FMO

Entrepreneurial
Development
Bank

ANNUAL REPORT

2021

The way we build resilience during times of uncertainty is critical to performance and our ability to tackle collectively climate disruption and growing inequality in the world.

"Resilience is about today's efforts to improve standards of living against all odds."

Andranik Manaseryan
client Ararat bank | Armenia

Our mission is to empower entrepreneurs to build a better world

ABOUT THIS REPORT

This integrated annual report covers activities that took place or had an effect on the reporting year. The report covers the period from 1 January to 31 December 2021 and was published on 16 March 2022, on FMO’s website. The annual shareholders’ meeting is scheduled to be held on 28 April 2022.

The integrated annual report is accompanied by two supplemental reports: 1) disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and 2) disclosure in line with our commitment to the Principles for Responsible Banking (PRB).

Presentation of information

This annual report of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and with Title 9 of Book 2 of the Netherlands Civil Code. In addition, FMO has prepared non-financial information following the principles of the Integrated Reporting <IR> Framework and in accordance with the GRI Standards: Core option.

FMO is subject to the structure regime as intended in Part 4, Book 2 of the Dutch Civil Code. The Board Report consists of the chapters 'At a glance', 'Report of the Management Board', 'Report of the Supervisory Board', 'Corporate Governance', 'Stakeholder engagement and materiality assessment', 'External commitments' and 'How we report'.

We strive to report transparently on our strategy, the way we implement it to create value for our stakeholders and the dilemmas we face along the way. The report provides a comprehensive overview of FMO’s financial and sustainability performance. Our reporting approach is described further in the section ‘How we report’.

Material topics

The materiality assessment provides guidance on the (level of) information stakeholders expect FMO to disclose through the annual report or other communication channels. It also serves as input for our stakeholder dialogue and strategic plans. A detailed description of the approach and results are provided in the chapter ‘Stakeholder engagement and materiality assessment’.

External assurance and audit

We have engaged Ernst & Young Accountants LLP to audit the annual accounts, to perform a review of the sustainability information in specific chapters in scope and an audit of selected elements of this report. The scope, procedures, findings and conclusions from this engagement are summarized in the ‘Combined independent auditor’s and assurance report’.

TABLE OF CONTENTS

AT A GLANCE

FMO is the Dutch entrepreneurial development bank

Since 1970, we have been a driving force behind investments empowering local entrepreneurs in emerging markets. We believe in a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources.

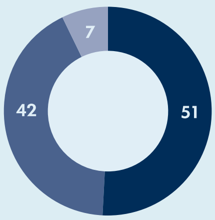
We invest with the aim of enhancing local prosperity in emerging markets. And take risks that the commercial banking sector is not willing to take. We focus on the private sector in the following industries: agribusiness, food & water, energy and financial institutions. Through our investments in these industries we empower entrepreneurs to build a better world.

Our role extends beyond financing, as we challenge and support businesses to meet international environmental, social and governance standards. These businesses, in turn, support job creation, reduce inequality and contribute to climate action. Our strategy is to be the preferred partner to invest in local prosperity.

FMO has its head office in The Hague, the Netherlands, with local offices in Johannesburg, South Africa, and Nairobi, Kenya. We also have a representative office registered in Singapore.

Organization and ratings

Ownership structure %



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

Ratings

AAA
Fitch ratings

AAA
Standard&Poor's

2nd/1071 banks
Sustainalytics relative performance (1st=lowest risk)

Prime
ISS ESG status

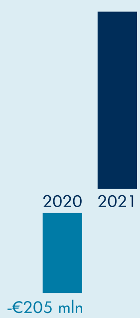
Employees

605
Total number of employees

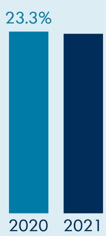
57
Number of nationalities

45%
of women in senior and middle management

Financial performance



€491 million
Net profit/ loss



22.5%
CET1(%)

2021 Performance

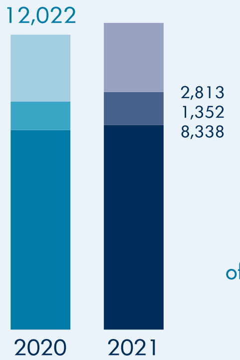
Investing in local prosperity[1]

	Decent Work and Economic Growth	Reduced Inequalities	Climate Action

Total committed portfolio[2]

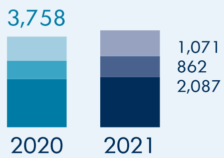
One-third of our portfolio aims to contribute to reduced inequalities and climate action.

- Mobilized funds
- Public funds
- FMO's balance sheet



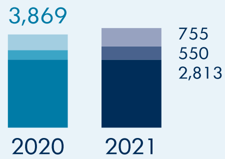
€12,503 million
Total committed portfolio

of which



€4,020 million
Reducing Inequality-labelled committed portfolio

and

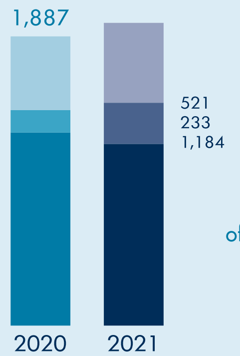


€4,118 million
Green-labelled committed portfolio

Total new investment volume[2]

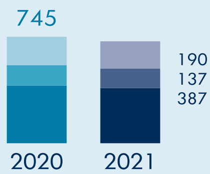
37% of the total new investment volume aims to contribute to reduced inequalities and 28% to climate action.

- Mobilized funds
- Public funds
- FMO's balance sheet



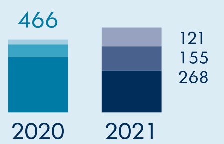
€1,938 million
Total new investment volume

of which



€714 million
Reducing Inequality-labelled new investment volume

and



€544 million
Green-labelled new investment volume

Other key indicators[3]

Our portfolio resulted in an estimated 644 thousand jobs supported and 1.3 million tCO_2e financed avoided GHG emissions.

644,119
Jobs supported

1,329,158 tCO_2e
Total financed avoided greenhouse gas emissions

1. In addition to investments made on its own balance sheet, FMO also invests public and mobilized funds to create higher impact. These funds are managed but not owned by FMO. The risk exposure for these assets is for the third-party providers of this capital.
2. This is an alternative performance measure (APM) that is not included in the financial statements and is designed for steering purposes. For a definition of this APM, please refer to the chapter 'How we report'.
3. Due to changes in the Joint Impact Model methodology, the 2020 comparative figures have been restated.

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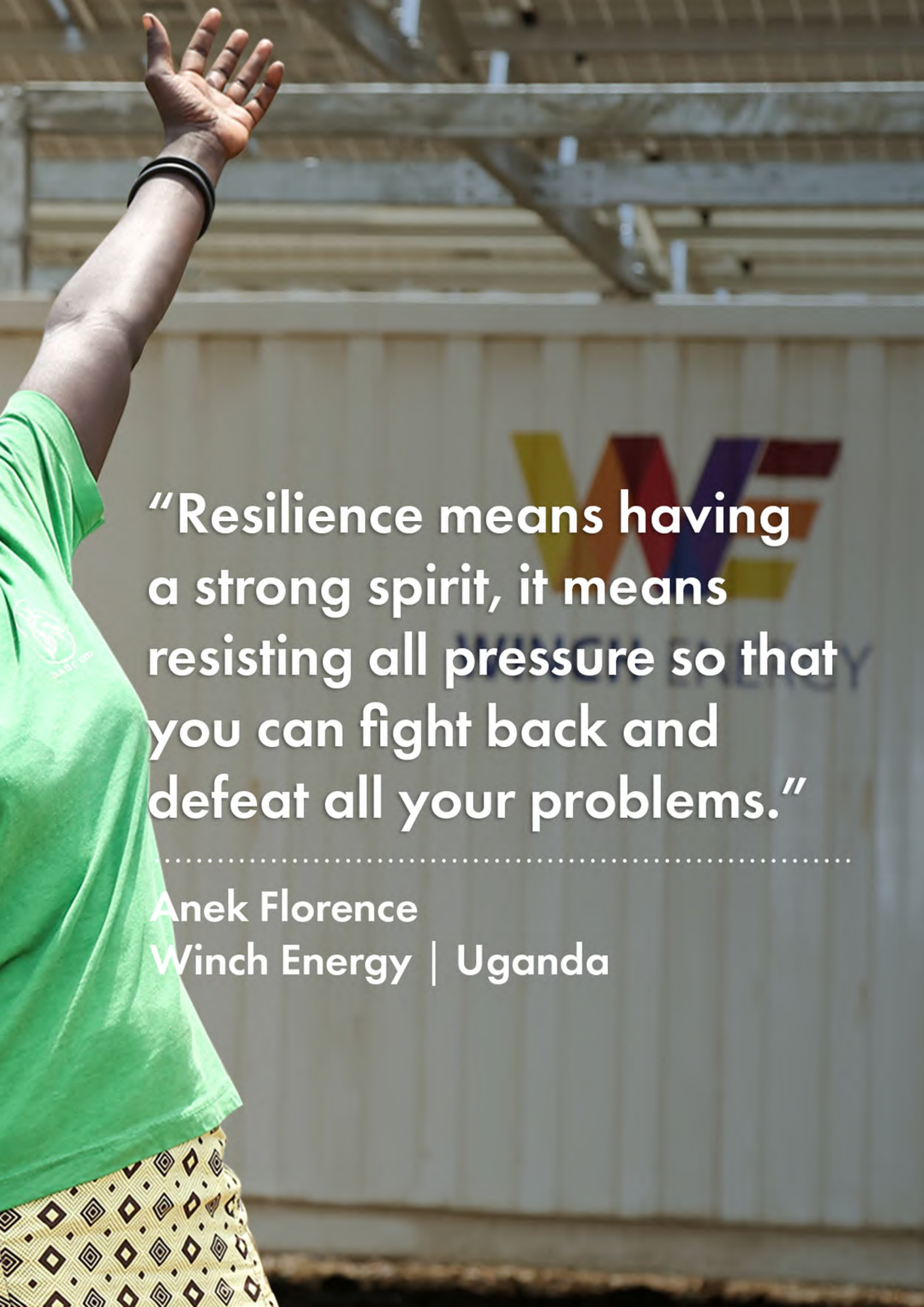
Report of the Management Board



"Resilience means having a strong spirit, it means resisting all pressure so that you can fight back and defeat all your problems."

