FMO

Entrepreneurial
Development
Bank

INFRASTRUCTURE DEVELOPMENT FUND

Annual report

2016

FMO manages the **Infrastructure Development Fund** on behalf of the Dutch government.

Government of the Netherlands

FMO has a dedicated department – Public Investment Management (PIM) – for the management of government and public funds, consisting of MASSIF, the Infrastructure Development Fund (IDF), and the Access to Energy Fund (AEF). The total committed portfolio of these funds amounts to EUR 1,212.1 million as per December 31, 2016.

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

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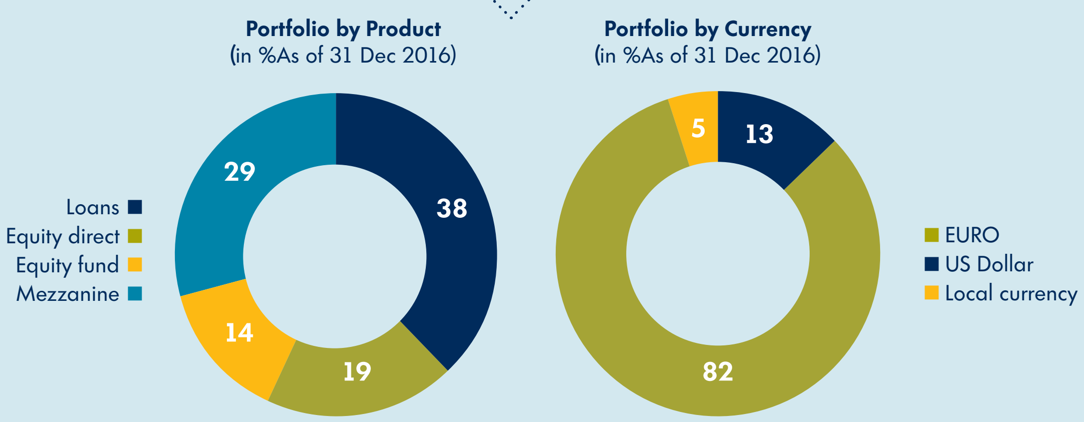
AT A GLANCE

"The Dutch Ministry of Foreign Affairs and FMO established Infrastructure Development Fund (IDF) in 2002 to support private investments in infrastructures in developing countries. IDF is a critical enabler of transformation, focusing countries' development paths on greater sustainability by enabling social and economic growth. By acting as first mover and by offering risk capital to make projects bankable, IDF catalyzes private parties that are willing to invest at financial close or at a later stage. The IDF finances infrastructure projects that can make a significant impact on socio-economic development in developing countries."

Achievements of the Infrastructure Development Fund

contribution by government

€311.5 million



62
Investments

€2.2 bln
Public finance catalyzed

€1.4 bln
Commercial finance catalyzed

34.1 mln
Beneficiaries reached

40,853
Direct jobs supported

1.2 mln
Indirect jobs supported

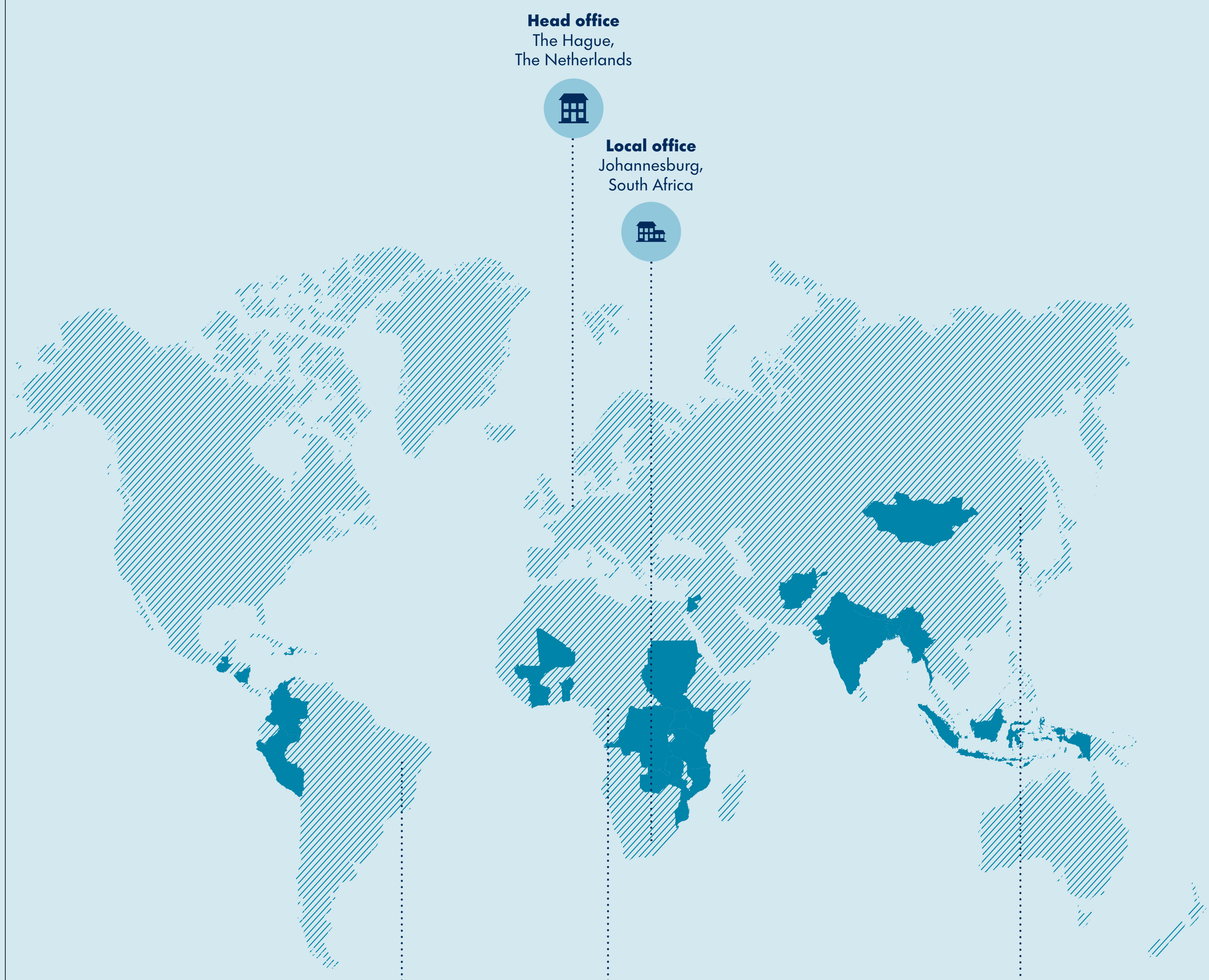
9,683
Direct jobs supported women

539,718
Indirect jobs supported women

805 MW
installed Capacity

8.8 mt CO_2eq
Current annual GHG Avoidance

2016 Committed Portfolio by Region



Total committed portfolio by region (×€mln)

Non-specific region	Latin America & the Caribbean	Africa	Asia
€32.5 mln	€44.5 mln	€325.7 mln	€121.9 mln

Total committed portfolio 2016

€524.5 million

LETTER FROM THE FUND MANAGER

Dear Stakeholder,

The Infrastructure Development Fund Management is pleased to present the IDF results for 2016. Throughout the year, we continued to focus on further strengthening the Infrastructure Development Fund (IDF) portfolio. We have renewed the layout of the Annual Report and hope that this will give you a better sense of the inspiring projects financed by IDF.

After 2015's final sprint, when a record number of commitments were closed in December, the year 2016 showed a very high disbursement level of almost EUR 77mln (vs EUR 47mln in 2015), related to infrastructure projects predominantly in Africa and Asia. The high disbursement level goes hand in hand with challenges in liquidity management. Thanks to the 10% overdraft facility with FMO that can be called upon in case of temporary liquidity shortages, IDF can continue to maximize its commitments.

In 2016, we increased the focus on blended structures in which IDF and FMO funding were used. For cases presented with a mix of FMO and IDF-funding, we determined which particular part of the risk did not fit in the FMO-A risk profile and tried to mitigate that risk by investing IDF only in this particular risk portion. By focusing on the minimum amount of IDF necessary to catalyze FMO into a project, we can maximize IDF's catalyzing impact.

The first blending example was a solar project in Jordan in the Al Mafraq region. The transaction was declined for FMO's own book due to the long tenor of 19 years, as 18 years is the maximum tenor allowed for FMO. IDF was used to finance the last year, resulting in an investment amount of EUR 0.6mln from IDF whilst catalyzing USD 12mln FMO into the project. This structure makes it possible for FMO-A to become an active player in the Jordan Solar energy market. In 2017, we expect to add a few other projects in Jordan Solar Energy, a country and sector that is currently highly relevant to both the Minister of Foreign Affairs because of the Migrant Agenda, and to the IDF portfolio, because of the blending aspect.

Starting in 2015, FMO's energy team has actively worked on financing a thermal power plant in Sierra Leone. Not being a renewable energy project, but located in a Low Income (post-Ebola) Country in Africa, the project had been presented to the Minister for approval to finance with IDF. The project was declined earlier for FMO-A due to the lack of a strong strategic investor. With the approval of the Minister, the energy team continued working on this project. Just before signing, a strategic investor stepped in which made the project feasible for funding by FMO and the contract was closed accordingly. Fund Management considers this an important contribution of IDF: enabling this project by supporting it during the structuring phase.

