FMO

Entrepreneurial Development Bank

Interim report 2018

June 30, 2018

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

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AT A GLANCE

FMO is the Dutch development bank
Since 1970 we have been the driving force behind investments empowering entrepreneurs in emerging markets. We invest with the aim of enhancing local prosperity in places where this is needed most. We focus on underserved markets in key sectors for development, taking risks that few others are willing to take. Our role extends beyond financing, as we challenge businesses to meet high international standards regarding the welfare of people, corporate governance and the environment. These businesses in turn create jobs and tax income, and contribute to a healthy private sector improving people's prospects for a better life. FMO has its head office in The Hague, the Netherlands with a local office in Johannesburg, South Africa.

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

Mission
We empower entrepreneurs to build a better world.

Strategic goal
Your preferred partner to invest in local prosperity.

FIRST HALF 2018 INVEST IN LOCAL PROSPERITY

8 DECENT WORK AND ECONOMIC GROWTH

175,000
Jobs supported

€1.0 billion
Total new commitments

10 REDUCED INEQUALITIES

24%
Investments that contribute to reducing inequalities (% of total)

13 CLIMATE ACTION

414,000
Avoided greenhouse gas emissions (tCO_2eq)

35%
Green investments (% of total)

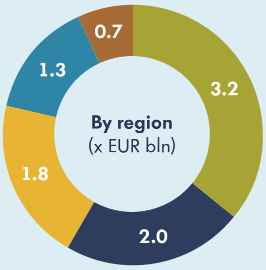
Investments that mitigate climate change but also support biodiversity conservation, reduced water usage and sustainable forestry and agriculture practices.

FIRST HALF 2018 FINANCIAL PERFORMANCE

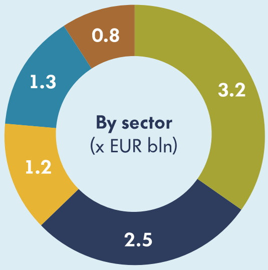
€124 million
Net profit

25.8%
CET1(%)

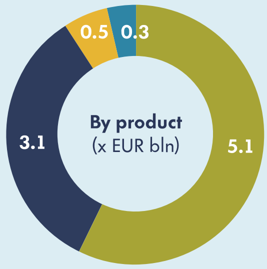
€9.0 billion
Total committed portfolio



- Africa
- Asia
- Latin America & The Caribbean
- Europe & Central Asia
- Non-region specific



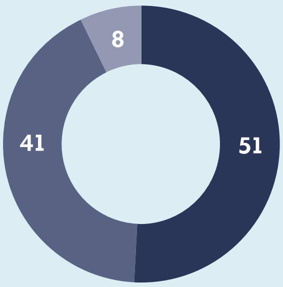
- Financial Institutions
- Energy
- Infrastructure, Manufacturing & Services
- Multi-Sector Fund Investment
- Agribusiness, Food & Water



- Loans
- Equity
- Mezzanine
- Guarantee

2018 RATINGS

Ownership structure %



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

Ratings

AAA
Fitch ratings

AAA
Standard&Poor's

85 / 100
Sustainalytics

Prime
Oekom Research

Employees

479
Average number of FTEs

46
Number of nationalities

KEY FIGURES

Strategic objective	Performance metric	June 30, 2018	Dec 31, 2017	June 30, 2017	FY 2018 target
Higher impact portfolio	Total investment volume (x €m)	1,029	3,057	892	2,530
	Green (% of total volume)	35%	42%	26%	32%
	Reducing Inequalities (% of total volume)[1]	24%	n/a	n/a	25%
	ESG Target Performance (% risks managed)[1]	97%	n/a	n/a	90%
Deeper relationships	Volume catalyzed (x €m)	278	1,111	262	920
	Client Satisfaction (NPS score)[2]	68.6	n/a	n/a	70
	Employee engagement	7.2	7.4	7.4	7.5
	NL business (x €m)[1]	21	n/a	n/a	100
Higher productivity	Implementation strategic projects	ongoing			according to plan
	Operating income (x €m)	174	444	231	370
	Operating expenses	-52	-99	-50	
	Impairments	15	-62	-3	
	Net profit	124	255	156	

Financial indicators	Performance metric	June 30, 2018	Dec 31, 2017	June 30, 2017
Balance sheet (x €b)	Net loans	4.3	4.1	4.2
	Equity investment portfolio (incl. associates)	1.8	1.7	1.8
	Total assets	8.3	8.3	8.4
	Shareholders' equity	3.0	2.8	2.8
	Debentures & notes	4.9	5.1	5.3
Ratios at end of period (%)	Non Performing Loans (NPL)[3]	6.3%	6.9%	9.4%
	Return on average shareholders' equity	8.6%	9.1%	11.2%
	Common Equity Tier 1 (CET 1)	25.8%	24.6%	23.7%

1 For 2018 new targets were introduced to align with our steering metrics.

2 Client satisfaction is measured through a client satisfaction survey once every 3 years.

3 As per June 30, 2018 the non performing loan percentage is aligned with the Regulatory definition, including the comparable figures.

LETTER FROM THE MANAGEMENT BOARD

Last year, we launched our renewed strategy as part of our endeavours to contribute to a world in which, in 2050, nine billion people will live well and within the means of the planet's resources. Our strategy calls on us to create a higher impact portfolio, deepen our relationships and increase productivity.

In doing so, we focus on the three prime Sustainable Development Goals (SDGs) of creating decent work and economic growth (SDG 8), reducing inequalities (SDG 10) and climate action (SDG 13). Our strategy aligns well with the recently published Investing in Global Prospects policy of the Dutch Ministry of Foreign Affairs, one of our key stakeholders. This policy aims to tackle the root causes of poverty, migration, terrorism and climate change, while enhancing the Netherlands' international earning capacity.

Higher impact portfolio

With respect to our ambition to create a higher impact portfolio, we invested €1 billion of FMO, government and catalyzed funds in developing countries and emerging markets. Through these investments we support an estimated 175,000 jobs, which contribute to economic growth in line with SDG 8.

35% of total new commitments was in green investments. These are investments specifically aimed at renewable energy and mitigating climate change, but also support biodiversity conservation, reduce water usage and support sustainable forestry and agriculture practices. Through these investments, an estimated 414,000 tonnes of greenhouse gas emissions (C02 equivalent) are avoided, which sees us contribute towards SDG goal 13.

Furthermore, 24% of total new commitments concern investments that contribute to reducing inequalities, which is SDG 10. These investments in inclusive business focus on gender, irregular migrants and youth finance, and on investments in the least developed countries (LDCs).

Deeper relationships

In the first half of the year we also deepened relations with our stakeholders. In the first quarter, for example, FMO and NN Investment Partners achieved a first close on our joint Emerging Markets Loans Fund at USD 250 million. This fund enables institutional investors to co-invest alongside FMO in loans to financial institutions, renewable energy projects and agribusinesses in emerging and frontier markets.

We are very proud that the European Commission has selected FMO to manage the NASIRA Risk-Sharing Facility, a €75 million guarantee to back young, female and migrant entrepreneurs in Africa and countries neighbouring Europe. This means that we can make high-impact, high-risk investments that combat the root causes of irregular migration, in line with SDG 8 and 10.

FMO also measures the quality of relations with stakeholders, so that it can critically reflect on its own performance and adjust accordingly. Our Net Promoter Score – a measure of client satisfaction – stood at 68.6 in the first half of 2018, which is in line with the score in 2015 but below our target of 70. We did well on professionalism and reliability, but scored lower on lead times and the added value of training and knowledge management. Our employee engagement, meanwhile, came in at 7.2, below the industry benchmark of 7.5 and our 2017 score of 7.4.

Higher productivity

The third and final aspect of our strategy relates to higher productivity. We have continued implementing key strategic projects in the areas of business process optimisation, information management, HR change and steering metrics. These are leading to more efficient processes, higher-quality information, improved co-operation and better decision-making. This, in turn, will free up time to spend on clients and product development and give us more clarity concerning roles and responsibilities, which should improve our employee engagement over time.

Net profit for the first six months amounted to €124 million, which is lower than the €156 million reported last year. This difference is largely due to fluctuations in the euro-dollar exchange rate, which led to lower interest income, and lower returns on private equity investments compared to the same period in 2017. These were in part compensated by a release of provisions.

Outlook

Looking at the second half of 2018, we have a positive outlook for most targets based on our transaction pipeline. We do see a risk of falling behind the full year target for catalysed volume, but efforts are underway to realise a pipeline and to develop an integrated approach to sourcing funds from commercial and public parties. In addition, we will continue to improve our engagement with our stakeholders. Our stakeholders are diverse and often have different views and needs. As a result the importance of thorough stakeholder management is only increasing.

Emerging markets and developing economies have experienced powerful crosswinds in recent months, due to global developments such as rising oil prices, higher yields in the United States, dollar appreciation, trade tensions, and geopolitical conflict. FMO's portfolio is geographically well diversified and we are looking to invest in additional countries.

Having said that, we are closely monitoring political, economic and monetary developments in Turkey, where we have a sizeable €428 million exposure. Turkish volatility, and potential spill over to other emerging markets such as South Africa, Argentina and India, may impact our performance on the short term through fair value changes for the equity and sub-debt transactions of our clients.

In closing

Peter van Mierlo started as Chief Executive Officer on July 1. He joins FMO from PwC, where he was Chairman of the Board of Management of PwC Netherlands and Managing Partner of PwC Europe. Together we are dedicated to implementing our strategy and realizing a higher impact portfolio, deepening our relationships and increasing productivity.