Anek Florence
Winch Energy | Uguanda

LETTER OF THE MANAGEMENT BOARD

There are eight years left for the world to achieve the Sustainable Development Goals (SDGs) and we still have a long way to go. The widely different way in which countries have recovered from the pandemic has caused inequality to increase. And the global average temperature is still on course to breach the 1.5-2 degree limit of the Paris Agreement. More than ever, there is an urgent need for the private sector to work with governments and civil society to find, nurture and finance projects that will bring positive change.

Impact, innovation and profit

Despite travel restrictions, we continued to support our customers during the pandemic. And while we did not achieve our target on FMO new investments, we exceeded our target on the mobilization of third-party funds and nearly achieved our target for public fund investments. Our impact numbers show a similar picture. We invested €714 million in reducing inequalities, exceeding our target of €596 million. Yet, the €544 million we invested in green projects fell short of our €592 million target. In total, we estimate that our outstanding portfolio supported 644,119 direct and indirect jobs.

Building on the enormous drive of our employees and the strength of our reputation, we created impactful partnerships such as Mobilising Finance for Forests with the UK government. We also committed to Climate Investor Two, a blended finance facility focusing on water that follows its predecessor, Climate Investor One, which focused on renewable energy. In addition, we supported the successful establishment of Invest International and the transition of NL Business to this entity; we published a position statement on fossil fuels; and signed on to the Clean Energy Transition at COP26. We also continued to give attention to several complex projects. Learning from one another, and from mistakes made in the past, is part of that process.

In 2021, FMO made a profit of €491 million. This is a significant improvement compared to the end of 2020 when we reported a loss of €205 million. There are three main drivers to explain this. First, economies have largely recovered after the initial COVID-19 shock, which has led to a significant upward revaluation of our private equity portfolio. Second, the appreciation of the US dollar has had a positive effect on the value of our assets. As our investment portfolio is largely denominated in US dollar, fluctuations in the exchange rate strongly affect our financial results. Third, despite the initial negative outlook, we were glad to see that most of our customers were able to meet their financial obligations, which has led to a net release in our impairment levels.

Since the implementation of IFRS 9 our financial results are more volatile than before. This is due to the fluctuation of the valuation of our equity investments that is reflected in the profit and loss. The proceeds of our loan portfolio make up our stable income. Our overall portfolio still grew compared to 2020, but the increase was less than we set out to achieve. Although these effects are not yet visible in the 2021 financial results, we recognize the need to reverse this trend in coming years.

Know Your Customer ready for the future

In 2021, we completed our financial economic crime (FEC) enhancement project. This included an extensive Know Your Customer (KYC) file remediation, tailored to the specific requirements of developing and emerging economies. This asked a lot from our staff, and it is due to their ongoing perseverance, dedication, and resilience that we have been able to stand by our customers and conclude this project. The validation identified several recommendations that FMO will follow up on in 2022.

COVID-19, the travel restrictions and our focus on the FEC enhancement project in 2021 meant we temporarily had to slow down business activities with new customers. Now that the implementation of our bespoke KYC process is realized and travel is starting to be possible again, business activities with new customers are picking up. To realize our impact agenda, it is critically important that we select the right customers - they are effectively our partners on the ground that create the positive impact. Our new KYC process leads to longer turnaround times and a higher cost of doing business, but at the same time our customers are effectively awarded with ‘a seal of approval’ which will give other financiers and institutional investors the confidence to invest alongside FMO. For instance, through funds like the NN-FMO Emerging Markets Loans Fund which was recognized as ‘fund of the year - private debt’ by the Environmental Finance IMPACT Awards 2021.

New leadership, ambitious goals

In 2021, FMO also welcomed our new CEO. In September, Michael Jongeneel took over from interim CEO Linda Broekhuizen, who left the organization after 21 years of service. Years for which we are very grateful. With the support of our Supervisory Board and in consultation with our employees, we have set ambitious targets for 2022. We are aiming for approximately €2 billion in FMO investments, €300 million in public fund investments and €500 million in mobilized fund investments. We will grow the organization to realize this volume. Also, the Management Board will expand from a three to a five-person board.

Looking at our three focus sectors – agribusiness, food & water (AFW), energy and financial institutions (FI) – we see plenty of opportunities. As (commercial) finance for renewable energy generation has increased significantly, FMO will shift its focus more towards transmission, distribution, storage and decentralized models like mini-grids. In FI, the key constraint in serving traditional banks is risk appetite rather than liquidity, so we expanded our strategy to include risk sharing and support for new financial intermediaries such as FinTechs and specialized financiers. In AFW, we see commercial banks withdrawing, meaning our additionality has increased. We will explore opportunities in soil carbon sequestration, climate change adaptation and protecting forests. These changes will be reflected in the strategy 2030, which will be finalized in 2022.

While pursuing our impact goals, international developments influence our markets. There are numerous concerns for national and regional stability and security across the world with potential consequences on displacement, involuntary migration, energy and food supply and price levels. We are deeply concerned for the people of Ukraine, following and assessing the situation in the region on a daily basis. Our direct exposure to the country and Belarus is around €230 million; indirect effects are still developing. We work with 14 customers in Ukraine, mostly in the agribusiness and renewable energy sectors. We are trying to stay in contact with our Ukraine customers as much as possible to support them.

Tackling challenges in concert with our stakeholders

As we pursue these ambitious goals, we will need to tackle several challenges. In the coming years, several new regulations are coming into force that will affect FMO. These include the EU Sustainable Finance regulation, ECB requirements related to the disclosure of climate-related risks and the LIBOR transition. FMO will focus on the implementation of these requirements, ensuring they are done in an efficient and effective manner. We will build on the experiences gained in the last two years in completing our FEC enhancement program.

In addition, we will continue to increase our engagement with civil society to discuss the dilemmas we face. Our dialogue continues to challenge us and to support improving our approach at a time when stakeholder expectations are rising and the outside attention we have received with respect to the way we conduct business has increased.

In 2021, we took further steps to serve our customers and markets better in the future. Building on the skills and knowledge of our highly diverse staff, we see a solid basis for growth. As a regulated and accredited entity, FMO will be a key driver of change, mobilizing much-needed funds to achieve the SDGs. To be truly transformative in our impact, we will be bold, take risks, be innovative and try out different models - while we continue to transform ourselves as well. We look forward to partnering with all our stakeholders on this worthwhile endeavor.

Fatoumata Bouaré, Chief Risk & Finance Officer
Michael Jongeneel, Chief Executive Officer
Huib-Jan de Ruijter, Chief Investment Officer

Scatec Solar Complex in South-Africa
Leading solar player in the country.

A selection of our investments

We continued to invest in our focus markets through utilizing FMO's own capital, public programs and mobilized funds. Through these investments, we contribute towards the SDGs.

Fin'ELLE/COFINA Group

Microfinance Institution in Ivory Coast

US$5 mln debt | MASSIF | SDG 5, 8, 10

More than 70% of women across the continent of Africa face barriers limiting their access to finance, and Côte d'Ivoire is no exception. Fin'Elle (a subsidiary of the COFINA Group) is a meso-financier dedicated to empowering women entrepreneurs through adapted and accessible financial and non-financial services. The meso-finance sphere is of particular significance for SMEs who qualify neither for micro finance, nor for larger-scale products and services. These include savings products and credit and capacity building programs with the aim of fostering inclusive finance for women.

FMO provided a loan of €5 million to help strengthen Fin'Elle's position in the meso-finance sphere. This will allow Fin'Elle to continue providing access to finance to women entrepreneurs, combined with the Capacity Development program FMO offers together with technical partner LadyAgri aimed at women active in the cassava value chain.

&Green

Sustainable agricultural investment fund

US$58 mln debt | FMO, Building Prospects, DFCD, MFF | SDG 8, 13

&Green invests in commercial projects in agricultural production value chains to protect and restore tropical forests and peatlands. The aim is to make agriculture more sustainable and inclusive – involving local communities, producers, financiers, supply chain companies, local and national governments, and civil society. In early 2021 &Green received a US$25 million Senior Debt Facility (US$10 million from Building Prospects, US$5 million from DFCD and US$10 million from FMO-A) followed by the first investment from the Mobilising Finance for Forests (MFF) Fund – a blended finance investment program established by the UK government and mandated to FMO. The transaction strengthens FMO's commitment to combat environmentally degrading land use practices and increase the value of standing forests. The MFF investment provides risk capital through a US$32 million investment facility and a US$2 million development capital facility. Starting in Brazil, Colombia, Indonesia, Ecuador, Peru, Gabon, Liberia, and the Congo Basin, &Green aims to show that forms of restorative agriculture, forestry and land use can help combat deforestation sustainably.

