, while at the same time the world's major development challenges are increasingly interwoven with sustainability issues such as climate change and availability of and access to clean water. These aspects were taken into account in developing a new strategy for the upcoming years.

The Supervisory Board spent much time discussing and advising on the new 2013-2016 strategy. Important aspects of the new strategy are the broadening of FMO's mission, with more emphasis on global imbalances such as climate change and food security, in addition to poverty reduction. The set-up of FMO's new focus sector, Agribusiness, Food & Water, which began in 2011 and was continued in 2012, fits very well within the new strategy. The board discussed the appropriateness of the new strategy and the implementation challenges. An important point is whether the new strategy can be implemented through profitable investments in the private sectors of developing countries. In this light, the possibility of attracting funds from institutional investors was discussed. The 2013-2016 strategy was approved in August 2012.

Regular supervision also received ample attention in 2012. Discussion topics included financial developments at FMO, funding, business progress and compliance with national and international regulation and legislation. The Supervisory Board regularly discusses the risk profile of FMO, and approved an update of the bank's risk appetite at its December meeting. In its core business, FMO is not a risk-averse investor: FMO takes considerable investment risk mitigated by a consistent and strict diversification policy. Moreover, a strict system of risk management is in place, including thorough due diligence and active monitoring. Other risks, such as currency risk and interest rate risk, are hedged whenever appropriate.

In 2012, explicit attention was devoted to compliance and compliance dilemmas, such as our selection of business partners and ensuring that our compliance system is fully geared to the risks FMO runs.

The Supervisory Board and its Selection, Appointment & Remuneration Committee were actively involved in the change of the remuneration policy. After thorough discussion, the Supervisory Board decided to remove the variable income component in the remuneration policy for members of the Management Board. The most important reason for this decision was that the new legal requirement to pay out variable pay at least 50% in shares is extremely burdensome for FMO, as well as being at variance with the bank's corporate mission. In May 2012, the AGM approved abolishing the variable pay component for Managing Board members. The Dutch central bank (DNB) informed FMO that its remuneration policy fully complies with DNB's Regulation on Sound Remuneration Policies. The Supervisory Board would like to emphasize that the system of annual target setting is maintained and that the results are regularly monitored and discussed in the full Supervisory Board.

Furthermore, it is of great importance to the Supervisory Board that FMO behave as an active investor and ensure that its clients improve their corporate governance whenever necessary, as part of an ESG action plan. Several measures were taken in 2012 to ensure that FMO continues to play a leading role in developing and facilitating the implementation of corporate governance standards.

The Supervisory Board looked closely at risk management and reporting systems, especially to ensure that these systems are fit for FMO's new 2013-2016 strategy. The new strategy makes especially clear that FMO is an organization with a broad range of financial and non-financial objectives, and it is important that its systems are geared to that. Last but not least, the Supervisory Board paid attention to ensuring a stable system for the clear oversight of IT risks.

When it comes to engaging with stakeholders, Supervisory Board members are actively involved. The Chairman of the Supervisory Board holds annual meetings with the Dutch Ministry of Finance, and on occasion meets with the Dutch Ministry of Foreign Affairs/Development Cooperation.

With regard to internal stakeholders, the Supervisory Board holds formal meetings twice a year with the FMO Works' Council. The members of the Supervisory Board also held a lunch with the complete Works' Council in 2012.

To create more structured interaction between the Supervisory Board and FMO's second layer of management, the Supervisory Board last year regularly invited directors from several departments, such as Audit, Compliance & Control, ICT and the director of FMO's new business arm, Investment Management, to discuss specialist topics. This will continue in 2013.

MANAGEMENT DEVELOPMENT

The Supervisory Board plays a prominent role in management development at FMO. In addition to holding evaluation conversations with individual members of the Management Board, the Supervisory Board is involved in the management development system for the layer beneath the Management Board.

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. In 2012, this goal was achieved with the appointment of Alexandra Schaapveld as successor to Dolf Collee, who retired in 2012. The AGM reappointed Agnes Jongerius and Pier Vellinga. Agnes Jongerius took on the role of Chair of the Selection, Appointment & Remuneration Committee.

On advice of the Selection, Appointment & Remuneration Committee, the Supervisory Board reappointed Nanno Kleiterp as CEO and Jürgen Rigterink as CIO as per 1 October 2012. The AGM was informed about the intended reappointments earlier in May.

FMO subscribes to the four 'core competences' 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.

The Supervisory Board would like to thank Dolf Collee again for the many years he dedicated to FMO and his valuable contributions on many occasions.