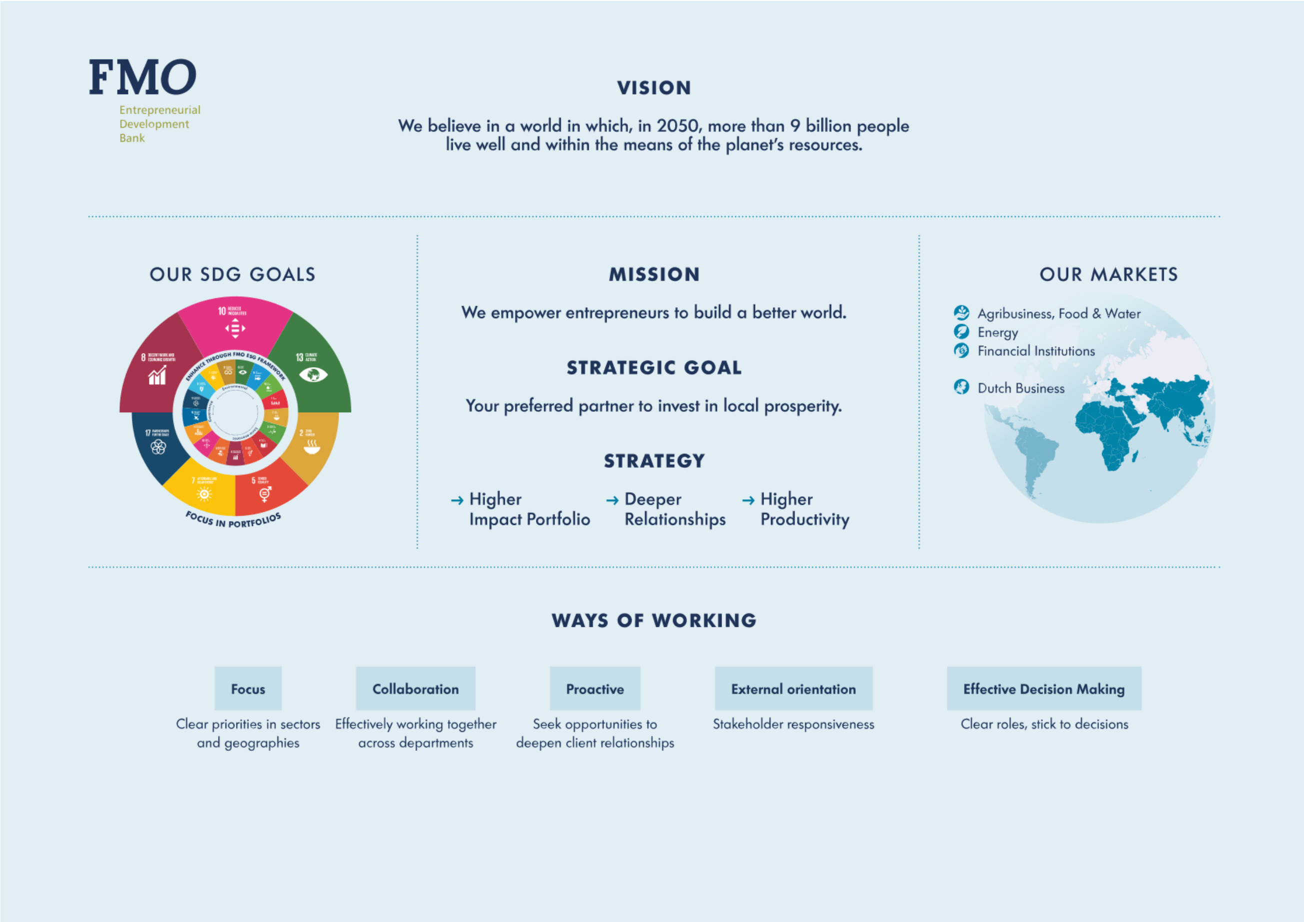
OUR STRATEGY

FMO's Vision and Mission remain as relevant as ever. In 2017, we defined our Strategy 2025 in line with our Vision and Mission, setting the goal of being ***'Your preferred partner to invest in local prosperity'***.

We aim to have a distinguishing impact on three UN Sustainable Development Goals ('SDGs"):

- ***Decent work and economic growth (SDG 8)***: optimizing the number of jobs supported;
- ***Reduced inequalities (SDG 10)***: focusing on inclusive finance and least developed countries;
- ***Climate action (SDG 13)***: growing our "green" portfolio, which is aimed at reducing greenhouse gas emissions, increasing resource efficiency, preserving and growing natural capital, and supporting climate adaptation.

To achieve our strategic goal we have defined three objectives: a higher impact portfolio, deeper relationships and higher productivity.



Higher impact portfolio

We *focus* on sectors and regions where FMO can have the greatest impact; steer on job creation and increase the share of investments in the portfolio related to green and reduced inequalities, while growing local support through community engagement and stakeholder responsiveness.

In the context of a higher impact, and in line with our ambition defined in 2013, we continue to work on *"Doubling Impact and Halving Footprint"*. Through our investments, we aim to support 900,000[1] jobs by 2020; against a baseline of 500,000 jobs. In terms of greenhouse gases avoided, we aim to improve our baseline of 575,000 tons of CO_2 equivalent by avoiding at least 1.15 million tons of CO_2 equivalent per year by 2020.

1 The target has been adjusted from 1,000,000 to 900,000 jobs as a consequence of a statistical update to reflect macro-economic progress in the countries where we invest. It was undertaken earlier this year to ensure continued credibility of reporting on performance recommended by external auditors.

Deeper relationships

By strengthening our *external orientation*, we increase local knowledge and understanding of our markets, clients and stakeholders. We approach our clients more proactively and increase our understanding of their needs and the context in which they operate to collaboratively develop opportunities with clients and partners. In addition, we focus on improving employee engagement as a key driver for success.

We want to maximize local impact by using our deep expertise in development finance to support Dutch business activities in emerging markets. Providing decent work, reducing inequality and undertaking climate action through our investments will help to improve local stability that is particularly relevant for the Netherlands and countries closest to us, for example in the 'European Neighbourhood' and the Horn of Africa.

Higher productivity

We optimize business processes to deliver better and faster service to our clients. We strengthen *effective decision making* and foster effective *collaboration* across the organization, especially between our debt, equity, syndications and capacity development departments. In this manner we improve our client offerings and speed up operational processes. We promote clear roles and responsibilities, take well informed decisions and stick to them.

PERFORMANCE ON OUR STRATEGY

In the first half of 2018, performance on higher impact and higher productivity was mostly on track. By continuing on the same path, we expect to achieve the year-end (YE) targets in both areas. Performance on deeper relationships is at risk of falling short of its YE targets. However, FMO will step up efforts in all critical areas to bring performance back on track in the second half of the year.

Higher impact portfolio

Performance for the first half of 2018 suggests that FMO is on track to achieve most of its year-end targets with respect to higher impact.

New commitments for FMO and government funds in the first half year amounted to €751 million (1H17: €630 million). Most investments targeted countries in Africa and Asia, including those located in the 'European Neighbourhood'. We reported a shortfall for Private Equity (PE) investments, explained by market conditions as well as a strategic focus on exits, direct investments and portfolio management.

Investments made through state funds managed by FMO on behalf of the Dutch government require further focus, particularly with respect to the Access to Energy Fund (AEF) and Infrastructure Development Fund (IDF). These funds enable FMO to invest early on, take higher risks, and by doing so catalyse new investors. FMO will step up efforts to identify opportunities within and beyond the current pipeline that match these criteria.

35% of total new commitments in the first half year attributed to green investments (1H17: 26%), mostly through renewable energy and infrastructure projects. 24% of total commitments attributed to reducing inequalities (RI) through inclusive transactions and investments made in least developed countries, as defined by the United Nations. The biggest challenge FMO must overcome is the instability in Turkey that affects several of its green lines. Opportunities elsewhere will enable FMO to achieve YE targets.

In the first half year of 2018 we supported an estimated 175,000 jobs, an increase compared to the same period last year (1H17: 153,000 jobs) due to an increase in total investment volume. We further doubled our volume of green investments, resulting in an estimated greenhouse gas avoidance of 414,000 tons (CO_2 equivalent) compared to 214,000 tons in the same period last year.

To ensure management of our ESG risks and overall risk exposure of our portfolio, FMO has introduced a new ESG Performance Tracker and Target. Initial results show that 97% of high profile risks currently tracked are fully compliant with our standards or under active management on a pathway to compliance.

Deeper relationships

Performance for the first half of 2018 suggests that FMO needs to step up efforts to achieve year-end targets with respect to deepening relationships.

Key milestones included:

- An initial 17 investments worth €64 million were made through the NN-FMO Emerging Markets Loans Fund, following its first close at USD 250 million.
- The NASIRA Risk-Sharing Facility was approved by the European Commission, including €75 million in guarantees and €8 million in technical assistance.
- Climate Investor One achieved its third close, bringing the total to USD 535 million.

The volume catalysed from third parties amounted to €278 million (1H17: €262 million). However, achieving the year-end target for catalysed volume will depend on the second close of the NN-FMO Emerging Markets Loans Fund (EMLF) and on the materializing of large syndicated transactions. Other efforts are underway to address potential shortfall.

FMO strengthened its relationships and links with Dutch businesses by facilitating investments in and export to emerging markets and developing countries through its new NL Business department. In the first half of 2018, €21 million worth of investments were made by NL Business. Efforts have been focused in areas where FMO can be additional and provide most value to the market. NL Business, however, is relatively new and prone to more uncertainty than its more established lines of business. Achieving the target of €100 million will be challenging, but we will spend extra efforts in the coming months to further our progress.

Client Satisfaction in 2018 scores 8.5 out of 10, in line with previous results and on par with peers. The Net Promotor Score of 68.6 is in line with 2015 results but below target (70). FMO's level of professionalism and reliability score highest; lead times and our added value related to training and knowledge management score lowest. Differentiating ourselves through providing more added value and better services to our clients will be fundamental in establishing deeper relationships.

Employee engagement decreased from 7.4 to 7.2 in the first half of 2018, below the benchmark for Financial Services (7.5). This is mainly due to a lower score on ‘work gives me energy’. Reasons mentioned include a high workload, limited office space and lack of clarity regarding the strategy. Several strategic projects are underway to improve on these areas (these are addressed under higher productivity). Slight increases were found in efficiency, serving customers and communication between management and staff.

Higher productivity

Performance for the first half of 2018 suggests FMO is on track to achieve most of its year-end targets with respect to higher productivity.

Strategic projects

The strategic projects are focused on improving efficiency and effectiveness to free up employee time to spend on providing more added value to our clients. The Business Process Optimization and Information Management projects are delivering results but have materialized slower than anticipated.

The Business Process Optimization project aims to optimize key investment and portfolio management processes and systems. The revised change request process will be the first major deliverable and is planned to be released in third quarter 2018.

Information Management is a multi-year program aimed at improving data reliability and accessibility through strengthening data governance, implementing a new data warehouse and delivering information products for internal and external use. This will allow for further integrated reporting of impact and financial information. The first deliverable – a portfolio dashboard – is realized in July 2018.

The HR change program is focused on organizational culture and change in line with our organizational strategy and vision. In the first half of 2018, we moved from the design stage to engaging and enabling management and employees to make the envisioned change happen.

Financial performance

The first half of 2018 has shown a decline in net profit compared to the same period last year from €156 million to €124 million. Operating income amounted to €174 million, which is behind budget due to lower net interest income and lower results from equity. Lower net interest income is mostly explained by the euro-dollar exchange rate, as approximately 80% of the loan portfolio is USD related. FMO does not hedge the FX risk of interest margins, consequently, the depreciation of the USD negatively impacts the net interest income.

Net profit was positively influenced by a €15 million net release of impairments due to improved quality of the portfolio. Results from equity investments amounted to €44 million (1H17: €92 million), consisting of €28 million FX gains, €23 million capital gains and a net loss of €8 million on exits. Operating expenses amounted to €52 million, an increase of €2 million compared to the same period last year, but below budget for the period. The increase is explained by higher staff costs resulting from the recruitment of new hires.

Note that net profit as per 2018 is not fully comparable with previous years due to the implementation of IFRS 9 - a new reporting standard for financial instruments. IFRS 9 predominantly impacts the results from the private equity portfolio as it requires fair value changes to be recorded in the profit and loss account. Previously, such changes were recognized in the available for sale reserve and exit results were recorded in the profit and loss account.

Non-performing loans (NPL) decreased to 6.3% (year-end 2017: 6.9%). Loans that are “performing again” have a probation period of at least one year before being classified as “performing”. Excluding for these loans, the NPL percentage declined from 5.6% at year-end 2017 to 4.8%, indicating an improvement in the credit risk of our current portfolio.