Inherent to the high-risk character of IDF, each year transactions may end up in default. In 2016, two new Non-Performing Loans (Green Resources and Usher Agro) were added to the portfolio as well as the complete write-off and exit of the investment in Africa Railways. During the fourth quarter of -2016, it became clear that Green Resources and Usher Agro experienced severe liquidity shortages. The first project suffered from weak management while in the second the client withheld important information from FMO. FMO's Problem Loan team has assumed control of these 2 projects, and is working hard to bring them to an optimal solution.

On the bright side, 2016 also saw the successful restructuring of the two Non-Performing loans for Kenmare Resources and KivuWatt, which have had a positive impact on IDF's overall performance.

All in all, at the year end of 2016 the revolvability of IDF, representing the total net value of all IDF's assets vis-à-vis the total funding that the Ministry has invested in IDF has improved to 94.9% from 85.6% in Dec 2015.

The impact results up to December 2016 for IDF are:
1. Total financing catalyzed (both DFI and commercial financing) is EUR 3.6 bln (target: EUR 3.1 bln).
2. Total number of direct jobs supported through IDF financings is 39,509 (target: 104,584); and
3. Total number of people currently served by infrastructure services is estimated to be 34.1 mln (target: 105mln).

Some of the impact results are falling behind target, which can partially be explained by changes in above definitions and the methods how to calculate them. Our focus is still to catalyze more senior financiers into all transactions, even though we have already reached the catalyzed target. In terms of number of direct jobs supported and people served by the infrastructure, the underlying definitions are subject to change, and may have moved away from definitions used when targets were set. For example under the old definition the KivuWatt project showed a number of people reached of 6 million whereas only 2 million people in Rwanda have access to energy. The new definition shows a number of the people reached of 782,591. Moreover, the sector focus is subject to change which also has an impact on number of people reached. For example, the telecom sector has a quick access to a high number of people. Telecom is no longer a big focus sector for IDF because the sector attracts high interest from other investors. Financing an agriculture company on the other hand will reach a smaller number of people. Lastly, the number of jobs created in infrastructure projects is usually highest during the construction phase, while the latest definition calculates only direct long-term jobs supported.

IDF remains a highly relevant and impactful policy instrument. Looking ahead, IDF will continue to support the development of infrastructure, while focusing on mitigating climate impact and on inclusion of individuals at the base of the pyramid. On behalf of FMO, IDF Fund Management would like to express sincere thanks to the Ministry of Foreign Affairs who have supported IDF in the past and who contribute to achieving the goals that IDF was set up for.

Floor van Oppen
Fund Manager IDF

OUR STRATEGY

Sector Strategy

While sector diversification remains important, our focus for the next years will be on smaller tranches and blending the Infrastructure Development Fund (IDF) to maximize the catalyzing impact. Smaller tranches are necessary to protect the Fund against large deviations in the provisioning and to achieve diversification and risk mitigation.

Investment Themes

Infrastructure

Over the past two years, FMO's Infrastructure Department (IMS) has brought some interesting projects to the IDF portfolio, including an inland port in Bangladesh that will replace transport by diesel trucks to ships / containers. River haulage will reduce the annual GHG emission by two thirds. Another IMS investment concerns a roll-out of telecom towers in Myanmar. And IMS has also used IDF to invest in a green bus project in Colombia.

Energy

The most recent energy investments financed by IDF have been a good fit with the priority agenda of the Ministry of Foreign Affairs. They include an equity investment in a clean cooking company, which can be considered as an inclusive business model with a high gender impact. There are also two projects in Jordan where IDF financing has catalyzed FMO-A into the deal financing the tail end (6 months) of the transaction that was beyond the maximum FMO-A investment tenor (18 years). Furthermore, several off-grid energy development projects have been added to the IDF portfolio. A key issue with off-grid projects is that these require early stage/ development equity while there is a high risk of write-offs, which is challenging in light of the 100% revolvability-criterion for IDF. Furthermore, the bottom of the pyramid being on the political agenda leads to high liquidity from among others donor/impact investor community creating a potential valuation bubble. In 2017, we will continue to look for project development and off-grid energy projects, as well as blending structures that have a high catalytic result.

Forestry

The mandate of IDF includes forestry projects. Forestry projects have a high development impact: as CO_2 reduction is higher than with renewable energy projects and there is a high social/inclusive impact through community development projects in rural areas and employment creation. The investments in forestry need to have long tenors, with back-ended cash flows. There are only a few Development Finance Institution (DFI) investors in this market and no institutional investors, as there is a perceived high risk. FMO has been developing several forestry projects. As this is a new sector for FMO there is limited track record. When we use IDF to take the first steps into this high impact area, we can catalyze / blend FMO-A at a later stage to move into Forestry. We see this as a key objective of the IDF for 2017.

Inclusive Investments

IDF, with its focus on access to energy as well as physical and social infrastructure for individuals at the base of the pyramid (BOP), underpins FMO's inclusive strategy. Next to FMO's economic and green ambitions, FMO is supporting companies that offer products and services for the BOP. The market for such goods and services has remained underdeveloped within our markets. New technologies and business models, however, increasingly hold the promise of lowering the production and delivery costs for these essential products. FMO can play a role in both incubating and scaling such opportunities. FMO's government funds, with their mandate to take higher risks, play an essential role in financing new ideas and early stage endeavors. As soon as inclusive businesses financed by IDF reach sustainability and a demonstrated inclusive outreach, FMO-A funding can support them with further growth funding.

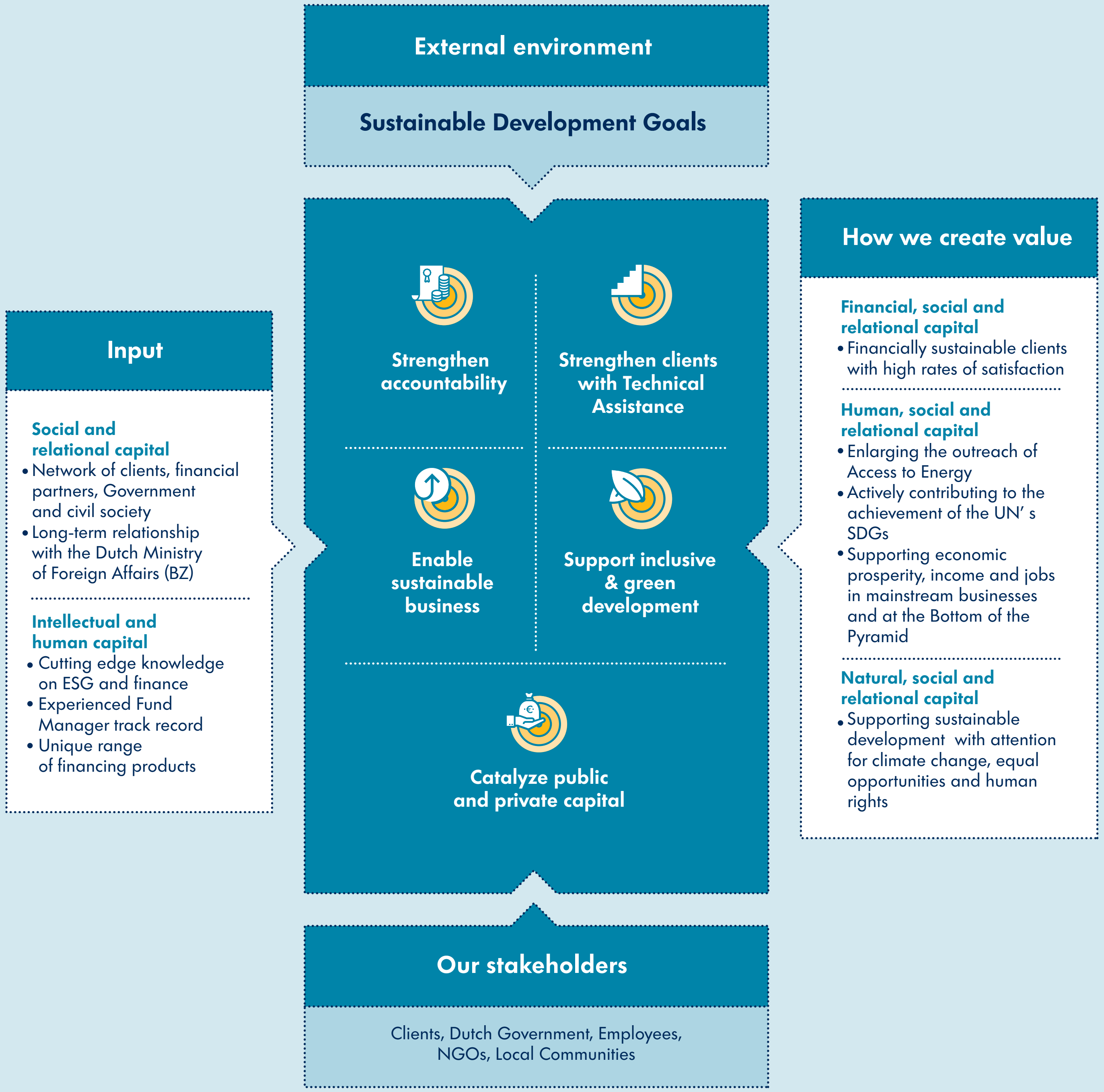
OUR BUSINESS MODEL

The visual shows how the Infrastructure Development Fund creates value for its stakeholders, by steering on the strategic priorities that we set and making use of the various financial and non-financial capitals (inputs) that we control.

