

About FMO

KEY FIGURES

	2011	2010	2009	2008	2007
DEVELOPMENT IMPACT					
Development impact indicator	861	687	590	831	798
made up of:					
• amount of new investments (€xmln)	1,306	1,026	911	1,314	1,315
• EDIS score	66	67	65	63	61
BALANCE SHEET (IFRS, €XMLN)					
Net loans	2,585	2,269	1,942	1,763	1,316
Equity investments portfolio ¹⁾	795	688	531	456	337
Shareholders' equity	1,665	1,514	1,327	1,229	1,182
Debt securities and debentures/notes	2,679	2,365	2,180	1,295	1,118
Total assets	5,059	4,305	3,772	3,654	2,685
Committed investment portfolio ²⁾	5,874	5,292	4,598	4,182	3,403
of which are government funds ³⁾	828	726	721	639	638
PROFIT AND LOSS ACCOUNT (IFRS, €XMLN)					
Income					
Net interest income	147	133	109	106	102
Income from equity investments	46	52	27	87	79
Other income including services	45	40	30	17	18
Total income	238	225	166	210	199
Expenses					
Operating expenses	-52	-50	-52	-56	-51
Operating profit before value adjustments	186	175	114	154	148
Value adjustments					
• to loans and guarantees	-23	-18	-46	-96	-27
• to equity investments	-36	-11	-6	-28	-9
Total value adjustments	-59	-29	-52	-124	-36
Share in the results of subsidiaries & associates	-9	5	-1	7	4
Profit before tax (including results from subs./ass.)	118	151	61	37	116
Taxes	-25	-25	-1	11	-11
Net profit	93	126	60	48	105
FMO IN-HOUSE ENVIRONMENTAL AND SOCIAL RATIOS					
Average number of full-time employees	283	270	264	249	236
Compensated CO ₂ emissions (tons) ⁴⁾	3,600	3,791	2,227	2,379	2,173

1) Including associates.

2) Committed investment portfolio concerns both investments for FMO's account and for government funds managed by FMO.

3) The government funds include Massif, IDF, AEF and NIMF (until 2007).

4) The methodology for compensating CO₂ emissions changed during the period 2007 – 2011. Since 2010, FMO fully compensates its total CO₂ emissions using Gold Standards emission rights.

AT A GLANCE

FMO is the Dutch development bank. We support sustainable private sector growth in developing markets by investing in ambitious companies. We believe a strong private sector leads to economic and social development. We specialize in sectors where our contribution can have the highest long-term impact: Financial institutions, Energy, Housing and Agribusiness, food & water.

VISION AND MISSION

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

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

We share with our clients a commitment to growing a healthy private sector in developing countries. This is how lasting development impact is generated. In practice, these entrepreneurs create jobs. By employing people to manufacture products and services, they provide income, pay taxes and improve

living standards. Higher living standards including paying taxes leads to a real demand for schools and healthcare. This is the basis of a viable local – and national – economy.

Together with our global network, FMO offers capital and knowledge to ambitious, sustainability focused entrepreneurs and institutions in crucial sectors – so that today's challenging markets can become tomorrow's thriving ones.

STRATEGY

Our strategy focuses on sustainability, partnerships and four sectors: Financial institutions, Energy, Housing, and Agribusiness, food & water. These sectors are integral to economic, social and environmental progress. That is why FMO selected projects in these sectors as they are believed to create high, positive developmental impact. Additionally, projects in these sectors potentially generate good financial returns.

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

We aim to finance at least 35% of our

portfolio in low-income countries, as defined in the World Bank list of January 1, 2008. Ninety percent of the people under the poverty line used to live in these low-income countries. However, we see that people living below the poverty line inhabit countries that are now considered middle-income countries. This could mean that setting a target for 35% in low-income countries is no longer useful to safeguard development impact for those who live below the poverty line. The strategy 2013-2016, which is currently being developed, will look at the various possibilities to safeguard this impact. Although we do not directly finance those below the poverty line we do believe our work has a positive impact on their livelihoods.

Our progress in 2011 on our strategic priorities is described in more detail in the [Report of the Management Board].

WHO WE ARE

Founded in 1970, headquartered in The Hague, FMO is a public-private partnership, with 51% of our shares held by the Dutch State, and 49% held by commercial banks, trade unions and other private-sector parties. FMO has an [AAA rating] from Standard & Poor's in 2011.

FMO's solid profile and high quality portfolio

COMMITTED PORTFOLIO PER INCOME GROUP (RATED ON DATE OF COMMITMENT, INCL. GOVERNMENT FUNDS)

Country segmentation	2011		2010		2009	
	(€xmln)	%	(€xmln)	%	(€xmln)	%
Low	2,599	44	2,233	42	1,834	40
Lower-middle	2,198	38	2,135	40	2,012	44
Upper-middle	1,077	18	924	18	752	16
Total	5,874	100	5,292	100	4,598	100

Note: The country segmentation is based on the World Bank country list definitions, as per January 1, 2008, for low, lower-middle and upper-middle income countries. For more information on World Bank country list definitions visit <http://data.worldbank.org/about/country-classifications>

allows us to invest in higher risk markets, either with our own capital or on behalf of the Dutch government.

PRODUCTS AND SERVICES

FMO tailors each financial package to meet the needs of that particular client. These financial packages are often long term and with higher financial risks than commercial investors are willing or able to take. That is our financial role. Alongside financing, we provide services such as social and environmental management support, or assistance with corporate governance which can mitigate many risks involved. We also run the [Capacity Development] program, which provides finance to clients with the aim of improving their management skills and technical know-how.

Our financing is usually long-term and our access to [government funds] means we can take higher risks than we would be able to do for our own account, providing clients with innovative financial structures.

We offer a range of products and services, including:

- Equity, loans and guarantees
- Capital market transactions
- Mezzanine and other tailor-made solutions
- Long-term and short-term project financing
- Access to our expertise, vast network and partnerships

Related links

[Financing business]

SUSTAINABLE DEVELOPMENT IMPACT

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

We invest with the goal of having broad economic, social, environmental and governance impact in our clients' countries. We work closely with our clients and partners to assess the developmental impact of our investments and, if needed, help them improve on the most important sustainability criteria.

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

After five years, or when we exit a project, we evaluate this impact. We assess the business success of the project or company, but also its impact on the local economy, community and environment.

We have created several tools for this purpose, such as:

- An Economic Development Impact Score (EDIS) system – assessing a business's contribution to the local economy.
- The Development Impact Indicator (DII) – gauging the relationship between development impact and volume of new investment.
- Sustrack – our proprietary monitoring system, which tracks clients' progress on the defined ESG action plan.

Related links

[Development impact]

[Development impact evaluation results]

STAKEHOLDERS

FMO aims to build long-term partnerships with stakeholders. These include our clients, employees, shareholders, financial partners, supervisors, the Dutch government, non-governmental organizations, local communities

in which we work, and many more. All these roles require us to take many different perspectives and respond accordingly.

Related links

[Stakeholders]

GOVERNANCE STRUCTURE

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

FMO has a two-tier board structure, with a Management Board and a Supervisory Board.

The Management Board develops and implements FMO's strategy and is responsible for ensuring we comply with relevant legislation and regulations. It comprises three statutory directors: the Chief Executive Officer (CEO), the Chief Investment Officer (CIO) and the Chief Risk and Finance Officer (CRFO).

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

Related links

[Management Board biographies]

[Report of the Management Board]

[Supervisory Board biographies]

[Supervisory Board Report]

REPORTING POLICY AND JUSTIFICATION OF CHOICES

Since 2006 we have integrated sustainability reporting into our annual report.

We aim to report on material elements only: policies published in previous years are, for example, not explained or mentioned if there are no changes and if no situations occurred that require reporting. In addition our environmental and social impact is most affected by our investments and thus by our clients, rather than by our own work at our Hague office in the Netherlands where labor, environmental and social standards are already high.

This report covers all FMO's activities globally on a consolidated company level.

FMO's annual report covers activities that took place or had an effect on the reporting year. FMO strives to publish its integrated financial and sustainability report annually by April. It is then submitted for adoption to the Annual Meeting of Shareholders, which generally takes place each May.

Global Reporting Initiative (GRI)

FMO follows the [Global Reporting Initiative] (GRI) 3.1 sustainability guidelines plus the financial sector supplement, which sets the basis for our reporting method.

Self-assessing our annual report according to the GRI 3.1 standards, our report rates at Level B+. We aim to improve this to A+ in the coming years.

For ease of reference, we have indexed the content of this report in a [GRI matrix]. We use the 'comply or explain' principle.

Related links

[GRI website]

[GRI matrix]

Transparency Benchmark

FMO participates in the Dutch [Transparency Benchmark].

Our score increased from 142 points for our 2009 annual report to 152 for our 2010 annual report out of a possible 200, scoring higher on elements such as verification and social aspects. An overview of the scores of both years is available on the website of the Transparency Benchmark.

We continue to strive for transparency; our (most important) policies are available online as well as our investment criteria, exclusion list, previous reports etc. In each of our reports we strive for materiality and relevance to the reporting year.

For ease of reference, we have created an index based on last year's [Transparency Benchmark matrix] to provide you with a quick reference guide to all available information.

Related links

[Transparency benchmark website]

[Transparency benchmark matrix]

Assurance

FMO reports according to the requirements of the Dutch civil code, or more specifically section 2:391.

FMO asked KPMG Sustainability to provide limited assurance on the Report of the Management Board section of this Integrated Annual Report. The assurance is conducted using the ISAE 3000 standard.

Our annual report again received assurance on both the annual accounts and report of the management board. The KPMG assurance report is deemed

by the [NBA] to serve as an example report for integrated assurance.

Related links

[KPMG Auditor's report]

Selection of topics

FMO's annual reports cover activities that took place or had an effect on the reporting year, but for the selection of topics we also make use of the GRI system including, where relevant, the financial sector supplement, developments in the markets in which we are active and in general, listening to stakeholder wishes and following the guidelines set by Dutch law.

For FMO's reporting we are on route to report on a GRI A+ level and in our search for transparency we believe that we should at least publish our position on these topics.

Quality of data

The data presented in this annual report comes from the various systems FMO uses for registering and monitoring its organizational processes. Naturally different systems are in place for registering our portfolio or for registering and monitoring our internal human resources.

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

Manner of reporting

Our report is written and structured to be published online. This means you may find some repetitions in the texts and tables. This is based on the assumption that an annual report is hardly ever read from cover to cover and a more diverse group of stakeholders wishes to find more information in our report.

FMO strives to publish its integrated financial and sustainability report annually by April. It is then submitted for adoption to the Annual Meeting of Shareholders, which generally takes place each May.

Case studies to clarify

Throughout this report, you can find case studies that clarify our activities in 2011 and provide context. The cases are not necessarily a representative selection of the portfolio or of new contracts throughout the reporting year. Cases can only be selected if they were contracted, paid out or exited during the reporting year. However, in this report, we also included for the first time some cases that were part of the annual evaluation round. This allows us to show some examples of how projects have developed five years after their start, or at exit.

CONTACT US

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

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Report of the Management Board

FROM THE CHIEF EXECUTIVE OFFICER

Despite the clouds gathering over the global economy, FMO had an overall positive 2011. Our portfolio size and development impact improved further and we enhanced efforts to stimulate knowledge exchange and innovation, even though our profit was not as high as last years' results.

Our approach - working at the frontiers of development finance, investing capital in projects and places where others cannot or will not venture - paid off again in 2011. FMO's relevance was reaffirmed as many western commercial banks hit by the eurozone crisis reduced their lending in emerging markets.

The economic crisis in the developed world is having far-reaching consequences, accelerating fundamental changes that are already underway. Three profound and interconnected global trends are becoming increasingly evident for FMO.

Profound global shifts

The first trend is the shift of economic activity and political power from the West to the East and South. This is changing the pattern of capital flows in the medium term, with more commercial capital flowing to emerging markets, but also flowing from countries such as China and India to Europe. This is creating a multi-polar world, which fosters equality instead of dominance between countries.

The second trend is a shift in the pattern of poverty. Twenty years ago, more than 90% of the world's poor lived in low-income countries. That has fallen below an estimated 30% as the countries inhabited by the poor have grown richer. The basis of development cooperation is moving towards equality, with the focus on developed and developing

countries doing sound business together and growth in private sector is now more important than official development aid.

The third trend is the continuing mismanagement of global public goods, such as carbon emissions, water, forestry and fisheries. With forecasted growth rates, and given the growing middle class in emerging markets, we will need 2.3 planets in 2050 to sustain our lifestyles. We cannot solve the problem by reducing (economic) growth, because developing countries need economic growth to reduce poverty. Instead, we need drastic changes in the way we all produce and consume.

I believe this third trend to be the most important in the long term. And for FMO, it means that our activities should contribute to the goal of nine billion people to live well within the means of our planet by 2050 – assuring them of sufficient food, clean water, sanitation, shelter, mobility, education and health.

Such factors explain our decision to add Agribusiness, food & water as an FMO focus sector in 2011. The growth in the world population, and the increasing middle-class population in developing countries, means a relentless rise in food demand. The agriculture industry is a major emitter of carbon dioxide and uses 75% of the world's ever-scarcer water supply, though the increased productivity provides jobs for many people in developing countries.

Sustainability is a must

Companies increasingly grasp the importance of sustainability. Crisis or no crisis, they see more and more the vital need to take their social and environmental responsibility, if

they are to retain their markets over the long term. FMO's role is to invest in entrepreneurs who have a positive impact on economic growth and reducing poverty, and who manage their impact on the environment, and people responsibly.

Creating a sustainable planet demands true innovation and a partnership approach, a dialogue.

To remain a front runner in development finance, FMO must acquire, build and better share knowledge – both inside our bank and with external partners. We need to remain innovative, both devising new initiatives and introducing innovations from one market into another. By using our knowledge and innovation to help achieve successful projects in frontier markets, FMO can also mobilize financing from others – one of our key strategic aims.

As our 2011 achievements show, we are well positioned as we prepare to embark on a journey to ensure nine billion people can live well within the means of our planet. I would like to thank all FMO's employees for their achievements during 2011. Working in partnership with all our stakeholders, I am confident that together we will be able to grow our impact again in 2012.

Nanno Kleiterp

Chief Executive Officer

Related links:

[Outlook 2012]

[Vision 2050; 2.3 planets needed by 2050]

[Poor Countries or Poor People?] Development Assistance and the New Geography of Global Poverty Ravi Kanbur and Andy Sumner

OUTLOOK 2012

Although developed countries are likely to experience low or in some cases even negative economic growth rates in 2012, emerging countries are set to continue growing, albeit more slowly than in 2011.

The eurozone debt crisis, the high level of public debt in the US and other countries and continued pressure on western banks, have diminished confidence in growth prospects for the US and Europe in 2012. This will affect emerging markets that depend partly on capital flows from and exports to these markets. They are likely to see reduced trade flows, volatile commodity prices, exchange rate fluctuations and decreased foreign direct investments.

More cyclical sectors such as commodities, mining, ports and real estate, as well as the financial sector may be hit. The extent of all these factors is difficult to predict, but there is likely to be impact on FMO's portfolio. Of course we monitor these developments closely.

Commercially, FMO enters the year in a position of strength, with a well-filled pipeline. For funding and liquidity, we expect as a top quality sovereign agency borrower to enjoy continued market access. The quality of our equity and loan portfolio may come under pressure due to market circumstances. If the eurozone crisis were to deteriorate into a disorderly default of some member countries and/or the euro were to be abandoned, a deep recession in Europe would ensue. This would also impact developing countries and, in turn, the quality of FMO's portfolio and our access to long-term funding.

Regarding our strategy, next year marks the last of our 2009-2012 strategic period. During 2012, we will draw up our strategy for the period 2013-2016.

Prime focus areas for FMO in 2012 are:

- Innovation and leadership
- Sustainability
- Partnerships
- Catalyzing funds of (commercial) third parties

Innovation and leadership

The year 2012 will see a continuation of the current strategy with a focus on innovation and leadership. We will invest not only in the innovative companies, projects and partners, but will also not stay away from innovation in forms of finance.

We seek leadership especially through becoming a more prominent investor in the Financial institutions, Energy, Housing, Agribusiness, food & water sectors.

Sustainability

In the past years environmental, social and governance (ESG) policies have been integrated successfully into the business, with the focus to date mainly on environmental and social issues. With the increased regulation concerning governance and compliance, corporate governance will acquire a more prevalent role in 2012.

The increased attention to climate change offers opportunities for FMO to mobilize private sector funds for climate change. Our expanding sustainable energy portfolio gives us a good basis. We will undertake more climate change activities, in order to position FMO further as a leading Development Finance Institution (DFI) in climate finance.

Partners

Our partners remain an important source for knowledge sharing and deal sourcing. To strengthen our cooperation with [DEG] and [Proparco], in 2011 we signed a friendship facility cooperation agreement and drafted accompanying operational guidelines. In 2012, we will also open a shared office with DEG in Johannesburg. This will strengthen our sourcing capacity and enhance our service to clients who require a larger amount of financing, and will give us scope to take on more lead management roles.

With IFC, one of our main partners, we will explore further cooperation through initiatives in Anti-Money Laundering (AML), Know Your Customer (KYC), ESG and mobilizing funds. Statements on [AML] and [KYC] are published on FMO's new website. The cooperation with [BIO] on energy and infrastructure transactions is a success and a proof of trust resulting from the good performance of FMO. With EBRD we have and will continue to make steps in aligning our processes and in improving our mutual understanding and communication.

Besides our DFI partners, we will also continue to work with our broad network of private equity fund managers and our core commercial banking partners including Rabobank, Citibank, Deutsche Bank, Standard Chartered, [RBS] and [ING].

Mobilizing finance

We will actively explore opportunities and work on new initiatives to catalyze funds with other DFIs and/or commercial parties. Our focus will be on taking lead management roles in transactions in our focus sectors, thereby mobilizing funds

from both commercial banks and other DFIs.

Catalyzing commercial funds will mainly take place in more developed financial markets. At the same time, our partnerships with other international DFIs will enable us to catalyze money in countries where it is difficult for commercial investors to operate.

Related links

[Mobilizing finance]

Development impact

Underlying our agenda and business plans for 2012 is our continued focus on realizing, measuring and communicating our development impact to our stakeholders.

Although we have an extensive scoring system in place to indicate expected impact at the start of each project and began working with quantitative indicators in 2010, we continue to seek a better tool than the Economic Development Impact Score (EDIS) for making our expected impact more comprehensible and transparent for all.

One of the main difficulties lies in creating scores for the expected impact that our investment has on the clients of our clients. Although we provide guidance on setting up environmental and social risk management systems, this does not provide information on the direct or indirect impact that our financing eventually may have. Many other factors can make either positive or negative contributions. Thus making it very difficult to measure our (expected) impact.

FMO IN 2011

When 2011 began it was expected to be the second year of recovery from the global economic crisis of 2008, but the economic outlook for both the short and long term grew more uncertain during the year as problems in the eurozone deepened.

Despite the worsening of the debt crisis in Europe and political wrangling in the US over a deficit reduction plan, the fundamentals of emerging and frontier economies, and the investment climate there, generally remained strong. Some, such as India, showed signs of overheating and were forced to apply the monetary brakes.

Some nervousness came into emerging markets during the second half of 2011 as eurozone problems deepened, the global investment mood became less bullish and concerns intensified over capital flows, commodity prices and possible contagion from developed markets.

Yet this only made FMO more relevant as western commercial banks, struggling with the quality of their portfolios and deleveraging to meet increased capital requirements, reduced their lending in emerging markets.

For 2011 as a whole, FMO can look back on a successful year in which we achieved most of our targets and key strategic objectives in terms of both financial performance and development impact.

It was the third year of our strategy centered on focus sectors. Our focus sectors of Financial institutions, Energy and Housing increased their committed portfolio sizes.

We also saw growth in our activities in other sectors. Among the key market trends we observed during 2011 was the increased attention from governments and [NGOs]

to the development impact we create. 2011 was the second in which we used quantitative indicators to detail the social and environmental impact of our projects, enabling us to make more meaningful comparisons in the years to come.

We outperformed on all our development impact targets: new commitments, new commitments in low-income countries, catalyzing more funds and average Economic Development Impact Score (EDIS).

New commitments were overall substantially stronger than in 2010, especially in the Energy sector.