Green Growth Equity Fund

Climate-focused impact fund in India

US$30 mln equity | FMO | SDG 7, 8, 13

India faces major climate change challenges ranging from extreme weather events to resource scarcity. With a big role to play in reducing global GHG emissions, India has outlined ambitious climate and SDG objectives, which FMO is committed to supporting. In 2021, FMO committed US$30 million from its own balance sheet and catalyzed an additional US$83 million from the Green Climate Fund as part of a second collaboration into India's Green Growth Equity Fund. This is the largest approval by the GCF to a single country equity fund for a private sector climate mitigation program and will accelerate investments in digitally empowered, rapidly scalable, climate positive businesses and platforms in the energy, e-mobility, resource conservation, and waste water management value chains.

Hamkorbank

Private bank in Uzbekistan

Up to US$100 mln debt | FMO | SDG 8, 10 13

JSCB Hamkorbank (HB) is Uzbekistan's largest privately-owned bank and 9th-largest bank, with a strong focus on MSME and retail sector, and approximately 3% of the country's market share. As a long-term customer of FMO since 2012, HB has received both financial support and technical assistance throughout the years. FMO and HB signed a new high-impact loan agreement for US$100 million, of which US$50 million as uncommitted facility. The committed facility is provided in local currency for 80% and will be split 50-50 between financing eligible Reducing Inequalities and Green projects, while also providing increased access to finance for women, young, and agricultural entrepreneurs.

Energy Access Relief Fund

COVID-19 impact-focused fund

US$5 mln debt | Access to Energy | SDG 7

The lack of access to energy and finance continues to affect businesses and those at the Bottom of the Pyramid across Sub-Saharan Africa and Asia. Issues such as malfunctioning supply chains, rising costs of solar components, and COVID-19, have severely affected the energy access sector, which has provided 470 million people with energy while avoiding 74 million tons of GHG emissions. To start building back the renewable energy transition, FMO invested US$5 million in the first close at US$68 million of the Energy Access Relief Fund (EARF), a debt fund providing COVID-19 relief funding to Access to Energy companies. Managed by Social Investment Managers and Advisors (SIMA), the fund will provide short-term loans to approximately 90 companies, thereby extending access to energy to an estimated 800 million people without living without power.

Agrofértil S.A.

Agricultural inputs provider in Paraguay

US$15 mln debt | FMO | SDG 2, 8

Agribusiness plays a critical role in the economy of Paraguay. As the sixth largest producer and fourth largest exporter of soybeans, it contributes to around 23% of the country's GDP. Agrofértil is the leading agricultural and agronomic service and product provider in the country. They also offer a comprehensive set of services for over 2,100 farmers. This includes technical assistance, pre-harvest finance, storage, and more, which lead to increased farmers' productivity and profitability. FMO committed an additional US$15 million to its longstanding customer to expand Agrofértil's capacity in providing pre-harvest financing, directly contributing to the agriculture sector's continued development. Additionally, FMO supported Agrofertil's development of a management system and procedure to evaluate and reject producers contributing to deforestation through conversion of natural and critical habitats.

SUSI Asia Energy Transition Fund

Clean energy transition-focused fund

US$20 mln equity | FMO | SDG 8, 13

Southeast Asia requires substantial investment into both new renewable energy generation and energy-efficient technologies to meet its climate and development goals. FMO supports ambitious first movers in the energy transition space while addressing the market need for energy transition infrastructure in Southeast Asia at a time when investment has decreased due to the economic shock of COVID-19. By investing US$20 million in SUSI Asia Energy Transition Fund (SAETF) as part of the fund's US$80 million first closing, FMO is contributing to the growth of a private equity fund dedicated to microgrids, commercial and industrial energy solutions, storage and utility.

HSA Yemen

Family-owned food conglomerate in Yemen

US$20 mln debt | FMO | SDG 2, 8, 10

Since 2015, Yemen - the poorest country in the Middle East and North African region - has been on the brink of famine and is embroiled in one of the planet's most harrowing humanitarian crises. Roughly 16.2 million Yemenis (around half of the population) are food insecure, around 4 million Yemenis have been displaced by conflict, and the country suffers from one of the highest child malnutrition rates in the world. Hayel Saeed Anam Group, a family-owned conglomerate in Yemen, is one of the largest Middle Eastern multinational businesses, supplying essential

goods to Yemeni communities.
Together with IFC, FMO announced a partnership through the form of a financing package mobilizing up to US$75 million, with FMO contributing up to US$20 million. The financing would be used as working capital for the HSA's six food companies in the dairy, flour, and sugar sector, boosting Yemen's agribusiness sector's resilience and bolstering the country's overall food security.

Sartawi

Microfinance institution in Bolivia

US$6 mln debt | DFCD | SDG 8, 10, 13

According to the World Bank, approximately 35% of Bolivians live below the national poverty line. In 2021, FMO supported Bolivian microfinance institution Sembrar Sartawi (Sartawi) with a US$6 million facility, following an initial investment in 2013, to be fully funded from the Dutch Fund for Climate and Development (DFCD). This new investment contributes to climate-resilient economic growth by supporting vulnerable smallholder famers, expanding on Sartawi's triangle model: microloans, technical assistance, and market access. This model makes a difference for the 30,000 clients supported by Sartawi, more than half of who are women.

Collaborative for Frontier Finance

Supporting impact-focused aspiring fund managers

€0.3 mln grant | FMO's Venture Program | SDG 5

The Venture Capital ecosystem across Africa and other frontier markets is in need for more portfolio and fund managers with a deep understanding of the needs of scaling businesses to deliver community impact. Collaborative for Frontier Finance (CFF) leads impact-oriented stakeholders addressing the gap of access to capital in the growing African business ecosystem, strengthening their overall capacity and increasing the funds available. FMO partnered with CFF to recruit, train, and support more women and underserved capital allocators, focusing on Ghana, Morocco, and Tanzania. The 15-month program will help promote local and early-stage VC systems, for example by providing opportunities to access institutional funding, having support for capital provision in early-stage business, and developing overall capacity through various tools and trainings.

EXTERNAL ENVIRONMENT

The world around us is constantly changing and is becoming increasingly complex. In 2021, FMO continued to adapt to the realities of a global pandemic and the uncertainties that came with it. Global challenges such as climate change and rising inequalities have become even more pressing, affecting the most vulnerable communities and countries in disproportionate ways. In this chapter, we discuss the relevant trends and developments - at the time of drafting this report - that affect FMO and its markets.

Economic recovery

The pandemic continued to affect the global economy. In the first half of 2021, developed economies began to recover due to high vaccination rates and strong support from central banks and governments. Financial markets saw an increase in liquidity and equity markets rose strongly over the first three quarters of the year. With supply chains slow to respond to an increase in economic activity and demand, supply shortages caused inflation to rise. However, hopes for a quick recovery were diminished in Q4 with the emergence of the Omicron strain. In the emerging markets (EMs) in which we invest we see countries recovering at widely differing rates.

In some EMs, governments rolled out large support packages for the private sector and households, while central banks lowered policy rates and conducted quantitative easing. This boosted liquidity and asset prices as well as private investors' confidence. EM capital outflows recorded in early 2020 have been reversed. In this environment of ample liquidity and compressed risk premiums, companies were able to (re)finance themselves locally at attractive rates.

In other emerging markets and low-income countries (LICs) in particular, recovery has been much slower because of lower vaccination rates and less government support. In these markets, private sector indebtedness increased, with SMEs facing solvency and liquidity problems. Government debt-to-GDP ratios also rose. Almost 60% of LICs are already in, or near, high-debt distress. With 60% of EM government debt issued in response to the crisis ending up on domestic banks' balance sheets, the sovereign-bank nexus has deteriorated in these markets.[1] The pandemic has left EMs and LICs financially vulnerable to a resurgence of the virus, a spike in inflation or an unbalanced tapering of monetary policy.

Geopolitical tensions

Geopolitical tensions are rising, which may affect FMO's activities. Risks emanate from a diverse set of drivers including rising global competition between countries; state failure and conflict; and the way global challenges like climate change and the global pandemic are tackled. These risks may lead to increasing volatility and uncertainty in commodities and financial markets. Financial institutions could also be caught in the crossfire of sanctions and economic retaliation if violent conflict were to erupt in Eastern Europe or Southeast Asia.

In Africa, violent extremism has displaced two million people in the Sahel, while fighting between rebels and the government continues in Ethiopia's Tigray region. Tensions in Europe are mounting as Russia invaded Ukraine. Internationally, there are concerns for the national and regional security and the potential impact on displacement, involuntary migration and natural gas supply from Russia to Europe. Meanwhile, China is investing in lithium projects outside its borders to secure its access to the metal key to the energy transition. Development financing is increasingly employed as an instrument in the struggle to reassert spheres of influence, most notably by China through its Belt and Road initiative.

1 IMF, Global Financial Stability Report, April 2021.

Development progress

The pandemic has slowed, and in some instances reversed, progress towards the SDGs. While EMs are estimated to reach 6.5% GDP growth in 2021, this is mostly a temporary recovery effect after the COVID-19-induced drop in 2020. LICs are estimated to achieve only 3.1% growth in 2021 and employment prospects for low-skilled workers and youth remained bleak. Inequality increased, as did the likelihood of income falling below extreme poverty thresholds.