The CET-1 ratio per June 2018 is 25.8% compared to 24.6% at year-end 2017. This increase is explained by the inclusion of the net profit of 2017 and the depreciated USD. Note that the net profit for 1H 2018 is not included. If we did take this into account, the CET-1 ratio would be approximately 1% higher.

Responsibility statement

In accordance with Article 5:25d(2)(c) of the Dutch Financial Supervision Act (*Wet op het Financieel Toezicht*) we state that, to the best of our knowledge:

- The 2018 condensed consolidated interim accounts give a true and fair view of the assets, liabilities, financial position and profit of FMO and its consolidated undertakings;
- This Interim Report 2018 includes a fair overview of the important events that have occurred during the first six months of the financial year, and their impact on the condensed consolidated interim accounts 2018; and
- This Interim Report 2018 includes a description of the principal risks and uncertainties for the remaining six months of the financial year.

The Hague, September 7, 2018

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

PORTFOLIO INFORMATION

In the tables below, we present our committed portfolio per region and sector. The committed portfolio of the funds we manage for the Dutch State are not included. Of the total committed portfolio of €7,867 million an amount of €5,471 million relates to the on-balance Loans to the private sector and €2,396 million relates to the on-balance Equity investments and Associates.

Committed portfolio distributed by region and sector[1]

	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At June 30, 2018						
Africa	884,008	757,607	139,001	444,063	389,975	2,614,654
Asia	554,994	562,089	108,378	359,072	229,094	1,813,627
Latin America & the Caribbean	622,272	577,685	220,207	110,078	143,154	1,673,396
Europe & Central Asia	541,894	219,454	182,235	164,654	165,596	1,273,833
Non-region specific	186,935	84,623	81,654	14,064	124,696	491,972
Total	**2,790,103**	**2,201,458**	**731,475**	**1,091,931**	**1,052,515**	**7,867,482**

	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At December 31, 2017						
Africa	863,605	717,468	102,644	481,028	365,695	2,530,440
Asia	600,742	592,405	116,519	385,619	258,469	1,953,754
Latin America & the Caribbean	684,768	511,565	245,269	128,339	196,867	1,766,808
Europe & Central Asia	563,547	153,728	153,599	145,802	171,551	1,188,227
Non-region specific	181,849	82,151	88,277	21,929	119,371	493,577
Total	**2,894,511**	**2,057,317**	**706,308**	**1,162,717**	**1,111,953**	**7,932,806**

In the tables below, we present our committed portfolio of the top 10 countries per sector. The committed portfolio of the funds we manage for the Dutch State and the Loans guaranteed by the State are not included.

Committed portfolio of top 10 countries by sector

	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At June 30, 2018						
Turkey	193,007	106,002	67,541	57,930	69,433	493,913
India	117,790	137,125	46,316	79,969	27,824	409,024
Nigeria	113,636	34,257	39,534	24,611	70,157	282,195
Bangladesh	140,112	35,041	-	22,357	44,551	242,061
Georgia	109,231	35,482	6,167	-	72,251	223,131
Ghana	89,618	63,582	-	-	55,365	208,565
Uganda	22,451	141,550	25,543	-	12,559	202,103
Argentina	13,732	77,601	109,335	-	720	201,388
South Africa	32,157	74,724	6,985	23,733	48,000	185,599
Honduras	50,121	104,468	-	-	-	154,589
Total	**881,855**	**809,832**	**301,421**	**208,600**	**400,860**	**2,602,568**

	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At December 31, 2017						
India	142,596	147,079	48,919	93,347	50,999	482,940
Turkey	193,324	41,330	52,359	48,953	72,231	408,197
Nigeria	146,153	33,274	16,637	30,519	68,689	295,272
Bangladesh	131,895	35,129	-	24,539	55,091	246,654
Georgia	102,060	33,504	6,167	-	72,670	214,401
Ghana	77,853	63,363	-	-	54,218	195,434
Honduras	59,874	114,901	-	-	11,229	186,004
Argentina	16,165	15,949	146,567	-	3,932	182,613
South Africa	41,020	82,933	8,373	26,309	23,286	181,921
Ecuador	116,708	12,478	20,380	-	6,877	156,443
Total	**1,027,648**	**579,940**	**299,402**	**223,667**	**419,222**	**2,549,879**

1 The sectors presented are the strategic sectors in which FMO is active. These sectors are different than the operating segments per servicing unit as presented in Note 5 Segment Information.

CONSOLIDATED BALANCE SHEET

(before profit appropriation)	Notes	Page numbers	IFRS 9 June 30, 2018	IAS 39 December 31, 2017
Assets				
Banks			48,525	71,763
Short-term deposits			1,450,685	1,544,118
Interest-bearing securities	6		362,488	362,916
Derivative financial instruments	6		228,343	259,402
Loans to the private sector[1]	3, 6		4,267,854	4,139,381
Equity investments	6		1,544,833	1,502,833
Investments in associates			213,873	207,482
Property, plant and equipment			13,209	12,866
Current income tax receivables	11		24,047	7,458
Deferred income tax assets			10,227	10,587
Current accounts with State funds and other programs			230	274
Other receivables			21,687	120,713
Accrued income			107,127	83,136
Total assets			**8,293,128**	**8,322,929**
Liabilities				
Short-term credits			90,166	125,935
Derivative financial instruments	6		214,801	147,424
Debentures and notes	8		4,900,869	5,101,288
Current accounts with State funds and other programs			1,729	182
Wage tax liabilities			204	117
Deferred income tax liabilities			4,740	9,682
Other liabilities			12,809	5,039
Accrued liabilities			65,757	56,721
Provisions			40,409	46,588
Total liabilities			**5,331,484**	**5,492,976**
Shareholders' equity				
Share capital			9,076	9,076
Share premium reserve			29,272	29,272
Contractual reserve			1,726,404	1,726,404
Development fund			657,981	657,981
Available for sale reserve			-	400,687
Fair value reserve			24,245	-
Translation reserve			-10,776	-16,696
Other reserves			401,097	10,602
Undistributed profit			123,794	5,556
Shareholders' equity (parent)			**2,961,093**	**2,822,882**
Non-controlling interests			551	7,071
Total shareholders' equity			**2,961,644**	**2,829,953**
Total liabilities and shareholders' equity			**8,293,128**	**8,322,929**
Contingent assets and liabilities				
- Effective guarantees issued	7		101,100	68,129
- Effective guarantees received	7		-194,525	-175,402
Irrevocable facilities			1,767,051	1,785,159

1 As of 2018 the Loans guaranteed by the State (an amount of €33,194) are presented in conjunction with the Loans to the private sector. Comparative figures have been adjusted accordingly.

all amounts in EUR x 1,000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(before profit appropriation)	Notes	Page numbers	IFRS 9 June 30, 2018	IAS 39 June 30, 2017
Income				
Interest income from financial instruments measured at amortized cost[1]			132,098	149,660
Interest income from financial instruments measured at FVPL[1]			31,259	5,017
Interest expenses from financial instruments measured at amortized cost[1]			-43,788	-41,465
Interest expenses from financial instruments measured at FVPL[1]			-20,409	-10,741
Net interest income			**99,160**	**102,471**
Fee and commission income			2,190	2,204
Fee and commission expense			-441	-368
Net fee and commission income			**1,749**	**1,836**
Dividend income			13,404	20,408
Results from equity investments	9		43,758	91,870
Results from financial transactions			559	897
Remuneration for services rendered			14,279	12,393
Other operating income			726	1,229
Total other income			**72,726**	**126,797**
Total income			**173,635**	**231,104**
Operating expenses				
Staff costs			-38,643	-36,012
Other administrative expenses			-11,413	-12,423
Depreciation and impairment of fixed assets			-1,930	-1,483
Other operating expenses			-28	-30
Total operating expenses			**-52,014**	**-49,948**
Impairments on				
Interest-bearing securities			10	-
Loans			12,180	8,000
Loan commitments			2,510	-
Equity investments and associates			-	-12,290
Guarantees issued			441	1,391
Total impairments			**15,141**	**-2,899**
Results on associates				
Share in the result of associates			3,403	-2,962
Total result on associates			**3,403**	**-2,962**
Profit before taxation			**140,165**	**175,295**
Income tax			-16,227	-19,753
Net profit			**123,938**	**155,542**
Net profit attributable to				
Owners of the parent company			123,794	155,542
Non controlling interests			144	-
Net profit			**123,938**	**155,542**

1 In accordance with updated IAS 1.82(a) effective from 2018 interest revenue calculated using the effective interest method (applicable for financial instruments measured at amortized cost) has been presented separately. Comparative figures have been changed accordingly. The interest income as per June 2017 from interest bearing securities that were classified as available for sale under IAS 39 has been presented under 'Interest income from financial instruments measured at amortized cost'.

all amounts in EUR x 1,000

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(before profit appropriation)	Notes	Page number	IFRS 9 June 30, 2018	IAS 39 June 30, 2017
Net profit			**123,938**	**155,542**
Other comprehensive income				
Share of other comprehensive income of associates due to exchange differences			5,920	-15,951
Available for sale financial assets			-	-143,410
Income tax effect			-	782
Items to be reclassified to profit and loss			**5,920**	**-158,579**
Fair value reserve of equity instruments at FVOCI			8,166	-
Actuarial gains/losses on defined benefit plans			3,021	5,915
Income tax effect			-2,750	-1,480
Items not reclassified to profit and loss			**8,437**	**4,435**
Total other comprehensive income, net of tax			**14,357**	**-154,144**
Total comprehensive income			**138,295**	**1,398**

Total comprehensive income attributable to:				
Owners of the parent company			138,151	1,398
Non-controlling interests			144	-
Total comprehensive income			**138,295**	**1,398**

all amounts in EUR x 1,000

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium reserve	Contractual reserve	Development fund	Available for sale reserve	Fair value reserve	Translation reserve	Other reserves	Undistributed profit	Non-controlling interests	Total
IAS 39 Balance at December 31, 2016	9,076	29,272	1,477,843	657,981	571,074	-	9,221	9,395	6,682	2,991	2,773,535
Total other comprehensive income, net of tax	-	-	-	-	-142,628	-	-15,951	4,435	-	-91	-154,235
Changes in subsidiary Equis DFI Feeder L.P.[1]	-	-	-	-	-	-	-	-	-	792	792
Net profit	-	-	-	-	-	-	-	-	155,542	-	155,542
Dividends	-	-	-	-	-	-	-	-	-6,682	-	-6,682
IAS 39 Balance at June 30, 2017	**9,076**	**29,272**	**1,477,843**	**657,981**	**428,446**	**-**	**-6,730**	**13,830**	**155,542**	**3,692**	**2,768,952**
IAS 39 Balance at December 31, 2017, as previously reported	9,076	29,272	1,726,404	657,981	400,687	-	-16,696	10,602	5,556	7,071	2,829,953
Adjustments from adoption of IFRS 9 (net of tax)	-	-	-	-	-400,687	18,074	-	396,713	-	-	14,100
Restated balance at Januari 1, 2018	**9,076**	**29,272**	**1,726,404**	**657,981**	**-**	**18,074**	**-16,696**	**407,315**	**5,556**	**7,071**	**2,844,053**
Total other comprehensive income, net of tax	-	-	-	-	-	6,171	5,920	2,266	-	-	14,357
Changes in subsidiary Equis DFI Feeder L.P.[1]	-	-	-	-	-	-	-	-	-	-6,664	-6,664
Net profit	-	-	-	-	-	-	-	-	123,794	144	123,938
Dividends	-	-	-	-	-	-	-	-8,484	-5,556	-	-14,040
Balance at June 30, 2018	**9,076**	**29,272**	**1,726,404**	**657,981**	**-**	**24,245**	**-10,776**	**401,097**	**123,794**	**551**	**2,961,644**