Our partners allow us to increase our impact beyond our own financial means.

Our key inputs
We have cutting edge knowledge of ESG and commercial finance in developing countries, as is illustrated by our solid track-record as a Fund Manager. This strength is supported by an internal culture that is typified by a drive to fulfil our mission and the willingness to take risks, yet balanced by a strong risk awareness. Our employees exemplify our corporate values: engaged, excellence, cooperation and making a difference.

Our networks are a crucial part of our business model. These are networks of clients, financial partners as well as knowledge partners. Our financial partners are other development finance institutions, commercial investors and banks, as well as governments. These partners are central to our approach to business, as they leverage our own capital and in that way allow us to increase our impact beyond our own financial means. Our knowledge partners facilitate the transfer of best-practice knowledge to our clients.



OUR INVESTMENT PROCESS

The diagram illustrates the sequence of process steps that we follow to create value on the individual project level.

We strive to create sustainable impact in developing countries. To support our efforts in this area, we have a framework in place – the FMO Sustainability Policy Universe – consisting of policies and tools that guide our behavior and way of working. This integrated approach, which ensures sustainability is at the heart of our operations, is aligned with the Sustainable Development Goals.

Applicable investment policies, guidelines and tools

For stage: 1, 2 and 3
- Sustainability Policy
- Country selection
- Investment criteria
- Exclusion List
- Position statement on Responsible Tax
- Know Your Customer policy
- Anti-bribery & Corruption

For stage 4
- Disclosure policy including early-disclosure of potential investments
- Active stakeholder engagement
- Complaints mechanism

For stage 5 and 6
- Capacity development program
- Board participation (through private equity investments)
- Exchange programs and network events
- ESG masterclass, toolkits
- Disclosure
- Complaints mechanism

1 Sourcing

We identify potential opportunities through a deep-rooted network in developing countries.

Our initial assessment focuses on factors as country, investment plan, development impact and our role as financier. Increasingly, we steer our investments towards projects that foster a transition to a more inclusive and greener economy.

2 Screening

If the financing opportunity meets our investment criteria, we continue to analyze potential risks and challenges.

To ensure that the client complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations, we conduct a Know-Your-Customer assessment. Furthermore, we categorize the project based on its potential effects on environmental, social and human rights conditions, as well as governance structures benchmarked against the IFC Performance Standards.

3 Due diligence

To fully understand and map the risks and opportunities, we conduct thorough due-diligence including on-the-ground research through local visits.

We visit the client and local stakeholders to discuss in detail the impact of the Fund's financing, their business, and environmental, social and human rights risks. We also analyse the client's tax practices and policies. Our tax department provides expert advice where needed. If we identify gaps in meeting international standards or policies, we develop an action plan to mitigate and manage any of the identified risks and promote positive development in these areas.

4 Stakeholder engagement

In addition to regular meetings and dialogue sessions with our main stakeholders, we also give stakeholders the opportunity to provide input for our decision-making on new transactions with a high environmental or social risk profile.

In 2016, we started to disclose the potential investment online to ensure that we have not overlooked any important concerns. From identification to implementation, we consult key stakeholders to properly assess, monitor and manage the impacts of the project.

5 Contracting

For each investment, we have assessed the environmental, social and governance risks, identified where improvements can be made, and established action plans for further development.

After internal approval, we sign an agreement with our clients to ensure that our requirements and conditions are legally binding. We disclose our investments on our website after contracting.

6 Monitoring and value creation

Throughout the lifetime of the investment, we monitor our client's financial performance as well as progress on the environmental, social and governance requirements.

We receive annual or more frequent financial reports, conduct assessments (including ESG reviews) with the help of local consultants and pay regular visits. If necessary, we support our clients with capacity development and technical assistance to improve their business and identify new opportunities.

IDF AND PRIVATE SECTOR DEVELOPMENT

Public Funds are a powerful foreign policy instrument, which can contribute to the development and growth of local economies in emerging markets, where stable funding sources are scarce and the risk appetite of local commercial investors is limited.

We aim to support and develop early stage businesses and businesses in high-risk markets

The Infrastructure Development Fund (IDF) provides long-term financing for infrastructure projects in low-income countries by being a first mover or by offering risk capital to make projects bankable. IDF has a clear additional effect by attracting commercial parties and making them willing to invest at financial close or at a later stage. The enhanced risk taking profile focusing on early stage business development, will also contribute to the catalytic role of Government funds.

Private Sector Development and Blended Finance

FMO manages several Private Sector Development (PSD) programs on behalf of the Dutch Government. IDF is one of these funds each investing in higher-risk projects.

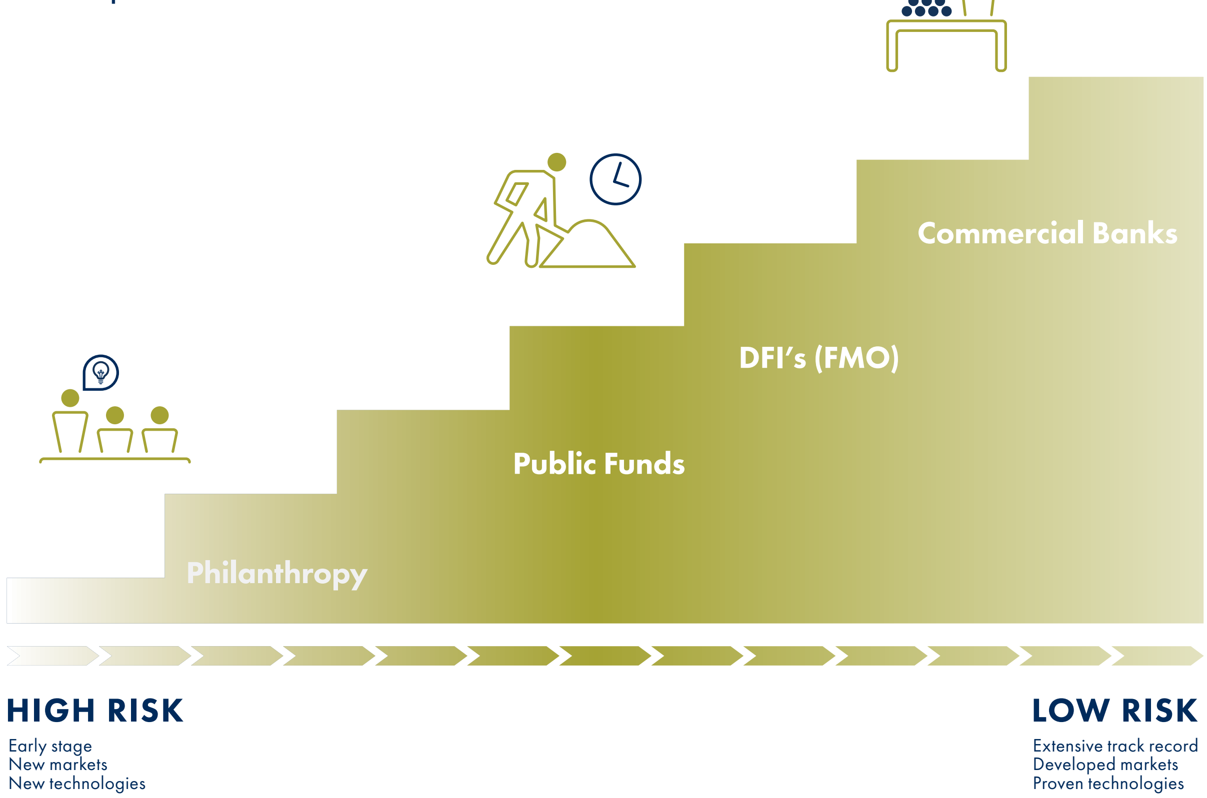
IDF contributes to developing and strengthening the financial infrastructure in developing countries to better serve entrepreneurs and consumers at the lower end of the financial market and the Access to Energy Fund (AEF) supports private sector projects that create sustainable access to energy services in Sub-Saharan Africa. The Funds[1] have a longstanding record of catalyzing other investors, for example by providing a junior tranche, longer tenor, or local currency loan. In addition, the Funds' financing and technical assistance is aimed at growing and strengthening organizations in order to finally graduate them out of the IDF portfolio to other market parties.

1 Please note that FMO also manages FOM (a government guarantee facility), FOM-OS (a government fund, of which the investment period has ended), PDF (FMO's Partnership Development Facility), and BCD (FMO's capacity development program for FMO-A clients) on behalf of the Dutch government. FMO also oversees FMO Investment Management (FIM), which manages third party funds. None of these funds are

Through its blended finance approach, FMO aims to support and develop early stage businesses and businesses in high-risk markets by providing (public) funding and advisory services (such as Capacity Development, Technical Assistance, Corporate Governance, Environment & Social). This approach applies to both FMO-A and the State Funds. The main purpose of blended finance is to enable financing of projects with a high development impact by carrying a risk that is too high for international financial institutions (IFIs) and/or commercial financiers.

Public funds such as IDF can play an important role in private sector development of high risk markets that otherwise would not be served. The blended finance approach can thus de-risk transactions for FMO and other IFIs, as well as play an important role in crowding in commercial and impact investors into higher risk markets. By filling the gap between more philanthropic and grant-based money flows and development and commercial banks, public funds can be highly additional to markets, and contribute to the development and growth of local economies in emerging markets where stable funding's sources are scarce and the risk appetite of local commercial investors is limited.