Global warming is still progressing faster than the 1.5-2 degrees Celsius as required by the Paris Agreement.[2] Despite COP26, most governments are showing little progress towards achieving this goal. Still only about 20 percent of global emissions are subject to emissions trading schemes or pricing measures. Tax revenues related to environmental policy have declined over the past 15 years, while public expenditures on environmental policy have stayed flat.

Development finance institutions (DFIs) such as FMO continue to have an important role in financing the SDGs. In a 2021 report, the Overseas Development Institute concluded that investments in the poorest countries have fallen behind, and that the SDG funding gap has increased. There are more opportunities for DFIs to invest in fragile and conflict-affected states and support the just (energy) transition. This requires high-risk capital and blended finance and early-stage investments.[3] However, these projects often present greater risks and require more time, due diligence and resources from an organization. Such investment decisions should, therefore, be carefully balanced with other (potential) investments.

Sector developments

We have observed shifts in all three of our focus sectors.

The agribusiness, food & water (AFW) sector held out relatively well during the pandemic, despite disruptions to supply chains and high costs of container shipping. Agri commodity prices increased by 28% in 2021 (40% above pre-pandemic levels), in part because of labor scarcity and the rising cost of natural gas, a key ingredient of fertilizers and other key inputs. Governments stocking up on food staples are expected to drive prices up further. With commercial banks withdrawing from these markets, there is greater additionality for FMO. Moreover, the sector can play a role in responding to the climate crisis in terms of mitigation, adaptation and sequestration through forestry and regenerative agriculture and farming practices.

The energy sector presented both challenges and opportunities. On the one hand, renewables have become more competitive. Investments in renewable power capacity grew at a record pace, with solar alone accounting for more than half of all new renewable power in 2021. Elevated fossil fuel prices have made renewables even more competitive. Subsequently, there are fewer opportunities for FMO in this sector. Volatility in commodity, transportation and energy prices pose further challenges. On the other hand, there are opportunities for FMO to focus more on other sub-sectors such as transmission, distribution and storage that are crucial for the acceleration of the phase-down of unabated coal power, as called for by the COP26.

Financing needs have shifted. The pandemic has made financial institutions (FIs) more cautious about lending to certain sectors, resulting in lower demand from FIs for traditional financing and greater demand for risk-sharing. Central banks stepped in and prevented banks from paying out dividends to preserve capital. In 2021, credit losses were lower than feared in 2020 and many FIs have since recovered.

2 https://ec.europa.eu/commission/presscorner/detail/en/IP_21_6021

3 ODI (April 2021). Development finance institutions: the need for bold action to invest better.

Technological innovation in FinTech, AgriTech and EnTech continued to impact FMO's market. New technologies allow financial services to reach previously un(der)served customers. FinTech solutions provide access to loans and payment of salaries to workers in rural areas. In the agricultural sector, for instance, technology increases supply chain traceability and accountability. Technology can enable the measurement, traceability and reduction of a company's carbon footprint across its supply chains or is used to monitor crops (e.g. with drones) to produce more and better quality food. Technology in energy storage and distribution will continue to drive developments in the energy market.

An increasingly complex operating and regulatory environment

Pressure is increasing on companies to mitigate the impact of their operations and supply chains on the environment and local communities. In boardrooms across the globe, shareholders are demanding that companies take more ambitious steps to address climate change. Regulators are picking up pace in setting new standards for climate-related disclosure and risk management. NGOs are winning court cases against companies and governments, which in their view are not sufficiently setting and following up on climate ambitions. FMO also has conversations with its stakeholders about its climate commitments. Some NGOs and the media have, for instance, been critical of some of our past investment decisions. We do not shy away from dialogue and aim to learn from our experiences.

The regulatory environment for financial institutions and DFIs is changing rapidly and becoming more complex. The following list is a selection of the regulations that (are likely to) impact FMO’s operations and the markets in which we operate:

Financial Economic Crime and tax integrity

Financial institutions are expected to act as gatekeepers to help prevent financial economic crime (FEC) and preserve the integrity of the financial system. The way FMO safeguards its customer integrity is regulated by the European Commission (EC) and supervised by De Nederlandsche Bank (DNB, the Dutch central bank). We closely monitor high-risk countries, as defined by the EC and the Financial Action Task Force, to ensure customers in these countries undergo adequate due diligence. In 2021, following an extensive Know Your Customer (KYC) file remediation effort, external validation confirmed that FMO demonstrated compliance with the Dutch Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft) and Sanctions Law. The validation identified several recommendations that FMO will follow up on in 2022.

Basel IV

The translation of the Basel IV agreement into European law (CRR-3) will increase the capital requirements for FMO as of 2025. The draft text published in October 2021 proposed a higher risk weight for equity investments, although the increase was less than expected, decreasing the effectiveness of the regulation. In addition to a higher risk weight for equity investments, FMO will be required to apply a higher capital charge for some types of credit risk exposures, and for market risk and operational risk.

Climate related risks

In 2020, the European Central Bank (ECB) published guidance on the prudent management of climate-related and environmental risks and the supervisory expectations for banks. FMO has a project in place to align with these expectations in and, in 2021, continued to align our internal procedures, disclosures, business strategy, risk management and governance frameworks. Please refer to the TCFD section in our Climate feature and separate TCFD report for further information.

EU Taxonomy

In 2020, the EC introduced a taxonomy for sustainable activities. This is a classification system for determining whether an economic activity is environmentally sustainable. This is the first year FMO is disclosing in line with the EU Taxonomy. Please refer to the EU taxonomy section for further information.

EU taxonomy

FMO is required to report in line with the Non-Financial Reporting Directive (NFRD). Therefore, we are required to disclose on the Taxonomy Regulation (Taxonomy) and associated KPIs for financial institutions. This starts in 2021 by reporting on Taxonomy eligibility, which is done by determining whether an investment falls within one of the sectors covered by the first two defined environmental objectives (climate change mitigation and adaptation).

As all of FMO's investments are made outside the EU, in EMs, none of our counterparties are in scope of the NFRD and, as such, are not required to disclose their Taxonomy eligibility or alignment. As the regulation stipulates that the mandatory disclosure on eligibility must be based on actual information disclosed by financial or non-financial undertakings, and estimates are not permitted, FMO reports that 0% of its balance sheet is Taxonomy eligible.

The regulation further requires that we disclose a breakdown of the different asset classes on FMO's balance sheet. The following assets were excluded from the analysis:

- 15% of FMO's total assets consisted of exposures to central governments, central banks, and supranational issuers;
- 3% of assets consisted of derivatives;
- 78% of FMO's total assets, were to non-NFRD undertakings (the entire investment portfolio in EMs).

These assets were considered in the analysis:

- 4% of assets were not Taxonomy eligible as they did not finance a specific economic activity, including cash and cash-related assets held in FMO's liquidity portfolio, tangible and intangible assets, and tax assets.

As FMO's entire portfolio is not Taxonomy eligible, no strategy or weighing has yet been developed for the financing of Taxonomy-aligned activities. Until there is more clarity on the application outside the EU, FMO will continue to classify assets, steer, and report based on its Green label. At the same time, FMO will review developments in the Taxonomy to determine what can be aligned at each stage and fill data gaps where required. We expect alignment will be more challenging in some sectors than others and will depend on the applicability of sector-specific 'do no significant harm' (DNSH) criteria in EMs. FMO sees a risk that it could become harder to invest in EMs if institutions are not given the flexibility and time to align with the Taxonomy. This could send an incorrect signal that investing in EMs is not sustainable.

How and when non-NFRD exposures will be included in the mandatory disclosures is pending a European Commission study to be published in 2024. FMO is advocating to stakeholders that the Taxonomy be more inclusive towards companies operating in EMs. Based on the results of this study, FMO's disclosures could change materially in the future. FMO is awaiting the finalization of the four other environmental objectives, the Social Taxonomy and the work on significantly harmful and low impact activities to determine, over time, what else is eligible. Furthermore, a large portion of FMO's investments is focused on SDG 10 (Reduced Inequalities) and SDG 8 (Decent Work and Economic Growth), but these fall outside the scope of the Taxonomy.

OUR VISION

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

OUR MISSION

We empower entrepreneurs to build a better world.

OUR SDGs

STRATEGIC GOAL

Your preferred partner to invest in local prosperity.

OUR MARKETS

OUR STRATEGY

→ Higher Impact Portfolio

→ Deeper Relationships

→ Higher Productivity

OUR VALUES AND BEHAVIORS

Making the difference	Diversity	Quality	Integrity
We are courageous and entrepreneurial	We respect differences and listen	We communicate expectations and share feedback	We are responsible and compliant
We create value for all our stakeholders	We embrace dilemmas	We learn, professionalize and innovate together	We are transparent and build trust
We accelerate sustainable development	We include multiple perspectives	We are accountable and support clear decisions	We are true to our vision and mission

OUR STRATEGY

We believe in a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources. To achieve this, we need to overcome the global challenges highlighted by the 17 UN Sustainable Development Goals (SDGs).

In line with our vision and mission, we aligned our strategy with the SDGs with an overarching strategic goal of being 'Your preferred partner to invest in local prosperity'. To achieve this goal we focus on the three pillars of our strategy: higher impact portfolio, deeper relationships and higher productivity. We set targets for each pillar and monitor a set of performance metrics. This allows us to define, steer and track success for each objective.