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

all amounts in EUR x 1,000

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Page number	IFRS 9 June 30, 2018	IAS 39 June 30, 2017
Operational activities				
Net profit			123,794	155,542
Adjustment for non-cash items:				
- Result of associates			-3,403	2,962
- Unrealised (gains) losses arising from changes in fair value			-9,730	-175,496
- Unrealised (gains) losses arising from changes in foreign exchange rates			1,825	121,502
- Unrealised (gains) losses arising from other changes			15,109	-5,857
- Value adjustments			-8,937	-5,392
- Depreciation and impairment of PP&E assets			1,930	1,483
- Income tax expense			16,347	19,753
Changes in:				
- Income taxes paid			-44,614	-61,705
- Net movement (disbursements and repayments) in loans (including guaranteed by the State)			-24,882	37,915
- Purchases of and proceeds from equity investments and associates			-41,217	-128,735
- Movement in short term deposits[1]			-454,438	-158,691
- Movement in other assets and liabilities[1]			92,086	-50,777
- Movement in short-term credits[1]			-35,894	61,216
Net cash flow from operational activities			**-372,024**	**-186,280**
Investment activities				
Purchase of interest-bearing securities			-	-176,420
Redemption/sale of interest-bearing securities			-	215,384
Investments in PP&E assets			-2,273	-
Divestments in PP&E assets			-	-3,726
Net cash flow from investment activities			**-2,273**	**35,238**
Financing activities				
Proceeds from issuance of debt securities, debentures and notes			295,019	1,145,603
Redemption of debt securities, debentures and notes			-495,568	-855,438
Dividend paid			-14,040	-6,682
Net cash flow from financing activities			**-214,589**	**283,483**
Net cash flow			**-588,886**	**132,441**
Cash and cash equivalents				
Net foreign exchange difference			17,776	-45,469
Banks and short-term deposits at January 1[2]			1,545,411	833,636
Banks and short-term deposits at June 30[2]			974,301	920,608
Total cash flow			**-588,886**	**132,441**
Operational cash flows from interest and dividends				
Interest received			147,161	143,589
Interest paid			-55,538	-46,841
Dividend received			13,404	20,408

1 Movement is excluding foreign exchange results. Foreign exchange results are included in unrealized gains (losses).

2 This balance corresponds with the following items in the consolidated balance sheets: banks and short-term deposits to the extent that the maturity date is less than 3 months.

all amounts in EUR x 1,000

NOTES TO THE CONSOLIDATED INTERIM ACCOUNTS

1 Corporate information

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

Financing activities

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

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

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

2 Basis of preparation and changes to accounting policies

Basis of preparation

The consolidated annual accounts as at December 31, 2017 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). These 2018 consolidated interim accounts have been prepared in accordance with IAS 34 Interim Financial Reporting.

The accounting policies, presentation and methods of computation are consistent with those applied in the preparation of FMO's consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards, interpretations and amendments effective as of January 1, 2018. The consolidated interim accounts do not include all the information and disclosures that are required for the consolidated annual accounts, and should be read in conjunction with FMO's consolidated annual accounts as at December 31, 2017.

This is the first set of accounts where IFRS 9 *Financial Instruments* has been applied. As required by IAS 34, the nature and effect of these changes are disclosed below.

Group accounting and consolidation

The company accounts of FMO and the company accounts of the subsidiaries Nuevo Banco Comercial Holding B.V., Asia Participations B.V., FMO Investment Management B.V., FMO Medu II Investment Trust Ltd., Equis DFI Feeder L.P. and Nedlinx B.V. are consolidated in these interim accounts.

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

Foreign currency translation

FMO uses the euro as the unit for presenting its annual accounts and interim reports. All amounts are denominated in thousands of euros unless stated otherwise.

Adoption of new standards, interpretations and amendments

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. EU has endorsed IFRS 9 in November 2016. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

FMO has applied IFRS 9 as issued in July 2014 and endorsed by the EU in November 2016. For FMO the effective date of application is from 1 January 2018. Starting from 2016 FMO set up a multidisciplinary implementation team with members from Risk Management, Finance and other operational teams to prepare for IFRS 9 implementation. All the required changes have been implemented successfully as of January 2018.

The following table and the accompanying notes set out the impact on financial assets and liabilities on adopting IFRS 9. Furthermore reference is made to the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of FMO's financial assets and liabilities.

Transition table Financial Assets

		IAS 39									IFRS 9	
		December 31, 2017		Reclassification				Remeasurement			January 1, 2018	
At January 1, 2018	**Ref**	**Measurement Category**	**Carrying amount**	**To FVPL**	**To AC**	**To FVOCI**	**Other**	**C&M**	**ECL**	**Other**	**Carrying amount**	**Measurement Category**
Financial assets												
Banks	e	L&R	71,763	-	-	-	-	-	-1	-	71,762	AC
Short-term deposits		FVPL	1,544,118	-	-	-	-	-	-	-	1,544,118	FVPL
Interest-bearing securities	a,e	AFS	362,916	-		-	-	-3,563	-44	-	359,309	AC
Derivative financial instruments	b	FVPL	259,402	-	-	-	-3,176	-	-	-	256,226	FVPL
Loans to the private sector		L&R	4,139,381	-572,347	-3,567,034	-	-	-	-	-	-	
of which: Amortized cost	e		-	-	3,567,034	-	-	-	4,944	-	3,571,978	AC
of which: Fair value through profit or loss	b,c		-	572,347	-	-	2,746	17,573	-	-	592,666	FVPL
Equity investments		AFS	1,502,833	-1,425,035	-	-77,798	-	-	-	-	-	
of which: Fair value through profit or loss	b,d		-	1,425,035	-	-	430	-	-	-	1,425,465	FVPL
of which: Fair value through OCI	d		-		-	77,798	-	-	-	-	77,798	FVOCI
Other receivables	c	L&R	120,713		-	-	-	75	-	-	120,788	AC
Accrued income	f	L&R	83,136		-	-	-	-	-	8,586	91,722	AC
Total Financial assets			**8,084,262**	**-**	**-**	**-**	**-**	**14,085**	**4,899**	**8,586**	**8,111,832**	

a As of January 1, 2018, FMO has classified the interest-bearing securities which had previously been classified as AFS at amortized cost. These instruments pass the SPPI test and are held for liquidity purposes with no intention to routinely sell. The fair value of these instruments that FMO still held at December 31, 2017 was €362,916. The reclassification from AFS to amortized cost has resulted in a measurement change of €3,563 which is equal to the cumulative fair value changes. This has been released against the carrying value which also resulted in a release of the available for sale reserve. The change in fair value over the six-month period 2018 that would have been recorded in the AFS reserve had these instruments continued to be revalued through the AFS reserve (OCI), would have been €3,440 million negative.

b Certain loans and equity investments have embedded derivatives that were separated under IAS 39. As a result of IFRS 9, the loans and equity investments, together with the embedded derivatives which were previously separated, have been reclassified as FVPL at January 1, 2018. The total amount of derivative financial assets that have been reclassified to loans and to equity investments is €3,176 of which €2,746 has been reclassified to the loan portfolio and €430 has been reclassified to equity investments.

c A significant part (€3,567,034) of the Loans to the private sector and Loans guaranteed by the State that was classified as loans and receivables and measured at amortized cost under IAS 39 will also be measured at amortized cost under IFRS 9. The remaining part with a carrying amount of €572,347 does not fully reflect payments of principal and interest and is measured at FVPL under IFRS 9, resulting in a remeasurement of €17,648 which includes an amount of €75 related to other receivables.

d As of January 1, 2018, FMO has chosen to classify a part of the equity investments (€1,425,035) that was classified as available for sale under IAS 39 as FVPL under IFRS 9. The available for sale reserve of these investments (€379,944 net of tax) has been transferred to other reserves as per January 1, 2018. However, some of the equity investments with a carrying amount of €77,798 at January 1, 2018 are held for long-term strategic purposes and are designated as at FVOCI. The available for sale reserve of these strategic investments (€18,074) has been transferred to a fair value reserve.

e The IFRS 9 impairment requirements have resulted in an ECL remeasurement of €4,899 on financial assets, mainly related to loans to the private sector at amortized cost and €8,778 on financial liabilities related to loan commitments and financial guarantees. For more details, see the impairment section.

f The IFRS 9 impairment requirements related to the calculation of interest income on a net-basis for loans in stage 3 has resulted in a remeasurement of the accrued interest of these loans of €8,586.

all amounts in EUR x 1,000

Transition table Financial Liabilities

At January 1, 2018	Ref	IAS 39 December 31, 2017 Measurement Category	IAS 39 December 31, 2017 Carrying amount	Remeasurement ECL	IFRS 9 January 1, 2018 Carrying amount	IFRS 9 January 1, 2018 Measurement Category
Financial Liabilities						
Short-term credits		AC	125,935	-	125,935	AC
Derivative financial instruments		AC	147,424	-	147,424	AC
Debentures and notes		AC	5,101,288	-	5,101,288	AC
Current accounts with State funds and other programs		AC	182	-	182	AC
Current accounts tax liabilities		AC	117	-	117	AC
Other liabilities	e	AC	5,039	8,778	13,817	AC
Accrued liabilities		AC	56,721	-	56,721	AC
Provisions		AC	46,588	-	46,588	AC
Total Financial liabilities			**5,483,294**	**8,778**	**5,492,072**	

all amounts in EUR x 1,000

The following table summarizes the impact of the adoption of IFRS 9 on the opening balance of FMO's equity at January 1, 2018.