We have a strategic focus on low-income countries, as agreed with the Dutch government. We have also chosen this focus because access to long-term finance is even more limited in low-income countries than in other developing countries. The share of the low-income countries of our total portfolio (excluding government funds) rose again in 2011, to 41%. This was well above our long-term target of 35%, and compares with 31% at the creation of our current strategy in 2008.

Our average EDIS was 66, above our target of 64 that we had set for each year of the current strategy. This was mainly reached through a large number of energy projects contracted in 2011, which on average have high EDIS scores.

Our operational result was above that of 2010, primarily due to higher income from our growing loan portfolio.

We initiated several innovative projects, such as a joint Development Finance Institution (DFI) sector approach in Nigeria and Bangladesh to encourage banks and regulators

to create a more sustainable financial sector in their countries. On the social side, we pioneered the introduction of the Consumer Protection Principles by awarding a consumer finance client a margin discount for successfully implementing the principles in its business. We successfully completed feasibility studies on climate change mitigation initiatives.

In November, we organized a conference on boosting investment in sustainable forestry. We are one of the first DFIs to work in that area.

Mobilizing funds for our markets was a strategic focus in 2011. We placed more emphasis on finding opportunities to catalyze funds in which FMO was either joint or sole mandated lead arranger of US \$50 million or more. We outperformed our target to mobilize US \$500 million through syndicated loans, parallel loans and/or risk-sharing agreements. Together with experienced partners, we are exploring establishing two new investment funds for institutional investors.

Partnership is key to FMO, and last year we further formalized collaboration with German and French DFIs DEG and Proparco. We finalized preparations for establishing a joint office in Johannesburg with DEG in 2012. With both partners we set up a joint facility agreement and signed a memorandum of understanding to create a joint initiative to finance the food supply chain.

We co-led a push for the adoption of a common approach to integrating corporate governance in investments. This culminated in the leaders of 29 DFIs signing the Corporate Governance Development Framework, a set of guidelines to support sustainable economic development

in emerging markets, in Washington in September 2011.

The coming year is the last of our 2009-2012 strategic period and we devoted time and effort in 2011 to reviewing our strategy. Our managers embarked on 'Journey 2020', a process to determine where FMO will be in 2020 and contemplate how we will get there. Information gathered will feed into the evolved strategy we will set in 2012.

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studies that clarify our activities in 2011 and provide context. The cases are not necessarily a representative selection of the portfolio or of new contracts throughout the reporting year. Cases can only be selected if they were contracted, paid out or exited during the reporting year. However, in this report, for the first time we also include some cases that were part of the annual evaluation round. This allows us to show some examples of how projects have developed five years after their start, or at exit.

COMMITTED PORTFOLIO PER INCOME GROUP (RATED ON DATE OF COMMITMENT, INCL. GOVERNMENT FUNDS)

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COMMITTED PORTFOLIO PER SECTOR 2010 VS 2011 (€XMLN)

	Financial institutions		Energy	Agribusiness, food & water		Diverse sectors	Total
	Non investment funds	Investment funds		Housing			
2011	1,884	1,103	1,017	420	330	1,120	5,874
2010	1,742	1,056	690	407	334	1,063	5,292

Note: 2010 figures of sectors are in some cases adjusted for comparative analysis between the new sector segmentations.

COMMITTED PORTFOLIO PER SECTOR PER REGION (€XMLN)

2011	Financial institutions		Energy	Agribusiness, food & water		Diverse sectors	Total
	Non investment funds	Investment funds		Housing			
Africa	440	341	450	148	7	362	1,748
Asia	403	285	236	96	83	415	1,518
Latin America & the Caribbean	420	128	270	95	157	169	1,239
Eastern Europe & Central Asia	535	212	49	81	69	135	1,081
Non-region specific	86	137	12	0	14	39	288
Total	1,884	1,103	1,017	420	330	1,120	5,874

GROUP PERFORMANCE**Financial highlights**

Key financial results in 2011 include:

- €1.306 billion in new investments (2010: €1.026 billion);
- €5.9 billion total committed portfolio (2010: €5.3 billion), of which 44% was in low-income countries;
- €93 million net profit (2010: €126 million).

Please see [Financial Results] section for details.

Operational highlights

Highlights of 2011 can be found throughout this annual report. Here are some of our key operational achievements:

- We added a fourth focus sector – Agri-business, food & water. This will allow us to use and further expand our experience and expertise in this key sector, which we believe has a very high potential for

development impact in terms of boosting food security and alleviating poverty.

- We maintained our focus on low-income countries. Some 44% of our portfolio is committed to these markets.
- We realized attractive private equity exits of our own portfolio companies and benefitted from various profitable exits in our funds portfolio. We completed 27 private equity investments, the majority of them direct investments.
- We upgraded and implemented new Client Risk Rating scorecards, validated by Moody's. The four new scorecards – Bank, Non-Bank Financial Institutions, Corporate and Project Finance – generate ratings comparable with those of S&P and Moody's, satisfy Basel requirements and enable us to use our capital more efficiently.
- Funding was further diversified, by issuing [AUD] and [CAD]-denominated bonds.

- We mobilized more third-party funds to emerging markets, in line with our strategic objective. We outperformed our target to mobilize US \$500 million through syndicated loans, parallel loans and/or risk-sharing agreements.

Development impact

FMO calculates the ex ante economic development impact of its investments using the Economic Development Impact Score (EDIS). With this tool, we assess the potential contribution that the activities we finance, make to the local economy. It is part of the FMO scorecard application. This is our instrument for judging and tracking FMO's investments in a uniform and objective manner – it is developed to objectify and weigh risks and to assess the impact of each potential project.

In 2011, the average EDIS of our new

NEW CONTRACTS PER SECTOR PER REGION (€XMLN)

2011	Financial institutions		Energy	Housing	Agribusiness, food & water	Diverse sectors	Total
	Non invest- ment funds	Investment funds					
Africa	146	0	160	40	0	110	456
Asia	127	37	60	0	16	67	307
Latin America & the Caribbean	106	8	88	24	26	27	279
Eastern Europe & Central Asia	103	0	45	15	13	49	225
Non-region specific	12	20	0	0	0	7	39
Total	494	65	353	79	55	260	1,306

2010	Financial institutions		Energy	Housing	Agribusiness, food & water	Diverse sectors	Total
	Non invest- ment funds	Investment funds					
Africa	85	56	32	44	1	63	281
Asia	74	39	1	53	21	88	276
Latin America & the Caribbean	108	13	71	18	52	24	286
Eastern Europe & Central Asia	74	15	0	11	14	17	131
Non-region specific	19	1	0	0	5	27	52
Total	360	124	104	126	93	219	1,026

commitments was 66, well above our current strategies target of 64. A target we annually wish to reach and one we can only reach by having a sufficiently high EDIS on average for every new commitment. This year it was amongst others reached through a large number of energy projects and private equity deals which often have a relatively high EDIS.

Our Development Impact Indicator (DII) provides insight into the relationship between development impact and the volume of new investment. We calculate the DII by multiplying the EDIS score by the amount of new investments in millions of euros, and dividing this figure by 100.

DII was 861 in 2011, up from 687 in 2010. A higher DII reflects our aggregated developmental footprint, with a greater volume of impact investments ultimately generating benefits for a greater number of people.

In addition to EDIS and DII, FMO has developed a set of quantitative impact and outreach indicators to provide more detail on our economic development impact. Gaining more insight into the impact of our investments helps us optimize our portfolio's impact.

Quantitative indicators

Post-investment, monitoring of clients' achievement of the stated potential development impact becomes pre-eminent. For this purpose, FMO has developed and collects industry-specific (quantitative) indicators for our whole portfolio. For example, if we finance a textile company, the construction of a new power plant, or a bank, we want to find out the number of jobs created, the number of households that gain access to electricity or the number of loans extended to micro, small and

medium-sized enterprises (MSMEs), respectively.

The data - on areas such as employment created or local tax income generated - are estimated ex ante, monitored and eventually measured ex post.

The year 2011 was the second year in which we used quantitative indicators to detail the social and environmental impact of our projects. However 2010 and 2011 data are on a portfolio level not strictly comparable; General figures would be based on a changed portfolio of FMO clients, indicator definitions and reporting periods vary to some extent across clients.

Besides this, FMO is often a minority investor and therefore the results of these quantitative indicators cannot be attributed exclusively to FMO. These results should be seen more as the results or current statuses of our clients. All this is why we have chosen not to publish the portfolio wide quantitative indicator figures. Publishing them could lead to the comparing incomparable figures and thus possibly wrong conclusions.

SUSTAINABILITY

Upholding high sustainability standards is integral to FMO's business. Our Moving Frontiers strategy, which aims to further enhance our development impact, emphasizes the importance of meeting environmental, social and governance (ESG) standards. Complying with international standards and ESG criteria has several benefits. FMO has noted that clients who realize a high financial return on investment typically tend to adhere to high ESG standards.

FMO strongly believes that focusing on ESG criteria can help businesses identify opportunities for revenue growth and market access. It stimulates innovation and can help save costs. It can also help businesses increase productivity, enhance access to capital, open up new markets and bring their risk management to a higher level. We are committed to sharing our sustainability expertise and knowledge with our clients, peers and partners. Through this cooperation, we aim to raise ESG standards among businesses in developing countries.

Sustainability management approach

The Management Board of FMO is responsible for the development and implementation of FMO's sustainability policy. Day-to-day sustainability management is delegated to the Manager of Sustainability Development. The directors of each of FMO's five front office departments (Energy & Housing, Financial Institutions, Agribusiness & Diverse Sectors, Private Equity and Financial Markets) are responsible for implementing sustainability strategies and developing initiatives in their departments. Directors are supported by managers and environmental & social (E&S) specialists. FMO's own environmental footprint is managed by the Director ICT & Facility Services. We address our suppliers on their environmental and social

behavior whenever we deem relevant and possible to such an extent that is acceptable for FMO. Applying a practice what we preach attitude.

Innovations in sustainability

Innovating in sustainability was a priority in 2011. We showed our commitment through a number of initiatives:

Financing private sector climate change initiatives by organizing a [Boosting Investments in Sustainable Forestry and Forest Carbon Conference] in Amsterdam. Committed a record amount of €287.7 million to sustainable energy projects and took the lead joint structuring role in [KivuWatt] and [Addax] - two groundbreaking projects that have been recognized internationally with Project Finance International awards.

Our Financial Institutions department held sustainability round table discussions with the central banks, commercial banks and regulators in Bangladesh and Nigeria. In Cambodia we engaged with the micro-finance sector on consumer protection. And together with DEG, we organized a round table event focusing on environmental and social issues for African fund managers.

Although FMO currently does not finance any palm oil projects we partnered with the [World Wildlife Fund] (WWF) and CDC to produce a report on the Profitability and Sustainability in Palm Oil Production. This is one of the first studies of its kind in that it aims to demonstrate the business case for certification at an industry/sector level. This report surveys the financial costs and benefits experienced by growers of palm oil through the implementation of Roundtable for Sustainable Palm Oil (RSPO) certification.

We also held a round table event on sustain-

ability with representatives of the Indonesian banking sector where we discussed the study on the possible creation of a private sector FIT Fund in Indonesia.

In 2011, FMO worked to demonstrate the 'business case' for sustainability. We assembled case studies from our own portfolio that demonstrate how our clients have successfully integrated sustainability into their production processes, thereby mitigating risks and reaping benefits which are ultimately reflected in stronger financial performance. In 2012, FMO's investment officers will use these business cases in the field, as vivid examples to communicate the added value of ESG to our prospective clients' business activities.

Related links

[Sustainability case studies]

ESG action plans

ESG action plans have been a part of FMO's financing process for many years. Over the past few years we have made these plans [SMART], which means we now aim to help improve our clients' ESG performance in a more concrete and practical way. For each action plan, we identify the most relevant ESG criteria, assess which criteria have been met and list the measures that need to be taken to meet those still outstanding. The ultimate goal of these measures is to mitigate a client's ESG risks and if possible capitalize on ESG opportunities. We agree on changes with the client, which may include reducing CO2 emissions, obtaining an independent certification, improving labor conditions, or meeting legal minimum wage requirements.

We oversee action plan implementation through our proprietary Sustrack monitoring system, used for the first full year in 2011

following its 2010 introduction. Sustrack allows us to monitor the ESG performance of clients on a continuous basis, enabling swift intervention when necessary.

We help clients to meet ESG requirements where possible and enter into dialogue with clients who fail to implement measures agreed upon in their ESG action plan. The ESG standards FMO applies are those of the International Finance Corporation. (For more on the IFC Performance Standards, see [www.ifc.org]). We also adhere to or are an active subscriber to and/or participant in:

- Client Protection Principles of the [Consultative Group to Assist the Poor]
- [Common DFI Approach to Corporate Governance]
- [Equator Principles]
- Global Impact Investing Network [GIIN]
- [OECD Guidelines for Multinational Enterprises]
- United Nations Environment Programme Finance Initiative [UNEP-FI]
- United Nations Principles for Responsible Investment [UN-PRI]

In 2011, we again demonstrated our commitment to ESG by achieving 80% of our 128 action items. Since 2010, FMO has set a company-wide target to realize at least 80% of the overall action items due each year. It is our aim for 2012 to realize at least 85% of all the agreed action items due in 2012. Our directors and managers are responsible for meeting the targets, making FMO one of the first banks to add ESG targets to its financial targets.

ESG incentives

FMO continues to carry out the pilot project to encourage clients to implement ESG best practices through an incentives mechanism. As far as we know, we are the first development bank in the world to have developed

a framework to offer a reduced interest rate to borrowers who meet ESG standards within a set timeframe. We term this pricing incentive a 'margin reduction incentive'. FMO works with third-party consultants who assess whether client agreements have been fulfilled.

This innovative lending approach, which reflects FMO's philosophy of partnering with our clients and offering concrete financial benefits for ESG compliance, was very well received in 2011, both by clients and DFIs. Following close review of ESG action targets via our Sustrack monitoring system, one of our clients – Banco Continental in Paraguay – qualified for this margin reduction incentive in 2011.

In 2012, we will evaluate the pilot on the margin reduction incentive and continue streamlining sustainability into our business ensuring our clients implement contractually-agreed ESG action plans.

To find out more about Banco Continental, please visit last [year's report].

Improving corporate governance in practice

Improving our clients' corporate governance is a key part of our ESG focus. Here are some of the examples which took place in 2011.

One of the main highlights on the corporate governance front last year was the World Bank meeting in September 2011. This forum saw the leaders of 29 Development Finance Institutions adopt the [Corporate Governance Development Framework], a common set of guidelines to support sustainable economic development in emerging markets. By signing the Framework, FMO and fellow signatories are strengthening

their coordination and commitment to fostering transparency, accountability, and good corporate governance among the clients we finance. To do so each signatory agreed to appoint a corporate governance representative, responsible for integrating corporate governance considerations on the part of their (prospective) clients as a key part of their investment operations.

We work with fellow DFIs to harmonize the tools we use to assess new clients' corporate governance. For the past few years, DFIs have been using a toolkit that was co-authored by FMO, which helps map their client's strengths, weaknesses and corporate governance goals. The toolkit was officially adopted by the signatories to the framework during the World Bank meeting in September.

FMO used the corporate governance toolkit in select pilots in 2011. It sets a clearly structured roadmap that both we and our clients can consult, yet is flexible enough to differentiate between clients according to their development stage. Last year we organized three sessions to educate FMO investment officers about our corporate governance policy and tools. We also extended these corporate governance trainings to European Development Finance Institutions (EDFI) members, helping enhance understanding throughout the industry of how to best use the toolkit.

We actively participated in corporate governance conferences, seminars, director trainings and other knowledge-sharing activities with sister development finance organizations.

Related links

[Corporate Governance Development Framework]

Embedding ESG

In 2011, FMO took steps to further embed sustainability in the organization. Board members sought to enhance awareness of the importance of embedding sustainability by addressing ESG issues, and stressing FMO's commitment to sustainability, in presentations and speeches at quarterly staff meetings.

The management team of our Financial Institutions department successfully concluded the three-week United Nations Environment Program training. Through training offered by FMO, employees participated either in corporate governance or ESG training.

FMO appointed 2 new Environmental and Social (E&S) specialists, making sure every front office department has at least one ESG expert available to advise staff on client-related ESG issues. The total number of E&S specialists at FMO increased to 13 FTE from 11. Our ESG criteria including for example human rights issues are embedded in our [investment criteria] and [exclusion list]. These are available on our website.

Our goal for 2012 is to further embed corporate governance into FMO's own processes.

Reducing FMO's own footprint

FMO's largest footprint is through our clients' impact and our own air travel to and from client meetings. Thus as part of our long-standing goal to reduce our environmental footprint, FMO employees can take an online IFC Performance Standards course to learn about our environmental, social and sustainable investment activities.

In 2011, we once again took steps to reduce our ecological footprint by limiting our

use of resources such as energy and paper. We introduced new printers that use wax rather than toner, energy-efficient computer monitors and continued efforts to become a paperless office by digitizing the disbursement process. Striving for sustainable supply chain management, we prefer suppliers that have ESG standards acceptable for FMO and offer the best combination of sustainable products, services and entrepreneurship.

Our office building in The Hague is A-label certified in terms of energy efficiency on a scale of A (most efficient) to G (least efficient); the electricity we buy is so-called 'green energy', generated from hydropower. Our heating is provided by waste water from the city's heating. In 2011, FMO used Gold Standard rights to compensate its CO₂ emission. These are currently the highest level of compensation rights available. Gold standard rights also include compensation for CO₂ emission for employees' use of public transport for their daily commute. A substantial part (approximately 35%) of our workforce uses trains, buses or trams on a daily basis. For more details, visit the ['FMO's footprint'] page on our website.

Development impact evaluation results

FMO's investment selection process is focused on optimizing contributions to private sector growth and development, which in turn will lead to economic growth and development. To verify actual realization of expected impact, FMO evaluates projects after five years or on exit if earlier.

The evaluation assesses the business success of the project or client company and its impact on the local economy, community and environment. Furthermore, we look at our investment outcome and the role and contribution of FMO to the project's outcomes.

In other words, was FMO's financing additional or catalytic to the market or did we provide guidance on for example ESG aspects. All this allows us to investigate to what extent the various outcomes are interrelated, and to learn how we can further improve development results.

As much as we expect our projects to succeed, some projects will fail, as a result of the high risk environment in which FMO operates, leading to poor development and investment outcomes. Reasons for success and failure include: external factors, internal (clients') circumstances, market-related factors and how FMO performed its role.

The graph is based on 77 project evaluations taken from all investments made in 2004-2006 for projects financed through FMO's own capital, referred to as FMO-A. Results once again show that FMO has in general not supported projects where there was a significant trade-off between development outcomes and project returns for FMO. More often than not, projects that realize good development outcomes concurrently realize good investment outcomes and vice versa.

Evaluation results of the three-year period provide similar evidence as those evaluated last year for the period 2003-2005, with 65% (2010: 74%) of projects realizing win-win outcomes (good development and good investment outcomes) and 13% (2010: 10%) realizing lose-lose outcomes. In other words, for 78% of projects FMO supported in the period, there was a direct correlation between project development outcomes and investment outcomes (returns for FMO). We can thus deduce that FMO has not necessarily sought profit at the expense of development effectiveness. Business success has been the most important driver for

development impact as clients have to be profitable in order to be financially sustainable, which is necessary if they are to have lasting positive effects on the local economy, and to improve on environmental and social issues.

Projects, in which FMO's performance and contribution was minor, also produced disappointing development outcomes almost twice as frequently than projects where FMO's role and contribution were rated as satisfactory. Hence, we can conclusively say that a significant role by FMO in a project offers potential to increase development outcome success rates.

Where disconnect was observed between development outcomes and investment

returns (outcomes) for FMO, this often reflected FMO's product choice. In 18% of the evaluated projects, with poor development outcomes and good investment outcomes, these involved mostly loans. Where FMO provides a loan, it has a ranking claim on assets/cash flow for loan servicing as well as security packages, which provides some downside protection. Hence, clients have the obligation to make payments when due, even though their underlying financial results (financial/business outcomes) due to the crisis are below expectations which in turn hampers their ability to make any substantial contribution to economic growth.