Higher impact portfolio

We create higher impact by focusing our activities on SDGs and markets that are key to economic, environmental and social progress. We aim to create a higher impact portfolio by focusing investments on three SDGs across all our sectors: Decent Work and Economic Growth (SDG 8), Reduced Inequalities (SDG 10), and Climate Action (SDG 13). Through our sector-specific strategies, we also contribute to Zero Hunger (SDG 2), Gender Equality (SDG 5), Renewable and Affordable Energy (SDG 7), and Partnerships for the Goals (SDG 17). Meanwhile, we contribute to other SDGs by ensuring our investments comply with international ESG standards and policies.

SDG 8 | Decent Work and Economic Growth

The central goal of SDG 8 is economic growth and decent work for all. By investing in underserved markets, we support jobs, improved labor standards and economic prosperity. Jobs allow people to develop themselves and lift their families out of poverty. We focus specifically on small and medium-sized enterprises (SMEs) as studies have shown that SMEs are important job generators but their financing needs are often underserved.

SDG 10 | Reduced Inequalities

Inequality within and among countries remains a key issue in the world. SDG 10 is about promoting social and economic inclusion of all, which we support by investing in the world's poorest countries and inclusive businesses. Reducing inequality also strives for gender equality as women are often underserved in low-income countries. By investing in inclusive businesses we support the expansion of access to goods, services and livelihood opportunities to low-income and underserved populations. We furthermore focus our investments on increasing access to reliable and sustainable energy.

SDG 13 | Climate Action

We all experience the effects of climate change. Each country has a responsibility to contribute to solutions that limit the global mean temperature increase to below 2 degrees. An annual injection of approximately US$100 billion[4] is needed (and more is likely required) to help developing countries to adapt to climate change and invest in low-carbon developments.

By investing in projects that reduce greenhouse gas emissions, increase resource efficiency, preserve and grow natural capital and support climate adaptation and resilience we aim to support the transformation of our countries to meet this global challenge.

4 UNDP - SDG 13 Climate Action.

Focus markets

We maintain a wide geographical spread to optimize our impact and diversify risks, while prioritizing regions and countries where development impact is needed the most. We focus more on countries in Africa, Asia and the European Neighborhood. We continue to invest in Latin America and the Caribbean, focusing our efforts on opportunities to achieve impact at scale by leveraging our strong network and customer relationships.

We focus on three sectors that – in our view – are crucial to a country's economic and social progress:

1. Agribusiness, food & water |This sector can ensure that by 2050, 9 billion people have access to food and that the environmental and social footprint is minimized. To this end, we invest in advanced technologies and apply international standards. We finance sustainable agribusiness companies throughout the value chain including those that make agriculture more water-efficient. We also invest in forestry.
2. Energy | 940 million people lack access to energy. Electricity is crucial for poverty alleviation, economic growth and improved living standards.[5] We invest in renewable energy as well as in projects that provide access to energy in less developed economies.
3. Financial institutions | Micro, Small and Medium Enterprises are a key driver of economic development, innovation and employment. However, access to finance is often a barrier to growth.[6] A healthy financial sector can bolster entrepreneurs and individuals. We provide long-term funding, risk capital and local currency financing and focus on SME financing. We also promote green lines and look for business models that serve the unbanked.

Deeper relationships

FMO aims to realize its vision by working with the private sector in developing countries. Our customers and partners create impact on the ground. Through their activities, for instance, they support jobs and provide access to finance or electricity. We closely collaborate with and empower local entrepreneurs to maximize their positive impact, while minimizing their negative impact. We aim to engage more with other local stakeholders to provide further insights in how to do this in the best way possible.

To achieve the SDGs and scale up our impact, we need to pool our resources and work with others. Deepening our relationships will enable us to mobilize third-party funds and create investment opportunities to increase our impact in our markets. This is important for several reasons. First, to close the financing gap: in 2014, the UN estimated an additional US$2.5 trillion a year is needed in developing countries alone to achieve the SDGs.[7] Second, to facilitate learning and achieve more by harmonizing the way stakeholders measure and report on impact. Third, to address the lack of bankable projects in these markets. FMO and other stakeholders need to get involved much earlier in the development phase of a project and support projects throughout the entire life cycle.

FMO will increase and strengthen its partnerships with (existing) donors on a national, European and global level. We will continue to manage several public programs to invest early on in projects, take higher risks and achieve our higher impact objective. We will continue to grow our mobilizing activities to increase the (private) capital flow towards developing countries.

Higher productivity

We are committed to building a high-performing organization that enables us to deliver higher impact and build deeper relationships. We will continue to transition towards a more efficient and productive organization. Supported by our digitization agenda and project portfolio, we will continue to redesign and optimize processes to deliver better and faster service to our customers and ensure we comply with regulations. This requires a new way of working and culture that is trust-based, inclusive and values-driven. FMO focuses on ongoing dialogue and engagement with its employees where internal collaboration, openness, transparency and accountability are key.

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5 https://ourworldindata.org/energy-access#access-to-clean-fuels-for-cooking

6 MSME Finance Gap | SME Finance Forum

7 UNCTAD (2014). World Investment Report 2014.

Mawingu Networks

Provides affordable, reliable Internet across rural Kenya via public WiFi hotspots and private home/office connections.

Climate action – towards a clean energy transition

In its 2021 report, the IPCC reaffirmed the unequivocal role of mankind in the warming of the atmosphere, oceans, and land.[1] With the 2021 Glasgow Pact narrowly managing to keep the 1.5° Celsius target alive, it is more urgent than ever to take action towards reducing emissions and climate mitigation and adaptation. The IPCC believes that the world's entire economic system will need to be overhauled in order to achieve that, but that this will also create demand for sustainable products and services.

Our focus

At FMO, we feel called upon to contribute towards addressing the climate crisis. Beyond assessing the impact of our activities on the environment to protect our most vulnerable customers and beneficiaries, we are taking measures to manage climate-related risks and opportunities. Since adopting our 2050 vision in 2013, Climate Action (SDG 13) has been central to our strategy. Our Sustainability Policy outlines our commitment to align our portfolio with the Paris Agreement.

Climate change is also inextricably linked to our second goal of Reducing Inequality (SDG 10), as climate change disproportionately affects poor people in developing countries. Climate change is the leading cause of internal displacement and climate migration: shortages of food and water, natural disasters and other extreme weather events are displacing people and putting pressure on already strained infrastructures. FMO invests in companies, funds and projects that are aimed at reducing the vulnerability of these people, building climate change-resilient environments and increasing access to food, energy, and water.

At COP26 in November 2021, FMO committed to a clean energy transition by signing an international joint statement to end new direct public support for unabated fossil fuel energy by the end of 2022. In 2021, we also published our own position statement on fossil fuels financing. This can be found on our website.

FMO also works to preserve critical landscapes and forests that serve as a carbon sink. Together with experts we test and evaluate the best financing opportunities in the soil, forestry, and land use sectors. Our expertise in blended finance is an asset in the development of multi-stakeholder finance mechanisms for scalable ventures in these sectors.

Furthermore, we are encouraging the development finance community to account for carbon emissions in a harmonious and standardized manner. The Joint Impact Model (JIM) is a publicly accessible tool which enables the quantification of indirect jobs, value added and greenhouse gas (GHG) emissions related to corporate lending portfolios. The methodology allows banks in developing countries to report on their financed emissions aligned with the Partnership for Carbon Accounting Financials (PCAF) Standard. The JIM is part of FMO's endeavors to harmonize models, methodologies, and indicators at a global level.

How we make a difference

A just and inclusive transition towards our goals is still a long way off. However by forging the right alliances , making bold commitments, and following through with sound investments, we can make a difference. A few programs worth mentioning in this context are the Dutch Fund for Climate and Development (DFCD), Mobilising Finance for Forests (MFF) and Climate Investor 2 (CI2).

The Dutch Fund for Climate and Development

The DFCD invests private sector funds in projects focused on climate adaptation and mitigation in developing countries. The €160 million fund is backed by an initial commitment by the Dutch Ministry of Foreign Affairs and is managed by Climate Fund Managers (CFM), World Wide Fund for Nature Netherlands (WWF-NL), and SNV Netherlands Development Organization, and FMO. The DFCD forms an important additional instrument for the Dutch government's efforts in contributing to the Paris Agreement and the SDGs. Learn about the startups participating in the DFCD challenge at COP26.

Mobilising Finance for Forests

Mobilising Finance for Forests was established in 2021 by the UK government and FMO as a blended finance investment program to combat environmentally unsustainable land use practices. Through MFF, we are investing up to £150 million across various investment funds and projects in selected tropical forest regions in Africa, Asia, and Latin America. These projects increase the value of standing forests and lower the incentive to cut them down, or integrate forest protection and restoration into agricultural production. The program's investees are supported with technical assistance post investment.

Climate Investor 2

With a US$1 billion target, CI2 provides expertise, technology, and finance to projects that support adaptation and mitigation in vulnerable communities. Building on CI1's focus on energy, CI2 targets water, sanitation, and oceans infrastructure, all areas greatly impacted by climate change. CI2's blended finance structure simplifies the way capital is deployed and reduces complexity by delivering an innovative 'whole-of-life' solution that provides a single financing source for each phase of a project's lifecycle.