Suggested links

- Read more about Supervisory Board biographies on our website

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	2013	Audit & Risk Committee, *Chairman*
Dolf Collee	Dutch, 1952, male	2001	2012	Selection, Appointment & Remuneration Committee, *Chairman (until 9 May 2012)*
Agnes Jongerius	Dutch, 1960, female	2008	2012	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	2012	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)*

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.

As of May 2012, 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, FMO's Chief Risk and Financial Officer and Chief Executive Officer and the directors of Risk Management, Finance and Audit, Compliance & Control were present at all meetings. The Committee also met separately with the external auditors.

Key issues addressed by the Audit & Risk Committee in 2012 included valuation of derivatives and the use of cash flow hedge accounting. Discussion of the management letter from accountants KPMG mostly centered on technical issues regarding valuation, accounting and some observations with respect to IT.

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 & Control.

SELECTION, APPOINTMENT & REMUNERATION COMMITTEE

This committee handles proposals regarding the appointment and reappointment of Supervisory and Management Board members, as well as monitoring the remuneration policy, proposing adjustments and giving advice on the remuneration of individual Management Board members.

As of May 2012, the Selection, Appointment & Remuneration Committee comprises Agnes Jongerius (Chairman), Jean Frijns and Rein Willems.

In 2012, this Committee met twice; the CEO and Director of Human Resources joined these meetings. Among the key issues discussed were management development and regulation and legislation of the Dutch Central Bank with regard to the remuneration of Management and Supervisory Board members, which resulted in a proposal to the AGM to abolish variable pay for the Management Board.

Furthermore, the Committee advised on the succession of Dolf Collee, the reappointments of Pier Vellinga, Agnes Jongerius and the reappointments of Management Board members, Nanno Kleiterp and Jürgen Rigterink.

The Committee proposes the targets for the Management Board and monitors its progress. At least once a year, a formal evaluation of Management Board members is undertaken. On an annual basis, the committee discusses with the Management Board the HR policy for FMO, including staff mobility and career patterns.

LIFELONG LEARNING

The Dutch Banking Code, which came into effect in 2010, required 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 2012.
The program of lifelong learning was also used as a starting point in the preparation of the 2013-2016 strategy. In 2012, the Supervisory Board's learning sessions were strongly focused on FMO's new strategy, which was finalized last year.

Last year, Supervisory Board members participated in learning sessions on the subjects including trends in bank funding profiles, information technology, investment management, compliance and the 2011 OECD Guidelines for Multinational Enterprises.

SELF EVALUATION

In 2012, the Supervisory Board performed the customary annual internal evaluation of its performance. An external party was involved in this evaluation in order to deepen and better structure the exercise. The Supervisory Board intends to invite an external evaluator every year.

The assessment looked at such areas as the Board's composition, meeting preparation and meeting style. It reviewed how the Board acquitted itself of its core duties and what was achieved. The evaluation found that in general the Board is positive about its composition and its functioning. The assessment also highlighted a few points for attention: more frequent contacts with management and the Works' Council and more time for the evaluation of strategic achievements.

REMUNERATION POLICY

The AGM last year approved an FMO proposal to discontinue 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 propose to the AGM the abolition of 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 18 July 2012, the Budget Agreement 2013 Tax Measures Implementation Act came into effect. This Act will amend a number of tax laws as of 1 January 2013. One of the amendments concerns 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. The crisis charges are not included in the remuneration of the Management Board.

The Supervisory Board remuneration system also changed in 2012. It was harmonized to ensure that members of the Audit & Risk Committee and the Selection, Appointment & Remuneration Committee were equally compensated. However, the total remuneration of the Supervisory Board remained the same.

REMUNERATION OF THE MANAGEMENT BOARD (€X1,000)

	Personal information	Fixed remuneration	Pension	Other [1]	Total 2012	Total 2011
Nanno Kleiterp	Dutch, 1953, male	297	121	59	477	429
Nico Pijl	Dutch, 1951, male	227	106	36	369	355
Jürgen Rigterink	German, 1964, male	227	50	40	317	321
Total		**751**	**277**	**135**	**1,163**	**1,105**

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.