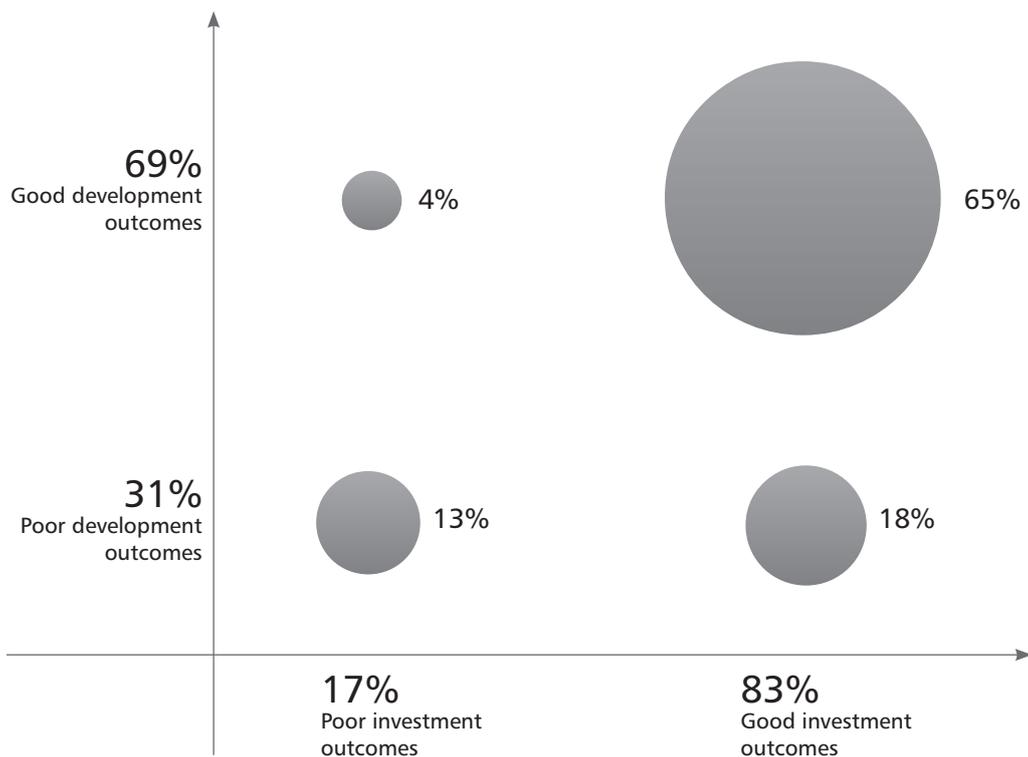
- Evaluations are performed five years after approval of a project on a stratified random sample of all projects and

corrected to create a representative sample of the portfolio.

- The 77 investments evaluated were taken from all investments made in 2004-2006. Evaluation outcomes are thus based on the number of projects rather than volume and are combined average results of these evaluations.
- Outcomes of investments and development are rated as good when the outcome does not have a negative financial or development impact result.

For more on 2011 evaluation results, performance indicators and rating criteria, visit the FMO website: [www.fmo.nl/reports]

77 INVESTMENTS FROM FMO-A, 2004-2006 – DEVELOPMENT VERSUS INVESTMENT OUTCOMES



CASE STUDY

A Latin American bank that didn't make it

A Latin American bank was focused on financing micro, small and medium-sized companies and low-income housing in rural and urban sectors. The objective of FMO's financing was to facilitate the fast growth of the bank in both. Its strategy was to become a profitable, sustainable high quality bank.

But in 2008 the global crisis hit hard and by the end of 2009 restructuring was needed. FMO and other fi-

nanciers continued their support and provided additional capital. However additional factors such as overexposure to the livestock sector and inability to quickly change an inadequate corporate governance structure did not help. The bank was closed by the country's central bank in 2010.

Although the early days showed positive results on economic development, these were in the end very limited in

comparison to what was expected initially. The environmental and social improvements agreed to in the action plan were not achieved mainly due to the increased focus on achieving better financial results.

Contracted initially in March 2006, the investment was provided in various forms including local currency.

Development outcome: unsuccessful
Investment outcome: unsatisfactory

CASE STUDY

Banco FIE: Increased funding at lower costs for Bolivian micro-and small enterprises

Banco FIE is a Bolivian microfinance institution (MFI) whose core activities include lending to micro entrepreneurs, offering savings products, money transfers and remittances, and facilitating payments of utilities, social security and taxes. In March 2006 FMO provided scarce long term local currency finance to Banco FIE, which enabled FIE to grow its local currency denominated portfolio and provide more economic and longer tenor funding to micro- and small enterprises.

Since FMO's investment in 2006, Banco FIE has grown substantially. The loan portfolio increased from US \$102 million in 2006 to US \$582 million in 2011, making Banco FIE the 2nd largest MFI in Bolivia.

FIE has actively contributed to lowering lending costs for its clients by seeking to reduce its interest rates, while maintaining healthy profitability. It is able to do so due to its own increased efficiency and

strong growth. In addition, FIE offers relatively low interest rates for more costly rural and micro loans, hereby increasing financial access. FMO regards the investment in Banco FIE to be highly successful both financially and in terms of development impact.

Development outcome: highly successful
Investment outcome: excellent

FINANCIAL RESULTS**KEY FINANCIAL FIGURES**

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

The year 2011 was another challenging and successful one for FMO. However, the global financial crisis did have an impact on some of our clients.

Due to our deep knowledge of the markets in which we are active, and close contact with our clients, we were able to achieve overall successful results in 2011, even though the global financial crisis affected some of our markets and clients. Sound risk management, a sound capital base and a robust investment selection process also contributed to these results. New commitments increased by 27% to €1,306 million (2010: €1,026 million), well above our target of €1,000 million. As a consequence, the committed portfolio grew by 11% to €5,874 million (2010: €5,292 million).

Of the new commitments, 45% (2010: 48%) were realized in low-income countries. The share of low-income countries in the committed portfolio was 44% (2010: 42%).

Close and intensive contact with our clients enabled us to support and serve them

efficiently and proactively, and reduced the increased risks of the portfolio caused by the market conditions.

Net profit decreased to €93 million (2010: €126 million), mainly due to higher value adjustments on equity investments and lower results from associates. The disbursed loan portfolio growth also led to higher value adjustments on loans.

Total income (including results from associates) declined by 1%. Interest income and results from equity investments formed the largest part of total income. Net interest income increased by 11% to €147 million (2010: €133 million). The growth in the disbursed portfolio and increased credit spread were the main drivers of the higher interest income.

The global financial crisis negatively affected exit possibilities for equity investments.

The results from equity investments decreased by €6 million to €46 million.

Committed portfolio

The committed portfolio grew by 11%

to €5,874 million, of which €912 million (including FOM) represented the funds managed on behalf of the Dutch State.

Of the gross outstanding portfolio (State funds excluded) the local currency financing share remained stable at more than 14%. Of the remainder, 72% of the facilities are in US dollars and 14% in euros.

Loan portfolio developments

FMO concluded the year with a loan portfolio of €2,871 million representing a portfolio increase of about €330 million over 2011.

In 2011 our portfolio quality decreased, visible in the non-performing loan (NPL) ratio increasing from 2.3% to 3.4%. Of the non-performing loans as per December 31, 2011 an amount of €13,432 is guaranteed by a third party. When the guaranteed amount is included the NPL ratio will decrease to 2.9%. In general, the non-performing loans represent a fair cross section of our portfolio and no correlation with respect to specific sector or geographic region has been identified.

In 2011, our (partial) write-offs were limited

HISTORICAL OVERVIEW

	2011	2010	2009	2008	2007
Committed portfolio (€xmln)	5,874	5,292	4,598	4,182	3,403
• Share in Africa (%)	30	28	29	28	27
• Share mezzanine and equity (%)	45	46	45	43	42
• Local currency (%)	13	16	15	16	17
New contracts (€xmln)	1,306	1,026	911	1,314	1,315
Net profit (€xmln)	93	126	60	48	105
Result sale of equity (€xmln)	32	36	16	78	73
Government funds (incl. FOM) of committed portfolio (%)	15	15	18	17	21
Shareholders' equity (€xmln)	1,665	1,514	1,327	1,229	1,182

to three loans, corresponding to 0.6% of our portfolio. Looking at our overall portfolio and the limited number of non-performing loans, we see no trend that would indicate a material deterioration of asset quality.

Equity portfolio developments

As to the private equity portfolio, the positive excess value of the portfolio in relation to its cost price has remained as it was in the previous three years, with

disbursements keeping pace and a moderate value growth in the portfolio.

2011 brought full exits and several partial exits of direct investments. Fund investments also continue to realize exits and return capital to their investors. In general, the carrying amount to cost ratio increased from 118% to 122%. Foreign exchange effects had no material impact on the overall portfolio in 2011.

Income

Total income (excluding results from subsidiaries and associates) increased by 6% to €238 million. The main driver for the increased total income was the net interest income, which grew by €14 million in comparison with 2010 as a result of the portfolio growth.

The disbursed portfolio grew by €316 million to €2,585 million. Both disbursements

DEVELOPMENTS OF THE LOAN PORTFOLIO

(€x1,000)	2011	2010	2009
Gross portfolio loans	2,870,781	2,540,913	2,204,526
Written off amounts	18,433	5,830	8,497
NPL (Principals with arrears > 90 days)	97,350	58,571	78,633
NPLs as % of gross portfolio	3.4%	2.3%	3.6%

DEVELOPMENTS OF THE EQUITY PORTFOLIO

at December 31	2011	2010
Total carrying amount (€x1,000)	795,439	688,187
Total cost price (outstanding amount) (€x1,000)	653,471	582,888
Difference carrying amount and cost prices (€x1,000)	141,968	105,299
Carrying amount/cost price in %	122	118
Impairment % on portfolio	10.6	7.6

COMMITTED PORTFOLIO 2011 PER PRODUCT PER REGION (€XMLN)

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

COMMITTED PORTFOLIO 2011 PER PRODUCT PER SECTOR (€XMLN)

	Commercial loans	Equity	Guarantee	Mezzanine	Total
Financial Institutions excl. investment funds	1,122	182	117	463	1,884
Financial Institutions – Investment funds	2	806	16	279	1,103
Energy	682	159	6	170	1,017
Housing	261	11	8	140	420
Agribusiness, food & water	208	41	5	76	330
Diverse sectors	785	116	42	177	1,120
Total	3,060	1,315	194	1,305	5,874

and repayments increased substantially compared to 2010. In 2011, disbursements totaled €882 million (2010: €619 million) and repayments rose to €554 million (2010: €405 million).

Although the funding portfolio increased, interest expenses remained stable due to lower base rates and slightly lower spreads. FMO's credit quality, reflected in the [Standard and Poor's AAA rating], contributed to our access to global funding markets.

Market conditions diminished exit opportunities for equity investments and consequently results from equity investments decreased by €6 million to €46 million. The results from equity investments comprised exits and dividend income. Dividend income decreased with approximately 10% in comparison with 2010.

The fair value of our equity investments showed a further increase, which is reflected in the available for sale reserve.

Results from financial transactions more than doubled, from €6 million in 2010 to €13.3 million in 2011, thanks to the increased value of embedded derivatives in the emerging markets portfolio.

FMO receives fees for the management of government funds. The remuneration, which is related to the State funds, amounted to €16.9 million (2010: €16.4 million) and is based on a fixed fee.

Compared to 2010, the €0.8 million decrease in the total remuneration for services rendered related to syndication fees and fees received in 2010 for the management of De Nederlandse Investeringsbank voor Ontwikkelingslanden (NIO). In 2010, FMO

transferred its 100% share in NIO's capital to the Dutch Ministry of Finance.

Results from associates and subsidiaries declined sharply from €5.4 million gain to a loss of €9.3 million.

Operating expenses

Despite increased business, we managed to keep operating expenses at an acceptable level. The cost-to-income ratio increased by 0.9% to 22.5%.

Operating expenses increased by €2 million to €52 million. Staff costs and other administrative expenses rose by €3 million amongst others due to the increase of the average FTE from 270 in 2010 to 283 in 2011. Depreciation on fixed assets decreased by €1 million.

Value adjustments

In 2011, total value adjustments doubled to €59 million compared to 2010, mainly as a result of increased impairments on equity investments.

Value adjustments on equity investments increased sharply by €25 million to €36 million.

The additional impairments on equity investments compared to the total value of our portfolio increased to 4.6% in 2011 (2010: 1.6%). Impairments were driven by the individual circumstances of the concerning investments and no general trend in impairments has been identified.

The value adjustments on loans and guarantees increased to €23 million (2010: €18 million). The increased disbursements in 2011 were the main reason for the higher value adjustments on loans, due to the group-specific value adjustments.

Counterparty specific value adjustments declined slightly, reflecting the stable and high quality of our loan portfolio. Management of FMO deems the level of counterparty specific and group specific value adjustments a sufficient reflection of the risks of the portfolio.

Balance sheet

Mainly due to the high level of disbursements total assets rose by €0.8 billion to a total of €5.1 billion.

The rise in total assets can be contributed to the growth in the loan portfolio, investments in equities, interest-bearing securities and short-term deposits. The total asset growth was financed by debt securities and debentures & notes, short-term credits and shareholders' equity.

The on-balance loan portfolio grew by €0.3 billion to €2.6 billion. The percentage of non-performing loans (adjusted for risk participations) in our total loan portfolio was 2.9% (2010: 2.3%), which reflects the stable quality of our portfolio.

In 2011, we augmented our investor base, which gave us the opportunity to further diversify our funding portfolio. We raised €0.5 billion in long-term funding from diverse markets and currencies in 2011, with tenors varying from two years to 10 years.

Shareholders' equity increased by €151 million to a total of €1,665 million due to the accumulated net profit in 2011 and the increased equity available for sale reserve.

FMO's strong capital base is reflected in the high [BIS] ratio of 29.4% (2010: 29.0%). FMO has an additional, more prudent approach to assess the risk weighting

of our loan and equity portfolio in the emerging markets. We have reviewed and refined our internal approach. Our scorecard was benchmarked against peers and best practice in the industry and validated by one of the leading rating agencies.

The BIS ratio based on our internal approach is well above the minimum required by the Dutch Central Bank. Based on the Basel II requirements and our more prudent internal approach, we conclude that FMO has a very strong capital base. This continuously ensures a healthy basis for the inherent risks related to our business.

SECTOR FOCUS

FMO specializes in providing the full range of financial services within four key sectors: Financial Institutions, Energy, Housing and Agribusiness, food & water. These interlinked sectors lay the foundation for FMO's lasting development impact. We also take on projects in other sectors where we expect a similar impact, partnering with banks or institutions that have substantial knowledge of these areas and can provide the necessary expertise. Agribusiness, food & water was introduced as a new key focus sector in 2011.

Financial and infrastructure sector projects are good for development and good for business: they often produce good development results, while simultaneously generating good returns for FMO. Projects in these sectors have knock-on benefits in terms of improving people's quality of life, creating jobs and providing the means for people to study and run businesses. For our clients, this

sector-based structure delivers more specialized knowledge and greater efficiency. They know what they can expect from us, as our expertise relates directly to their business.

Over the recent years we also saw a shift in the global pattern of poverty, which is also having an impact on our regional project selection process. Twenty years ago more than 90% of the world's poor lived in low-income countries (LIC), as defined by the World Bank. Now, less than 30% of the poor live in so-called LIC countries. Many of these countries are becoming wealthier, changing the development landscape as they are increasingly able to address poverty with their own means. In the near future, we expect to see growth in private sector investment and private international foundations as well as tied aid from the former developing countries like China, India and Brazil. Some emerging market banks are now taking lead roles in world rankings. In Asia and Latin

America in particular, liquidity is strong and competition among banks fierce.

FMO is responding to this shifting paradigm. We will in line with our mission, aim to stay additional to the market – sharing knowledge, taking on high-risk, high-development impact projects and placing sustainability at the fore. Each sector requires its own approach in doing so.

We are primarily active in Africa, Asia, Latin America & the Caribbean and Eastern Europe & Central Asia. Our Agribusiness clients are mainly based in Latin America and Eastern Europe, although we plan to expand further into Africa and Asia in the coming years. Our housing activities focus on Africa and Asia and we did a record number of energy deals in Africa in 2011. FMO's Financial Institutions portfolio is active in all regions.

NEW CONTRACTS PER SECTOR PER REGION 2010 VS 2011 (€XMLN)

2011	Financial Institutions		Energy	Housing	Agribusiness, food & water	Diverse sectors	Total
	Non invest- ment funds	Investment funds					
Africa	146	0	160	40	0	110	456
Asia	127	37	60	0	16	67	307
Latin America & the Caribbean	106	8	88	24	26	27	279
Eastern Europe & Central Asia	103	0	45	15	13	49	225
Non-region specific	12	20	0	0	0	7	39
Total	494	65	353	79	55	260	1,306

2010	Financial Institutions		Energy	Housing	Agribusiness, food & water	Diverse sectors	Total
	Non invest- ment funds	Investment funds					
Africa	85	56	32	44	1	63	281
Asia	74	39	1	53	21	88	276
Latin America & the Caribbean	108	13	71	18	52	24	286
Eastern Europe & Central Asia	74	15	0	11	14	17	131
Non-region specific	19	1	0	0	5	27	52
Total	360	124	104	126	93	219	1,026

Note: 2010 figures of sectors are in some cases adjusted for comparative analysis between the new sector segmentations.

Financial institutions

Despite the turmoil in eurozone and US markets, 2011 was a relatively good year for financial institutions in the emerging markets where FMO is active. The quality of our financial institutions portfolio remained strong, and demand was robust throughout most of the year, although market nervousness over the global - and especially European - macroeconomic situation subdued demand in the closing months of 2011.

Our financial institutions activities remained spread evenly between Africa, Asia, Latin America & the Caribbean, and Europe & Central Asia. Demand from Asia was the strongest, Africa was stable and Latin America disappointed as US economic weakness took a toll. Eastern Europe saw a spike in demand

later in the year, largely caused by restrictions placed by the Austrian central bank on the country's commercial banks. Turkey was again a strong source of financial institutions business, both in terms of the number of transactions, and level of innovation.

The crisis situation in Western European countries created opportunities for FMO in Eastern Europe, as Western European commercial banks faced with constraining regulatory requirements partially withdrew. Weakening demand due to the global slowdown was thus partly counterbalanced by an increase in demand for FMO's services as commercial banks pulled out.

A key development last year was that the largest increase in capital flows was in

South-South transactions, such as China to Africa or Brazil. The fact that serious and growing investments are being made in Africa is clearly positive. Ensuring that such transactions fulfill environmental and social criteria however will remain a challenge, and one that FMO is committed to helping address taking on our catalyst role through which we can ensure such criteria.

In 2011 saw FMO enter Malawi for the first time in over 10 years. We supplied a US \$20 million facility to National Bank of Malawi focused on lending to small and medium-sized companies. We also re-entered Zimbabwe with a US \$10 million senior loan to NMB Bank, also focused on SMEs, and are already in talks about a second transaction with this client.

Financial Institutions

NEW CONTRACTS PER REGION 2010 VS 2011 (€XMLN) FINANCIAL INSTITUTIONS EXCLUDING INVESTMENT FUNDS

	2011	2010
Africa	146	85
Asia	127	74
Latin America & the Caribbean	106	108
Eastern Europe & Central Asia	103	74
Non-region specific	12	19
Total	494	360

NEW CONTRACTS PER REGION 2010 VS 2011 (€XMLN) INVESTMENT FUNDS

	2011	2010
Africa	0	56
Asia	37	39
Latin America & the Caribbean	8	13
Eastern Europe & Central Asia	0	15
Non-region specific	20	1
Total	65	124

AVERAGE ECONOMIC DEVELOPMENT IMPACT SCORE 2010 VS 2011

	2011	2010
EDIS	66	67

COMMITTED PORTFOLIO PER REGION 2010 VS 2011 (€XMLN)

2011	Excluding Investment Funds	Investment funds
Africa	440	341
Asia	403	285
Latin America & the Caribbean	420	128
Eastern Europe & Central Asia	535	212
Non-region specific	86	137
Total	1,884	1,103

2010	Excluding Investment Funds	Investment funds
Africa	422	360
Asia	361	266
Latin America & the Caribbean	402	129
Eastern Europe & Central Asia	498	204
Non-region specific	59	107
Total	1,742	1,056

In Latin America, we increased our portfolio in Paraguay with two transactions, one with Banco Regional and one with Vision Banco. The transaction with Vision Banco was partly in local currency, which was a first for us in Paraguay. Only as recently as in 2010 we made our debut in Paraguay by closing two transactions in the financial sector. In all transactions we constructively engage with our clients with regards to their role in environmental issues.