Private sector development and FMO's public funds



Advanced and innovative: the Dutch approach works

On behalf of our investor:
The Ministry of Foreign Affairs

The Dutch aid and trade agenda entails an advanced and innovative approach on strengthening the economies of developing countries. Confidently we can tell the world that our approach works. Sustainable, inclusive economic development is an indispensable part of efforts to combat poverty and improve global living conditions. The Netherlands is pursuing these goals by working with a range of partners. We collaborate with developing countries' governments to improve the business climate. We work with businesses to increase opportunities for long-term employment and entrepreneurship, and with civil society organisations to promote compliance with labour standards.

Thanks to our bold, innovative approach, the Netherlands plays a leading role in strengthening the economies of developing countries. As a former Dutch ambassador to Ghana, I have had considerable experience with the Dutch approach to sustainable economic development and thereby encountered that the Dutch efforts bear fruit. With my own eyes I have seen the added value of cooperation between the Dutch government and local businesses.

To make sustainable development a success, it is crucial to create conditions which will benefit sustainable economic activity. The Infrastructure Development Fund (IDF) contributes to economic development by encouraging private sector participation and corporate social responsibility in infrastructure projects. The availability of reliable, high-quality infrastructure paves the way for countries to promote economic activity. This has a positive effect on employment and offers lasting prospects to those who were previously sidelined.

Since it was established in 2002, the IDF has positioned itself as a key player when it comes to generating impact in the field of infrastructure. Thanks to the IDF, long-term private investments are being made which are crucial to the success of infrastructure projects. This works because the IDF invests in projects early on, bearing the largest risk and making it more appealing for commercial parties to step in. One example is a solar energy project in Mafraq in Jordan, which the IDF made possible by making a comparatively small investment which leveraged much greater private funding. The result was a major contribution to improving access to sustainable energy for small businesses and the people of Mafraq.

The Ministry of Foreign Affairs applauds the results achieved by the IDF. The fund provides yet another clear example of how well the aid and trade agenda works. Nevertheless, globally we still have a long way to go in creating infrastructure to ensure inclusive development. Looking at the results achieved, I see a special role for initiatives like the IDF in making a difference in this field, now and in the future.

That is how we are working together to create a global economy that works for everyone.

Hans Docter
Director for Sustainable Economic Development
at the Netherlands Ministry of Foreign Affairs

IDF AND THE SUSTAINABLE DEVELOPMENT GOALS

On 1 January 2016, the 17 United Nations Sustainable Development Goals officially came into force. The Sustainable Development Goals (SDGs) call for action by all countries and parties – government, civil society and the private sector – e.g. to end extreme poverty, reduce inequality and tackle climate change by 2030. The SDGs are increasingly supported by businesses, governments, non-governmental organizations and the general public, and hence align efforts towards achieving these common goals.

Stakeholder needs
TThe SDGs provide a framework for different stakeholder groups to align and prioritize impact objectives. Our stakeholders consistently indicate the importance of reducing inequality, with particular attention for improving gender equality, and combatting climate change. The Dutch government is actively implementing the SDGs into its agenda, and the financial sector as a whole is also increasingly endorsing the SDGs. At the Global Impact Investing Network, held in Amsterdam in December 2016, FMO and 17 other Dutch financial institutions, collectively managing over €2.8 trillion in assets, invited the Dutch government and Dutch Central Bank to continue to make a concerted effort with them in support of the United Nations Sustainable Development Goals. The initiative is the first in the world to bring together national pension funds, insurance firms, and banks around a shared SDG investment agenda.

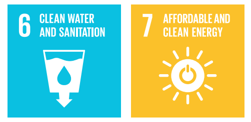
Achieving the SDGs through Infrastructure Development
Through its mission and activities, IDF contributes directly and indirectly to the achievement of the UN's Sustainable Development Goals. IDF provides long term financing to infrastructure companies and project in developing countries and work with them to grow their success in a financially, environmentally and socially sustainable way. Infrastructure sector is crucial to uplift livelihood at the bottom of the Pyramid, serving as the foundation of economic system that allows diverse businesses to flourish. Although not always labour-intensive, the infrastructure sector indirectly affects numerous people, due to its instrumental role on the economy activity. The infrastructure space is diversified, comprising of energy production and distribution facilities, agriculture infrastructures, toll road, bridges, and data centres.
Development of Infrastructure in emerging economies has proven to be a key determinant for the achievement of the UN's Sustainable Development Goals. While the SDGs do not explicitly target infrastructure development, the sector is a key enabler for many of them.

- Infrastructure development enhances connectivity of (at times rural and poor) population through telecom network, immobile infrastructure, mobile infrastructure and social infrastructure.
- Also, Infrastructure Development contributes to stable and cheaper energy supply, reducing the energy-expenditure of households and ultimately uplifting the disposable income.
- Infrastructure Development facilitates the first SDG: eliminating extreme poverty.

- By financing Agricultural Infrastructures IDF can enable farmers to produce more and to reduce post-harvest losses, leading to further progress on the second SDG: reducing hunger.

- IDF aims at improving the state of affairs of poor which benefit of infrastructure development to engage with the formal economy or to increase the outreach of their products.
- IDF is key to promoting the SDG 5&10: Gender Equality and Reduced Inequality.

- IDF provides long term financing for the construction and development of energy infrastructure based on renewable feeds and for construction of water projects. The broad scope of the funds comprises power plant, facilities complementary to the energetic value chain and a drinking water plant.
- IDF effectively addresses SDG 6 & 7: Clean Water and Sanitation and Affordable and Clean Energy.



- Infrastructures constitute the bloodline of the economic system. Diverse industries and SMEs can achieve productivity gains by benefiting of Improvement of the Infrastructure framework.
- Infrastructures catalyse economic growth and IDF hence contributes to the SDGs 8 & 9: economic growth, innovation and sustainable industrialization.

- Climate change presents the single biggest threat to development, and its widespread, unprecedented impacts disproportionately burden the poorest and most vulnerable. IDF fosters the uptake of renewable energy to minimize the disruptive potential of Climate Change.
- IDF internalizes E&S risk drivers in the investment decision making, accounting for depletion of natural resources, and deterioration of habitat of livestock and fish.

- IDF provides long-term financing for infrastructure projects in low-income countries by being a first mover or by offering risk capital to make projects bankable. IDF has a clear additional effect by attracting commercial parties and making them willing to invest at financial close or at a later stage.
- IDF materially contributes to SDG 17: Partnership for the Goals

– CLIENT CASE: SOLU HYDROPOWER PRIVATE LIMITED –

Paving the way for project-financed independent power producers in Nepal

Untapped potential
Nepal is a country with vast inland water resources, estimated to hold 80,000MW of potential hydropower capacity. Yet in spite of this, Nepal only has 700MW of installed hydropower capacity. The country suffers from severe power shortages, sometimes up to 18 hours a day during the dry season, posing a serious bottleneck to socio-economic development

Expanding private sector investment
In 2014 FMO arranged a financing package for Solu Hydropower Private Limited, a special purpose vehicle set up for the construction of an 82MW run-of-the-river hydropower project in the Solukhumbu district. FMO also mobilized DEG, OFID, BIO, Triodos and five Nepalese lenders who benefited from a rupee guarantee from GuarantCo for the majority of their loan.

FMO played a crucial role in making this project bankable, particularly by setting up a viable offtake and financing structure that sets a precedent in the energy sector. This is the first Independent Power Project (IPP) in Nepal financed by both international and domestic financiers, and is expected to support further development of IPPs.

A long outlook on hydropower
By offering scarcely available long-term financing, FMO supports the development of the largest private sector hydropower project in Nepal to date. Once operational, it will add around 10% to the installed capacity and reduce Nepal's reliance on polluting emergency diesel generators.

This project serves as an example that is expected to stimulate further investment in the private sector. Development of the hydropower sector is crucial for Nepal. It has the potential to become a very commercially attractive sector, facilitating access to energy and supporting sustainable economic development.

Link to strategy
· Grow our renewable energy portfolio

Sector
Renewable Energy

FMO investment
USD 12.5 million
from the Infrastructure Development Fund

Country
Nepal

Years of investment
2014

Instrument
Mezzanine loan

Jobs supported
· 1000 jobs supported during construction phase
· 50 during operational phase

Avoidance of CO_2 emissions
35 metric tons CO_2 equivalent avoided per annum

Related Impacts
3 mln people will be provided with energy

PERFORMANCE ON OUR STRATEGY

Highlights

Over the course of 2016 we have reached our strategic targets, created lasting development impact and have maintained significant levels of production. Nevertheless, 2016 was also a challenging year for IDF, in which we coped with new market dynamics.

One of the new investments in the IDF portfolio in 2016 is Transambiental. The Fund Manager has visited the client in the summer of 2016, attending the financial closing event. In October 2016 Jeroen Roodenburg, former director DDE and currently Ambassador in Colombia, has visited the mayor of Cartagena. They visited the project together. After the fruitful visit Mr Roodenburg enthusiastically informed Fund Management as follows:

"The Transambiental bus project is a clear example of Dutch support to sustainable infrastructure development. With the support of the IDF investment the city of Cartagena can transform the public transportation services from old, polluting diesel buses to clean gas buses. The mayor of Cartagena has assured me that this transition has a high priority, alike the construction of a better bicycle infrastructure. We are content that in its planning and execution of the bus project Transambiental aims to interconnect the bus pathways with the bicycle infrastructure."