At January 1, 2018	Notes	Reserves
Available for sale reserve		
Closing Balance December 31, 2017		400,687
Reclass interest-bearing securities from AFS to AC	a	-3,566
Reclass Equity investments from AFS to FVPL	b	-385,984
Reclass Equity investments from AFS to FVOCI	c	-20,819
Deferred tax impact	a,b,c	9,682
Opening Balance January 1, 2018		**-**
Fair Value reserve		
Closing Balance December 31, 2017		-
Reclass Equity investments from AFS to FVOCI	c	20,819
Deferred tax impact	c	-2,745
Opening Balance January 1, 2018		**18,074**
Other reserves		
Closing Balance December 31, 2017		10,602
Reclassification adjustments to adopting IFRS 9:		
-Remeasurement of reclassifying financial assets at amortized cost to FVPL	d	17,648
-Reclass interest-bearing securities from AFS to FVPL		3
-Reclass Equity investments from AFS to FVPL	b	379,944
-Reclass Equity investments from AFS to FVOCI		-
-Recognition of ECL	d	-3,879
-Correction on accrued income	d	8,586
Deferred tax impact	d	-5,589
Opening Balance January 1, 2018		**407,315**
Total change in equity (net of tax) due to adopting IFRS 9		**14,100**

a The reclassification of interest-bearing securities from AFS to amortized cost has resulted in a release of the AFS reserve of €3,566 with a deferred tax impact of €897.

b The available for sale reserve of €385,984 with a deferred tax impact of €6,040 related to the equity investments that were reclassified from AFS to FVPL has been transferred to the other reserves as per January 1, 2018.

c The available for sale reserve of €20,819 with a deferred tax impact of €2,745 has been transferred to the fair value reserve.

d The changes related to the reclassification of financial assets from amortized cost to FVPL, the recognition of the ECL and the correction of the accrued income were recorded in other reserves, which had a deferred tax impact of €5,589.

Classification and measurement of financial assets and financial liabilities

From a classification and measurement perspective, the new standard requires all financial assets, except for equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. IFRS 9 also requires that derivatives embedded in host contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The IAS 39 measurement categories are replaced by: Fair Value through Profit or Loss (FVPL), Fair Value through Other Comprehensive Income (FVOCI), and amortized cost (AC).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

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

all amounts in EUR x 1,000

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

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

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

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

A financial asset is initially measured at fair value plus, for an item not at FVPL, transaction costs that are directly attributable to its acquisition.

For FMO the following accounting policies apply to the subsequent measurement of its financial assets:

Financial assets at FVPL (debt and equity instruments)	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairments are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Equity instruments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery part of the cost of the investment. Other net gains and losses are recognized in the fair value reserve (OCI) and are never reclassified to profit or loss.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on FMO's accounting policies related to financial liabilities.

Impact of IFRS 9 on the classification and measurement of financial assets
FMO has made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that is considered includes:

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

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

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

Impairment
IFRS 9 also fundamentally changes the loan loss impairment methodology. The standard replaces IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. FMO estimates allowance for expected losses for the following financial assets:

- Banks;
- Interest-bearing securities;
- Loans to the private sector and loans guaranteed by the State;
- Loan commitments and financial guarantee contracts issued.

ECL measurement
IFRS 9 ECL reflects an unbiased, probability-weighted estimate based on either loss expectations resulting from default events over a maximum 12-month period from the reporting date or over the remaining life of a financial instrument. The method used to calculate the ECL is based on the following principal factors: probability of default (PD) which is based on Moody's PD term structure, loss given default (LGD), exposure at default (EAD) and a correction factor for current and expected future conditions (macro-economic factor).

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

Stage 1 – Performing loans: when loans are first recognized, an allowance is recognized based on 12-month expected credit losses.

Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, an allowance is recorded for the lifetime expected credit loss.

Stage 3 – Credit-impaired loans: a lifetime expected credit loss is recognized for these loans. In addition, in Stage 3, interest income is accrued on the amortized cost of the loan net of allowances.

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

- The change in internal credit risk grade with a certain number of notches compared to the internal rating at origination;
- The fact that the financial asset is 30 days past due, unless there is reasonable and supportable information that there is no increase in credit risk since origination;
- The application of forbearance.

Credit-impaired financial assets
Financial assets will be included in Stage 3 when there is objective evidence that the loan is credit impaired. The criteria of such objective evidence are the same as under the current IAS 39 methodology explained in the section 'Value adjustments on loans' of the Accounting policies and in Note 9. Accordingly, the population is the same under both standards.

Definition of default
Under IFRS 9, FMO will consider a financial asset to be in default and therefore in Stage 3 (credit-impaired) when:

- The client is past due more than 90 days on any material credit obligation to FMO, unless FMO judges that the client is likely to pay its credit obligation to FMO; or
- when FMO judges that the client is unlikely to pay its credit obligation to FMO.

Written-off financial assets
A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously recorded impairments. If no impairment is recorded, the write-off is included directly in the profit and loss account under 'Impairments'.

Forward looking information
FMO incorporates forward-looking information in both the assessment of significant increase in credit risk and in the measurement of the ECL. GDP growth rates are represented as macro-economic factor in the forward-looking information. FMO has formulated a 'base case' scenario which represents the more likely outcome resulting from FMO's normal financial planning and budgeting process.

Impact
FMO has determined that the application of IFRS 9's impairment requirements at January 1, 2018 results in an additional impairment allowance as follows.

all amounts in EUR x 1,000

Loan loss provision allowances as at January 1, 2018	Loss allowance under IAS 39/ IAS 37 December 31, 2017	Changes due to reclassification	Remeasurement	ECL as per January 1, 2018
Banks	-	-	1	1
Interest-bearing securities	-	-	44	44
Loans to the private sector	204,473	-48,746	-4,944	150,783
Total on-balance sheet items impacted by ECL	**204,473**	**-48,746**	**-4,899**	**150,828**
Financial guarantees issued	2,896	-	276	3,172
Loan commitments	-	-	8,502	8,502
Total off-balance sheet items impacted by ECL	**2,896**	**-**	**8,778**	**11,674**
Total	**207,369**	**-48,746**	**3,879**	**162,502**

All Interest Bearing Securities (credit quality of AA+ or higher) and Banks (credit quality of BBB- or higher) are classified as Stage 1. An amount of €45 is calculated for the ECL of both asset classes as per January 1, 2018.

The following table shows the credit quality and the exposure to credit risk of the loans to the private sector at amortized cost at January 1, 2018.

Loans to the private sector at amortized cost at January 1, 2018	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	138,731	15,096	-	153,827
F11-F13 (BB-,BB,BB+)	1,348,773	96,907	8,641	1,454,321
F14-F16 (B-,B,B+)	1,533,455	205,946	-	1,739,401
F17 and lower (CCC+ and lower)	93,801	138,858	187,873	420,532
Sub-total	**3,114,760**	**456,807**	**196,514**	**3,768,081**
Less: amortizable fees	-38,545	-4,904	-1,872	-45,321
Less: ECL allowance	-29,820	-18,910	-102,052	-150,782
Carrying value	**3,046,395**	**432,993**	**92,590**	**3,571,978**

The following table shows the credit quality and the exposure to credit risk of the loan commitments at January 1, 2018.

Loans commitments at January 1, 2018	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	9,131	-	-	9,131
F11-F13 (BB-,BB,BB+)	233,092	-	-	233,092
F14-F16 (B-,B,B+)	549,629	26,246	-	575,875
F17 and lower (CCC+ and lower)	63,768	12,648	547	76,963
Total nominal amount	**855,620**	**38,894**	**547**	**895,061**
ECL allowance	-6,746	-1,756	-	-8,502
Total	**848,874**	**37,138**	**547**	**886,559**

The following table shows the credit quality and the exposure to credit risk of the financial guarantees at January 1, 2018.

all amounts in EUR x 1,000

Financial guarantees at January 1, 2018	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	28,283	832	-	29,115
F11-F13 (BB-,BB,BB+)	51,242	30,288	-	81,530
F14-F16 (B-,B,B+)	45,202	36,069	-	81,271
F17 and lower (CCC+ and lower)	14,557	-	4,652	19,209
Sub-total	**139,284**	**67,189**	**4,652**	**211,125**
ECL allowance	-581	-265	-2,326	-3,172
Total	**138,703**	**66,924**	**2,326**	**207,953**

Hedge accounting
With respect to hedge accounting IFRS 9 allows to continue with the hedge accounting under IAS 39. FMO applies IFRS 9 in its entirety. The impact is insignificant for FMO compared to IAS 39.

Other standards adopted in 2018
IFRS 15 Revenue Contracts with Customers
In May 2014, the IASB issued IFRS 15 ‘Revenue from Contracts with Customers’. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognizing revenue as and when the agreed performance obligations are satisfied. The standard should in principle be applied retrospectively, with certain exceptions. This standard does not have significant impact on FMO.

Amendments to IFRS 2 Share-based payment – Classification and measurements of share-based payment transactions
In June 2016, the IASB issued amendments to IFRS 2 containing the clarification and amendments of accounting for cashsettle share-based payment transactions that include a performance condition, accounting of share-based payment transactions with net settlement features and accounting for modifications of share-based payment transactions from cashsettled to equity-settled. The amendments do not have impact on FMO.

Amendments to IAS 40 Investments property – Transfers of investment property
These amendments provide guideance and include criteria for transfers of property to, or from, investment property in accordance with IAS 40. This amendment is effective for annual reporting periods beginning on or after January 1, 2018 and has no impact on FMO.

Annual Improvements 2014-2016 Cycle
Amendments regarding IFRS 1 First time adoption of IFRS, IFRS 12 Disclosure of interest in other entities and IAS 28 Investments in associates and joint ventures. These amendments mainly comprise additional guidance and clarification have no impact on FMO.

IFRIC Interpretation 22 Foreign currency transactions and advance consideration
The interpretation provides clarifications on the transaction date for the purpose of determining the exchange rate with respect to the recognition of the non-monetary prepayment asset or deferred income liability and that a date of transaction is established for each payment or receipt in case of multiple advanced payments or receipts. IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018. The interpretation has a minor impact on FMO.

The standards issued and endorsed by the European Union, but not yet effective up to the date of issuance of FMO’s Interim Report 2018, are listed below.

IFRS 16 Leases
The new standard IFRS 16 ‘Leases’ has been issued in January 2016 by the IASB and requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The standard will be effective for annual periods beginning on or after January 1, 2019. Based on our preliminary assessment impact of this standard is limited to the building and cars we are renting/leasing.

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

Other significant standards issued, but not yet endorsed by the European Union and not yet effective up to the date of issuance of FMO’s Interim Report 2018, are listed below.

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

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments
The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax lossess, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. The interpretation has minor impact on FMO.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
The amendment clarifies that IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Furthermore, the paragraph regarding interests in associates or joint ventures that do not constitute part of the net investment has been deleted. The amendment is expected to be effective starting from January 1, 2019. These amendments will have minor impact on FMO.

Annual Improvements 2015-2017 Cycle
Amendments regarding IFRS 3/ IFRS 11 with respect to obtaining control over a joint operation business, IAS 12 Income taxes connected to income tax consequences of dividends when a liability to par the dividend is recognized and IAS 23 Borrowing Costs that clarifies any specific borrowing remains outstanding after related assets is ready for use or sale will become part of the fund that an entity borrows generally. These amendments mainly comprise additional guidance and clarification and will have no impact on FMO.

Amendments to IAS 19 – Plan amendment, Curtailment or Settlement
In case of plan amendment, curtailment or settlement, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for remeasurement. Also these amendments include clarification of the effect of plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. This IAS 19 amendment will have a minor impact when a plan amendment occurs.