Managing climate-related risks and impacts

In addition to driving impact, it is important that FMO effectively manages climate-related risks in its portfolio and discloses this information to its stakeholders. In 2021, we established a cross-departmental climate-related risk working group, which is tasked with embedding climate and environmental risk within FMO based on the ECB expectations. Since then, we have:

- Started discussing the governance structure of climate-related risks with the Management Board;
- Initiated processes to embed climate-related risks in our risk appetite framework;
- Conducted high-level portfolio scans based on our exposure to physical and transitional risks, starting with our energy portfolio.

In addition, since 2019 we have reported on our approach to climate-related risks and opportunities in line with the Task Force on Climate-Related Financial Disclosures (TCFD). In 2021, we published a separate TCFD report, which includes the disclosure of specific climate-related risk metrics.

In 2022, under the Climate Commitment of the Netherlands' Financial Sector, FMO is expected to report its climate targets for 2030 and related action plan. This will be included in the update of FMO's 2030 strategy that will be finalized in 2022.

1 IPCC (2021). Sixth Assessment Report (ipcc.ch)

why

2050
9 BILLION
PEOPLE

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

Our Mission
We empower entrepreneurs to build a better world.

how

Our strategy
Goal: Your preferred partner to invest in local prosperity.
- Higher Impact
- Deeper Relationships
- Higher Productivity

Our guiding principles
- Additionality
- Mobilizing
- Good governance

Our values
- Making the difference
- Diversity
- Quality
- Integrity

where

Developing countries
FMO's activities focus on developing countries, defined by the World Bank as low income, lower middle income and upper middle income countries

what

Inputs

Human
professional and skilled employees

Intellectual
reputation and knowledge of finance and ESG in developing countries

Financial
strong capital base, triple A rated bank, Dutch state guarantee

Social & relationships
network of clients, investors, partners, universities & think tanks

Our business activities

Allocation of capital
- FMO's own capital
- Public investment management
- FMO investment management

Structuring of capital
- Loans & Syndications
- Private Equity
- Gaurantees
- Blended finance

Advisory & capacity building
- ESG reviews and action plans
- Capacity development
- Network and knowledge sharing
- Industry development initiatives

VALUE CREATION

Short term

Customers sustainable business through capital availibilty and mutually agreed E&S Action Plans

Employees career develoment with equal opportunity for professional development, leading to engaged employees

Investors stable risk-return and development impact

Local communities access to finance, markets, energy, food and other basic goods and services as well as job opportunities

Shareholders risk-return profile suitable for development of sustainable businesses

Long term

Economic growth, employment and decent work for all

Reducing inequalities within and between countries

Low carbon and climate resilient economies

Raising ESG industry standards

OUR VALUE CREATION MODEL

Our value creation model is based on the International Integrated Reporting Council's reporting framework. It explains how FMO steers on strategic priorities and uses financial and non-financial capital (inputs) to create value (outputs, outcomes and impact) for its stakeholders.

Operating context

Since 1970, FMO has made a positive difference in developing countries by empowering entrepreneurs to build a better world. We create long-term value by investing in the private sector, addressing climate change, reducing inequality and supporting (in)direct jobs.

Our mandate

In working with the private sector to tackle these challenges, our investment decisions are guided by three principles:

1. Additionality: FMO was established and receives government support to provide financial services that the commercial market does not (sufficiently) provide or which are only offered on terms that do not fit in a solid business model. We do this without crowding out private parties and distinguish between two types of additionality:
    - Financial: providing financial services that are not readily available from commercial parties on workable terms;
    - ESG: contributing to higher environmental, social and governance (ESG) standards that are not required in the market , thereby achieving a transformation effect.
2. Mobilizing: FMO attracts as much additional private sector funding as possible in order to maximize its development value.
3. Good governance: FMO applies the principles of good governance to all aspects of its business.

We invest in developing countries that are often characterized by a fragile private sector, little job security and/or high poverty rates. Our customers operate in volatile markets that are significantly impacted by macroeconomic trends like increasing commodity prices and foreign exchange fluctuations. FMO engages with its customers before and during the lifetime of an investment to understand their context and risks. This enables FMO to offer products and services that suit the needs of its customers. In turn, our customers go on a long-term journey with FMO towards positive social, environmental and economic change.

Regional spread

Diversification is key to our risk management approach and allows us to limit the volatility of our portfolio. FMO invests in 83 countries, across four regions: Africa, Asia, Eastern Europe and Central Asia, and Latin America and the Caribbean.

Sectors

We invest in sectors that are crucial for job creation (SDG 8), reducing inequalities (SDG 10) and taking climate action (SDG 13), specifically:

We also finance other sectors indirectly through our investments in financial institutions, through private equity (PE) funds that make an important contribution to job creation.

Investing in different sectors also diversifies risks as each sector is impacted differently by macro-economic developments.

Our business model

Key inputs

Our value creation starts with human, intellectual, financial, social and relationship capital, known as 'inputs':

- **Human capital |** FMO has a stable and professional workforce. At the end of 2021, FMO employed 605 permanent and 107 external professionals, who are passionate about FMO's mission. Our employees are expected to embody our values – making the difference, diversity, quality and integrity;
- **Financial capital |** We are a triple-A rated bank with more than 50 years of experience in the private sector in emerging and frontier markets. This rating follows from our ownership structure (51% of shares are owned by the State of The Netherlands) and the Dutch state guarantee. It allows us to attract funding at attractive rates. Commercial investors supply capital through FMO's (sustainability) bonds;
- **Intellectual capital |** We are recognized as a leading impact investor and for our in-depth knowledge of financing and ESG management in emerging and frontier markets. This knowledge makes us an attractive business partner;
- **Social and relationship capital |** We have strong partnerships and networks of customers, knowledge institutes, NGOs, governments and financial partners such as commercial investors and banks. By connecting their networks and resources to our own, and by inspiring them to act, we increase our impact on the world.

FMO's business activities

Through our business activities and interactions, FMO transforms the inputs from the above-mentioned capitals to produce outputs and outcomes that, over the short, medium and long term, create value for the organization, its stakeholders, society and the environment.

Financing & investing | We offer long-term financing and, when possible, provide funding in local currencies to mitigate the exchange rate risk of our customers and end beneficiaries.

- We offer direct medium and long-term loans at both fixed and variable interest rates, with a repayment grace period where needed.
- We arrange syndicated loans by bringing together commercial banks, investors and other DFIs to raise larger financing amounts in an efficient way. FMO receives an arrangement and/or agency fee for these services.
- We invest equity directly or indirectly (through private equity funds) or co-invest with partners. We work with fund managers and investee companies to integrate sustainability into their core operations. We provide stable, long-term capital and usually sell our stake after five to ten years. FMO receives dividends and accounts for fair value gains or losses during the lifetime of an investment. FMO's impact consideration around private equity exits is documented in its Exit Policy.
- We structure guarantees that meet the needs of the (end-)beneficiary, the market and the targeted creditors.

Investment management | On behalf of public parties we invest in higher-risk projects that promise substantial development impact. In addition, commercial investors have access to FMO's expertise in impact investing in emerging and frontier markets through FMO Investment Management funds, syndicated loans and unfunded risk participation structures. We offer a selection of funds with different market-based, risk-return profiles.

Advisory and capacity building | Beyond financing, we offer advisory services and technical assistance to support customers in building profitable and sustainable businesses. This consists of support in the design and implementation of ESG risk mitigation measures, master classes and events, capacity development and sector initiatives.

Long-term value

We create long-term value by investing in our customers and working with others. We allocate capital and expertise to develop markets and raise industry standards to foster economic prosperity and decent work for all, reduce inequalities and help build low-carbon and climate-resilient economies. This is aligned with the SDGs.

FMO generates financial and development impact by offering loans, equity and (risk-sharing) guarantees to markets too risky for private investors. We scale up our impact by mobilizing third-party funds – public and private – that complement our impact goals. This includes co-development of high-impact models such as blended finance initiatives, risk-sharing mechanisms and market transformation programs.

Our impact extends beyond financing and includes positive social, environmental and economic change. We work with our customers throughout the investment process on topics such as ESG, gender, green, technology, human capital, leadership and project development. We ensure our customers comply with ESG standards and work with them to improve performance in line with mutually agreed ESG action plans. We initiate sector initiatives that enhance ESG industry standards.

Our financial products, advisory and capacity building services give our customers the means to develop sustainable businesses. These, in turn, can provide local communities access to finance, markets, energy, food and other basic goods and services as well as decent job opportunities. These are crucial to local prosperity.

At the same time, we recognize that the activities we invest in can also have a negative impact. A bank that needs restructuring to drive SME growth and job creation, could see direct jobs be turned into indirect jobs. Or people may need to be resettled for a hydro power plant, which generates a country's renewable energy. To solve these dilemmas, we hold our customers to international ESG standards. We require them to identify and evaluate the environmental and social risks and impact of their activities and adopt a mitigation plan. We furthermore require customers to put in place a grievance mechanism and to respond to community concerns.

Throughout the lifetime of our financing, we monitor how customers progress on their environmental and social action plans and support them in building a sustainable business for the long-term. We also work towards continuous improvement of our own practices, for instance by including particular human rights in our ESG approach, improving our Know Your Customer (KYC) processes and further improving our greenhouse gas (GHG) accounting methodology.