Impact

Four targets have been set for IDF regarding results on impact, to be achieved by 2018:

1. Total increase in private sector investments will be EUR 6.4 bln
2. Total financing catalyzed (both DFI and commercial financing) will amount to EUR 3.1 bln
3. Total number of jobs created with IDF financing will be 104,854
4. Total number of people served by infrastructure services is estimated to be 105 mln.

Below we have highlighted realization of 2 of these targets as per YE 2016:1:

- Total number of (direct) jobs supported: 39.509
- Total financing catalyzed (both DFI and commercial financing) will amount to € 3.6 bln

The number of direct jobs supported is as measured at YE 2016 below target (39.509 of which 9.683 relate to women). This can be explained by the type of projects IDF finances. Direct jobs in building infrastructure are typically high during construction, but low during operations (i.e. of an energy plant, a toll-bridge or a telecom towers network). As you can see in the table above, the number of indirect jobs created is much higher. The catalyzing target is expected to be achieved, currently at € 3.6 bln. (cumulative public and commercial finance)

The "Beneficiaries reached"-definition has been subject of constant discussion with Fund Management's counterpart at the Ministry, as the reported impact results seem to overstate the actual generated impact (very high numbers for projects in countries with low electrification rates). The definition agreed in December 2015 reads: "Annual amount of electric energy delivered to off-takers during the reporting period, divided by domestic electricity usage per capita."

Therefore, FMO agreed with the Ministry to correct the number of beneficiaries reached incorporating the electrification rate. As per 27 January 2017, the definition applied going forward will be: "Annual amount of electric energy delivered to off-takers during the reporting period, divided by domestic electricity usage per capita, multiplied by the electrification rate."

Revolvability

In order to review the performance of the portfolio, the 'Residual Value over Total Funds received from Investors' ("RVPI") should be considered. The RVPI sets off the total outstandings against total funds received from DGIS. This is a measure of revolvability.

To date the IDF has received 86.1% of available funding from DGIS; including the Q4-2016 disbursement ad EUR 17.8 mln received in December 2016. IDF has a 100% revolvability requirement, meaning that every €1.00 invested should generate sufficient interest income and principal repayments to allow € 1.00 to be reinvested.

The funds have a 'Residual Value over Total Funds received from Investors' ("RVPI") of 94.9% in Q4-2016 (92.2% Q3-2016). The RVPI sets off the total net assets plus cash outstandings against total funds received from DGIS (please be referred to the Balance Sheet in Chapter 4 below). This value shows the current value of the assets and whether this can pay back the subsidy made available by DGIS.

FMO is closely monitoring the portfolio and aiming for a higher revolvability by scrutinizing risk factors of new transactions and encouraging smaller deal sizes in order to reduce concentration risk.
Production

FMO had set the 2016 internal IDF commitment target at € 50 mln; as per end of Q4-2016 commitments amounting to a total of € 49.9 mln have been signed.

Performance and Revolvability	YE 2016
Total Funds received from DGIS to Committed Capital by DGIS	86.1%
Residual Value over Total Funds received from investors	94.9%

Production

FMO had set the 2016 internal IDF commitment target at € 50 mln; as per end of Q4-2016 commitments amounting to a total of € 49.9 mln have been signed.

FRV, Solar Holdings IX B.V./Jordan: contracted 20-06-2016
FRV Al Mafraq is a 50MW PV solar plant developed by Fotowation Renewable Ventures B.V. (FRV) in Mafraq, Jordan. IDF is going to contribute with USD 1.1ml to the development, construction and operations of the solar plant, alongside FMO-A. The project is green, targets an FMO focus sector, and its promoted by an experienced sponsor. Moreover, the initiative is characterized by high development value as it provides stable and cost efficient power supply from an indigenous energy source, in a country prone to severe power crisis. Hence, the project perfectly befits FMO's strategy.

Transambiental S.A.S. : contracted 31-05-2016
Transambiental is one the three bus operator concessionaires of Transcaribe, Cartagena`s new Integrated Mass transport System (SITM). Transambiental is a SPV company established solely to finance, acquire, maintain and operate a fleet of 223 state of the art natural gas fueled buses. IDF made available a senior secured loan in the amount of USD 15 mln. The transaction represents an excellent strategic fit for the fund; the introduction of an efficient public transport system will help Cartagena to move towards a cleaner, more reliable and efficient public transportation system with higher level of service for public transit, improved traffic flows and reduced carbon emissions.

Irrawady Towers Asset Holding : contract 01-08-2016
ITAH is the largest independent tower company in Myanmar. The company has a keen focus on establishing a nation-wide portfolio of telecom towers that can be shared by multiple operators to optimize infrastructure costs. IDF financed through a USD 5 mln mezzanine loan the expansion from 2000 to 3000 towers, under the same terms and conditions of existing financing, except for repayment schedule which will start 6 months later.

New Forests (Rwanda) Ltd. - contracted 28/10/2016
FMO and Finnfund have signed a shared USD15 million (USD7.5 million each) senior secured loan to support New Forests Rwanda (NFR), a subsidiary of New Forests Company Holdings Ltd. The new funding for NFR will go towards the development of a plantation in a concession located around the Nyungwe National Park (NNP), and will support NFR's core business, transmission poles and building up a sawn timber market. Funds from IDF will be used for capex, refinancing existing shorter term debt, working capital and includes a USD1.5 million contingency facility. The project is fully in line with FMO's doubling impact, halving footprint strategy with significant positive impact on GHG emissions through reforestation.

Local Company for Water and Solar Energy Projects PSC (Sunrise Solar) - contracted 11/11/2016
The Local Company for Water and Solar Energy Projects PSC is a company established for the development, construction and operations of a USD 72 million 50MW solar photovoltaic (PV) power plant, located in the King Hussein Bin Talal Development Area, 60km northeast of Amman. FMO is participating with FMO-A and IDF funding in a debt financing package mobilized by EBRD. Once operational, this power plant will generate approximately 135GWh annually, serving approximately 52,000 customers based on a per capita consumption of 2,580 kWh. By generating electricity from a renewable energy source this solar plant is expected to avoid the emission of approximately 76 tonnes of CO_2 per annum. The project contributes to a diversification of Jordan's fuel mix and provides for energy security by generating electricity from a domestic resource. To bring the Sunrise Solar project in line with other FMO-A financed deals, IDF is used for the tail end of the risk in order to catalyse FMO-A into this project. The IDF tranche is therefore structurally subordinated to FMO and in return will receive a higher margin from the Borrower.

DanPer Trujillo - contracted 25/11/2016: DanPer is one of Peru's leading agricultural companies, established in 1993 and currently producing fresh, canned and frozen asparagus, artichokes, peppers, mango and other fruits and specialty products mainly for export to North American and European markets. FMO's financing (USD 25 mln FMO-A and USD 5 mln IDF) will support DanPer through its growth phase by enabling a better match between the maturity profile of its assets and funding lines. Financing DanPer fits well with FMO's objective of supporting leading companies in the sector who have a positive impact on the agricultural value chain. DanPer has also been recognized for entrepreneurship and sustainability based on best E&S practices. DanPer employs up to 8,700 employees depending upon the season which includes a significant number of underprivileged women who before the growth of new agriculture activities in Peru did not traditionally have opportunities for formal employment.

Dutch Business

Although it is not a prerequisite to executing a transaction, the presence of a Dutch connection in a transaction is regarded as an advantage. Below are the Dutch Business links that have been established as of 2013, when reporting on Dutch Business involvement was added to the IDF beschikking.

Name	Purpose of contact	Qualification	Status
Aguas El Carmen	Co-developed by Dutch developers. Run of the river hydro project in Nicaragua named 'El Carmen'. IDF has provided a convertible grant to the project	Developer	Portfolio
Africa Improved Foods	FMO financed a DSM plant for producing fortified cereal in Rwanda	Developer	Portfolio
Flying Swans	Developing a bid book for supply chain development in Djibouty and Ethiopia with a Dutch Consortium (research by Mercator Novus)	Dutch Consortium	Capacity Development Portfolio
Beira Land Development	Establishing a land development company in Beira, Mozambique, supported by the Dutch Government	Dutch Consortium	Pipeline

Events and external network

Since January 2016, FMO has undertaken the following marketing initiatives to promote the fund:

Event	Topic	Role FMO	Location
NL Business Network Event	NL Business support by FMO	Hosting & Organising this event	FMO, The Hague
Back to Growth Conference	Investing in Guinea, Liberia and Sierra Leone	Attending and FMO-table	The Hague
Spark, Dutch Approach for Clean Cooking Solutions	Clean Cooking	Hosting meeting and presentation State Funds	FMO, The Hague
Bridge the Gap Conference	Gender Equality	Workshop presentation	EY, Amsterdam
Making Solar Bankable	Solar Energy Conference with Solar Plaza	Co-Host of event	Amsterdam
Visit Director of UN Women	Gender Equality	Hosting, Organising Panel discussion	FMO, The Hague
Transambiental Closing Event	Transambiental Bus project in Cartegena	Participant and acquaintance mayor Cartegena	Cartegena, Colombia
Shell Foundation Event	Off-grid, Clean Cooking and Blending	Participant	London

1 NO POVERTY 2 ZERO HUNGER 15 LIFE ON LAND

– CLIENT CASE: MORINGA FUND –

Sustainable Agroforestry through Private Equity

The potential of agroforestry
As the world population grows demand for food increases, while over one billion people still live in extreme poverty. Globally agroforestry has the potential to address the growing demand for sustainable agriculture and forestry products. It also enables ecological intensification by curbing greenhouse gas emissions, and increasing land productivity by enhancing soil fertility and livestock productivity on farms. The Moringa Fund aims to invest in profitable large-scale agroforestry projects with high environmental and social impacts in Latin America and Africa. It is the first fund of its kind and looks to combine forestry activities (timber, industrial tree crops and fruit trees) with cattle ranging and food crops.