Amendments to References to the Conceptual Framework in IFRS Standards
On March 28, 2018 IASB presented the revised Conceptual Framework for Financial Reporting. The Conceptual Framework is not a standard itself but can be used as general guidance for transactions/ events where specific IFRS standards are not available. Main improvements in the revised Conceptual Framework contains the introduction of concepts for measurement and presentation & disclosures, guidance for derecognition of assets and liabilities. In addition definitions of an asset & liability and criteria for recognition have been updated. These amendments will have minor impact on FMO.

Estimates and assumptions
In preparing the condensed consolidated interim accounts in conformity with IFRS, management is required to make estimates and assumptions affected reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. The same methods for making estimates and assumptions have been followed in the condensed consolidated interim accounts as were applied in the preparation of FMO's consolidated annual accounts as at December 31, 2017, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 9, which has been described above.

Segment reporting
The operating segments are reported in a manner consistent with internal reporting to FMO's chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board. As of January 2018 FMO has decided to present its operating segments based on servicing unit instead of strategic sector to be more aligned with internal reporting towards the Management Board. The comparative figures have been adjusted accordingly. Reference is made to Note 5 Segment Information for more details on operating segments.

3 Risk developments
For a detailed overview of FMO's risk governance and risk management approach we refer to the section 'Risk Management of FMO's consolidated annual accounts as at December 31,2017. The risk developments in the first half year of 2018 are disclosed below.

3.1 Currency risk
Given FMO's limited appetite for currency risk, all foreign currency exposure (with exclusion of the Private Equity portfolio) is hedged with either commercial counterparties or with TCX through derivative transactions. As a result, recent depreciation of the Turkish Lira (TRY) does not lead to any currency losses regarding the TRY denominated portfolio (exposure of TRY 535 million).

3.2 Country risk

FMO expects economic growth in emerging and developing economies on the near-term. However, there may well be differences among countries, while long-term prospects are uncertain and challenging, as evidenced by recent events in Turkey, where the local currency has shown accelerated depreciation in the first half of August and caused upset in international markets.

Turkey is an important market for FMO. As of June 30, 2018, the exposure including impairments is €376 mln for debt and €52 mln for equity, excluding committed not disbursed and guarantees received. An amount of €99 million of debt is denominated in Turkish Lira (TRY 535 million which is hedged). Exposure is concentrated in Financial Institutions, Energy, Agri-business and Private Equity Funds. FMO has no direct exposure to the sensitive construction industry or real estate. Most clients are prepared for further deterioration of the Turkish currency, however certain clients which were already having difficulties before the strong depreciation may further deteriorate. Intensified monitoring has been initiated.

Although other developing and emerging market currencies (such as the South African Rand, Indonesian Rupiah and Argentina Peso) are also experiencing pressure, these movements tend to be more behaviour driven rather than driven by real economic fundamental links with Turkey. In terms of potential spill-over effects it is worth mentioning that Turkey is an important economic partner of Georgia, a country which is also important for FMO in terms of investments. The Georgian Lari has devalued by around 5.6% versus the USD over the first half of August. Turkey is also an important trading partner for Ukraine, though event-based depreciation of the Hryvnia does not appear so far. FMO has significantly reduced exposure in Azerbaijan following the country's own crisis starting in 2016.

3.3 Concentration of credit risk

Regulatory developments on non-performing exposures

As part of the European Council's action plan to tackle non-performing loans in Europe, the European Banking Authority (EBA) has drafted the "Guidelines on Management of Non-Performing and Forborne Exposures". The Guidelines would require all European institutions (including FMO) with "elevated levels" of non-performing exposures (NPEs), to establish an NPE Strategy. The proposed threshold is a NPE ratio above 5%. FMO's NPE level is currently approximately 6.3%. The Guidelines will be applicable as of January 1, 2019.

FMO already has an extensive system in place to identify and monitor NPEs, which includes annual reviews for all portfolio companies, quarterly Watch-List Meetings for Loans with a reason for concern and a specialized department to manage distressed assets. Some further requirements may apply, such as setting one and three year NPE target levels to reduce the NPL percentage and setting (more explicit) identification and evaluation of medium and long-term NPE strategy options. FMO has taken the necessary measures to close these gaps before December 31, 2018.

Our non-performing loan portfolio (loans at amortized cost and loans at FVPL) decreased and amounts to €282.4 million (2017: €305.1 million). The ratio of non-performing loans compared to our total loan portfolio decreased in the course of 2018 from 6.9% to 6.3% as a result of write-offs and full prepayments of credit impaired assets. Therefore, the coverage ratio (impairments under stage 3 divided by non-performing loans) also decreased from 47% to 40%.

All Interest Bearing Securities (credit quality of AA+ or higher) and Banks (credit quality of BBB- or higher) are classified as Stage 1. An amount of €35 is calculated for the ECL of both asset classes as per June 30, 2018.

The following table shows the credit quality and the exposure to credit risk of the loans to the private sector at amortized cost at June 30, 2018.

Loans to the private sector at amortized cost at June 30, 2018	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	174,226	13,730	-	187,956
F11-F13 (BB-,BB,BB+)	1,558,008	54,119	-	1,612,127
F14-F16 (B-,B,B+)	1,467,132	182,754	418	1,650,304
F17 and lower (CCC+ and lower)	50,076	188,666	161,453	400,195
Sub-total	**3,249,442**	**439,269**	**161,871**	**3,850,582**
Less: amortizable fees	-39,611	-5,951	-1,260	-46,822
Less: ECL allowance	-25,299	-20,927	-77,332	-123,558
Carrying value	**3,184,532**	**412,391**	**83,279**	**3,680,202**

all amounts in EUR x 1,000

IAS 39 loans past due and value adjustments as at December 31, 2017	Loans not value adjusted	Loans value adjusted	Gross exposure	Counterparty specific value adjustment	Total
Loans not past due	4,065,013	28,118	4,093,131	-13,390	4,079,741
Loans past due:					
-Past due up to 30 days	23,429	7,634	31,063	-5,726	25,337
-Past due 30-60 days	19,282	-	19,282	-	19,282
-Past due 60-90 days	-	-	-	-	-
-Past due more than 90 days	4,339	205,438	209,777	-121,758	88,019
Sub-total	**4,112,063**	**241,190**	**4,353,253**	**-140,874**	**4,212,379**
Less: amortizable fees	-46,675	-1,994	-48,669	-	-48,669
Less: group-specific value adjustments	-63,285	-	-63,285	-	-63,285
Carrying value	**4,002,103**	**239,196**	**4,241,299**	**-140,874**	**4,100,425**

The following table shows the credit quality and the exposure to credit risk of the loan commitments at June 30, 2018.

Loans commitments at June 30, 2018	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	3,125	-	-	3,125
F11-F13 (BB-,BB,BB+)	250,838	42,821	-	293,659
F14-F16 (B-,B,B+)	490,323	2,141	-	492,464
F17 and lower (CCC+ and lower)	38,865	23,104	8,850	70,819
Total nominal amount	**783,151**	**68,066**	**8,850**	**860,067**
ECL allowance	-4,487	-1,651	-	-6,138
Total	**778,664**	**66,415**	**8,850**	**853,929**

The following table shows the credit quality and the exposure to credit risk of the financial guarantees at June 30, 2018.

Financial guarantees at June 30, 2018	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	27,405	856	-	28,261
F11-F13 (BB-,BB,BB+)	114,717	38,016	-	152,733
F14-F16 (B-,B,B+)	82,665	15,732	2,088	100,485
F17 and lower (CCC+ and lower)	12,846	-	2,498	15,344
Sub-total	**237,633**	**54,604**	**4,586**	**296,823**
ECL allowance	-886	-150	-1,770	-2,806
Total	**236,747**	**54,454**	**2,816**	**294,017**

4 Capital management

FMO complies with the Basel III requirements and reports its Common Equity Tier 1 ratio to the Dutch central bank on a quarterly basis. At the end of June 2018 the Common Equity Tier 1 ratio increased to 25.8% from 24.6% as per December 2017. This increase was mainly due to improvement in capital position driven by inclusion of H2 profit of 2017 in CET 1 capital in 2018.

	IFRS 9 At June 30, 2018	IAS 39 December 31, 2017
IFRS shareholders' equity	2,961,093	2,822,882
Tier 2 capital	175,000	175,000
Regulatory adjustments:		
-Interim profit not included in CET 1 capital	-123,794	-101,977
-Other adjustments (deducted from CET 1)	-144,603	-153,619
-Other adjustments (deducted from Tier 2)	-60,404	-48,664
Total capital	**2,807,292**	**2,693,622**
Of which Common Equity Tier 1 capital	2,692,696	2,567,286
Risk weighted assets	10,433,182	10,434,768
Total capital ratio	26.9%	25.8%
Common Equity Tier 1 ratio	25.8%	24.6%

Regulatory developments

This section describes the latest insights and regulatory publications that could impact FMO's future capital position in addition to those described on page 92 of the 2017 Annual Report.

On 23 November 2016, the European Commission announced a further package of reforms to CRR, CRD IV, the BRRD and the SRM Regulation (the "EU Banking Reforms"), including measures to increase the resilience of EU institutions and enhance financial stability. The proposals include the requirement to apply a look through for equity investments in funds. In short, investments in Collective Investment Undertakings (CIUs, or Funds) are no longer automatically labelled as 'high risk' with a 150% risk weight. Instead, risk weights will be determined using the look-through approach (LTA) or mandate-based approach (MBA) which requires an institution to look at the funds underlying investments and calculate the risk weights based on funds actual investments and leverage.

There are several criteria which must be fulfilled to be able to use the LTA and MBA. These include (amongst others) the eligibility of a fund to apply the look through, sufficiently granular reporting and independent data verification. Under the current CRR-2 proposals, an important part of FMO's equity investments in funds would not fulfil one of the eligibility criteria to apply the look-through approach (LTA) or mandate-based approach (MBA) as these funds are neither marketed in the European Union, nor managed by managers subject to the AIFM Directive. Consequently, these funds would become subject to a 1,250% risk weight under the fall-back approach. The EU Banking Reforms are still subject to debate and approval at the EU Level as well as implementation and entry into force in the Member States. Furthermore, until the EU Banking Reforms are in final form, it is uncertain how the proposals will ultimately affect FMO.

In March 2018, the Basel Committee published a new consultation on the capital requirements market risk (bcbs 436). Under the proposal, the capital charge is still based on a sensitivity-based approach in which capital charge is currency dependent and correlations between currency pairs are applied. The capital charge will depend on the final new risk weights and the type of liquid currency exposures FMO has after the look-through implementation.

In April 2018, the European Banking Authority (EBA) published a new draft guideline (EBA/CP/2018/03) specifying which types of exposures are to be associated with particularly high risk and under which circumstances. The draft guideline includes the proposal that institutions that apply the standardized approach for credit risk should label exposures with a particular high risk in case these exposures show structural differences that are not reflected in the existing flat risk weights. For FMO this could imply that also other exposures than equity will receive a higher risk weight.