Potential risks and opportunities

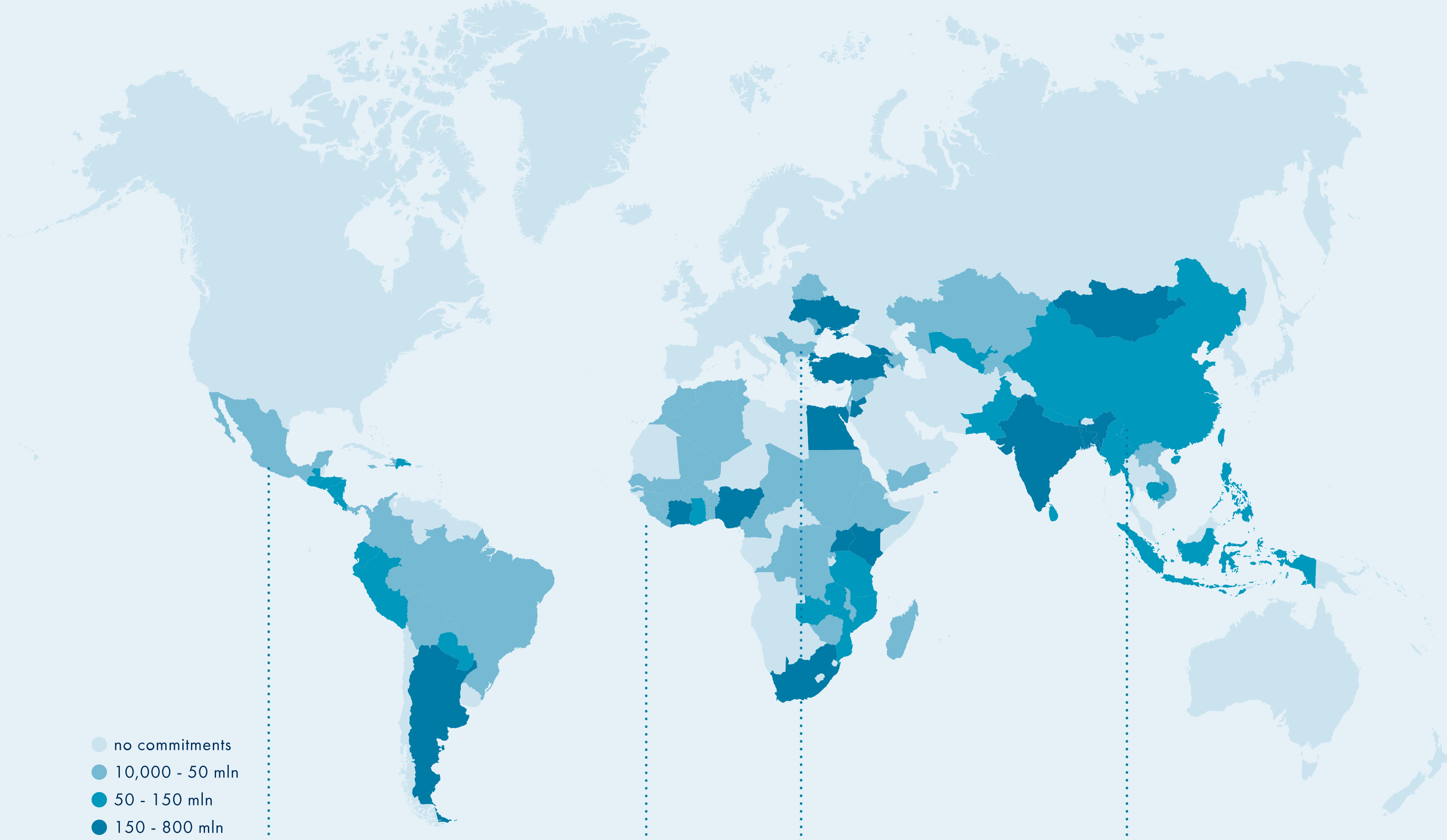
Considering current internal and external developments, we present an overview of several strategic challenges and the risks and opportunities these present to FMO's ability to create value in the short to medium term. The risks described present the following business risks that could impact FMO's strategic objectives and reputation: business model, ESG, regulatory, and strategy execution risks. Other risks in FMO's risk taxonomy are described in the 'Risk management' chapter in the Annual Accounts. Our strategic responses reflect tactical strategies - in line with our current strategy - that we will explore or implement in the short to medium term.

Strategic challenge	Risks	Opportunities	Strategic response
Building back business at a highly uncertain time due to the continuation of the pandemic and increased liquidity in some of FMO's markets	• The impact of the pandemic on economic recovery continues to be uncertain, which may affect demand and supply of financing in our markets. • Continued travel restrictions and limited access to local markets, will affect our ability to achieve our ambitions. • Continued lower production may affect FMO's profitability.	• Explore different ways of sourcing transactions, e.g. working with partners with local presence and know-how, improving our virtual work environment and conducting virtual due diligence. • Enhance collaboration and knowledge sharing within FMO and with other DFIs, consultants, NGOs, development agencies, etc.	• Review sector strategies and secure blended finance for new sub-sectors with high impact development potential that are perceived as high-risk. • Explore opportunities for market and project creation. • Develop new ways of working to source and follow up on opportunities.
Continuing to contribute towards tackling the global issues of (accelerating) climate change	• Global warming is on course to surpass the 1.5°-degree Celsius mark, which will increase the risks to vulnerable countries and communities. • This may lead to more extreme weather in our markets, which increases the risks in our portfolio.	• Finance investments that directly contribute to climate mitigation. • Support customers on their path to net zero emissions and manage climate risk to their business. • Invest in assets that remove emissions, such as forestry.	• Explore FMO's increased contribution to climate adaptation and resilience. • Explore ways to maximize financing of climate-aligned assets. • Incorporate climate risk into governance and risk management processes and controls.
Continuing to address the global issue of (rising) inequality in countries and regions where the need, but also the risk, is greatest	• Inability to tackle areas with sustained or rising inequality may lead to criticism from stakeholders and damage FMO's credibility.	• Enhance focus and efforts on low-income countries (e.g. fragile states) and topics such as gender and youth finance. • Provide financing aimed to strengthen the resilience of countries to climate change by focusing on food security, resource efficiency, smart agriculture practices and climate adaptation.	• Focus our efforts on countries and topics where the need is greatest and FMO is able to make a meaningful impact.
Increasing stakeholder expectations of the role of FMO	• Stakeholder expectations towards FMO are increasing and are sometimes at odds with one another (e.g. investing in fragile states vs. mobilizing private capital). Attempting to appease all stakeholders equally could result in less focus and ability to create impact. • Negative attention could lead to reputational damage and affect FMO's ability to source (the right) deals.	• Continue the dialogue with the Dutch government, regulators, NGOs, and internal stakeholders on the role of FMO to strengthen our impact reporting and related frameworks. • Discuss the opportunities and challenges in carrying out our ambitions to grow understanding of the complexity of our decisions and position.	• Engage with key stakeholders during the development of our 2030 strategy. • Increase transparency on dilemmas and challenges through various communication channels.
Increasingly complex regulatory landscape	• Data reporting requirements from regulations increase demands on capacity and infrastructure. • Continuously changing regulations could make ad-hoc approach to compliance inadequate; risk of losing (cost) control. • Mismatch between FMO's impact framework and EU sustainable finance requirements, leading to reputational risk. • Increasing capital requirements constrain portfolio growth.	• Improved reputation for FMO as a trusted partner in business development in high-risk markets. • Use strong compliance framework as a basis for advisory work for customers and knowledge sharing with others in the industry. • Use high-level reporting data to generate insights to improve strategic decision making and business development.	• Develop long-term digitalization / compliance architecture vision and ability to adapt to changing regulatory landscape.

€9.7 billion

Total committed portfolio

Note: total committed portfolio consists of €8.3 billion for FMO and €1.4 billion for public funds.

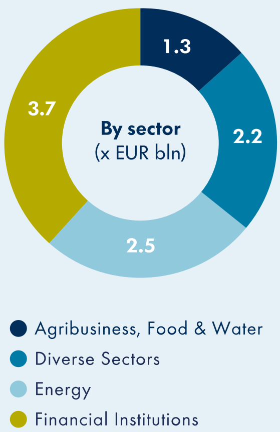


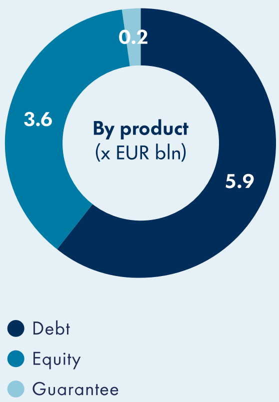
Total committed portfolio by region (per 31 December 2021)

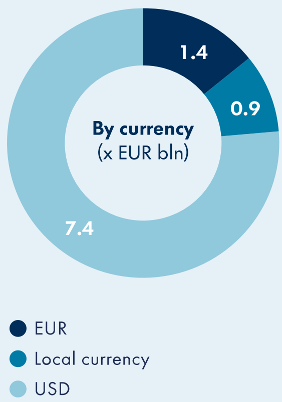
Africa	Asia	Europe & Central Asia	Latin America & the Caribbean	Non-region specific
€3.4bln	€2.4bln	€1.5bln	€1.6bln	€0.8bln
35% of total	25% of total	15% of total	17% of total	8% of total

Total committed portfolio

€9.7 bln







Reduced inequalities – reaching the underserved

Inequality hinders social and economic development. Although worldwide inequalities has decreased, there is a growing divide between low- and high-income countries and some 70% of the world's population continue to live in countries where inequalities are increasing.[1] It is these groups that are hit hardest by the effects of climate change and the global pandemic. Our contribution towards SDG 10 is, therefore, more important than ever.