An innovative fund
Moringa Partnership set up the Moringa fund in 2013 to invest in sustainable, large scale agroforestry projects in Latin America and Sub-Saharan Africa which have the potential to be profitable, are socially inclusive (small farmers, outgrowers) and committed to sustainability and environmental and social performance. The Moringa fund is a highly innovative fund whose core strategy is ecosystem restoration for the benefit of small-scale farmers. All projects funded by Moringa will combine three core elements: forestry products, agricultural projects and carbon credits (climate change mitigation through carbon sequestration).

Development impact
The fund has positive environmental impacts by bringing fertility to previously degraded land and preventing erosion. From a social impact standpoint, the trees and crops can be sold providing a more stable income to local populations. Finally, the fund has a high economic impact as often the forestry and mostly the agricultural proceeds are meant for local markets, which improves availability and affordability of the products. This fund is an excellent fit with FMO's new strategy focusing on doubling our impact while halving our footprint and its success will help agroforestry become an example of producing food and wood in a positive impact manner.

Link to Strategic Priorities:
excellent fit with FMOs strategy focussing on doubling impact and halving footprint. The success of Moringa will help agroforestry become an example of producing food and wood in a positive impact manner.

Sector
Agroforestry

Country
Latin America and Africa

Years of investment
2013

Financial Product Used
Private Equity

Investment Amount
EUR 10 mln Infrastructure Development Fund (EUR 5 mln for Africa fund and EUR 5 mln for Latam fund)

Investment Amount
EUR 10 mln Infrastructure Development Fund (EUR 5 mln for Africa fund and EUR 5 mln for Latam fund)

Development Equity

IDF has the objective to be 100% revolving. In July 2012, when DGIS renewed its commitment for IDF, an additional € 5mln has been made available for impact and effectiveness studies as well as a specific envelope of € 5mln to be applied to Technical Assistance and Capacity Development facilities. The latter € 5mln do not have to be revolving and can be applied in the following situations:

- Contribution to the development phase of potentially eligible IDF projects in order to complete feasibility and/or prove of bankability by deploying convertible grants
- Capacity development / Technical Assistance to support interventions at existing clients to strengthen or improve the commercial viability and
- To pay for board members' remuneration if on IDF projects this is not covered by the investee company.

Only realized (convertible) grant losses will be earmarked under this non-revolving 'facility' of the IDF fund. Since the tranche has been made available within IDF in 2013, a total of 17 grants has been made available for a total commitment of € 7.1 mln (committed disbursed € 5.1 mln, committed not disbursed € 2.0 mln)). This is more than the reserved €5 mln and can be justified as follows: end 2015 IDF successfully sold the Azura investment and made approximately € 2 mln profit, which was added to the € 5 mln grant envelope.

Of the 10 currently outstanding (active) convertible grants, representing a total commitment of EUR 6.7 mln with EUR 4.8 mln outstanding, we are still expecting that upon success part may be converted into equity or may be repaid. Please note that convertible grants also fit within the regular IDF investment criteria.

IDF targets projects characterized by high risk profiles. To refine the bankability of impact making initiatives in their early stage, IDF provides high risk financing instruments that allow them to kick start their activities or to enlarge their outreach. The fund hence provides grant-like products that upon success will be converted in equity stakes. By operating in this early stage of development IDF embodies an additional role with respect to FMO or to other DFIs.

Production Convertible Grants 2016

- **Ignite Holding Company Inc. :** Kingo, trade name for Ignite Holding Company, Inc. is the first commercial venture in Central America for rolling out off-grid prepaid energy solutions for households. Kingo positions itself as a utility-like provider of electricity to rural off-grid communities .The company's business model consists of installing home solar systems which remain the company's property and distributing prepaid energy credit through local distributors (shopkeepers) that customers can purchase according to their budget and their energy needs. We invested USD 2 mln as Convertible Development Contribution to allow Kingo to accelerate market penetration and build track-record.
- **Mercator Novus B.V. :** Through this € 115,000 CD project, IDF supports a group of Dutch Companies, Boskalis, Port of Rotterdam, FMO and Frugi Venta, cooperating in an open consortium. This open consortium, wants to present an offer to the Ethiopian and Djibouti Government for the development of the Agro-Logistics Value Chain in Ethiopia and Djibouti. The funding supports the development of a bid book that is the opening offer for the Ethiopian and Djibouti Government to start discussions on the different projects that need to be developed in order to improve the Agro-Logistics Value Chain.
- **Nederlandse Financierings Maatschappij - Boardmembers :** When IDF (through FMO) is investing in emerging markets, FMO not only provides funding but also attaches high importance to institution building and governance. A well-functioning board will be beneficial to IDFs clients in articulating their strategy, policy formulation, oversight and control, as well as accountability. This project centralizes all decision making around the nomination of board members with our Corporate Governance Unit, who are in this way able to cover the remuneration fees and costs of FMO's External Nominee Directors on the boards of IDF's Investee Companies.
- **Sucafina :** Sucafina is one of the three largest coffee market actors in East Africa, sourcing both large volume low margin coffees through its mainstream business and premium coffees in smaller volumes but with higher margins. In both cases, the majority of coffee purchased is from small and medium-sized farms. With this CD project, we support the development and implementation of an Environmental and Social action plan on the Sucafina holding level (companywide), the implementation of a farmer support program and in-house knowledge & skills development.

Production Capacity Development 2016

- **Rift Valley Railways Uganda Limited:** Rift Valley Railway Investments ("RVR") is the holding company for the two companies that won the concessions to run the railway services of Kenya and Uganda. The concessions involved taking over 12 contaminated working sites in Kenya and Uganda. This CD project, in cooperation with PROPARCO, will support the building of tangible human and technical capacity within selected RVR active workstations to undertake environmentally sound remediation of historically polluted sites.

Customer Name	Facility Description	Effective Date	Expiration Date	General Industry Class Description	Country Of Exposure Risk Description	Facility Currency Code	Limit Amount	Limit Used Amount	Limit Available Amount	Limit Amount EUR	Limit Used Amount EUR	Limit Available Amount EUR
AFC- FMO project development	AFC_FMO- Cost Facility	10-01-2013	21-12-2021	Other FI	Africa	USD	752,500	473,482	279,018	713,101	448,692	264,409
Aguas el carmen sociedad anonima	Aguas El Carmen Conv.grant USD 1.5M	08-12-2014	31-12-2040	Hydro Energy	Nicaragua	USD	1,510,000	989,480	520,520	1,430,941	937,674	493,267
Hydropenta S.A.	Cio Hydropenta Conv Grant USD 2M	15-12-2015	15-12-2025	Hydro Energy	Nicaragua	USD	2,000,000	1,399,272	600,728	1,895,285	1,326,010	569,276
Ignite Holding Company Inc.	Ignite Holding Conv Gr USD 2M	24-03-2016	26-03-2018	Other / Mixed Renewable	Guatemala	USD	2,000,000	2,000,000	0	1,895,285	1,895,285	0
Nederlandse Financierings-Maatschap	IDFXX06-1B GR.OMERA - HR VERBOVE	07-08-2015	31-12-2018	Other FI	Global	EUR	75,000	4,488	70,512	75,000	4,488	70,512
Nederlandse Financierings-Maatschap	IDF-XX-006-1FRW BOM FEE GR EUR91800	20-10-2015	31-12-2040	Other FI	Global	EUR	331,800	25,592	306,208	331,800	25,592	306,208
Nederlandse Financierings-Maatschap	IDFXX06-1D GR AL MANARA-STARKENBURG	23-06-2015	23-06-2019	Other FI	Global	EUR	60,000	7,500	52,500	60,000	7,500	52,500
Nederlandse Financierings-Maatschap	IDFXX06-1C GR AZURE-MEYER USD5.020	24-02-2014	24-02-2020	Other FI	Global	EUR	14,200	0	14,200	14,200	0	14,200
Rift Valley Railways Uganda Limited	Rvr Bioremediation Idf Gr USD 69.5K	30-11-2015	01-04-2017	Infrastructure	Uganda	USD	`	0	69,500	65,861	0	65,861
Sucafina Holding S.A.	Sucafina Farmerproj. Gr EUR 225K	28-09-2015	15-09-2017	Agri Production	Africa	EUR	225,000	112,500	112,500	225,000	112,500	112,500
									Total EUR	6,706,474	4,757,742	1,948,732

– CLIENT CASE: KINGO INC.

Lighting up rural communities

IDF supported Kingo Inc., the first commercial venture in Central America rolling out off-grid prepaid energy solutions for households, to develop two projects to scale up Kingo's operations. One project concerns the development of a mobile application called "Kingo University" and the other regards the update of Kingo's Software Security architecture and processes.