Private equity transactions in the financial institutions sector in 2011 were ample and included an investment in Nigerian insurance company GTAssur, an investment in a greenfield banking operation set up by our partner Afriland First Bank in Liberia, and the acquisition by our partner Bank of Africa Group of a bank in Djibouti. Outside Africa, we supported MBank Holding from the Philippines in setting up a new bank focused on mobile banking and microfinance. During 2011 we realized a profitable partial exit of our investment in Letshego, a consumer finance company in Botswana, and sold half of our stake in African Reinsurance Corporation.

ESG focus

FMO believes financial institutions have a vital environmental and social role to play. Banks can be agents of change, using their daily dealings with the companies they finance to stimulate more sustainable ways of doing business. At FMO, we continue to innovate, experiment and engage in constructive discussions with our financial institution clients to help them play this role, encouraging them to act as responsible citizens. The crisis in the European and US banking systems, where excessive focus on the bottom line and short term results proved ruinous, has thrown this into even sharper relief.

We continued to encourage banks to play a broader role in society in 2011, beyond purely as a source of funds, with discussions on the role they can play in ESG issues with their own clients. This yielded remarkable results in Nigeria, where our engagement over the last seven years through our client Access bank and our own investments in that country, plus engagement with all our clients on their ESG role, culminated in a ground-breaking commitment to sustainable banking. For more information visit our [website].

In May, we financed and co-organized, together with Access Bank, Nigeria's first-ever environmental and social workshop for banks, which brought together over 60 participants from the entire banking sector. In September, bankers came together for Green Finance Week, co-organized by FMO, which concluded with a round table of the CEOs of Nigeria's banks, led by the central bank. Out of those discussions came the banks' declaration that was published in the Financial Times committing themselves to do business more responsibly – something that can have major knock-on impact in a country of 150 million people.

For FMO, this result is a case study in how a relatively modest investment can have a substantial effect in our key area of sustainable development. It also showcases our strength in listening closely to our clients' requirements - in this case, their need for a level playing field on sustainable business practices - and then devising a solution.

We also set a precedent in Bangladesh, where together with the Asian Development Bank and the central bank we organized the

CASE STUDY



Boosting Turkish women's businesses

FMO, together with the World Bank's International Finance Corporation (IFC), provided a US \$40 million loan to ABank in Turkey to help finance small and medium enterprises owned by women entrepreneurs, providing them much-needed access to finance.

The transaction was FMO's and IFC's first loan in Turkey specifically designed to

assist enterprises run by women. Women-owned businesses represent nearly 40 percent of the registered micro, small and medium enterprises in the country. Only 15% of them have access to finance.

ABank puts strong focus on providing financing to small and medium sized enterprises and aspires to develop innovative financial products providing

new opportunities for women in business.

FMO believes that supporting small and medium enterprises is key to further developing the private sector in Turkey.

EDIS: 68

Sector: Financial Institutions

Region: Europe & Central Asia

Investment: US \$40 million loan

country's first round table on how banks can implement environmental and social aspects into their credit approval processes for clients.

Margin reduction incentive

2011 saw continued good results in our pilot project on our margin reduction incentive, whereby we offer a reduced interest rate to borrowers who meet ESG standards within a set timeframe. In some cases the reduction initiative came into effect. In Sri Lanka, we closed an innovative transaction with commercial leasing company CLC, which leases tuk-tuks. Knowing that emissions are substantially lowered if the vehicles are checked and maintained annually, we incorporated into the loan a feature that a third party will conduct such checks and the company will implement the necessary maintenance. If they do this, they will receive a reduction in the interest rate we charge them. This was the first time we have implemented this mechanism with a non-banking institution.

Microfinance

FMO continues to believe in microfinance as

a strong tool for development, so long as it is applied for productive uses and everything is done to avoid client over-indebtedness.

When we engage in consumer finance, we apply the Smart Campaign's Client Protection Principles, since consumer finance institution clients often have a low income, are vulnerable to economic downturn and are often first-time entrants into the financial sector. The Client Protection Principles (CPP) cover areas including avoiding over-indebtedness, as well as ensuring transparent pricing and ethical staff behavior.

Uruguayan finance company Creditel last year became the first FMO client to receive an interest rate reduction for successfully implementing and completing the Client Protection action plan (based on the SMART Client Protection Principles).

Almost without exception the above-mentioned successes have had support from the Capacity Development Program we manage on behalf of the Dutch State.

2012

2012 is likely to see all our markets hit to

varying extents by the economic crisis.

Asia and Africa should be less scathed than Eastern Europe, although the latter should offer ample room for us to grow as some western banks continue to pull out. That tendency among commercial banks to withdraw will in turn require intensified efforts on our part to equal the catalytic effect we had in 2011. For Latin America the outlook is for stable to slow growth, with economies looking set to be dragged down by the still sluggish US economy.

The backbone of our strategy will be to increasingly treat banking as an industry that has a responsibility to society as a whole. The industry is too important to focus on a single bottom line or a limited number of stakeholders. The companies and projects a financial institution finances should not and cannot be detrimental to the society that actually provides the funding to the bank. Moreover, financial institutions are uniquely placed in the center of the economy which allows them to engage in constructive discussions with their clients to improve environmental or social performance. We will actively support the front runners that have

Energy

NEW CONTRACTS PER REGION 2010 VS 2011 (€XMLN)

	2011	2010
Africa	160	32
Asia	60	1
Latin America & the Caribbean	88	71
Eastern Europe & Central Asia	45	0
Non-region specific	0	0
Total	353	104

COMMITTED PORTFOLIO PER REGION 2010 VS 2011 (€XMLN)

	2011	2010
Africa	450	304
Asia	236	194
Latin America & the Caribbean	270	179
Eastern Europe & Central Asia	49	4
Non-region specific	12	9
Total	1,017	690

AVERAGE ECONOMIC DEVELOPMENT IMPACT SCORE 2010 VS 2011

	2011	2010
EDIS	67	71

identified specific business opportunities in the area environmental or social performance, such as resource efficiency.

Energy

Building on our extensive experience in the energy sector, we continued increasing our financing of energy projects in 2011. Sustainable energy projects (including renewables) are gaining momentum globally, particularly in emerging markets, and this was reflected in our expanding energy project portfolio. Our energy financing portfolio grew to a record high of €1,017 million (2010: €690 million) or 17% of FMO's overall portfolio. FMO's new commitments in renewable energy in 2011 (€228 million) represented 65% of our new

energy portfolio commitments, far above the 40% target in line with our renewable energy strategy.

FMO participated in groundbreaking energy transactions last year. These included our first investment in a [solar photovoltaics] energy generation facility, near Arequipa in Peru. This technology converts daylight into electrical power using solar panels. The two new plants will be the first large-scale solar photovoltaic energy projects in Latin America.

We co-financed a number of energy funds last year. We committed US \$20 million to Equis Asia Fund, which focuses on equity investments in the infrastructure and energy

sectors in Asia. In addition, our private equity team invested €10 million in the Clean Energy Transition Fund, which will help realize projects ranging from hydro-power plants to solar energy to wind parks, primarily in Turkey. We also made our first private equity co-investment in the wind energy sector, in a 96MW wind park in India, together with the [Renewable Energy Asia Fund], a fund we committed to in 2009.

In 2011, our energy and private equity teams closed the Addax Bioethanol greenfield project in Sierra Leone. This is the first large scale bioenergy project to be brought to financial close in Africa, and the largest post-conflict agricultural project to be developed in Sierra Leone. The investment includes an ethanol

CASE STUDY



Pioneering energy project in Rwanda

FMO is keen to participate in energy projects that are sustainable, innovative and boost access to energy for local residents. In August 2011, we co-arranged a financing for KivuWatt, a project that fits all these bills. The project is multifaceted, involving an integrated methane gas extraction and production facility floating on Lake Kivu and 25 MW power plant, located in Kibuye, Rwanda.

The combined project will remove and process otherwise hazardous methane gas trapped in the waters of Lake Kivu, generating critically needed electricity for sale to Rwanda's national power utility. It is the largest private sector investment ever made in Rwanda, where only 6% of

the population has access to electricity.

FMO participated in the US \$91.25 million loan facility financing of KivuWatt with project partners ContourGlobal, a New York based international power-project developer, Emerging Africa Infrastructure Fund, the African Development Bank, and Belgian Investment Company for Developing Countries (BIO) as other financiers.

KivuWatt is a challenging project due to the highly explosive nature of the gas, situated below the lake's surface. By tapping this indigenous fuel, the project will significantly lower the cost of electricity necessary to drive Rwanda's

fast growing economy. It is also the first large scale use of the gas, the extraction of which will greatly mitigate the environmental threat of a natural release of the lake gases, while providing an environmentally-friendly and sustainable source of power generation.

Media coverage:

[CNN]

[BBC]

EDIS: 78

Sector: Sustainable Energy

Region: Africa

Investment: loan of US \$91.25 million contracted in August 2011

production facility and plant that will use bagasse (byproduct from ethanol production) as feedstock, delivering 15 MW excess power to the grid under a 20-year power purchase agreement (PPA) with a government guarantee. This makes Addax the first independent power producer (IPP) in Sierra Leone. FMO and Emerging Africa together played a major role in catalyzing additional funding from other partners for this project.

Although energy projects often take a long time to become viable for finance, FMO participated in a record number of deals in Africa in 2011. We took part in five private sector energy projects there - not only a milestone for us, but also the first time in the past decade that five private sector projects have been financed in Africa in a single year.

Strategic priorities

Financing energy projects is a major priority of our strategy. We focus on the full chain from exploration and transportation to generation and distribution, with a strong emphasis on sustainable energy.

Enabling access to energy in low-income countries is at the top of our strategic agenda.

In 2011, we financed off-grid energy solutions in rural Africa. These smaller-scale projects are vital to building the local infrastructure and enabling basic access. In middle-income countries, we invest in sustainable energy.

In 2011, FMO agreed to participate in the [Interact Climate Change Facility] to enhance combined climate action initiatives, together with Agence Française de Développement, the European Investment Bank and 11 members of the EDFI.

A FMO biodiversity and climate change network group was initiated last year, with the aim of brainstorming on trends and opportunities. A feasibility study was started and resulted in FMO's first investments in sustainable forestry and biodiversity projects.

Another priority is to strengthen our role as a catalyst financier, motivating other development banks, as well as commercial banks, to commit financing for energy projects. In 2011, we acted as mandated lead arranger (MLA) in a variety of large energy transactions, raising FMO's profile and reaffirming our solid reputation in the sector. To this end, we have been in talks with one of our partner organizations, the Belgian Investment Company for Developing Countries (BIO), with whom we will continue to partner in financing infrastructure and sustainable energy projects in 2012.

In 2011, FMO successfully completed two feasibility studies into climate change mitigation initiatives. One resulted in our participation in [Reduced Emissions from Deforestation and Degradation (REDD)] certificates – the first commercial funds of their kind in the market. We also conducted research into setting up a private sector Feed in Tariff fund (FIT) in Indonesia, which will continue in 2012.

In 2011, we committed €353 million in new financing to energy projects, which saw our overall committed renewable energy portfolio increase to €563 million. In 2011, 65% of the new loan commitments in the energy sector concerned renewable energy investments. This means that in early 2012, we already surpassed our goal for end-2012 of committing €400 million to renewable energy financing. Our financing of renewable energy continues to surge from €100 million in 2008.

Related links

[Sustainable energy policy]

Dilemmas

Some of our energy projects present dilemmas for FMO. We seek to balance our ambition to promote sustainable energy with our goal to increase access to electricity in developing markets. In some low-income countries, making energy available to large numbers of businesses and households is presently only feasible by increasing conventional power-generating capacity. In such cases, we may decide to finance conventional power projects, as was the case in 2011 when we financed two emergency fossil fuel energy projects in Bangladesh, in response to the country's tremendous need for electricity.

Sustainable energy projects can also present challenges. For instance, the ongoing Addax bioethanol project in Sierra Leone involves planting 14,000 hectares of sugar cane, developing a sugar cane plantation, constructing an ethanol refinery and a biomass-fuelled power plant. While the plant will supply reliable and affordable energy for 20% of Sierra Leone's national grid, shifting dependence on fossil fuels and reducing greenhouse gas emissions, it also involves relocating several rural families. However, to minimize physical and economic resettlement (avoiding food producing areas), the project layout has undergone several revisions. This has also resulted in limited impact on biodiversity in the area. FMO has high-standard compensation plans in place for these instances. Despite this dilemma, the project is also positively impacting local people by providing direct employment and community skills development programs for people in the area, which is one of the poorest in Sierra Leone. The sponsor has established a Farmer

Development Programme aiming at household food security for all households directly affected by the project which in the first year has proven to be a success. By helping residents make more efficient and effective use of land resources, food security, socio-economic development and agricultural income will be improved in the long run.

The project was preceded by three years of rigorous evaluations of the potential social, environmental and economic impacts. The project developers and land owners in the project area, assisted by a lawyer, agreed on a share in the land lease payments that goes far beyond national legal requirements.

The sponsor entered into intense dialogue with non-governmental organizations to find responsible solutions to all issues related to the Sierra Leone project and will continue to work closely with international and local NGO stakeholders to address similar dilemmas in future projects.

2012

In 2012, we will pursue our strategy to increase the number of energy projects in our portfolio. Despite the challenging

economic climate, we are confident there will continue to be a tremendous global need for power and a growing interest in sustainable energy.

Housing

As the only DFI specializing in financing housing projects, FMO is a front runner in the housing development industry. We continued building our expertise and project pipeline in this field in 2011, financing several new projects.

We expect housing sector transactions to continue to increase in 2012, in line with our strategy to grow the size of our housing portfolio relative to FMO's overall portfolio.

The Housing team signed agreements on six projects in 2011, with a total value of €56 million, including contracts improving availability of mortgage financing. By year-end the housing team had approximately 10 projects in our pipeline. Our total housing sector portfolio had grown to €420 million. FMO partnered last year with Mettle, a major player in specialized financial services in South Africa. We contributed a ZAR 100 million loan to the Mettle debt fund,

established in 2008 as part of a countrywide effort by the financial services industry to increase the availability of affordable housing in the country. The fund (ZAR 850 million) extends loans to affordable housing projects and covers 100% of the project costs, such as land acquisition, site infrastructure and construction of the housing units. Mettle currently finances 11 projects, primarily located in urban areas. With FMO's help, Mettle is moving closer to its goal of financing over 17,000 housing units by 2021.

Strategic priorities

FMO's strategic goal in the housing sector is to finance affordable housing initiatives, geared at lower and middle incomes, in developing markets. We support property developers, banks and microfinance institutions, by focusing both on the supply side (financing construction of houses) and the demand side (by providing long-term loans to financial institutions for mortgage finance). A housing project can only be successful if both sides operate well; financing needs to be available for end-users to pay for the newly-built houses.

FMO seeks to support housing projects, pri-

Housing

NEW CONTRACTS PER REGION 2010 VS 2011 (€XMLN)

	2011	2010
Africa	40	44
Asia	0	53
Latin America & the Caribbean	24	18
Eastern Europe & Central Asia	15	11
Non-region specific	0	0
Total	79	126

COMMITTED PORTFOLIO PER REGION 2010 VS 2011 (€XMLN)

	2011	2010
Africa	148	126
Asia	96	108
Latin America & the Caribbean	95	92
Eastern Europe & Central Asia	81	81
Non-region specific	0	0
Total	420	407

AVERAGE ECONOMIC DEVELOPMENT IMPACT SCORE 2010 VS 2011

	2011	2010
EDIS	66	65

marily in Africa and Asia, that are accessible, affordable and sustainable. We believe such housing can have a profound social impact – empowering and emancipating the individual as well as the community. We see it as a means to stimulate development and lift people out of sub-standard, unacceptable living conditions. We work solely with private sector housing partners. Local governments are only indirectly involved in our projects as they need to provide the licenses and permits.

In 2011, we continued to boost our knowledge of the housing sector, gaining a clearer understanding of how to fine-tune our project partner selection process and best structure our financing to mitigate risk. We prefer to finance projects together with local financial institutions, which share FMO's vision on housing and are able to assist in the structuring and monitoring of the project. Working with knowledgeable local partners is vital, as our experience has proven that housing is above all a local business.

Dilemmas

The housing sector in the developed world

is becoming more challenging as a result of the economic crisis. Circumstances in the developing world, however, are even more difficult, due to the lack of established regulators such as land registries, housing associations and mortgage industries.

The local nature of housing projects results in a strong preference for long-term funding preferably in local currency within the countries where we operate. This is particularly the case when it concerns financing the mortgages. Although this remains a challenge, FMO is committed to mobilizing private sector funds for housing development, as such investment is crucial in solving the affordable housing equation. Governments often have neither the means nor capacity to tackle the housing shortage by themselves.

While we planned to close various transactions in India during 2011 a serious real estate crisis hit the country. High prices, strict government regulations on foreign real estate investments and the global economic downturn resulted in FMO closing fewer projects than expected. This also required us

to put more effort in monitoring the existing portfolio, together with other international lenders. We are currently investigating solutions to address these challenges, including the liquidity issues affecting one of our slum redevelopment clients.

FMO takes the interest of diverse stakeholders into consideration when embarking on new housing projects. For example, redevelopment projects may require inhabitants to be relocated and compensated. The environmental and social impact of projects must be assessed, as well as ensuring the housing is affordable, in the vicinity of schools and health facilities, and compliant with safety regulations. FMO works with local developers to address any potential issues and offers environmental and social impact training for developers where necessary. Last, (local) governments are important stakeholders as they need to grant all licenses before construction can begin.

2012

Our pipeline consists of projects in Africa (Nigeria, South Africa, Zambia and Kenya)

CASE STUDY



Creating affordable housing for middle incomes

A key project in 2011 was providing project financing of US \$20 million for a housing project in the Georgian capital of Tbilisi, undertaken by local real estate developer JSC SB Real Estate, a 100% subsidiary of long-standing FMO client Bank of Georgia. With an average of 3.7 people living in one apartment, Tbilisi has one of the highest densities of inhabitants per household in Eastern and Central

Europe. Supply of affordable housing in Tbilisi lags the high demand.

The project's plot is located in the popular Saburtalo district, a central area with many green areas and good connectivity to shopping and business locations. The project will create affordable, good-quality apartments for families with lower and middle incomes, considerably improving

their standard of living.

EDIS: 67

Sector: Housing

Region: Eastern Europe

Investment: Loan of US \$20 million, contracted on 16 December 2011

as well as Asia (Bangladesh, India and Vietnam). In the years ahead, FMO aims to mobilize other DFIs to become active in financing this crucial development sector.

Although the demand is huge, especially in sub-Saharan Africa, developers only recently started focusing on affordable housing segments. Track records for large-scale projects in general are limited and capital is still scarce locally. The housing sector therefore remains challenging for FMO but given the huge development impact it will remain one of our key focus areas.

Agribusiness, Food & Water

The growth in the world population towards nine billion in 2050, and an increasing middle-class population in developing countries, means an inexorable rise in the number of mouths to feed. Driven by increased market demand, large internationally-active food companies and traders are ever more focused on controlling their entire supply chain, resulting in increased investments in their suppliers.

On the minus side, the agriculture industry

is a major emitter of carbon dioxide and uses 75% of the world's ever scarcer water supply. On the plus side, it is a fast-growing industry that has the potential to create a great deal of employment.

All these factors make agribusiness, food & water a logical sector for FMO to focus on as a bank 'additional' to commercial financiers. We have always done food & agribusiness transactions, but in 2011 we decided to make it our fourth focus sector. This allows us to build our knowledge and expertise in the sector, so that we can add more value to our clients.

Staffing the sector team began in 2011 and will be completed in 2012. The dedicated team is initially sourcing new deals through partners, and managing the existing agribusiness portfolio.

Highlights

FMO did ten Agribusiness transactions in 2011, of which the largest three in Argentina, Ukraine, and India. We typically provided working capital or investment capital to our clients, enabling them to

invest in storage capacity or to finance their trade flows with longer term finance to ensure a stable funding basis. The Argentinean and Ukrainian projects were repeat transactions for existing clients, while the financing in India was for a new client, JK Paper Limited.