5 Segment information

The Management Board sets performance targets, approves and monitors the budgets prepared by the front office servicing units. These shall therefore perform in accordance with the strategy and targets. Since the Management Board steers the performance based on front office servicing unit, the presentation of operating segments has been changed as of 2018. The operating segments are presented per front office servicing unit instead of strategic sector. The strategic sectors are the sectors in which FMO is active according to its strategic objectives. These have not changed and will be presented as such in FMO's Annual Report. The comparative figures have been adjusted accordingly. In the first half year of 2018 there were no transactions between the operating segments.

FMO presents the results of its operating segments using a financial performance measure called underlying profit. Underlying profit excludes the currency effects of the results from equity investments, since all fair value changes including currency effects are now recorded in the profit and loss account due to the adoption of IFRS 9. FMO therefore believes that the underlying profit is more relevant for understanding FMO's financial performance.

Underlying profit as presented below is an alternative performance measure and not a measure of financial performance under IFRS. A reconciliation of the underlying net profit to the net profit as reported under IFRS is made. For the first half year of 2017 the currency results and the fair value movements of the equity investments were not recorded in the profit and loss account but in the available for sale reserve. Therefore the underlying profit of the first half of 2017 is equal to the profit as recorded under IFRS.

At June 30, 2018	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Interest income	66,452	55,880	31,002	2,573	301	7,149	163,357
Interst expenses	-22,049	-15,797	-6,091	-12,675	-176	-7,409	-64,197
Net fee and commission income	378	793	1,223	-522	-	-123	1,749
Dividend income	-	-	-	13,404	-	-	13,404
Results from equity investments	-	-	-	14,959	-		14,959
Results from financial transactions	-1,096	-2,642	-859	2,598	-	2,558	559
Remuneration for services rendered	2,498	3,759	1,412	4,127	2,437	46	14,279
Other operating income	-	-	-	-	-	726	726
Total underlying income	**46,183**	**41,993**	**26,687**	**24,464**	**2,562**	**2,947**	**144,836**
Operating expenses	-12,864	-11,291	-9,312	-12,120	-3,634	-2,793	-52,014
Total operating expenses	**-12,864**	**-11,291**	**-9,312**	**-12,120**	**-3,634**	**-2,793**	**-52,014**
Impairments on loans and guarantees	1,819	10,047	4,256	-957	39	-63	15,141
Impairment on equity investments and associates	-	-	-	-	-	-	-
Total impairments	**1,819**	**10,047**	**4,256**	**-957**	**39**	**-63**	**15,141**
Profit before results from subsidiaries & associates and taxation	35,138	40,749	21,631	11,387	-1,033	91	107,963
Results from subsidiaries & associates	-	-	-	3,403	-	-	3,403
Taxation	-7,058	-8,185	-4,345	2,840	207	892	-15,649
Underlying net profit	**28,080**	**32,564**	**17,286**	**17,630**	**-826**	**983**	**95,717**
Net currency effect equity investments	-	-	-	28,221	-	-	28,221
Net profit under IFRS	**28,080**	**32,564**	**17,286**	**45,851**	**-826**	**983**	**123,938**

Segment assets at June 30, 2018	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Loans to the private sector	1,803,815	1,538,664	816,922	42,269	16,923	49,261	4,267,854
Equity investments and investments in associates	-	-	-	1,758,706	-	-	1,758,706
Other assets	678,409	578,686	307,242	677,340	6,364	18,527	2,266,568
Total assets	**2,482,224**	**2,117,350**	**1,124,164**	**2,478,315**	**23,287**	**67,788**	**8,293,128**
Contingent liabilities – Effective guarantees issued	97,300	2,088	-	-	-	1,712	101,100
Assets under management (loans and equity investments) managed for the risk of the state	168,537	234,865	104,566	370,472	-	335	878,775

all amounts in EUR x 1,000

At June 30, 2017	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Interest income	67,258	53,210	24,306	1,483	399	8,021	154,677
Interst expenses	-19,242	-12,410	-4,916	-9,630	-131	-5,877	-52,206
Net fee and commission income	770	760	530	103	-	-327	1,836
Dividend income	-	-	-	20,408	-	-	20,408
Results from equity investments	-	-	-	91,909	-	-39	91,870
Results from financial transactions	24	192	2	1,023	-	-344	897
Remuneration for services rendered	2,476	3,586	1,063	4,148	1,648	-528	12,393
Other operating income	317	856	61	-	-	-5	1,229
Total underlying income	**51,603**	**46,194**	**21,046**	**109,444**	**1,916**	**901**	**231,104**
Operating expenses	-12,219	-12,409	-9,690	-10,635	-2,709	-2,286	-49,948
Total operating expenses	**-12,219**	**-12,409**	**-9,690**	**-10,635**	**-2,709**	**-2,286**	**-49,948**
Impairments on loans and guarantees	15,895	-1,562	-96	-4,739	-87	-20	9,391
Impairment on equity investments and associates	-	-	-	-12,141	-	-149	-12,290
Total impairments	**15,895**	**-1,562**	**-96**	**-16,880**	**-87**	**-169**	**-2,899**
Profit before results from subsidiaries & associates and taxation	55,279	32,223	11,260	81,929	-880	-1,554	178,257
Results from subsidiaries & associates	-	-	-	-2,922	-	-40	-2,962
Taxation	-11,112	-6,477	-2,263	-360	177	282	-19,753
Underlying net profit	**44,167**	**25,746**	**8,997**	**78,647**	**-703**	**-1,312**	**155,542**
Currency effect equity investments	-	-	-	-	-	-	-
Net profit under IFRS	**44,167**	**25,746**	**8,997**	**78,647**	**-703**	**-1,312**	**155,542**

Segment assets at June 30, 2017	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Loans to the private sector	1,879,445	1,482,639	773,328	56,059	16,674	-	4,208,145
Equity investments and investments in associates	-	-	-	1,787,478	-	-	1,787,478
Other assets	766,076	604,335	315,215	751,441	6,797	-	2,443,864
Total assets	**2,645,521**	**2,086,974**	**1,088,543**	**2,594,978**	**23,471**	**-**	**8,439,487**
Contingent liabilities – Effective guarantees issued	46,626	3,560	-	-	-	4,381	54,567
Assets under management (loans and equity investments) managed for the risk of the state	147,243	265,280	101,204	411,004	-	-	924,731

6 Financial Instruments

6.1 Accounting classification

The following table shows the carrying amounts of financial assets and financial liabilities.

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

all amounts in EUR x 1,000

At June 30, 2018	FVPL - mandatory	FVPL-designated	Fair value hedging instruments	FVOCI-equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
Financial assets measured at fair value							
Short-term deposits	171,284	1,279,401	-	-	-	-	1,450,685
Derivative financial instruments	164,421	-	63,922	-	-	-	228,343
Loans to the private sector	587,652	-	-	-	-	-	587,652
Equity investments	-	1,458,869	-	85,964	-	-	1,544,833
Total	**923,357**	**2,738,270**	**63,922**	**85,964**	**-**	**-**	**3,811,513**
Financial assets not measured at fair value							
Banks	-	-	-	-	48,525	-	48,525
Interest-bearing securities	-	-	-	-	362,488	-	362,488
Loans to the private sector	-	-	-	-	3,680,202	-	3,680,202
Current accounts with state funds and other programs	-	-	-	-	230	-	230
Current income tax receivables	-	-	-	-	24,047	-	24,047
Other receivables	-	-	-	-	21,687	-	21,687
Accrued income	-	-	-	-	107,127	-	107,127
Total	**-**	**-**	**-**	**-**	**4,244,306**	**-**	**4,244,306**
Financial liabilities measured at fair value							
Derivative financial instruments	213,446	-	1,355	-	-	-	214,801
Total	**213,446**	**-**	**1,355**	**-**	**-**	**-**	**214,801**
Financial liabilities not measured at fair value							
Short-term credits	-	-	-	-	90,166	-	90,166
Debentures and notes	-	-	-	-	1,878,253	3,022,616	4,900,869
Current accounts with state funds and other programs	-	-	-	-	1,729	-	1,729
Other liabilities	-	-	-	-	12,809	-	12,809
Accrued liabilities	-	-	-	-	65,757	-	65,757
Total	**-**	**-**	**-**	**-**	**2,048,714**	**3,022,616**	**5,071,330**

all amounts in EUR x 1,000

IAS 39 December 31, 2017	Held for trading	Designated as at FVPL	Loans and receivables and financial liabilities at amortized cost	Available for sale	Financial liabilities used as hedged items	Fair value hedging instruments	Total
Financial assets measured at fair value							**-**
Short-term deposits	-	1,544,118	-	-	-	-	1,544,118
Interest-bearing securities	-	-	-	362,916	-	-	362,916
Derivative financial instruments	207,372	-	-	-	-	52,030	259,402
Equity investments	-	-	-	1,502,833	-	-	1,502,833
Total	**207,372**	**1,544,118**	**-**	**1,865,749**	**-**	**52,030**	**3,669,269**
Financial assets not measured at fair value							
Banks	-	-	71,763	-	-	-	71,763
Interest-bearing securities	-	-	-	-	-	-	-
Loans to the private sector	-	-	4,139,381	-	-	-	4,139,381
Current accounts with state funds and other programs	-	-	274	-	-	-	274
Current income tax receivables	-	-	7,458	-	-	-	7,458
Other receivables	-	-	120,713	-	-	-	120,713
Accrued income	-	-	83,136	-	-	-	83,136
Total	**-**	**-**	**4,422,725**	**-**	**-**	**-**	**4,422,725**
Financial liabilities measured at fair value							
Derivative financial instruments	142,512	-	-	-	-	4,912	147,424
Total	**142,512**	**-**	**-**	**-**	**-**	**4,912**	**147,424**
Financial liabilities not measured at fair value							
Short-term credits	-	-	125,935	-	-	-	125,935
Debentures and notes	-	-	2,588,358	-	2,512,930	-	5,101,288
Current accounts with state funds and other programs	-	-	182	-	-	-	182
Other liabilities	-	-	5,039	-	-	-	5,039
Accrued liabilities	-	-	56,721	-	-	-	56,721
Total	**-**	**-**	**2,776,235**	**-**	**2,512,930**	**-**	**5,289,165**

6.2 Fair values

Fair value hierarchy

All financial instruments for which fair value is recognized or disclosed are categorized within the fair value hierarchy, based on lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable.

Valuation processes

For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, FMO uses the valuation processes to decide its valuation policies and procedures and analyze changes in fair value measurement from period to period.

all amounts in EUR x 1,000

FMO's fair value methodology and governance over it's methods includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. The responsibility of ongoing measurement resides with the relevant departments. Once submitted, fair value estimates are also reviewed and challenged by the Investment Risk Committee (IRC). The IRC approves the fair values measured including the valuation techniques and other significant input parameters used.

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

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

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

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

Investments are measured at fair value when a quoted market price in an active market is available or when fair value can be estimated reliably by using a valuation technique. The main part of the fair value measurement related to investments (level 3) is based on net asset values of investment funds as reported by the fund manager and are based on advanced valuation methods and practices. When available, these fund managers value the underlying investments based on quoted prices, if not available multiples are applied as input for the valuation.