As an innovative start-up in the energy space, Kingo faces two major challenges: one internal (training of a fast growing number of staff), and one external (vulnerability of its software systems). Kingo University creates a new, more scalable, professional and interactive way to share knowledge among employees and enables further expansion in the market through the structuring of innovation. The Software Security project enables Kingo to secure customer data and payments; improve Kingo's Management Information System, enable improvement of Risk Management Technology; and protect the company from cyber-attacks. Both projects are in line with FMO's objective to help its clients with their professionalization; share knowledge and networks; as well as supporting innovative ways of doing business in emerging markets.

Through its Capacity Development program, IDF is supporting Kingo with a €81,654 grant to allow the company to roll out the Kingo University and Software security projects. The projects will enable Kingo Inc. to improve employees' performance, structure its innovation, and secure its software infrastructure and processes, which will eventually lead to further expansion of the Kingo business in a more sustainable matter.

ACCOUNTING POLICIES

Basis of preparation: The "accounting policies" selected and applied by the fund manager are to a large extent in line with IFRS. The main exceptions to IFRS standards are related to a limitation in disclosure of balance sheet and P&L items. The annual accounts are prepared under the historical cost convention, except: equity investments, investment in associates and all derivative instruments that are measured at fair value.

ESTIMATES AND ASSUMPTIONS

In preparing the annual accounts management is required to make estimates and assumptions affecting reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment is inherent to the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from such estimates and the differences may be material to the annual accounts.
The most relevant estimates and assumptions relate to the determination of the fair value of financial instruments based on generally accepted modelled valuation techniques and the determination of the counterparty-specific and group-specific value adjustments.

Fair value of financial instruments

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

Foreign Currency translation

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

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the profit and loss account under 'results from financial transactions'. Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For non-monetary financial assets, which are classified as available for sale, unrealized exchange differences are recorded directly in shareholders' equity until the asset is sold.

Offsetting financial instruments

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

Interest income

Interest income and expense are recognized in the profit and loss account for all interest-bearing instruments on an accrual basis using the 'effective interest' method based on the initial fair value at inception. Interest income and expense also include amortized discounts, premiums on financial instruments and interest related to derivatives.
When collection of loans becomes doubtful, value adjustments are recorded for the difference between the carrying values and recoverable amounts.
Interest income is thereafter recognized based on the original effective yield that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fee and commission income

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

1. Fees that are an integral part of the effective interest rate of a financial instrument
2. Fees earned when services are provided
3. Fees that are earned on the execution of a significant act

Dividend income

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

Cash and cash equivalents

Cash and cash equivalents consist of banks (assets and liabilities) and current account with FMO.

Loans to the private sector

Loans originated by the Fund include loans to the private sector in developing countries for the account and risk of the Fund. Loans are recognized as assets when cash is advanced to borrowers. Loans are initially measured at cost, which is the fair value of the consideration paid, net of transaction costs incurred. Subsequently, the loans are valued at amortized cost using the effective interest rate method. Interest on loans is included in interest income and is recognized on an accrual basis using the effective interest rate method. Fees relating to loan origination and re-financing are deferred and amortized to interest income over the life of the loan using the effective interest rate method.

Value adjustments on loans

At each reporting date the Fund assesses the necessity for value adjustments on loans. Value adjustments are recorded if there is objective evidence that the Fund will be unable to collect all amounts due according to the original contractual terms or the equivalent value. The value adjustments are evaluated at a counterparty-specific level based on the following principles: Individual credit exposures are evaluated based on the borrower's characteristics, overall financial condition, resources and payment record, original contractual term, exit possibilities and, where applicable, the realizable value of the underlying collateral. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. In case of a loan restructuring, the estimated recoverable amount as well as the value adjustments are measured by using the original effective interest rates before the modification of the terms. Value adjustments for credit losses are established for the difference between the carrying amount and the estimated recoverable amount. A value adjustment is reported as a reduction of the asset's carrying value on the balance sheet. All loans are reviewed and analysed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared to prior estimates will result in a change in the value adjustments and will be charged or credited to the profit and loss account.
A value adjustment is reversed only when the credit quality has improved to the extent that reasonable assurance of timely collection of principal and interest is in accordance with the original or revised contractual terms. A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously recorded value adjustments. If no value adjustment is recorded, the write-off is included directly in the profit and loss account under the line item 'value adjustments'.

Equity investments

Equity investments in which The Fund has no significant influence are classified as available for sale assets and are measured at fair value. Unrealized gains or losses are reported in the available for sale reserve net of applicable income taxes until such investments are sold, collected or otherwise disposed of, or until such investment is determined to be impaired. Foreign exchange differences are reported as part of the fair value change in equity fund capital. On disposal of the available for sale investment, the accumulated unrealized gain or loss included in shareholders' equity is transferred to profit and loss.

Impairments

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

Investment in associates

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

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

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

Available for sale reserve (AFS reserve)

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

Undistributed results previous years

The undistributed results consists of the part of the annual results that The Fund is accumulating to maintain the revolvability of the funds.

BALANCE SHEET

At December 31, 2016

	31/12/2016	31/12/2015
Assets		
Banks	14,208	13,846
Loans guaranteed by the State	191,518	126,036
Equity investments & Investments in associates	89,194	89,180
Accrued income & Other receivables	36,395	28,614
Total assets	**331,315**	**257,676**
Liabilities		
Banks	0	0
Current account with FMO	1,028	-1
Accrued liabilities & Other liabilities	34,540	24,670
Total liabilities	**35,568**	**24,669**
Fund capital		
Contribution DGIS previous years*	272,012	272,012
Contribution DGIS current year*	39,504	0
Total contribution DGIS	**311,516**	**272,012**
Available for sale reserve	17,316	10,691
Undistributed results previous years	-48,218	-58,724
Result current year	20,416	10,506
Grants	-4,601	-1,081
Evaluation costs	-682	-397
Total fund capital	**295,747**	**233,007**
Total liabilities and shareholders' equity	**331,315**	**257,676**
Irrevocable facilities	**109,506**	**153,780**
Total subsidy amount MASSIF according to "Beschikking"	362,012	362,012
Total subsidy received from DGIS for fund	311,516	272,012
"Beschikkingsruimte"	**50,496**	**90,000**

all amounts in € × 1,000

STATEMENT OF COMPREHENSIVE INCOME

At December 31, 2016

	31/12/2016	31/12/2015
Income		
Interest income	17,878	16,325
Results from equity investments and associates	422	343
Results from financial transactions	0	0
Dividend, Fee and Commission income	2,530	2,241
Fx loans	6,345	10,075
Fx other	268	3,424
Other income	0	0
Total income	**27,443**	**32,408**
Expenses		
Remuneration FMO	-5,089	-3,602
Other operating results	0	0
Total expenses	**-5,089**	**-3,602**
Value adjustments, impairments and grants		
Value adjustments on loans	9,062	-10,431
Impairments on equity investments	-11,000	-10,618
Results on grants	0	2,749
Total value adjustments, impairments and grants (loss)	**-1,938**	**-18,300**
Net profit	**20,416**	**10,506**
Other comprehensive income		
Available for sale equity investments	6,625	10,694
Other comprehensive income	**6,625**	**10,694**
Total comprehensive income	**27,041**	**21,200**

all amounts in € × 1,000

STATEMENT OF CASH FLOWS

IDF Statement of Cash Flows at December 31, 2016

	31/12/2016	31/12/2015
Cash flow from operating activities		
Inflows		
Interest received on loans	14,733	9,301
Repayments on loans	18,242	10,544
Repayment on grants	0	1,833
Sales of equity instruments (book value)	4,389	3,346
Results from equity investments	422	343
Sales to FMO (book value)	0	0
Results from sale to FMO	0	0
Results from grants	0	2,749
Dividends and fees received	4,344	3,075
Other received amounts	805	3,142
Outflows		
Disbursements on loans	-64,865	-16,217
Investments in equity instruments	-8,902	-29,611
Disbursements on grants	-3,520	-1,097
Other paid amounts	-730	-742
Net cash from operating activities	**-35,082**	**-13,334**
Cash flow from financing activities		
Inflows		
Contribution of DGIS	39,504	0
Outflows		
Remuneration FMO	-5,089	-3,602
Net cash from financing activities	**34,415**	**-3,602**
Net change in cash & cash equivalents	**-667**	**-16,936**
Position of cash at January 1	13,847	30,783
Cash at end of period	**13,180**	**13,847**

all amounts in € × 1,000

RISK MANAGEMENT

ORGANIZATION OF RISK MANAGEMENT

For FMO, acting in its role as Fund Manager (hereafter 'FMO') to be able to carry out the Fund's strategy, it is essential to have an adequate risk management system in place to identify, measure, monitor and mitigate financial risks. IDF (hereafter 'the Fund') has a pre-defined risk appetite translated into limits for group, client, country, region and currencies exposures. Limit usages are monitored by the Fund Manager on a monthly basis and for each proposed transaction.

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

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

RISK PROFILE AND APPETITE

The Fund actively seeks to take risk stemming from debt and equity investments in private institutions in developing countries. This risk profile is supported by holding prudent levels of capital and liquidity and strong diversification of the portfolio over regions and sectors.