FMO coordinated a €35 million foreign currency convertible bond for Indian pulp and paper company JK Paper Limited. The bond, issued to FMO, DEG and Proparco, partially financed the expansion and development of a manufacturing plant, bringing new environmentally safe technologies to the company.

JK Paper is self-sufficient in its supply of raw materials through its farm forestry program, which allows local farmers to generate a stable income by purchasing seedlings to grow on their land, and selling back fully-grown trees to JK Paper. The company also contributes to the local community through educational, social and health programs. JK Paper, FMO, DEG and Proparco signed an environmental and social action plan, which will assist JK Paper

Agribusiness, Food & Water

NEW CONTRACTS PER REGION 2010 VS 2011 (€XMLN)

	2011	2010
Africa	0	1
Asia	16	21
Latin America & the Caribbean	26	52
Eastern Europe & Central Asia	13	14
Non-region specific	0	5
Total	55	93

COMMITTED PORTFOLIO PER REGION 2010 VS 2011 (€XMLN)

	2011	2010
Africa	7	9
Asia	83	75
Latin America & the Caribbean	157	165
Eastern Europe & Central Asia	69	77
Non-region specific	14	8
Total	330	334

AVERAGE ECONOMIC DEVELOPMENT IMPACT SCORE 2010 VS 2011

	2011	2010
EDIS	60	66

in improving its social and environmental standards even further.

Value chain investment

All sectors have their own dilemmas and challenges, but our experience with agriculture has taught us that it can be a particularly risky segment to invest in. Financing primary agriculture and livestock can bring additional volatility from a range of risks, including pricing, seasonality and disease. Therefore, FMO will be selective in choosing the right types of clients, while further developing our knowledge in the sector.

Because of the risk inherent in this sector, FMO takes a global value chain approach when investing in farming, processing and distribution – targeting bottlenecks and strengthening the weakest links. We aim

to be a long-term partner to our clients, who each play a part in the agribusiness value chain. Agribusiness clients range from companies active in: seeds and fertilizers; primary production and farming; infrastructure; commodity and food processing and trade and distribution.

Also in 2011, FMO signed a memorandum of understanding with German and French development finance institutions DEG and Proparco for the creation of a joint initiative to finance the food supply chain. The aim is to develop a strategy on marketing our products jointly, building the market presence of all three institutions. Further steps will be taken in 2012 to define the steps we wish to undertake to achieve that aim.

2012

2012 will see us build the Agribusiness,

food & water team further and define more sharply our focus within the sector and our desired market positioning. As a modest team active in a large sector, we need to think carefully about the role we wish to play and the kind of companies we wish to finance. While the majority of our Agribusiness clients are in Latin America and Eastern Europe, we plan to expand further in Africa and Asia.

We will continue to cooperate with partners to learn from them. We plan to further intensify our cooperation with Rabobank, which has extensive experience in the food & agriculture sector; we are eager to find fresh ways to optimize our cooperation so we can add to their products. We will also flesh out our initiative with DEG and Proparco to target the sustainable food supply chain, and create a joint market approach.

CASE STUDY

Green coco peat from the Dominican Republic

FMO financed a large new drying floor for Growrite in the Dominican Republic in 2011, in order to help the company increase production of coco peat. It was the second investment by FMO in Growrite, which produces coco peat for horticultural purposes. After an initial investment in 2010, the drying process of the raw material proved less efficient than expected. This second investment was necessary to improve efficiency and meet market demands.

Growrite employs 25 people in the Dominican Republic and offers good working conditions. FMO already has a long-standing relationship with Growrite in Sri Lanka. The coco products manufactured in the Growrite factories in Sri Lanka, India - and now the Dominican Republic - are used in horticulture all over the world.

Coco peat is used as organic input for potting soil and growing mediums. It is

an environmental friendly and recyclable product with many possibilities for any sector of cultivation. It is a prime example of a cradle-to-cradle product.

EDIS: 60

Sector: Agribusiness, food and water

Region: Dominican Republic, Latin America & the Caribbean

Investment: US \$0.5 million FOM

financing, contracted in October 2011

Diverse Sectors

FMO works with a network of selected partners across the world whose knowledge and expertise of specific sectors or developing countries enhances our own know-how. Together with our financial partners, we finance projects and companies in all sectors that generate sufficient development value. Equally, we offer our partners long-term financial products, structures and expertise in development finance that add value to the transactions we collaborate on.

In 2011 we changed the name of the Global Partners department to Agribusiness & Diverse Sectors. We feel this name better reflects the department's activities and makes clearer to external stakeholders that FMO also finances projects outside our focus sectors of Financial Institutions, Energy and Housing. As Agribusiness, food & water is new as a focus sector for FMO it has been integrated with the Diverse Sectors department to minimize any potentially negative transition effects for

our existing agribusiness clients. Our Diverse Sectors teams within the department are responsible for deal flow in non-focus sectors such as telecommunications, mining, infrastructure and raw materials.

The relationships we have developed with partners in previous years really began to bear fruit in 2011. For some years, we have strived to build relationships with our core partners and seal strong new partnerships. That requires considerable flexibility: our wide range of partners have differing needs.

Both our enhanced relationships with our partners, as well as the restrictions on commercial banks due to the global economic crisis, meant we were offered more transactions than we could participate in. The Diverse Sectors teams had a highly successful year in terms of transactions.

Partnership Opportunities

Last year we intensified our relationship with our German and French counterparts,

DEG and Proparco. Together, we streamlined our processes and drafted operational guidelines. This facility agreement, together with our agreement to establish a joint office with DEG in Johannesburg and our planned creation of a joint agricultural initiative, are all part of a strategic partnership that will lead to more efficiency for our clients.

Our 2010 cooperation agreements with the International Finance Corporation, which included standardized common terms of agreement for joint transactions, paid off in the form of closer collaboration in 2011.

We fully committed €45 million from our [risk sharing program] with BIO, our Belgian counterpart. Both parties were very satisfied with the cooperation and signed an additional agreement for 2012 and beyond, committing to co-invest an additional €60 million.

We closed two transactions with Standard

Diverse Sectors

NEW CONTRACTS PER REGION 2010 VS 2011 (€XMLN)

	2011	2010
Africa	110	63
Asia	67	88
Latin America & the Caribbean	27	24
Eastern Europe & Central Asia	49	17
Non-region specific	7	27
Total	260	219

COMMITTED PORTFOLIO PER REGION 2010 VS 2011 (€XMLN)

	2011	2010
Africa	362	290
Asia	415	387
Latin America & the Caribbean	169	249
Eastern Europe & Central Asia	135	109
Non-region specific	39	28
Total	1,120	1,063

AVERAGE ECONOMIC DEVELOPMENT IMPACT SCORE 2010 VS 2011

	2011	2010
EDIS	66	67

Chartered, a bank with whom we have good contacts and whose markets overlap promisingly with our own. We wish to cooperate even more closely with this partner in 2012 and beyond.

2012

From a transaction perspective, our 2012 pipeline looks promising for our Diverse sectors portfolio. However, the uncertain global economic situation means tensions are building in some of our markets. In Argentina, the currency is overvalued and real estate prices have soared. Turkey is set to enjoy continued strong growth, but may suffer liquidity problems as European banks withdraw. In India, soaring local interest rates have helped tame high inflation, but financial tensions remain.

CASE STUDY



Connecting the world's poorest regions

In 2011, FMO helped finance Emerging Markets Communications Corp. (EMC), in a partner deal with International Finance Corporation (IFC). EMC provides telecom infrastructure that enables NGOs and companies to operate in the most difficult and remote parts of the world – including post-conflict and disaster situations. In the targeted regions, telecom infrastructure is either unreliable or non-existent. Over 70% of EMC's revenues come from Africa,

where the services it provides are critical to livelihoods. A variety of humanitarian operations, including several run by the United Nations, depend on EMC for their communications.

EMC's global satellite communication services provide basic data connectivity and its offering includes voice, internet & software applications and video conferencing services. EMC does not own satellites, but leases the capacity required.

As commercial funding in these parts of the world is essentially unavailable, EMC relies on the funds provided by FMO and IFC to grow its business and expand its high-quality services.

EDIS: 67

Sector: Telecom

Region: worldwide

Investment: US \$10 million loan and US \$7.5 million equity

PRIVATE EQUITY

FMO has a clear role to play in providing risk capital in the form of private equity and mezzanine finance, which is often most scarce in high-risk environments. By acting as an equity investor, we get closer to companies and can increase our ESG impact. As mezzanine investors we can often achieve the same impact while also being able to find a tailor-made financing solution for an investee company. Private equity and mezzanine also offer attractive returns, which contributes to our long-term financial strength.

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

Deal flow

2011 was a successful one in terms of private equity deal flow, especially direct deals, where our ongoing efforts to profile

our expertise in our focus sectors were particularly fruitful. The majority of our direct deals were in energy, infrastructure and the financial sector. Direct investments outnumbered investments in funds.

Our activity was also boosted by a general pick-up in the private equity market and the fruition of our long-standing relationship-building efforts with fund managers.

We completed 11 new direct investments and increased our exposure in six existing direct investments in companies. Most of our direct investments were in Africa. Fund investments, were mainly in Asia, where we made five of the year's 10 fund investments.

In terms of sectors, our investments became more diverse in 2011. Although the main sectors were energy and financial institutions, we also invested in industries such as telecoms and railways. Last November saw us close the [Addax] bio-ethanol project in

Sierra Leone. Our energy and private equity teams have worked long on this challenging transaction to finance the processing of sugar cane into biofuels.

In line with our strategy, the vast majority of our direct deals were co-investments with partners. These included our first co-investment with the Renewable Energy Asia Fund, a wind energy transaction. We co-invested with Egyptian fund manager Citadel Capital's African Joint Investment Fund I in East Africa's Rift Valley Railways. This major upgrade of a neglected yet important transport link involved the navigation of sensitive environmental and social issues, such as the railway's passage through one of Nairobi's largest slums.

FMO realized three attractive private equity exits in 2011. These included the partial sale of our stake in the Kenmare titanium mine in Mozambique, the divestment of part of our stake in Botswana consumer finance

COMMITTED PORTFOLIO PER REGION 2010 VS 2011 (€XMLN)

2011	Excluding Investment Funds	Investment funds
Africa	440	341
Asia	403	285
Latin America & the Caribbean	420	128
Eastern Europe & Central Asia	535	212
Non-region specific	86	137
Total	1,884	1,103

2010	Excluding Investment Funds	Investment funds
Africa	422	360
Asia	361	266
Latin America & the Caribbean	402	129
Eastern Europe & Central Asia	498	204
Non-region specific	59	107
Total	1,742	1,056

company Letshego, and the sale of part of our investment in African Reinsurance Corporation. We also benefited from profitable exits in our funds portfolio, notably the initial public offering of internet company Yandex, which was only partly sold. Yandex is a portfolio company of Baring Vostok's Russian funds.

For most of our funds and direct investments, however, the exit environment continued to be perceived as difficult. This led to a delay in our exit program despite the fact that some portfolio companies are ripe for divestment.

Although we were satisfied with our deal flow and exits, the tough global economic conditions took a toll. Commercial investors have become more risk-averse, and their caution slows the establishing and closing of some private equity funds. We also had to mark down the fair value of a number of investments as global markets declined.

Though this was unwelcome, in most cases it reflected stock exchange fluctuations rather than any structural deterioration in the underlying businesses.

In order to strengthen our business in our focus sectors, we made some internal organizational changes in the Private Equity department. Besides our dedicated financial institutions specialists, we now have two energy and infrastructure specialists who are spearheading investment activity in their sectors, and are responsible for building knowledge and liaising with our debt colleagues on sector themes.

Active partnerships

Partnership is core to the entire FMO approach. In private equity, we are noticing that both fund managers and our direct investee companies increasingly expect FMO to play a more active role, using our networks, experience and expertise in areas ranging from ESG, knowledge

of markets and regional best practices in asset and liability risk management. We have long advocated a more active role, but in 2011 we saw a strong 'pull' rather than 'push' effect – a development that we warmly welcome. We continued to work closely with fund managers in 2011. We hosted several private equity events, such as an African fund managers' seminar on environmental and social issues in Nairobi, which we co-hosted together with DEG in December.

In November, we hosted a round table for directors we have nominated to the boards of our portfolio companies, as part of our ongoing efforts to improve corporate governance at our investee companies. It was the first time we hosted such an event on that scale, bringing together more than 30 directors and some 20 of their counterparty FMO investment officers for a full day of training and experience-sharing in The Hague.

CASE STUDY

Boosting entrepreneurship in low-income Cambodia and Laos

Many small and medium-sized companies in low-income countries Cambodia and Laos see excellent opportunities to grow. However, they are often constrained by a lack of access to additional investment capital and management expertise. The Cambodia Laos Development Fund, a private equity fund focusing on SMEs, supports these companies, providing financing and know-how.

FMO invested in this new fund in 2011. Our investment, along with that of other

development finance institutions, helped the fund reach a viable size of around US \$20 million, enabling it to start facilitating growth of SMEs.

Many of these companies operate in agribusiness and the food and water sectors. With FMO's support, the Cambodia Laos Development Fund will target 25% of its investments at these sectors. The fund will also focus on the financial services sector, education, business services, tourism and light manufacturing.

Through its investment in this fund, FMO contributes substantially to the development of the private equity market in Cambodia and Laos. SMEs are expected to play a major role in boosting economic growth in the two countries.

EDIS: 73

Sector: Private equity fund

Region: Asia

Investment: US \$4 million, contracted in June/July 2011

We are increasingly seeking to support first-time fund managers. To that end, we last year supported a clean energy fund in Turkey and an infrastructure fund in Asia, among others. As well as the key investment theme of the growing middle class consumer market, funds are now also seeing the need to focus more on sustainable energy and other infrastructure-related opportunities. More and more fund managers are interested in 'impact investing', serving low-income groups in areas such as healthcare and education.

Sharing expertise

In order to make FMO's significant expertise in emerging markets available to commercial investors and contribute to our strategic goal of catalyzing third party money to our markets, we took further steps to start fund management activities. We decided to adopt a theme-based approach, allowing us to respond to specific investor interests.

In March, we hosted a round table for Dutch pension funds, to familiarize them with sustainable investment in emerging markets - an area where FMO has great experience. The round table was chaired by Jean Frijns, the Chairman of the FMO Supervisory Board and FMO's Chief Executive Officer Nanno Kleiterp.

We started talks with Kenyan pension fund advisors and USAID on setting up an African fund-of-funds.

ESG developments

A clear reflection of our move towards more development-oriented private equity investments was the fact that private equity production last year had the highest EDIS of all FMO's teams. And as the world moves towards nine billion inhabitants by 2050, we are seeing private equity fund managers

pursuing bigger demography-related themes such as consumption needs of the growing middle class or scarcity of natural resources.

We updated our ESG toolkit for private equity fund managers in 2011. This very practical instrument allows fund managers to obtain an overview of all relevant ESG risks and see links to relevant policies when they input a sector and country. The system also shows potential opportunities applicable to specific types of investments.

After harmonizing our ESG approach for private equity funds together with other members of the European Development Finance Institutions group in 2010, we last year took this further and started investigations regarding harmonizing ESG reporting requirements. We acquired and used a management simulation game around decisions such as pollution prevention. The E&S specialists in FMO's private equity team were trained to lead such games and used it to raise awareness and trigger discussion at events such as our Nairobi fund manager seminar.

2012

It is impossible to predict the impact that abiding uncertainty in global financial markets may have on FMO's opportunities for new investments or exits in 2012. If the economic climate stabilizes, however, we foresee an abundance of new funds coming to market, as well as successor funds launched by our existing partners, which will offer a wide range of choices for new fund investments. In addition, we started the year with a good pipeline of direct deals, mostly co-investments.

MOBILIZING FUNDS

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

In 2011, we placed more focus on finding opportunities to catalyze funds in which FMO was either joint or sole mandated lead arranger (MLA) in transactions of US \$50 million or larger. By the end of the year, we had mobilized a total of US \$823 million through syndicated loans, parallel loans and/or risk-sharing agreements, and closed five large transactions as joint or sole MLA of at least US \$50 million.

Our efforts to mobilize third-party funds were not helped by the economic crisis, which prompted many Western commercial banks to retreat from emerging markets into their home markets. This was compensated to an extent, however, by other institutional investors and non-European and regional banks. This 'south-south' trend could grow as banks in countries such as Brazil grow bigger and more active both in and outside their own countries.

Even though many professional commercial investors have lost interest in bank debt and equity as an asset class to invest in, there is a growing interest in impact investing in the capital markets. Sustainability is increasingly recognized as an integral part of business, both by our clients and by potential investors.

2012

For 2012, catalyzing third-party funds remains high on our agenda, and we aim to mobilize an ever higher amount. We will focus on taking lead management roles in transactions in our focus sectors, thereby mobilizing funds from both commercial investors and other development finance institutions. We expect catalyzing commercial funds to take place mainly in more developed emerging markets. At the same time, our partnerships with other international DFIs will enable us to catalyze money in countries where it is difficult for commercial investors to operate.

Some emerging market banks are now taking lead roles in world rankings, creating good liquidity in some markets. In Asia and Latin America in particular, liquidity is strong and competition among banks fierce. Meanwhile, a second tier of strong emerging countries is arising like – South Africa, Turkey, Indonesia, Vietnam and Mexico. The financing needs of emerging markets might increasingly be met by regional offerings, which suggests good opportunities to catalyze funds regionally.

As well as catalyzing money through debt products, we plan to work further on fund management initiatives begun in 2011. We will continue discussions about setting up an African fund-of-funds with a group of Kenyan pension funds as anchor investors.

Financial Markets

Financial markets activities became more important for FMO last year as we reached a new scale in our financial markets transactions and increased our focus on catalyzing third-party funds.

Highlights of the year were our pivotal role in Turkey's first-ever covered bond – the first to use SME loans as collateral – and our work towards setting up the first major fund to finance anti-deforestation, a major step forward in the forest carbon market. Both are clear examples of our drive to create innovative products.

For mid-sized Turkish bank Sekerbank, which focuses on the SME and agriculture sector and is a leader in energy efficiency financing, FMO acted as anchor investor for its inaugural covered bond, and actively provide guidance on the structuring of the program with a total size of over €300 million equivalent.

FMO invested €25 million equivalent in local currency in a five-year asset-covered bond issued by Sekerbank. We were joined by two other parties, IFC and UniCredit.

The successful placement of the first tranche was quickly succeeded by a second tranche in December. The funds were mainly extended to SMEs and farmers, largely for energy efficiency and water management projects such as the installation of solar panels and drip irrigation.

With this transaction, FMO made a key contribution to the development of Turkish capital markets, offering a template for the country's banks to raise longer-term financing from parties other than DFIs. A number of other Turkish banks have indicated their desire to follow suit, and we are also keen to explore similar transactions in our other markets.

Another landmark transaction was the US \$150 million subordinated loan that FMO arranged for Vietnam's [Sacombank].

The 10-year facility, syndicated among European DFIs, was the first subordinated loan to a commercial bank in Vietnam's history. We acted as mandated lead arranger for five European DFIs, catalyzing US \$80 million in a transaction that helped to boost the development of Vietnam's capital market and its SME sector.

GOVERNMENT FUNDS

FMO manages several funds for the Dutch government in order to support higher risk projects with possible high development impact. The funds cover financial risks that FMO is not able to cover alone – allowing these higher risk projects to develop.

Government funds

FUNDS TOTAL COMMITTED PORTFOLIO 2011 (€XMLN)

FMO or Fund	Total
FMO	5,047
MASSIF	442
IDF	316
AEF	69
Total	5,874

FUNDS COMMITTED PORTFOLIO 2011 (%)

FMO or Fund	Financial Institutions	Energy	Housing	Agribusiness, food & water	Diverse sectors	Total
FMO	43.4	13.9	5.9	5.5	17.4	86.1
MASSIF	6.5	0	0.8	0.1	0	7.4
IDF	1.0	2.2	0.4	0	1.7	5.3
AEF	0	1.2	0	0	0	1.2
Total	50.9	17.3	7.1	5.6	19.1	100

CASE STUDY

Social investment with a plus: FMO helps change lives in Latin America

Social impact was clearly the driver behind FMO's first investment into the US \$25 million Global Partnership Social Investment Fund 2010 (GP). Based in Managua, Nicaragua and Seattle, USA, GP is a vehicle which offers loans and investments to microfinance institutions (MFIs) that work according to the "Microfinance Plus" model in Latin America. This innovative model entails providing not only credit, but also healthcare and other important social services to poor and remote communities in the region.