REMUNERATION OF THE SUPERVISORY BOARD (€X1,000)

	Remuneration 2012	Committees 2012	Total 2012	Total 2011
Jean Frijns [1], *Chairman*	22.5	5.0	27.5	24.8
Bert Bruggink	15.0	3.7	18.7	19.0
Dolf Collee [2]	5.4	1.0	6.4	18.0
Agnes Jongerius	15.0	3.0	18.0	17.0
Alexandra Schaapveld [4]	9.6	1.6	11.2	0.0
Pier Vellinga	15.0	2.7	17.7	18.0
Rein Willems	15.0	2.7	17.7	18.0
Willy Angenent [3]	0.0	0.0	0.0	10.0
Total	**97.5**	**19.7**	**117.2**	**124.8**

1) Jean Frijns was appointed to the Supervisory Board in 2010, and appointed as Chairman of the Supervisory Board in May 2011.
2) Dolf Collee resigned his position in May 2012.
3) Willy Angenent resigned his position in May 2011.
4) Alexandra Schaapveld was appointed to the Supervisory Board in May 2012.

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 2012.

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 2012.

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.

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 ourselves.

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 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 did not incorporate 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.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 the aforementioned policy and report at least once a quarter on the 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), FMO will always exercise these rights to ensure FMO's mission and interests are carried out 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.

ARTICLES OF ASSOCIATION

Since the Corporate Governance Code came into effect in 2009, FMO's articles of association and bylaws were last updated in that year.

Suggested links
- Read more about Articles of Association on our website

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 accountabilities 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 2012. This also applies to the Audit & Risk and Selection, Appointment & Remuneration committees. Detailed information is available on our website.

Suggested links
- For more information on corporate governance at FMO, please visit our website

Independent Auditor's Report

We have been engaged by Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereinafter also referred to as FMO) to conduct (1) an audit on the financial statements 2012 and (2) a limited assurance engagement of the Report of the Management Board 2012. The audit and the limited assurance engagement are conducted in accordance with the Dutch law, including the Dutch Auditing Standards for the audit and ISAE 3000 for the limited assurance engagement.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2012 of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., The Hague on pages 80 to 147. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2012, 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, 2012, 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.

ASSURANCE REPORT ON THE MANAGEMENT BOARD'S REPORT

We have provided limited assurance on whether the Report of the Management Board 2012 on pages 8 to 65 (further referred to as The Report) is presented, in all material respects, in accordance with the requirements of section 2:391 of the Netherlands Civil Code.

In addition, we have checked whether FMO's Global Reporting Initiative (GRI) Application Level, as disclosed in the GRI Content Index on FMO's website, is consistent with the GRI criteria for the disclosed Application Level.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report of the Management Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for the preparation of The Report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. In The Report FMO presents the state of affairs within the company and the strategy and policy pursued following the requirements as set out in section 2:391 of the Netherlands Civil Code.

In addition, management is responsible for determining FMO's GRI Application Level in accordance with the GRI Application Level criteria.

REPORT ON THE FINANCIAL STATEMENTS

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

ASSURANCE REPORT ON THE MANAGEMENT BOARD'S REPORT

• Our responsibility is to provide limited assurance on whether the information in The Report is, in all material respects, prepared in accordance with section 2:391 of the Netherlands Civil Code. We conducted our engagement in accordance with Standard 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* as issued by the NBA. 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 Report in relation to the specific requirements as set out in section 2:391 of the Netherlands Civil Code;
- a review of the underlying principles of information management and reporting used in drawing up The Report;
- interviews with relevant staff responsible for the information in The Report;
- a review of internal and external documentation such as minutes of meetings, reports and intranet sources;
- a review of the underlying systems and procedures used to collect and process the reported
- information, including the aggregation of data into the information in The Report;
- a review of the reliability of the quantitative information in The Report based on sampling.

GRI check

With respect to our work on the disclosed GRI Application Level, our procedures were limited to checking whether the GRI Content Index is consistent with the criteria for the disclosed Application Level and that the relevant information is publicly reported.

REPORT ON THE FINANCIAL STATEMENTS

ASSURANCE REPORT ON THE MANAGEMENT BOARD'S REPORT

OPINIONS AND CONCLUSION

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. as at December 31, 2012 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. as at December 31, 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Conclusion with respect to The Report of the Management Board

Based on the work described in the previous paragraph, nothing has come to our attention that causes us to believe that the information in The Report on pages 8 to 65 is not, in all material respects, presented in accordance with the requirements included in section 2:391 of the Netherlands Civil Code.

OTHER

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, 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 if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Report of the Management Board, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Report on GRI application level

Based on the procedures performed we conclude that the GRI Content Index on FMO's website is consistent with the GRI criteria for the disclosed Application Level.

Amstelveen, March 11, 2013
KPMG ACCOUNTANTS N.V.
M.A. Hogeboom RA

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