CAPITAL MANAGEMENT

The Fund aims to optimize development impact. This can only be achieved with a sound financial framework in place, combining a healthy long-term revolvability of ≥100% and sound capital adequacy. Therefore, FMO seeks to maintain a strong capital position for the Fund. The Fund's structure is based on a 100% contribution from the Dutch government. Total contribution from the Dutch government is EUR 311.5 mln at 31 December 2016 (31 December 2015: EUR 272 mln). Total fund capital – which is the sum of the contribution by the government, the contribution by FMO, the available for sale reserve, undistributed results from previous years, results from the current year, grants, and evaluations costs – increased to EUR 295.7 mln in 2016 (2015: EUR 233 mln)

REPUTATIONAL RISK

The Fund's investments in developing and emerging markets are exposed to reputational risks such as environmental and social risks and various types of legal risks. The Fund has a limited appetite for reputation risk when such risks would prompt key stakeholders to intervene in the decision making or running of our daily business. Outside of this, the Fund has a moderate appetite for reputation risk, accepting that reputational impacts of activities may incidentally lead to negative press coverage, NGO attention, client feedback, or isolated cases of financial losses, as long as these activities at the outset have a clear expected contribution to the FMO's goal to achieve development impact with the Fund. FMO cannot fully avoid such risks due to the nature of its operations, but chooses to mitigate them as much as possible through strict policies, upfront assessment and, when necessary, through agreements with the Fund's clients. FMO manages issues from the perspective of learning lessons and prevention. Through transparency and a willingness to respond to challenges made, we aim to remain accountable and reduce our reputational risk.

Environmental, social and governance risk

The Fund runs environmental and social risks in its emerging market projects. These risks stem from the nature of our projects, which in some cases could carry negative environmental and/or social impacts. The Fund accepts that in the pursuit of development impact there is a risk of negative press and/or negative reactions from NGOs in the context of ESG performance and mitigates this risk through environmental and social action plans and monitoring. The risk appetite for deviations from the exclusion list and human rights violations by projects financed by the Fund is zero. Internally, FMO strives to limit the footprint of its own workplace and strives to the highest standards in employee satisfaction. Ensuring a high diversity in staff is a leading Human Resources principle.

all amounts in € × 1,000

CREDIT RISK

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

Management of credit risk is FMO's core business, both in the context of project selection and project monitoring of Fund investments. In this process, a set of investment criteria per sector is used that reflects benchmarks for the required financial strength of the Fund's clients. This is further supported by internal scorecards that are used for risk classification and the determination of capital use per transaction. As to project monitoring, the Fund's clients are subject to periodic reviews. Strong diversification within the Fund's emerging market portfolio is ensured through stringent limits on individual counterparties (single client limit of 10% of the Fund's capital), countries and sectors (max 40% annually available budget to be invested in one sector, fund or country). Similarly, credit policies and guidelines have been formulated covering treasury operations; these are reviewed regularly and approved by the ALCO.

Credit risk in the emerging markets loan portfolio

The Fund offers loans in emerging market countries. Concentration risks on individual counterparties, sectors or countries are mitigated due to stringent single client, sector and country limits.

Internal credit approval process

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

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

Gross exposure IDF portfolio distributed by internal ratings [1]

Indicative counterparty risk rating 2016	Gross outst	%	FMO-A %
F1-F10 (BBB- and higher)	€32,219,853	10.7	5,6
F11-F13 (BB-,BB,BB+)	€40,977,352	13.6	39,8
F14-F16 (B-,B,B+)	€54,985,957	18.3	38,2
F17 and lower (CCC+ and lower ratings)	€127,256,219	57.3	16,4
Total	**€301,641,269**	**100**	**100**

1) Please note that this does not include the entire portfolio, but only rated clients and their respective exposure. Equity investments are not rated, and there are some other cases in which it may not be possible to make a rating for a client..

The bulk of IDF exposure (57%) is to counterparties with a rating of F17 and lower and is spread across the regions and sectors of the Fund.

Loans past due and value adjustments

At the end of 2016, the counterparty-specific value adjustments as a percentage of the gross loan portfolio equaled 31.6% (2015: 45.2%).

Non-Performing Loans (NPL) are defined as loans with a counterparty-specific value adjustment and/or loans with interest and/or principal payments that are past due 90 days or more. The Fund's NPL ratio decreased from 55.7% (2015) to 41.2% (2016).

When the terms and conditions of a loan have been modified significantly, the Fund considers these loans as restructured. Changes in terms and conditions usually include extending the maturity, changing the interest margin and changing the timing of interest payments. The loans are assessed to determine if they qualify for de-recognition and if that is the case, they are recognized as a new loan with valuation differences through profit and loss. Value adjustments related to restructured loans are being measured as indicated in the accounting policies under 'Value adjustments on loans'.

In 2016, the write-offs were limited to one loan (2015: 1): Kenmare debt for an amount of € 8.7 mln.

Loans due and value adjustments 2016

Quality loan portfolio at December 31, 2016	Loans not value adjusted	Loans value adjusted	Gross exposure	Counterparty specific value adjustment	Total
Loans not past due	166,6	22,3	188,9	(8,1)	180,8
Loans past due:	0,0	0,0	0,0	0,0	0,0
· Up to 30 days	0,0	0,0	0,0	0,0	0,0
· 30-60 days	0,0	0,0	0,0	0,0	0,0
· 60-90 days	0,0	0,0	0,0	0,0	0,0
· more than 90 days	0,0	94,6	94,6	(81,6)	13,0
Subtotal	**166,6**	**116,9**	**283,5**	**(89,7)**	**193,8**
Less: amortizable fees	(2,0)	(0,3)	(2,3)	0,0	(2,3)
Net	**164,6**	**116,6**	**281,2**	**(89,7)**	**191,5**
Number of non-performing loans	8				
Value adjustments / loans	31.6%				
NPL percentage	41.2%				

Country risk

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

The level of the country limits depends on the sovereign rating. FMO recognizes that the impact of country risk differs across the financial products it offers. In 2016 the ratings of Nigeria, and Rwanda were downgraded from F14 to F15.

Overview country ratings IDF Portfolio	IDF %	FMO-A %
Indicative external ratings equivalent		
F9 and higher (BBB and higher ratings)	3.0	8
F10 (BBB-)	4.9	13
F11 (BB+)	0.2	7
F12 (BB)	1.8	7
F13 (BB-)	7.2	10
F14 (B+)	3.3	22
F15 (B)	41.6	12
F16 (B-)	3.9	8
F17 (CCC+)	14.2	13
F18 (CCC)	16.4	0
F19 and lower (CCC- and lower)	3.6	0
Grand Total	**100**	**100**

Treasury counterparty credit risk

Credit risk in the treasury portfolio stems from bank account holdings and placements in money market instruments to manage the liquidity in the Fund. The Risk Management department approves each obligor to which the Fund is exposed through its treasury activities and sets a maximum limit to the credit exposure of that obligor. FMO pursues a conservative investment policy.

EQUITY RISK

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

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

The Fund has a long-term view on its equity portfolio, aiming to sell its equity stake within a period of 5 to 10 years. The Fund can accommodate an increase in the average holding period of its equity investments and so wait for markets to improve again to realize exits. We have no deadlines on the exit date of our equity investments. Equity investments are assessed by the Investment Committee in terms of specific obligor as well as country risk. The Investment Review Committee assesses the valuation of the majority of equity investments quarterly. The performance of the equity investments in the portfolio is periodically analyzed during the fair value process. Based on this performance and the market circumstances, exits are pursued in close cooperation with our co-investing partners. The total outstanding equity portfolio at December 31, 2016, amounts to €133.4 mln (2015: €127.6 mln) of which €35.5 mln (2015: €27.8 mln) is invested in investment funds.

In recent years FMO has further improved its valuation process for equity investments and in addition more reliable information has become available. As per December 2015 a part of the equity investments were measured at cost price as best estimate for fair value. As of first half of 2016 FMO was able to reliably estimate fair value of all its equity investments in the Fund.

CURRENCY RISK

Currency risk is defined as the risk that changes in foreign currency exchange rates have an adverse effect on the value of the Funds financial position and future cash flows. Limits have been set on currency positions and are monitored on a regular basis.

The Fund offers loans in emerging market currencies. We aim to match the currency needs of local banks and corporates, thereby reducing their currency risk. At December 31, 2016, EUR 16.8 mln (6%) (2015: EUR 13.9 mln (6%) of the net loans to the private sector was in emerging market currencies.

Interest rate risk

Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Given the balance sheet and capital structure of the Fund interest rate risks are considered limited. Please note that lower interest base rates could lead to lower revues.

Liquidity risk

Liquidity risk is the risk that insufficient funds are available to meet financial commitments. The Fund has a conservative liquidity management ensuring sufficient liquidity is available. In case of a liquidity shortfall the Fund can make a funding request to FMO for up to a maximum of 10% of the Fund's net portfolio.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or loss caused by external events. FMO aims to manage operational risk for the Fund in a cost effective way. Operational risks – including related to information security and personal data breach – are identified, measured and controls are implemented and their effectiveness is monitored. Operational risks are managed and monitored in accordance with three lines of Defense governance principle. In the first line of defense business management executes and reviews processes, reports incidents and performs risk and control self-assessments. In the second line of defense monitoring is performed by specialized risk departments and committees and the third line of defense is performed by the Internal Audit function. Although controls are in place, incidents sometimes happen and damage may occur. FMO registers and analyses operational risk events and losses systematically. Analysis of these data triggers actions to improve controls.

Operational risks resulting from new products or activities are considered in FMO's Product Approval and Review Process. FMO monitors the trends of operational risks, including information security risks and where deemed necessary anticipates on the unfavorable effects.

FMO
Anna van Saksenlaan 71
2593 HW The Hague
The Netherlands

+31 70 314 96 96
info@fmo.nl
www.fmo.nl