FMO uses internal valuation models to value its OTC derivative financial instruments. Due to model imperfections, there are differences between the transaction price and the calculated fair value. These differences are not recorded in the profit and loss at once but are amortized over the remaining maturity of the transactions. Per June 30, 2018, the unamortized accrual amounts to €15,740 (December 31, 2017: €18,479). An amount of €2,446 was recorded as an expense in the profit and loss (December 31, 2017: €6,193).

The table below presents the carrying value and estimated fair value of FMO's non fair value financial assets and liabilities.

The carrying values in the financial asset and liability categories are valued at amortized cost except for the funding in connection with hedge accounting. The underlying changes to fair value of these assets and liabilities are therefore not recognized in the balance sheet.

Non fair value financial assets-liabilities	IFRS 9 June 30, 2018 Carrying value	Fair value	IAS 39 December 31, 2017 Carrying value	Fair value
Banks	48,525	48,525	71,763	71,763
Interest-bearing securities	362,488	359,476	-	-
Loans to the private sector at AC	3,680,202	3,700,048	4,139,381	4,215,472
Total non fair value financial assets	**4,091,215**	**4,108,049**	**4,211,144**	**4,287,235**
Short-term credits	90,166	90,166	125,935	125,935
Debentures and notes	4,900,869	4,833,390	5,101,288	5,112,707
Total non fair value financial liabilities	**4,991,035**	**4,923,556**	**5,227,223**	**5,238,642**

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

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

IFRS 9 June 30, 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
-Short-term deposits	-	1,450,685	-	1,450,685
-Derivative financial instruments	-	225,774	2,569	228,343
-Loans to the private sector at FVPL	17,044	-	570,608	587,652
-Equity investments	24,938	-	1,433,931	1,458,869
Financial assets at fair value through other comprehensive income				
-Equity investments	-	-	85,964	85,964
Total financial assets at fair value	**41,982**	**1,676,459**	**2,093,072**	**3,811,513**
Financial liabilities at fair value through profit or loss				
-Derivative financial instruments	-	214,801	-	214,801
Total financial liabilities at fair value	**-**	**214,801**	**-**	**214,801**

IAS 39 December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
-Short-term deposits	-	1,544,118	-	1,544,118
-Derivative financial instruments	-	255,492	3,910	259,402
Available for sale financial assets				
-Equity investments	36,488	-	1,466,345	1,502,833
-Interest-bearing securities	362,916	-	-	362,916
Total financial assets at fair value	**399,404**	**1,799,610**	**1,470,255**	**3,669,269**
Financial liabilities at fair value through profit or loss				
-Derivative financial instruments	-	147,424	-	147,424
Total financial liabilities at fair value	**-**	**147,424**	**-**	**147,424**

all amounts in EUR x 1,000

Movements in financial instruments measured at fair value based on level 3	Derivative financial instruments	Loans to the private sector	Equity investments	Total
Balance at January 1, 2017	5,653	-	1,650,681	1,656,334
Total gains or losses				
-In profit and loss (changes in fair value and value adjustments)	-1,743	-	-46,919	-48,662
-In other comprehensive income (changes in fair value available for sale reserve)	-	-	-145,400	-145,400
Purchases	-	-	188,369	188,369
Sales	-	-	-180,386	-180,386
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
Balance at December 31, 2017 as previously reported	**3,910**	**-**	**1,466,345**	**1,470,255**
Adjustments from adoption of IFRS 9 (net of tax)	-3,176	599,373	430	596,627
Restated balance at January 1, 2018	**734**	**599,373**	**1,466,775**	**2,066,882**
Total gains or losses				
-In profit and loss (changes in fair value and value adjustments)	1,835	-7,951	-462	-6,578
-In other comprehensive income (changes in fair value reserve)	-	-	8,166	8,166
Purchases/disbursements	-	12,741	114,759	127,500
Sales/repayments	-	-47,114	-68,067	-115,181
Write-offs	-	-	-1,276	-1,276
Exchange rate differences	-	13,559	-	13,559
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
Balance at June 30, 2018	**2,569**	**570,608**	**1,519,895**	**2,093,072**

all amounts in EUR x 1,000

Valuation techniques and unobservable inputs used measuring fair value of debt instruments

Type of equity investment	Fair value at June 30, 2018	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Loans	98,116	DCF	Based on discounted cash flows	A decrease/increase of the used unobservable data with 10% will result in a lower/ higher fair value of €10 million.
			Based on client spread	A decrease/increase of the used spreads with 1% will result is a higher/lower fair value of €5 million
	258,159	Compared to ECL level	Based on ECL measurement	An improvement / deterioration of the Client Rating with 1 notch will result 1% increase/decrease
	22,277	Compared to credit impaired level	Based on specific credit impairments	An increase/decrease of the specific impairment with 10% will result a lower/higer value of €6 million
Embedded derivatives	1,113	Black and Scholes	EBITDA multiples within a range of 6-8 for the relevant industry classes per country/ region, adjusted for illiquidity	An increase/decrease by 10% of these EBITDA multiples would have minimum to zero impact as a result of the decline in value
Debt Funds	190,943	Net Asset Value	n/a	n/a
Total	**570,608**			

all amounts in EUR x 1,000

Valuation techniques and unobservable inputs used measuring fair value of equity investments

Type of equity investment	Fair value at June 30, 2018	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Private equity fund investments	875,688	Net Asset Value	n/a	n/a
Private equity direct investments	55,986	Recent transactions	Based on at arm's length recent transactions	n/a
	285,528	Book multiples	0.8 – 2.5	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of €29 million.
	187,365	Earning Multiples	Depends on several unobservable data such as EBITDA multiples (range 5 - 16)	A decrease/increase of the used unobservable data with 10% will result in a lower/ higher fair value of €19 million.
	39,539	Discounted Cash Flow (DCF)	Based on discounted cash flows	A decrease/increase of the used unobservable data with 10% will result in a lower/ higher fair value of €4 million.
	50,752	Put option based on guaranteed floor	The guaranteed floor depends on several unobservable data such as IRR, EBITDA multiples, book multiples and Libor rates	A decrease/increase of the used unobservable data with 10% will result in a lower/ higher fair value of €5 million.
	25,037	Firm offers	1.0 - 1.4	n/a
Total	**1,519,895**			

7 Commitments and contingent liabilities

During the first half year of 2018 the irrevocable facilities decreased mainly as a result of disbursements and lower production of new contracts.

	IFRS 9 June 30, 2018	IAS 39 December 31, 2017
Contingent liabilities		
Effective guarantees issued	101,100	68,129
Less: provisions, amortized costs and obligations for guarantees (presented under other liabilities)	-2,157	-3,108
Total contingent liabilities	**98,943**	**65,021**
Guarantees received		
Effective guarantees received	194,525	175,042
Total guarantees received	**194,525**	**175,042**

8 Debentures and notes

Debentures and notes decreased with €200 million to €4.9 billion (December 31, 2017: €5.1 billion). During the first half of 2018 an amount of €295 million was issued and €495 million was redeemed.

9 Results from equity investments

In the first six months our results from equity investments decreased with €48 million to €44 million (2017: €92 million). The higher results in 2017 were predominantly driven by two private equity investment exits. Due to the application of IFRS 9 this year the results from equity investments now include the fair value changes of the equity investments including currency effects. The results on the sale of equity investments in the first half of 2018 were €8 million negative.

10 Dividends

In the General Meeting of Shareholders in May 2018 the proposal for appropriation of profit 2017 was approved. The distributable amount of the net profit amounts to €5.6 million which has been fully distributed as cash dividend.

Due to the IFRS 9 accounting change the available for sale reserve has been reclassified to retained earnings as per January 1, 2018. The reserve will no longer be recycled to the P&L. In order to compensate the shareholders for potential loss of future dividends, an additional amount of €8.5 million has been distributed.

11 Income tax

Income tax of €16 million decreased compared to 2017 due to lower profit before tax whilst the average weighted annual rate of 12.5% increased (first half year 2017: 11.5%). The higher tax rate is mainly due to lower results from equity investments for which participation exemption is applicable.

Current income tax receivables amount to €24 million (December 31, 2017: €7.5 million) and is mainly related to payments to tax authorities.

12 Events after the end of the reporting period

In the first half of August 2018 the local Turkish currency has shown accelerated depreciation and caused upset in international markets. For more details we refer to section 3.2 Country risk. This event has no impact on the figures as per June 30, 2018.

13 Related parties

FMO defines the Dutch State, subsidiaries, associated companies, the Management Board and Supervisory Board as related parties. This is in line with the Annual Report 2017.

In the first half of 2018 two loans have been transferred at arm's length from the State Funds (MASSIF and AEF) to FMO.

REVIEW REPORT

To: the Management Board of Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V.

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., The Hague, which comprises the consolidated balance sheet as at 30 June 2018, the consolidated profit and loss account, consolidated statement of comprehensive income, condensed statement of changes in shareholder's equity and consolidated statement of cash flows for the 6-month period then ended 30 June 2018, and the notes, comprising a summary of the significant accounting policies and other explanatory information.

Management Board is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information for the 6-month period ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 7 September 2018

Ernst & Young Accountants LLP

Signed by N.Z.A. Ahmed-Karim

LIST OF ABBREVIATIONS

AC	Amortized cost
AFS	Available for sale
AIFMD	Alternative Investment Fund Managers Directive
BRRD	Bank Recovery and Resolution Directive
CEO	Chief executive Officer
CET-1	Comment Equity Tier 1
CIO	Chief Investment Officer
CIU	Collective Investment Undertakings
CRD	Capital Requirements Directive
CRFO	Chief Risk and Finance Officer
CRR	Capital Requirements Regulation
CTI	Cost to income
C&M	Classification and measurement
EAD	Exposure at default
EBA	European Banking Authority
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
ECL	Expected Credit Loss
EU	European Union
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
FX	Foreign exchange
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GHG	Greenhouse gas
IAS	International Accounting Standards
IASB	International Accounting and Standards Board
IFRS	International Financial Reporting Standards
LCR	Liquidity Coverage Ratio
LGD	Loss given default
LTA	Look-through approach
L&R	Loans and receivables
MBA	Mandate-based approach
NAV	Net Asset Value
NPL	Non performing loans
NPE	Non performing exposures
OCI	Other comprehensive income
PD	Probability of default
SDG	Sustainable Development Goals
SPPI	Solely payments of principal and interest
SRM	Single Resolution Mechanism
USD	US dollar
tCO_2eq	1 tonne of CO_2 equivalent

ADDITIONAL INFORMATION

CONTACT INFORMATION

For copies of FMO publications contact
FMO N.V.

Mailing address
2509 AB The Hague
The Netherlands
P.O.Box 93060

Street address
Anna van Saksenlaan 71
2593 HW The Hague
The Netherlands

Contact details
E info@fmo.nl
W www.fmo.nl
T +31 (0)70 314 9696

COLOPHON

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REPORTING SCOPE

This interim report covers activities that took place or had effect on the first six months of 2018.

FMO publishes its integrated annual report in April. This report is audited by the external auditor. Please read the 2017 auditor's report for detailed information on the scope and result of their work. Previous reports are available on www.fmo.nl or via https://annualreport.fmo.nl.