FMO's maiden US \$4.4 million investment will help GP target so-called Tier II and Tier III MFIs and cooperatives which can deliver impactful, sustainable programs that have immediate and significant social impact, especially for women. In fact, 65% of the fund's clients are women. GP prioritizes its investments to five specific "impact areas": health care, rural livelihoods, micro-entrepreneurship, women's empowerment and green technology.

The benefits of the programs on the lives

and health of the women and men in the region are tracked and measured by GP's Social Impact Committee which use self-developed metrics to assess the success of the investments.

EDIS: 69

Sector: Fund

Region: LAC

Investment: MASSIF US \$1.4 million subordinated loan & US \$3.1 million senior loan contracted in March 2011

MASSIF

MASSIF, the largest of the funds FMO manages for the Dutch State, is a fund that provides financial institutions with equity and debt funding (high risk, also local currency) for the development of Micro, Small and Medium-sized Enterprises (MSMEs) in developing countries.

The fund did well over 2011 with 25 new contracts (of which 11 with new clients) totalling €97 million. €67 million was paid out in 2011 to 45 clients.

From 2011 on, MASSIF focuses even more on financing institutions with final clients in the SME sector and/or active in agricultural/rural areas. We are in the process of improving insight through our clients into

MASSIF's impact on end-users. Given the indirect aspects and attribution questions, this will not be easy. MASSIF is discussing extra funding with the Dutch State to further support the SME/agriculture focus and to supply extra means for Capacity Development for MASSIF clients.

In this report [Financiera Fama] is an example where MASSIF was used to finance the project.

Infrastructure Development Fund (IDF)

The IDF fund provides long-term financing for private sector infrastructure projects in developing countries. In many cases the fund acts as a facilitator/catalyst for the development of infrastructure projects by

providing highly needed risk capital.

As the Fund's role in infrastructure markets is to absorb high risk in order to facilitate financing, it is also the IDF's policy to transfer or sell its stake in an investment once the risk profile has improved. The fund has a committed portfolio of €316 million. FMO invested €36 million in 2011. Total new commitments in 2011 were €52 million.

Through the IDF we disbursed US \$15 million in Rift Valley Railways, a railway rehabilitation project in Kenya and Uganda connecting the port of Mombasa with the capital cities of Nairobi and Kampala. Another example is the US \$20 million financing for the [KivuWatt] project co-financed with AEF.

CASE STUDY***Trend-setting financing in Nicaragua***

Financiera FAMA (FAMA) is a Nicaraguan microfinance institution regulated by the Superintendency of Banks providing small loans and training to micro-entrepreneurs. Due to difficult market conditions in the aftermath of the international financial crisis and a very particular local crisis (non-payment movement), the organization saw its business shrink and experienced significant losses. It suffered from high arrears rate, liquidity problems and high interest payments related to its own financing. FMO, in cooperation with other institutions such as microfinance support organization Accion International and Dutch Triodos Bank, amongst others, provided support, including a loan and

funding of capacity building initiatives.

With FMO's support, FAMA and ACCION International designed a two-year plan to strengthen the institution to face the crisis.

FMO designed a tailor-made reward structure that helped Fama (FAMA) meet its financial obligations. It consists of a combination of a low interest rate and repayment through free options on shares.

FMO's loan, partly disbursed as local currency, provides Fama (FAMA) with long-term liquidity.

Fama (FAMA) has emerged from the

crisis. It redesigned its business model, processes and through a new commercial strategy strengthened its focus on the lower segment of microfinance customers, reaching the poorest entrepreneurs. The portfolio quality has improved significantly, Fama's (FAMA's) client base has increased to similar levels achieved before the crisis, and it has become profitable again and the microfinance organization is well positioned for further growth.

EDIS: 72

Type: Loan, equity, grant.

Region: Central America

Investment: MASSIF US \$4 million, contracted in July 2011

Access to Energy Fund (AEF)

The AEF invests in private sector projects that create sustainable access to energy services in the developing world. It has the target of providing 2.1 million people with access to energy before 2016. Already, an estimated 2.3 million people in Latin America, Africa and Asia will have obtained access to energy through the AEF financing, when all projects in the portfolio are completed. In many cases the fund acts as a facilitator or catalyst for the development of energy projects by providing highly needed risk capital

In 2011, FMO contracted €16 million through the AEF. Total disbursements in 2011 were €6 million. One example in this annual report is [KivuWatt]. This pioneering 26.2MW power plant in Rwanda runs on the methane gasses extracted from Lake Kivu. Not only will access to energy be created, but the danger of the methane gasses exploding and causing accidents will also be reduced.

Capacity Development

FMO believes that by enhancing capacities in the private sector, fledgling initiatives can become successful, sustainable enterprises – with greater development impact. But businesses in developing markets not only face limited access to traditional funding – their resources are also limited for training, skills development and other areas of knowledge. The ‘Capacity Development’ program answers to this need. We run it on behalf of the Dutch Ministry of Foreign Affairs.

The previous agreement with the State on Capacity Development covered 2006-2011.

During this time we assigned a total amount of €48.2 million to capacity development projects. This went towards approximately 400 projects with more than 300 different organizations, many of which clients of FMO. As the average contribution from the CD program was less than 50% of

the projects costs, €100 million was spent at least on knowledge transfer.

Main reoccurring topics for CD were management strengthening (strategy and risk management, credit analysis), organizational strengthening (MIS/IT systems, HR development) and increasingly environmental, social and corporate governance strengthening (E&S management systems and corporate governance policies).

In 2011 the program was evaluated by an external party for the Ministry of Foreign Affairs. Main conclusions were a high level as satisfaction with the client, the demand driven attitude of the CD program and the personal support by FMO employees.

In 2011 projects were contracted worth €2 million. During the year €9 million was paid out.

Throughout this report are various examples

CASE STUDY

FMO arranges landmark transaction in Vietnam

FMO arranged a landmark loan for Sacombank, a Vietnamese bank specialized in financing small companies. This first-ever subordinate loan to a commercial bank in Vietnam strengthens Sacombank’s capital position, further increasing its ability to make loans to Vietnamese SMEs and retail customers. Five other European development finance institutions joined FMO in providing the US \$105 million syndicated loan. FMO contributed US \$25 million to the loan.

The transaction helps boost development

of Vietnam’s capital market and its SME sector. In many Vietnamese regions, Sacombank is one of the few commercial banks and a rare source of much-needed financing for small and medium sized companies and retail customers.

FMO and its European partners also signed a capacity development contract with Sacombank, which will assist the bank in further improving its asset and liability management, corporate governance and implementing a social and environmental risk management system.

Marking the importance of the deal, Dutch Princess Maxima, in her position as the UN Secretary-General’s Special Advocate for Inclusive Finance for Development, attended the signing of the transaction in Ho Chi Min City.

EDIS: 68

Sector: Financial institutions

Region: Asia

Investment: US \$25 million loan and grant

of cases in which the CD program was used. One of these is [Sacombank] where it will be used for further improving its corporate governance and implementing a social and environmental risk management system.

FOM

With the Facility Emerging Markets (FOM - 'Faciliteit Opkomende Markten'), FMO stimulates Dutch enterprises to invest in emerging markets and developing countries. FOM is a joint initiative of the Dutch Ministry of Economic Affairs and FMO.

In 2011 eight contracts were signed for FOM worth €9 million. €15 million was paid out for contracts signed in 2011 and earlier. The volume of the fund grew to a committed portfolio of €78 million (2010: €90.5 million). For 2012 it is expected that will be able to contract at least another €25 million.

An example of a FOM project is the [Dobla] case in Vietnam.

CASE STUDY



State-of-the-art chocolate from Vietnam

FMO provided Dobla - leading manufacturer of chocolate decorations - with the means to open a new state-of-the-art factory in Vietnam, creating 165 jobs and potentially more in future. Dobla Asia Ltd will also work with the local hotel management school to start a pastry academy that will train new staff and chefs of high-end hotels. The Dobla Pacific Pastry Academy will open his doors in April 2012.

FMO's finance was crucial to the opening

of the Vietnamese chocolate factory since proper funding is not available in the region due to the high country risk.

Known for its innovative and beautiful creations, Dobla already has factories in the Netherlands, Belgium and the US. The chocolate manufacturer provides pastry shops, bakeries, hotels, supermarkets and desert and cake manufacturers with the decorations they need for their creations. In the chocolate chain, Dobla is the market leader in the top-end segment of B2B chocolate decorations.

In Vietnam, Dobla produces hand-made chocolate decorations to the highest standard, training local artisans in the art of chocolate making. Dobla has UTZ, HACCP, BRC, SA 8000, ISO 9001, halal and kosher certifications.

EDIS: 67

Sector: FOM, Agribusiness, food & water
Region: Vietnam, Asia

Investment: €1.6 million loan contracted in 2010, paid out in 2011

STAKEHOLDER ENGAGEMENT

We finalized an extensive analysis of our external stakeholders in 2010, defining all our stakeholders and identifying those most relevant to FMO. This analysis set out how we communicate and engage with our most important stakeholders and defined the primary contacts within FMO for each key stakeholder.

We took further concrete steps in this area in 2011. We continued our process of formalizing our stakeholder identification and interaction, intensifying our contacts and cooperation with our external stakeholders.

Increasing transparency

Stakeholder engagement is becoming increasingly important amid a general increase in focus on private sector development and on concrete and measurable development impact.

The Dutch government installed in 2010 shows a clear preference for private sector investment. At the same time, it expects more reporting on development outcomes from our investments, such as numbers of jobs created or tax income generated.

Non-governmental organizations (NGOs), too, increasingly focus on the development impact and environmental and social aspects related to private sector investing.

These shifts mean transparency in communicating on how development impact is achieved and measured is becoming more important FMO. FMO has a special scheme in place to liaise with the government and NGOs, involving the Management Board and representatives from the Communications and Sustainability departments, as well as the front office.

Stakeholder engagement in practice

FMO has a wide variety of stakeholders and interacts with each group depending on its perspective, needs and concerns. You can find examples throughout this report. Some examples of our stakeholders and how we interact with them include are described below.

Clients

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

We conduct a Client Satisfaction Survey biannually. The next survey is planned for 2012.

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

Shareholders

We hold at least one shareholder meeting per year. Our biggest shareholder is the Dutch State with whom we meet throughout the year. Other shareholders include large Dutch banks, employers' associations, trade unions and individual investors. Last year over 80% of shares was represented at the annual meeting of shareholders.

Dutch government, embassies and politicians

We developed a strategy to bring greater

structure to our talks with politicians and government policy workers. We hold discussions regularly which contribute to our generally good relationships with these stakeholders.

We have policy meetings with the Dutch state on a regular basis amongst other items government funds. We also have meetings with parliamentarians. We send a newsletter to Dutch embassies around the world.

Development financial institutions

We worked with counterpart [EDFI] on harmonizing ESG indicators, in order to make ESG reporting easier for clients, and on a similar initiative with a working group composed of the European Investment Bank, the European Bank for Reconstruction and Development and regional development banks.

We attend annual meetings of EDFI and bilateral meetings. A delegation usually represents FMO at such meetings.

Since December 2010 Nanno Kleiterp has been the EDFI's chairman.

Partners

We organized the conference [Boosting Investments in Sustainable Forestry and Forest Carbon] in Amsterdam last year. The well-attended conference was held together with Nyenrode Business University and co-sponsored by the [IDH] and the African Development Bank.

Many more examples are mentioned throughout the report. All have similar goals: to improve cooperation, exchange knowledge and seek new opportunities.

Employees

Every two years, FMO conducts formal em-

ployee engagement surveys. The next survey is scheduled for 2012. Some examples of how the previous survey was used are described in the [Our people] section covering how our HR department took steps forward.

In this section you will also find information on how we hold regular meetings with the Works' Council. We strive for an open culture and organize various formal and informal gatherings for staff throughout the year.

Local communities and non-governmental organizations (NGOs)

Local communities and NGOs often have the same goals. Their concerns and, more importantly, their knowledge and understanding of the possible outcomes of an envisaged project is of the utmost importance to its success. That is why we believe that we and our clients must pay due attention and simulate action where it is needed.

We last year formally identified a number of NGOs we feel are relevant for FMO to actively work with, such as [WWF] and [Oxfam].

We invited Oxfam to give its opinion on several issues concerning FMO, such as making our revamped website more transparent. We signed a memorandum of understanding with WWF in December 2011, with a view to rolling out joint initiatives in areas such as sustainable forestry in coming years – a clear example of how stakeholder management bears fruit in terms of policy. We expect to begin a one-year pilot with WWF in 2012, before formalizing the partnership further via the memorandum.

We also signed a memorandum of understanding with the [Initiatief Duurzame Handel] (Sustainable Trade Initiative or IDH) to explore how we can further embed sustainability in the supply chain.

Looking ahead

Our drive to formalize our stakeholder identification and interaction, intensifying our contacts and cooperation with our external stakeholders, will continue in 2012 and beyond as we introduce increasing structure to our dealings with FMO's wide-ranging network.

As part of this, we will look critically at the large number of [industry initiatives, networks and associations] in which we participate, to assess what those memberships deliver for FMO and where we can best target our contributions.

Responding to issues

At FMO, we listen to the topics and concerns of our stakeholders, and seek to respond to them fully.

At the end of 2010, a local Argentinian newspaper accused our Argentinian client Nidera of "slavery practices". This article was later translated and published in a major Dutch newspaper, ultimately triggering questions in the Dutch parliament.

When we were first notified of this news article in December of 2010 we agreed with our client to hire an independent environmental and social consultant to investigate the matter. The investigations lead to the conclusion that there was no evidence of slavery practices nor other human rights violations. However there were some other elements which could be improved in accordance with the local context, since the working fields are often far away from any kind of normal habitation and are thus not connected to the main grid of common facilities. Most of the points were already identified at the time of contracting and were in the agreed social and environmental action plan which

was set in progress earlier, but not yet finalized. Since then, Nidera has allocated more resources, both financial and human, together with an external consultancy, in order to accelerate the implementation of the action plan, including ISO certification of industrial plants.

During the process we thoroughly investigated the situation both personally and through our local partners. We held constructive talks with the client, banks and diverse civil society organizations. When we found the accusations to be groundless, we also sought contact with the newspaper and the Member of Parliament who had tabled the questions, to clarify the situation.

SPECIAL OPERATIONS

FMO aspires to be a responsible financier and to prevent financial distress among its clients. If companies run into trouble, and are transferred to our Special Operations department, we provide support through tailor-made debt restructuring and intense monitoring, helping clients get back on track where possible. In 2011, we enhanced our investigations into the reasons why Special Operations projects became distressed. By focusing on improving understanding and education within FMO on the root of these problems, we aim to prevent their recurrence.

The number of new projects transferred to our Special Operations department in 2011 remained on a par with 2010. Inflow and outflow stabilized, with 12 new cases entering and exiting the department. Due to varied sector and country circumstances, it is difficult to pinpoint one overriding factor that triggered the companies to become distressed.

Education around Special Operations cases was prioritized in 2011. We intensified our efforts to feed lessons learned back to the front office.

In working towards this aim, the Special Operations department became more active in organizing presentations and participating in FMO training courses on this subject in 2011. Analyzing our distressed portfolio and whether problems could have been detected at an earlier stage is key to ensuring FMO has done everything in its power to support its current and future clients.

Since 2010, Special Operations' environmental & social expert has been helping distressed companies improve their

ESG performance and detect problems at an early stage. This proactive approach proved valuable in 2011, particularly in regards to two waste processing projects in Bangladesh and Vietnam. When projects of this scope encounter financial difficulties, environmental pollution becomes a severe threat. The environmental & social expert provided a key support role in these cases, for example by helping our Bangladesh client draft a water sanitation system plan, crucial to ensuring the responsible disposal of waste water.

Since we operate at the local level, the employees of distressed companies in our portfolio are among our main stakeholders. We actively advocate the fair treatment of these employees, who are placed in an unfavorable position due to their employer defaulting. Company shareholders are another FMO stakeholder and we engage in dialogue and negotiations with them when relevant.

The Special Operations portfolio did not gradually decrease in 2011 as expected. While circumstances remain quite favorable in our target emerging markets, they are not immune to the overall deteriorating global economic environment. As such, we no longer expect the Special Operations portfolio to decrease in the forth coming period.

KNOWLEDGE AND INNOVATION

FMO stands for value-added financing.

Serving our clients in the best possible way means not only extending credit, but also sharing our knowledge, expertise and experience throughout our bank and with our clients and partners. We are firmly committed to creating an environment conducive to innovation and knowledge-sharing.

Innovation and knowledge-sharing are also key to ensuring FMO is resilient and future-proof in our fast-moving world.

In order to remain a relevant player, we have to be forward-thinking and able to adapt continuously to an ever-changing environment.

What is more, there is a strong link between sustainability and innovation. An inventory of our innovative initiatives from the last two years showed that over 80% of them were driven by sustainability – a trend confirmed by research.

Knowledge management

In 2011

Knowledge management was high on FMO's agenda for 2011. We took steps towards becoming more systematic in developing and sharing knowledge, and began building up a knowledge agenda that captures some of the key challenges we will face in coming years. This agenda can be practically applied in our day-to-day operations, as well as used to determine longer-term strategy.

For 2012

On our agenda for 2012 are knowledge-sharing, talent management and establishing a structured innovation process. We are inserting such objectives into employees' performance targets whenever possible. Externally, we will broaden our

search for knowledge-sharing partnerships with organizations ranging from the DFIs and commercial finance institutions that have traditionally been our partners to institutions such as universities or non-governmental organizations.

OUR PEOPLE

Our people are our most valuable asset, embodying our commitment to financing change. We rely on them to communicate this vision to our many stakeholders. The Management Board is, as always, grateful to our employees for their hard work and dedication to implementing our strategy, and for the professionalism and entrepreneurship they exemplified during 2011.

The past year was a busy one on the human resources front at FMO, as we focused on implementing the findings of our 2010 employee satisfaction survey. We prioritized recruitment, career development, training and education sessions and cooperation between departments.

We conducted a remuneration survey in 2011 which confirmed that our employee compensation is on a par with market standards for financial institutions.

Organizational structure

FMO is organized into three directorates: Investment, Corporate and Risk Management & Finance. FMO created a new focus sector; Agribusiness, food & water. This was our primary organizational change during 2011.

At end-2011, we employed 294 full-time equivalents (FTEs). Of these, 139 FTEs worked in Investment, 56 in Corporate and 99 in Risk Management & Finance. FMO had 23 interns in 2011.

Staff turnover during the year was low at 5% – essential to building long-term partner and client relationships. FMO had 16 employee exits in 2011.

We hired 42 employees in 2011 (new

positions and replacement for existing positions). At the end of 2011, 88% of employees had an indefinite employee contract and 12% of employees a fixed term contract. We expect to hire between 20 to 25 new employees in 2012, of whom three will be recruited to participate in our Young Talent Program.

Related links

Organizational chart on www.fmo.nl

Diversity

FMO strives to create an inclusive and diverse workforce. By focusing on increasing the number of women in management positions, accommodating ageing employees and managing cultural differences, we show our commitment to being a responsive and engaged employer.

FMO is a signatory to the 'Talent to the Top' charter', and aims to have 30% female representation among senior and middle managers by end-2012. By end-2011, 26% of senior and middle managers at FMO were women. Due to FMO's flat organizational structure, we have fewer senior managerial positions than many of our financial sector peers. Nevertheless, we see room for gender diversity improvement in 2012.

We began investigating ways to better accommodate ageing employees in 2011. A group of employees was selected to represent FMO's ageing workforce and they formed a brainstorm group with HR to discuss their expectations and concerns. This brainstorm group indicated that FMO could improve by boosting awareness around retirement preparation and facilitating dialogue between employees and their managers, which will be pursued further in 2012.

The number of non-Dutch nationals in our organization grew to 12% in 2011. Our goal of having 15% representation among FTEs by 2012 was not reached. FMO will continue working to successfully meet its cultural diversity hiring targets and to towards our goal to help managers successfully manage cultural differences within teams.

Career development and training

As FMO continues to grow, so too do opportunities for career development. Internal mobility at FMO was high in 2011, with 75 job changes or promotions. The average career duration at FMO is seven years, showing the great commitment of our staff as well as the need for structured career development. Our longest-serving employee has been with us for 31 years.

In 2011, FMO improved its Personal Development Plan for employees. The program aims to help staff assess the current stage of their career and set medium and long-term goals, supported by their managers and HR advisors. Employee appraisal and career management workshops for FMO managers and employees were organized in 2011, alongside a two-day 'career check' training. All employees, including all layers of management, have several meetings throughout the year to discuss their performance and targets. This is part of FMO's standard HR-cycle.

Direct communication lines are part of our culture. While these lines are well developed within departments, we worked to improve cross-departmental cooperation in 2011. We launched a mentoring program where new employees can choose a mentor from a pool of senior FMO employees across departments and we organized

sessions with some groups of employees to improve giving feedback.

FMO employees can participate in exchange programs with other DFIs and financial institutions, varying from placements of six months to several years. In 2011, three FMO employees participated in such exchanges. We also selected an employee to work in our new joint office in Johannesburg which will open in 2012. We are developing an expat policy for employees working abroad.

Our FMO Academy enables our employees to enhance their knowledge of specific subjects relevant to our business, such as pricing, project finance, corporate governance and cross-cultural negotiation skills. The learning modules are primarily focused on products and FMO processes and are knowledge-driven. In 2011, we focused on developing a joint academy and training curriculum with DEG and Proparco, making the program more accessible and international. Learning together will stimulate exchange of knowledge and working experience between participants and will create an international learning community and professional network for development finance.

The Academy's 23 modules were attended more than 485 times (400 in 2010), mainly by FMO employees who participated in one or more courses. In addition, 38 participants attended from partner organizations and 22 attendees were nominee board members.

Young Talent Program

We continued investing in promising graduates by enhancing our Young Talent Program in 2011. The response to our recruitment advertisement on our website

was exceeded expectations. More than 80 applicants applied for three Trainee positions. The new program is structured so the trainees begin their career at FMO by each working in six different departments during an 18-month period, learning about the bank before taking on an analyst role and eventually a full credit officer or investment officer position.

We continued our sponsorship of the Studenten Ondernemersprijs (Student Entrepreneur Prize). By sponsoring such events, we strengthen relationships with promising students and raise FMO's recruitment profile. The winner receives 'the FMO experience'- the chance to join one of our investment officers on a business trip.

Workplace health

FMO strives to offer a healthy working environment. While the outstanding engagement of our staff is one of our strengths, it can potentially lead to stress or illness. In early 2011, we noticed an increase of absenteeism. Therefore we started to raise awareness among managers through workshops on identifying early warning signs of burnout and stress, as a preventative measure.

We encourage our employees to reduce their holiday reservoir and to take their holiday leave during the year it is allocated. Due to this, more employees took sabbaticals and extended leave in 2011 than in previous years.

Many employees travel to our clients around the globe, and we introduced a renewed travel safety policy in 2011 to provide support and useful tips for these employees. This policy covers everything from how to apply for a business trip,

to the medical and safety aspects and regulations one should be aware of when travelling in particular countries.

We have an in-house emergency response team. Every member of this team is certified in providing first aid and has been trained in coordinating emergency evacuations and fighting small fires. Currently almost 20 people are certified and an additional group of more than 20 employees are assigned to provide support in case of an evacuation.

FMO promotes health in the workplace by offering staff sports events throughout the year and by providing healthy options in the company restaurant. In 2011 a team of FMO employees participated in the Roparun for the first time. This is a charity run from Paris to Rotterdam, raising funds for cancer research. In 2012 FMO will participate again.

Works' Council

The Works' Council represents all FMO employees and is an important platform for interaction with senior management, giving employees a voice and the chance to influence the organization.

As is customary, the Works' Council held six formal meetings with the Management Board during 2011, providing advice and employee input on various issues. The main topics addressed included:

- the establishment of the joint office in Johannesburg;
- the creation of the new focus sector Agribusiness, food & water;
- staff diversity;
- renewed travel safety policy;
- the implementation of a dress code;
- the possibilities of the new way of working at FMO

The Works' Council also held two meetings according to article 24 WOR. One attended by Jean Frijns, Chairman of the Supervisory Board and one attended by Agnes Jongerius, member of the Supervisory Board.

In addition to the formal meetings, the Works' Council also exchanged ideas with senior management at several informal gatherings.

The Management Board appreciates the constructive dialogue, suggestions and ideas the works council shares.

The Works' Council comprises nine members. Changes in 2011 included the replacement of Tom van Duijn, Arnaud Dukker, Willem van Leeuwen (secretary), Eva Failé, Marieke Roestenburg and Puck Hegeman (Vice-chairman), who are succeeded by Brendon Schur, Chantal Schrijver, Gemma Verhoeven (secretary), Laurens-Jan Portegies, Nico Mensink and Pleun Verhagen. The other members are Edgard Creemers (Chairman), Eva van den Heuvel (Vice-chairman) and Marijn Wiersma.

Employee figures

	2011		2010		2009	
HEADCOUNT						
Total headcount ultimo	314		293		281	
Male	167	53%	161	55%	162	58%
Female	147	47%	132	45%	119	42%
Average headcount	302		286		279	
FTE						
FTE ultimo	294		274		263	
Average FTE	283		270		264	
Average years in service	7.1		6.5		5.8	
Average age	40.8		40.7		39.9	
PART TIME EMPLOYEES						
Male	37		34		31	
Female	74		74		68	
Total	111	35%	108	37%	99	35%
INFLUX						
Male	14		6		6	
Female	28		18		20	
Total	42	13%	24	8%	26	9%
EXIT						
Leavers (excl. early retirement)	16		12		17	
percentage	5%		4%		6%	
Average years in service leavers	5.0		5.5		3.3	
Average age leavers	41.6		38.1		34.8	
(Early) retirement	1		1		5	
SENIOR MANAGEMENT (MB + DIRECTORS)						
Male	15	94%	14	82%	15	83%
Female	1	6%	3	18%	3	17%
Total	16		17		18	
MIDDLE MANAGEMENT (MANAGERS)						
Male	19	63%	18	64%	19	70%
Female	11	37%	10	36%	8	30%
Total	30		28		27	
NATIONALITIES						
# Dutch employees	275	88%	262	89%	254	90%
# non-Dutch employees	39	12%	31	11%	27	10%
Number of different nationalities	22		17		17	
VACANCIES PER ULTIMO						
Directorate Corporate	1		4		0	
Directorate Investment	3		9		3	
Directorate Risk Management & Finance	6		5		3	
Total	10		18		6	
ABSENTEEISM						
Percentage	3.83%		2.84%		2.23%	

RISK MANAGEMENT

Doing business means taking risks. Looking at FMO's strategy and activities, it could be said that our primary target is to maximize development impact, while being profitable in a sustainable way, and that taking risks is inherent to our core business. In order to do sustainable, profitable business, however, our challenge is how to take calculated risks. FMO's Management Board defines the risk profile and risk appetite, under supervision of the Audit & Risk Committee and the Supervisory Board. Within our risk appetite, FMO has a comprehensive, integrated 'In Control Framework' to enable us to take and control these calculated risks.

This 'In Control Framework' plays a pivotal role in the thorough analysis of risks.

FMO has identified risks in the following categories: strategic, operational, financial reporting and compliance risks. Important drivers for our risk universe are FMO's strategy, objectives and laws and regulations (such as the Dutch Banking Code, Corporate Governance Code, Financial Supervision Act, Law against Money Laundering and Financing of Terrorism, Basel II and III and International Financial Reporting Standards). To mitigate the risks we have implemented controls, whose effectiveness we continuously monitor. Within FMO this monitoring is conducted by three 'lines of defense'. Business management reviews processes and reports and performs self-assessments. In the second line of defense there are specialized risk departments and committees. The third line consists of the internal audit function and external auditors.

We paid special attention to a number of key risks in 2011, based on the market situation, regulations or internal circumstances.

Strategic risks

Macroeconomic factors and FMO's unique environment significantly affect realization of our objectives. After deteriorating economic circumstances in previous years, 2011 started as second year of recovery after the global economic crisis, but in the course of the year the economic outlook has been growing more uncertain again.

Despite serious worsening of the debt crisis in the eurozone the developing economies still continued to grow. We were able to achieve most of our targets and key objectives of the strategy, like development impact, low-income countries, new commitments and profitability. We also met our strategic goal to mobilize funds for our markets, especially by acting more as joint or sole mandated lead arranger.

In 2011 FMO strengthened its leadership position in sustainability. Recognizing that the primary responsibility for sustainable development and management of ESG risks rests with our clients, a key focus last year was on initiatives that allow us to better support them in implementing best practices. The risk of not succeeding would affect the realization of FMO's strategy.

The IFC Performance Standards form the basis for FMO's ESG risk management approach. FMO's approach comprises of three parts: (1) Risk Categorization of clients, (2) Establishing applicable requirements, and if necessary (3) Environmental and Social Action Plans. Implementation of best practices by clients is achieved by using the action plans that are agreed upon with our clients, and are monitored over time.

As follow-up on the revision of our Sustainability Policy in 2010 and its integration into our investment criteria,

our processes and procedures were further updated in 2011. The continued development of corporate governance tools, ESG training programs and tools as well as our Anti Bribery & Corruption Statement continue to ensure we achieve implementation of our sustainability strategy.

In 2011, FMO continued to work with an organization-wide ESG target where our aim was to implement 80% of action items due during the reporting year. We successfully met this target in 2011. To further support efforts to meet our ESG targets, we remain focused in the push towards smarter and more effective ESG management and reporting at FMO.

Operational risks

To ensure the proper execution of FMO's operations, several tools are in place. Our internal audit function assesses the effectiveness and efficiency of the processes based on a risk analysis. FMO's directors also perform annual operational risk self-assessments, which evaluate controls and set action plans to improve these controls. Follow-up on the action plans and audit findings is carried out quarterly.

If operations have not functioned properly, we record an incident. Each quarter, an overview of incidents is reported to FMO's Management Board. The Audit & Risk Committee is also informed of such incidents via a report by the Audit, Compliance & Control department (ACC). This report gives insight, for instance, into aspects that need to be improved and where FMO's key risks lie.

In terms of FMO's operations, the proper execution of our processes carries the greatest risks. We have intensively reviewed and improved all process descriptions, which are accessible to everyone via the intranet.

Process descriptions are reviewed and updated yearly. Knowledge of procedures and processes remains an important priority, especially when changes in regulations, for example, require changes in internal procedures and processes.

Knowledge and risk awareness are also an important aspect of management steering and control. As far as soft controls in our organization are concerned, we will continue investing in behavioral skills, such as awareness, coaching and maintaining clear accountability. Attention is also paid and will continue to be paid to interdepartmental cooperation throughout FMO.

Control of (sometimes complex) financial products can be complicated, so in the past we implemented a Product Approval Process. It may be, for instance, that products do not meet clients' needs, not all risks are identified or the product cannot be registered properly. This Product Approval Process has proven to be a valuable tool. In 2011 we furthermore thoroughly reviewed management of local currency derivatives. Knowledge on these products and processes is further bundled in a so-called Knowledge Street and communication between many stakeholders, like employees of front office, Mid Office, Financial Markets and Risk Management, is intensified.

Financial risks

The mission of FMO is to take risks that commercial parties are not usually prepared to take. A glance at FMO's portfolio reveals our development mission: it is a highly diversified portfolio made up of investments in emerging markets. The most significant financial risks FMO runs are the credit and equity risks related to our investment activities.

FMO has no appetite for other risks than the

risks related to our investments in emerging markets. In order to identify, measure, monitor and mitigate its financial risks, FMO has an adequate risk management system in place. Our key risk management bodies and committees reflect the specific nature of the various risks in order to ensure that risks are managed within limits set in a transparent and timely manner.

All individual financing proposals for investments in emerging markets are assessed by our Investment Committee in terms of specific counterparty risk, as well as country risk. FMO has clearly defined its risk appetite per country and for counterparties in its loan portfolio and this is taken into account by the Investment Committee throughout the approval process. An important input for the assessment of the credit risk in our loan portfolio is the internal scorecard that is used for all loan investment proposals. In 2011 this internal rating methodology has been upgraded. Moody's has supported FMO in this project and has validated the new methodology. FMO now has a methodology in line with Basel's Internal Ratings Based (IRB) approach for measuring credit risk – which is transparent and best practice amongst financial institutions. The ratings will also be submitted to the Global Emerging Markets data pool (a joint initiative of [IFC] and [EIB]) in order to share loss data with other [DFI]'s worldwide.

In addition, all individual financial exposures are subject to a periodic review process in the Investment Review Committee. All individual exposures are assessed at least once every year and if necessary more often. Throughout FMO's credit process a four eye principle (two person review) with proper involvement of Risk Management is applicable.

The Asset and Liability Management

Committee (ALCO) is responsible for managing FMO's risks on a portfolio level. Key responsibilities of the ALCO include setting policies on credit, country, currency, interest-rate and liquidity risks, as well as capital adequacy. At monthly meetings, the ALCO assesses risk reports and advises on new products and limits.

Liquidity risk

Liquidity risk is the risk that insufficient funds are available to meet financial commitments. FMO's policy is to have matched funding, that is the tenor of our funding is matched to our assets, in order to reduce liquidity risk. Our liquidity policy is based on a three pillar approach. This policy ensures:

- 1) that the maturity mismatch is limited to €500 million per maturity bucket and that our refinancing risk is limited to €250 million per maturity bucket;
- 2) that we have sufficient cash, liquidity buffers and access to emergency lines to survive a stress period, where the funding market is totally closed for six months and;
- 3) that our funding sources are well diversified in terms of geography and instrument type. These three pillars are converted into liquidity limits and are tested against the liquidity position on a monthly basis at least. The liquidity position is presented to the ALCO on a monthly basis.

FMO's high credit rating (currently AAA, linked to the Dutch government) facilitates our access to financial markets for funding. This has enabled us to attract funding at a relatively low cost of funds and has meant that during times of crisis the funding market for FMO stays open for longer than it does for commercial European banks. A change

in the rating of the Dutch State would likely lead to a change in the rating of FMO. This would in turn affect our access to the funding markets and the margins we pay.

FMO traditionally has a conservative liquidity policy and funding strategy that is well suited to the business we do. In 2011 we have further diversified our investor base, raising approximately €0.5 billion long-term funding from different markets and currencies. The tenors vary from two years to 10 years. The liquidity position is well within our limits and even under various stress tests we are still within the limits. Nevertheless liquidity remains a key point for the ALCO, Risk Management and Treasury. We continually review the liquidity position, our assumptions, internal expectations and external market conditions to ensure that our liquidity overview remains relevant and accurate.

Related links

[www.fmo.nl/reports for the latest S&P report]

Capital management

FMO seeks to maintain a strong capital position, by means of an integrated capital adequacy planning and control framework, regularly reviewed by the ALCO.

FMO has an external and internal ratio to express its capital position. The external ratio is calculated based on the standardized approach of Basel II regulations; the internal capital ratio is based on the internal capital model. This year a new model has been introduced for our internal capital requirement. This model is based on Basel's Internal Ratings Based (IRB) methodology for measuring credit risk.

The main difference between the internal

and external capital models is the calculation of the level of capital needed for credit risk. Since FMO takes risks in developing countries, risks that commercial parties are not usually prepared to take, the risk is higher according to the internal model compared to the standardized approach. Hence the external ratio is higher than the internal ratio.

For a more detailed elaboration of financial risks, see the [Financial Risk Management] section in the annual accounts.

Compliance and regulatory risks

Partly stemming from the financial crisis, regulatory requirements and supervision are significantly increasing. Examples are laws and regulations like [Wft], Basel III, [IFRS] and Banking Codes. Developments (e.g. reporting standards, liquidity requirements, guidelines on remuneration, corporate governance, anti-corruption) are monitored and translated into policies by specialists and a dedicated regulatory working group. In 2011 we have also seen increasing supervision by the Dutch Central Bank: the results of these reviews have strengthened our comfort in FMO's Control Framework.

Simultaneously we have also noticed growing interest and need for transparency towards non-governmental organizations. This shift requires more measurement and reporting, a development that will without doubt further increase in the near future.

FMO's reputation is an indispensable asset that needs to be protected against damage. We have implemented a Code of Conduct prescribing the behavior of FMO's staff, which all employees must receive and sign before starting their career with us. FMO's values and culture is further discussed during a training for new employees. Besides

hard controls such as rules and procedures, FMO's management believes that soft controls, focused on people's behavior, are of vital importance.

Reputational and compliance risk are also created by FMO's clients. To mitigate these risks, FMO has a strict [Know-Your-Customer and Anti-Money Laundering policy] to guide our investment officers. This policy is reviewed on a yearly basis according to new laws and regulations. Furthermore, FMO's compliance officers advise on and ultimately approve or reject all FMO's clients before a business relationship is established. In the case of compliance risk, continuous awareness and management monitoring are key controls. To continuously improve awareness, all departments annually receive specific training and are tested on compliance through an e-learning module. Additionally, following regulatory requirements, in 2011 we implemented an [Anti-Bribery & Corruption policy].

IN CONTROL STATEMENT

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

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

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

- The internal risk management and control systems of FMO provide a reasonable assurance that FMO's financial reporting does not contain any errors of material importance;
- FMO's risk management and control systems worked properly during 2011;

- There are no indications that FMO's internal risk management and control systems will not continue to function properly in the current year.

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

We note that the proper design and implementation of internal risk management and control systems significantly reduces, but cannot fully eliminate, the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances. Another limiting factor is the need to consider the relative costs and benefits of risk responses. Properly designed and implemented internal risk management and control systems will therefore provide reasonable, but not absolute, assurance that FMO will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business.

Responsibility Statement

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

The financial statements give a true and fair view of the assets, liabilities, financial position and profit of FMO and its consolidated companies;

The annual report gives a true and fair view of the position on the balance sheet date and developments during the financial

year 2011 of FMO and its consolidated companies; and

The annual report describes the material risks that FMO faces.

The Hague, March 8, 2012

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

Report of the Supervisory Board

FMO enjoyed another successful year in 2011, achieving its targets in terms of development impact, sustainability, new commitments and financial results – all areas to which the Supervisory Board pays close attention. FMO's operating environment became riskier during the year, both on the financing and funding side.

This demanded great commitment from the Management Board and all FMO's employees, to whom the Supervisory Board would like to express its appreciation and thanks.

PROPOSALS AND RECOMMENDATIONS TO THE AGM

FMO's Supervisory Board endorses the Report of the Management Board. We propose that the Annual General Meeting of Shareholders (AGM) adopts the 2011 annual accounts audited by KPMG Accountants N.V.

In accordance with Article 6(2) of the Agreement State-FMO of November 16, 1998, we propose that the AGM approves the allocation of €88.8 million (2010: €119.9 million) to the contractual reserve. The remaining amount of €4.3 million (2010: €6.2 million) is the distributable component of profits. We recommend that the AGM adopts the Management Board's proposal to pay a cash dividend of €5.36 (2010: €4.66) per share and allocate the remaining €2.1 million to other reserves.

We propose that the AGM reappoints KPMG Accountants N.V. as external auditors.

We trust the AGM will also discharge the Management Board for its management of FMO and the Supervisory Board for its supervision during the reporting year.

Furthermore, the Supervisory Board requests that the AGM approves the new remuneration policy for the Management Board. As Dolf Collee final term has come to an end the Supervisory Board submits the nomination of his successor and the reappointments of Agnes Jongerius and Pier Vellinga for the Supervisory Board to the AGM of May 2012.

SUPERVISORY BOARD STRUCTURE AND ROLE

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

Supervisory Board members are appointed by the AGM. In May our Chairman Willy Angenent retired from the Supervisory Board and its committees, after nine years of service. Jean Frijns took over the role of Chairman. The Supervisory Board would like to thank Willy Angenent once again for his dedication and valuable contribution to FMO during these years.

The Supervisory Board currently comprises six members, with specific expertise in areas relevant to FMO's activities.

The Supervisory Board reviewed its own functioning in 2011 and reaffirmed its commitment to the two-tier board system as the appropriate model for FMO. The Supervisory Board sees its role

as supervising, advising and acting as a sparring partner for the Management Board, as well as working with the latter to set out the bank's strategy, and engaging with key stakeholders on FMO's behalf.

Last year, the Supervisory Board analyzed its composition and discussed the optimal mix of competencies that should be represented. It reached the conclusion that FMO's Supervisory Board should aim for a continued good variety of skills and experience in areas such as business and risk management, as well as finance and banking, climate change and Human Resources related subjects.

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

- management, organization and communication;
- relevant products, services and markets;
- sound management; and
- well-balanced and consistent decision-making.

The Supervisory Board also strives to have at least two female members.

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

No new members were appointed to the

Supervisory Board in 2011, but there was discussion of the changes due in 2012, when the current appointments of members Dolf Collee, Agnes Jongerius and Pier Vellinga come to an end.

The Supervisory Board held an extensive search for a successor to Dolf Collee, who will retire from the FMO Supervisory Board in 2012 and cannot be reappointed. The nomination of his successor will be submitted to the AGM in May 2012. The Board is happy that Agnes Jongerius and Pier Vellinga are available for reappointment.

SUPERVISORY BOARD ACTIVITIES

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

A transparent formal reporting structure is in place, and Supervisory Board members are frequently in contact with the Management Board so they remain fully informed and can provide advice at all times. The Supervisory Board Chairman meets the CEO informally once a month. With the exception of evaluations and appraisals, the full Management Board meets the full Supervisory Board at all pre-scheduled meetings.

The Supervisory Board held four regular meetings and two strategic sessions in 2011. The Supervisory Board is careful to ensure the right balance between governance and performance, so that it devotes attention not just to governance matters, but also to strategic and business issues. The attendance at the regular meetings was 100%.

Last year, explicit attention was devoted to capital management and growth. In particular, the Supervisory Board looked at capital requirements, solvency risks and their implications for FMO's operations. Good profitability is essential to enable FMO to continue growing its portfolio and annual investment volumes.

The Supervisory Board looked closely at the financial risks to which FMO is exposed: liquidity; financing and private equity exits; capital structure and funding; and third-party funds. The Board was satisfied that although the market turmoil requires constant vigilance, FMO is very healthy in all these areas.

The Supervisory Board was highly involved in the preliminary work done last year to

SUPERVISORY BOARD STRUCTURE AND MEMBERSHIPS

Supervisory Board member	Personal information	Initial appointment	End of current appointment	Supervisory Board Committee membership
Jean Frijns, <i>Chairman</i>	Dutch, 1947, male	2010	2014	Audit & Risk Committee Selection, Appointment & Remuneration Committee
Rein Willems, <i>Vice Chairman</i>	Dutch, 1945, male	2006	2014	Audit & Risk Committee
Bert Bruggink	Dutch, 1963, male	2009	2013	Audit & Risk Committee, Chairman
Dolf Collee	Dutch, 1952, male	2001	2012	Selection, Appointment & Remuneration Committee, Chairman
Agnes Jongerius	Dutch, 1960, female	2008	2012	Selection, Appointment & Remuneration Committee
Pier Vellinga	Dutch, 1950, male	2008	2012	Audit & Risk Committee
Willy Angenent ¹⁾	Dutch, 1940, male	2002	2011	Audit & Risk Committee, Selection, Appointment & Remuneration Committee

1) Willy Angenent was the Chairman of the Supervisory Board up to and including the AGM of May 11, 2011

2) Jean Frijns is Chairman of the Supervisory Board as of the AGM of May 11, 2011

develop FMO's new strategy for 2013-2016. The bank reaffirmed its mission to fight poverty in developing countries through providing sustainable finance in sectors that have the potential for high development impact. FMO does this by providing finance and knowledge to entrepreneurs in developing countries.

The Supervisory Board has asked the Management Board to develop concrete strategic targets in areas such as development impact, loan production, organizational developments and funding. It should be noted that the strategic reassessment on which FMO is working will not lead to a higher risk profile for the bank; very high-risk investments will only be possible if third parties assume some or much of the risk. In this respect, FMO received a great deal of support from the Dutch government in 2011, for example through the funds which FMO manages for the Dutch State.

Last year close attention was also paid to FMO's financial reporting and financial risks, determining the organization's risk appetite, policies and risk framework. The Risk Management department and the Supervisory Board's Audit & Risk Committee monitor to ensure adherence to these parameters.

The functioning of monitoring systems was also looked at. Ensuring that FMO is fully compliant with national and international rules and regulations, and that internal controls function correctly, is a major focus area of both the Management Board and the Supervisory Board.

When it comes to engaging with stakeholder the Supervisory Board members

are also actively involved. For example, the chairman of the Supervisory Board holds annual meetings with the Dutch Ministry of Finance, and the Supervisory Board had two meetings in 2011 with the Dutch Ministry of Foreign Affairs/Development Cooperation.

As regards internal stakeholders, the Supervisory Board holds formal meetings twice a year with the FMO Works' Council. The Supervisory Board intends to work towards more structured interaction with FMO's management.

LIFELONG LEARNING

The Dutch Banking Code, which came into effect in 2010, required Supervisory Board members to follow a formal program of lifelong learning. At FMO, this began in 2010 and was continued and expanded in 2011.

The program of lifelong learning was also used as a starting point for the preparation of the 2013-2016 strategy.

Last year, Supervisory Board members participated in learning sessions on the following subjects:

- The Agribusiness, food & water sector, which FMO added as a focus sector in 2011;
- The Housing sector, another of FMO's focus sectors;
- Risk management;
- International Financial Reporting Standards (IFRS) accounting rules;
- Procedures around FMO's Special Operations activities;
- Climate change;
- Development effectiveness.

INTERNAL EVALUATION

In 2011, the Supervisory Board performed

the customary annual internal evaluation of its performance. The assessment found that the composition, meeting preparation and style of meetings were all satisfactory and no fundamental changes were necessary.

The Supervisory Board analyzed the results of its internal evaluation against its competencies, to ensure it contained the required range of knowledge and skill sets.

As a result of the internal evaluation, the Supervisory Board decided to make some adjustments to its lifelong learning program, placing more emphasis on knowledge of financial and risk management, as well as deepening the Supervisory Board's relationships with stakeholders.

The decision was also taken to conduct these yearly evaluations together with an external party as of 2012, in order to deepen and better structure the exercise.

REMUNERATION POLICY

The Supervisory Board last year held extensive discussions on the Dutch central bank's (DNB) Regeling Beheerst Beloningsbeleid Wft 2011 (regulation on sound remuneration policy). It found that although FMO complies with the substance of this regulation, which took effect at the beginning of 2011, administrative adjustments were necessary to make its form fulfill DNB requirements.

FMO has a bonus system for the members of the Management Board; the bonus is linked to financial and non-financial targets and cannot exceed 25% of the fixed salary.

The Supervisory Board also looked at the remuneration policy for the rest of the FMO workforce. FMO has no regular bonus

system for its employees but has a relatively modest level of discretionary compensation, at the discretion of the Management Board.

In addition, the Supervisory Board checked whether total compensation levels were in step with a peer group. The conclusion was that FMO's remuneration policy is adequate.

Remuneration Management Board

The remuneration policy for Management Board members is to provide a package that attracts and retains capable executives with relevant expertise in international finance. A specialized external consultant evaluates the compensation package at least every three years, using as reference data on executives from a number of financial institutions in the Netherlands and, when available, from abroad.

FMO applies a remuneration policy that takes into account all relevant input from its shareholders with reference to the changing common understanding and practice regarding remuneration issues in the financial sector, such as the Banking Code and evaluations of, and revisions to, the Dutch Corporate Governance Code. In order to adopt the changes presented in the Banking Code and the revisions to the Corporate Governance Code, an adjusted remuneration policy for the Management Board was drafted by the Supervisory Board, which was approved by the AGM in May 2010.

Remuneration elements

Remuneration elements include a fixed annual salary, performance-related pay, contribution to pension plan and other components. Members of the Management Board have no shares, options or loans relating to the company.

The total remuneration package for the job function is graded according to the Hay system. The total salary level is capped and related to two different referential peer groups: a (public/semi-) public sector reference group and a private sector reference group. With regard to new labour contracts, the remuneration ceiling for the Chief Executive Officer is €300,000 gross salary per annum, subject to increases according to the General Banking Collective Labour Agreement as of May 2009. This yearly maximum compensation will include fixed salary, financial compensation for reduction of work hours, holiday allowance and any variable pay.

At the end of 2010, our advisor Hay Group conducted a study regarding the total remuneration package of the CEO in relation to the two referential peer groups. The conclusion of this study shows that the level of the remuneration package of the CEO is in line with our policy.

Fixed salary

The fixed salary component for all Management Board members follows the increase of the Collective Labour Agreements.

Performance-related pay

Performance-related pay over 2011 is based on financial and non-financial targets, and is capped at a maximum of 25% of the fixed salary (outperformance). In the case of an 'at target' performance level, the performance-related pay is 15% of the fixed salary. Financial and non-financial targets were proposed to the Supervisory Board by the Selection, Appointment & Remuneration Committee, based on the 2011 budget as approved by the Supervisory Board.

In 2011, financial targets related to business volume, value adjustments, operating expenses and profit before value adjustments and taxes. The Committee advises the Supervisory Board as to whether targets have been achieved and asks external auditors to verify the relevant calculations annually.

This also applies to the non-financial targets. In 2011 these non-financial targets related to issues requiring special management attention during the reporting year, such as development impact, the percentage of investments in low-income countries, the percentage of implemented ESG action items and mobilizing finance.

For 2012 a new Management Board remuneration policy has been drafted in which performance related pay will no longer be included. This policy has been drafted in accordance with the Dutch Central Banks' "Regeling beheerst beloningsbeleid 2011" (Regulation sound remuneration policy 2011) and the [CEBS] guidelines. The new Management Board remuneration policy will be proposed to the AGM for approval. The performance related pay over 2011 will be paid out in accordance with the aforementioned Regulations and Guidelines, in two tranches (2012 and 2015).

Pension scheme

All members of the Management Board have a pension scheme that is based on the average wage level arrangement, in accordance with the collective arrangement, that applies to all FMO employees.

Other components

Other employment benefits include a fixed expense allowance, social security,

contribution to a company car, profit-sharing payment and compensation of interest on mortgages. All these arrangements are in line with the general fringe benefits within FMO.

The Management Board consists of three statutory members. Their remuneration for 2011 was €1,105,000 (2010: €1,122,000) and is specified in the table.

REMUNERATION OF THE MANAGEMENT BOARD (€X1,000)

	Personal information	Fixed remuneration	Performance related pay ¹⁾	Pension	Other ²⁾	Total 2011	Total 2010 ³⁾
Nanno Kleiterp	Dutch, 1953, male	265	51	76	37	429	454
Nico Pijl	Dutch, 1951, male	202	39	63	51	355	335
Jurgen Rigterink	German, 1964, male	202	39	40	40	321	333
Total		669	129	179	128	1,105	1,122

1) The reported performance-related pay related to 2011 will be partly deferred in line with the guidelines on remuneration policies and practices.

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

3) Nico Pijl's fixed remuneration includes a six-week unpaid leave in 2010.

PERFORMANCE RELATED PAY (%)

	2011	2010	2009	2008 ¹⁾
Financial	8.8	10.3	9.7	8.1 (6.5)
Non-financial	10.5	11.9	6.2	8.1 (6.5)
Total (max 25%)	19.3	22.2	15.9	16.2 (13.0)

1) As of 2009, all Management Board members receive the same percentage of performance-related pay. The 2008 figures show the percentage of the CEO, followed by the percentage of the other members in brackets.

Remuneration of the Supervisory Board

FMO does not compensate members of the Supervisory Board with performance-related pay, shares or loans. On December 31, 2011, the Supervisory Board consisted of six members. The members of the Supervisory Board were paid total remuneration of €124,800 (2010: €130,000 for seven members), which is specified in the table.

REMUNERATION OF THE SUPERVISORY BOARD (€X1,000)

	2011	2010
SUPERVISORY BOARD		
Chairman	22.5	22.5
Member	15	15
AUDIT & RISK COMMITTEE		
Chairman	4	4
Member	3	3
SELECTION, APPOINTMENT & REMUNERATION COMMITTEE		
Chairman	3	3
Member	2	2

REMUNERATION OF THE SUPERVISORY BOARD (€X1,000)

	Personal information	2011	2010
Jean Frijns (<i>as per May 12, 2010</i>)	Dutch, 1947, male	24.8	12.5
Rein Willems	Dutch, 1945, male	18	18
Bert Bruggink	Dutch, 1963, male	19	19
Dolf Collee	Dutch, 1952, male	18	18
Agnes Jongerius	Dutch, 1960, female	17	17
Pier Vellinga	Dutch, 1950, male	18	18
Willy Angenent (<i>until May 11, 2011</i>)	Dutch, 1940, male	10	27.5
Total		124.8	130

INDEPENDENCE, CONFLICTS OF INTEREST, GOVERNANCE

All members of the Supervisory Board are independent, as required by the Corporate Governance Code.

No direct, indirect or formal conflicts of interest were identified in 2011.

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

FMO complies with the Dutch Banking Code and Corporate Governance Code. These were discussed by the Supervisory Board in 2011, and it was found that FMO has a high rate of compliance. Where FMO does not comply with these codes, it explains its reasons. For more information, see the [Corporate Governance] section.

AUDIT & RISK COMMITTEE

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

After the retirement of Willy Angenent, the Audit & Risk Committee comprised Bert Bruggink (chairman), Rein Willems, Pier Vellinga and Jean Frijns. It reports to the full Supervisory Board.

In 2011, the committee met three times.

The external accountants, the CR&FO and the CEO, the Risk Management Director, the Audit, Compliance & Control Director and the Finance Director were present at all meetings. The Committee also met separately with the external auditors.

Key issues addressed by the Audit & Risk Committee in 2011 included the risk appetite and risk guidelines, the economic capital model and the funding policy in light of the stressed situation on financial markets. The (interim) management letter from accountants KPMG, laying out its observations and recommendations regarding internal control at FMO was discussed extensively. Special attention was requested for the calculation of economic capital and the internal capital ratio, segment reporting, user access to IT applications and the procedures around local currency transactions.

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

SELECTION, APPOINTMENT & REMUNERATION COMMITTEE

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

After the retirement of Willy Angenent, the Selection, Appointment & Remuneration Committee comprised Dolf Collee (Chairman), Jean Frijns and Agnes Jongerius.

In 2011, this Committee met three times; the CEO and Director of Human Resources

joined these meetings. Among the key issues discussed were succession planning and management development. Furthermore, much time was spent on regulation around remuneration and bringing FMO practices and procedures into line with these regulations. The Committee takes the lead in setting the targets for the Management Board and in monitoring its progress. At least once a year a formal evaluation of the Management Board members is undertaken. On an annual basis the committee discusses with the Management Board the HR policy for FMO, including staff mobility and career patterns.

Corporate Governance

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

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

CORPORATE GOVERNANCE CODES

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

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

The Dutch Corporate Governance Code applies to listed companies having their registered seat in the Netherlands. As a non-listed bank FMO is not required to adhere to the Code, but has chosen to do so. The Supervisory Board and the Management Board fully endorse the basic principle on which

the Code is based, namely that the company is a long-term partnership of various stakeholders, such as clients, shareholders and other capital providers, employees as well as the government and groups in civil society. The relevant principles and best practice provisions of the Dutch Corporate Governance Code (2009 version) have been implemented, with the exception of the following principles and best practice provisions:

- BPP II.1.9 - II.1.11: stipulations on the response time of the Management Board in case of shareholder activism and the hostile takeover stipulations are not implemented, given our stable majority shareholder, the State of the Netherlands.
- BPP II.2.3: FMO complies with this article, except for the fact that the share price is not taken into account when determining the remuneration of the Management Board, since FMO is non-listed.
- BPP II.2.4 - II.2.7 and II.2.13 c. and d.: These provisions relate to the granting of options and shares that are awarded to Management Board members. No options and shares are granted at FMO.
- BPP III.8.1 - III.8.4 do not apply, since FMO does not have a one tier board.
- BPP IV.1.1 does not apply, since this provision refers to a legal entity that does not apply a so called "structuurregime". FMO is a so called "structuur" legal entity as defined in paragraph 2.4.6 of the Dutch Civil Code.
- BPP IV.1.2 does not apply, since this provision refers to financing preferred shares, which FMO does not use in its share capital.
- BPP IV.1.7: FMO does not comply with the provision that the company determines a registering date to exercise voting rights and rights to attend the AGM. Since FMO has registered shares only and the identity of all shareholders is known, there is no need for separate registration.
- BPP IV.2.1. - IV.2.8 concern the issuing of depositary receipts for shares. There is no such requirement at FMO, apart from the Articles of Association which lay down that the company is not permitted to cooperate in issuing depositary receipts of shares.
- BPP IV.3.1. - IV.3.4. These provisions relate to analysts' meetings and presentations to institutional investors. These provisions are of no practical significance for FMO, mainly because FMO does not have listed shares, and therefore do not apply.
- BPP IV.3.8. The explanation of the agenda of the AGM is not published on FMO's website, since this document is sent to all shareholders of FMO.
- BPP IV.3.11. The management provides a survey in the annual report of all the anti-takeover measures to prevent control from being relinquished. FMO does not comply with this provision, which has to do with the fact that FMO has a stable majority shareholder, the State of the Netherlands.
- BPP IV.4.1. - IV.4.3. Institutional investors annually publish their policy with respect to the exercise of voting rights on shares in listed companies, report annually on the implementation of the aforementioned policy, and report at least once a quarter on the voting behavior at general meetings of shareholders. FMO could be designated as an institutional investor within the meaning of the code, but these provisions may be assumed to relate solely to Dutch listed companies and as such do not have any practical significance for FMO.

- BPP V3.3. The provision only applies when the company does not have an internal auditor. FMO does have an internal auditor.

Related links

[FMO & the Dutch Banking code]

ARTICLES OF ASSOCIATION

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

Related links

[Articles of association]

GOVERNANCE STRUCTURE

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

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

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

The roles of AGM, Supervisory Board and Management Board did not change in 2011.

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

Related links

[Corporate governance]:

corporate governance code, banking code and articles and internal regulations

[AGM]:

role and minutes of the AGM

[Supervisory Board]:

role, biographies, committees, profiles, rules and regulations

[Management Board]:

role, biographies, rules and regulations

[Stakeholders]

Combined independent Auditor's and Assurance Report

We have been engaged by Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden N.V. (hereinafter also referred to as FMO) to conduct (1) an audit on the financial statements 2011 and (2) a limited assurance engagement of the Report of the Management Board 2011. The audit and the limited assurance engagement are conducted in accordance with the Dutch law, including the Dutch Auditing Standards for the audit and ISAE 3000 for the limited assurance engagement.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements 2011 of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., The Hague on pages 71 to 138. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2011, the consolidated profit and loss account, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2011, the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

ASSURANCE REPORT ON THE MANAGEMENT BOARD'S REPORT

We have provided limited assurance on whether the Report of the Management Board 2011 on pages 8 to 55 (further referred to as The Report) is presented, in all material respects, in accordance with the requirements of section 2:391 of the Netherlands Civil Code.

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

MANAGEMENT'S RESPONSIBILITY

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

ASSURANCE REPORT ON THE MANAGEMENT BOARD'S REPORT

AUDITOR'S RESPONSIBILITY

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

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

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

Our responsibility is to provide limited assurance on whether the information in The Report is, in all material respects, prepared in accordance with section 2:391 of the Netherlands Civil Code. We conducted our engagement in accordance with Standard 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information as issued by the Royal NIVRA. We do not provide any assurance on the feasibility of the targets, expectations, policy and ambitions of FMO. Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information and are less extensive than those for a reasonable level of assurance. The following procedures were performed:

- a review of the content of The Report in relation to the specific requirements as set out in section 2:391 of the Netherlands Civil Code;
- a review of the underlying principles of information management and reporting used in drawing up The Report;
- interviews with relevant staff responsible for the information in The Report;
- a review of internal and external documentation such as minutes of meetings, reports and intranet sources;
- a review of the underlying systems and procedures used to collect and process the reported
- information, including the aggregation of data into the information in The Report;
- a review of the reliability of the quantitative information in The Report based on sampling.

GRI check

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