Our focus

Global economic growth in recent decades has narrowed the average income inequality between countries, largely due to transition from middle income countries to high income countries. But the income gap between the poorest and the richest countries has widened by 55% between 1990 and 2018. Supporting economic growth alone is, as such, is not sufficient. We have to focus on areas where the need is greatest, most notably in least developed countries (LDCs) and the bottom 40% of the population in these and other developing countries.

How we make a difference

Our financing is aimed to create greater social and economic inclusion and create opportunities for currently un(der)served groups such as the un(der)banked, the unconnected and poorly connected, smallholder farmers, youth, women, rural populations, migrants and refugees through financial inclusion, women's economic empowerment and access to energy.

Financial inclusion for MSMEs

FMO invests in intermediaries that focus on providing finance to micro enterprises, SMEs owned by underserved groups such as women, youth, migrants and refugees, and rural or agricultural SMEs. Supporting these entrepreneurs is key in creating job opportunities and better livelihoods of the bottom 40% of the population.

Technology and innovation are creating even greater opportunities to reach these groups. FinTech companies address barriers to financial inclusion by reducing costs, increasing accessibility, creating a better fit and improving the user experience – delivering financial services to un(der)served populations in a more efficient way than traditional financial institutions (FIs) do.

FinTech companies in emerging markets can struggle to scale up, however, often because of a lack of commercial appetite and adequate capital. To address these issues FMO's customer Lendable launched the Lendable MSME FinTech Credit Fund to unlock access to financial services for more than 150,000 MSMEs across Africa and Asia. Alongside other reputable co-investors such as DFC, DFAT, Calvert, Ceniarth, BIO, and FSD Africa, the fund's first close ended at approximately US$45 million, with a second close of just under US$70 million. FMO provided a 5-year mezzanine loan of US$5 million to further enable financial inclusion for MSMEs, with a strong emphasis on women entrepreneurs.

In addition, under the NASIRA program, FMO provides a risk-sharing facility for local FIs lending to underserved groups to reduce the perceived and real risks of lending and to meet their long-term entrepreneurial needs. Young women and entrepreneurs affected by COVID-19, for instance, are often perceived as too risky by FIs. Reporting and modelling is an essential part of the NASIRA guarantee program, as it provides the data needed to show FIs the real risks of lending to underserved parts of the populations, allowing them to continue serving these groups, also after the guarantee program has ended. In 2021, FMO partnered with Northern Arc Capital to provide these data-services, including research on macro trends, assessment of financial landscape, and transaction monitoring.

Inclusion of smallholder farmers

FMO supports improving rural income also by investing in companies sourcing from smallholders and companies financing smallholders. In 2021, FMO and Rabobank have agreed to invest €10 million each in the IDH Farmfit Fund. The €100 million IDH Farmfit Fund makes investments in smallholder farmers affordable by lowering risks and costs for both farmers and investors. The credits allow farmers to invest in their farm, increase productivity and exit the cycle of poverty.

FMO has many customers that buy tropical commodities such as coffee and cocoa from smallholder farmers. We work closely with these customers and use capacity development grants to make supply chains more inclusive. In 2021, for instance, FMO supported Mercon, a coffee merchant, to carry out a supply chain risk analysis, focused on human rights, for three of its sourcing countries. FMO also set up a partnership with TechnoServe, an agricultural consultant, to implement dedicated small holder inclusion programs across Asia and Africa. Niche, a cocoa processor in Ghana, participated in such a program with the aim to better integrate small holder farmers in their cocoa sourcing operations.

Women's economic empowerment

FMO is committed to advancing opportunities for women in the projects it supports, as a driver for commercial performance and as a means to promote women's economic empowerment. To achieve this goal, FMO is a member of the 2X Challenge, which aims to advance opportunities for women through enterprise support, leadership, and career progression, quality employment, and products/services that enhance women's economic participation. "2X" refers to the multiplier effect of investing in women. The 2X Challenge allows for setting financial ambitions among DFIs and collaboration with various stakeholders towards female empowerment. The target for the 2X Challenge has recently been expanded to mobilizing US$15 billion of capital towards women by 2022. The initiative has also taken steps towards standardizing identification and reporting on gender lens investments. Participating in the 2X Challenge has allowed FMO to address opportunities for women's empowerment through its investments and collaborations.

Access to energy

More than half of people living in least developed countries lack access to electricity. Rural electrification in these countries is particularly low.[2] Furthermore, inequalities in social standing, economic capability and gender-defined roles mean women often lack access to modern and sustainable forms of energy in a disproportionate way. Providing access to modern, affordable and reliable sources of energy can improve the well-being of women and children and provide women with new economic opportunities. Despite progress made, there may still be as many as 660 million people without access worldwide in 2030. In addition, the COVID-19 pandemic will impede progress on future electrification.

FMO supports the generation and distribution of renewable energy. In 2021, FMO announced the financing for the construction and operation of four solar plants in Burkina Faso. Burkina Faso is one of the poorest countries in the world, where only 1 in 5 people have access to electricity. Currently, 85 percent of the country's grid is powered by diesel generators, with the fuel imported by road or through electricity imports from neighboring countries. Such reliance on fossil fuels and electricity imports results in high electricity costs. These investments will substantially increase the electrification in a sustainable way and lessen the reliance on fossil fuels, while at the same time reducing inequalities.

Broken supply chains, increased costs of solar components, and continued COVID lockdowns have crippled the energy access industry. In 2021, through the Access to Energy Fund, FMO invested in the Energy Access Relief Fund (EARF) – a partnership between 16 governments, foundations and investors. The EARF, managed by Social Investment Managers and Advisors (SIMA), will provide relief capital in the form of short-term loans to an estimated 90 energy access companies in sub-Saharan Africa and Asia still struggling with disruptions wrought by COVID-19.

Off grid-solutions like mini-grids are seen as essential to increasing access to electricity as well, and, as such, are becoming part of FMO's core strategic focus. Last year we signed our first transaction in the mini-grid sector, regarding the development and financing of a portfolio of mini-grids in Africa. Together with NEoT Offgrid Africa (NOA) and Winch Energy Limited 49 villages in Sierra Leone and Uganda will be equipped with off-grid and remotely controllable solar solutions, supplying power to nearly 60,000 people. The partnership with Winch and NOA proves that mini-grids can be financed at scale and efficiently by creating a cross-country portfolio of assets.

1 https://www.un.org/sustainabledevelopment/wp-content/uploads/2018/01/10_Why-It-Matters-2020.pdf

2 https://unctad.org/topic/least-developed-countries/chart-july-2021

OUR INVESTMENT PROCESS

Before and during the investment period, we research the financing opportunity and assess its impact on the environment, employees and workers, communities and other stakeholders.

Our investments are guided by policies that ensure that integrity, development impact and Environmental, Social and Governance (ESG) impact are at the heart of our operations and that our way of working adheres to high ethical standards. For more on FMO's risk management please refer to the 'Risk management' section. Our investment policies and guidelines are available on our website.

Impact of COVID-19 on our investment process

FMO has increased its financial and non-financial support to existing customers to help them cope with the pandemic. At the same time, travel restrictions have reduced our ability to onboard new customers and execute on-site due diligence (DD). FMO has made more use of remote DD to service existing customers and to onboard a select number of new customers.

The pandemic has also affected the way in which we monitor our portfolio. We held regular portfolio meetings to discuss the most recent developments in our sectors and regions. We have significantly reduced our on-site visits due to the pandemic and increased the frequency of engagement with our customers through regular phone calls or virtual meetings. Since the beginning of the crisis, several customers requested temporary payment deferrals or a waiver of financial covenants. FMO has worked closely with European DFIs (EDFIs) and multilateral development banks (MDBs) to align our approach.

Know Your Customer

FMO runs the risk of becoming involved in money laundering or financing terrorism. FMO is also at risk of financing sanctioned entities or customers with a bad reputation in general. To mitigate such risks, we follow policies and procedures designed to deter criminal activity and ensure we do business with reputable customers.

FMO plays an important role as gatekeeper to help prevent financial economic crime (FEC) and preserve the integrity and reputation of the financial system. FMO only wants to deal with customers of good standing. FMO obtains and monitors information and documents concerning the identity of a customer, gains insight into the business and its structure, and assesses customer integrity risk holistically. Referred to as Know Your Customer (KYC), this is an integral part of the investment process and the customer relationship throughout its entire life cycle.

FMO aligns its KYC files with best practices, and national and international standards related to FEC and KYC processes. FMO's work is mainly located in countries where obtaining and verifying documents can be difficult, and not being able to meet in person due to COVID-19 makes it even more challenging.

In 2018, following an onsite inspection, DNB identified several shortcomings in the way FMO conducts KYC. FMO recognized this as an area where the risk of non-compliance with the Dutch Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft) and Sanctions Law is present and set up a FEC Enhancement program. When in September 2020 it became clear our progress was insufficient, FMO and DNB agreed on a timeframe to ensure compliance. This was achieved by the end of 2021, including the remediation of approximately 951 customer files.

In the past year, FMO has improved its FEC governance and infrastructure. We significantly increased the number of FTEs in both the first and second lines of defense. In the first line, a new KYC department was formed that supports and works closely with the investment teams to prepare in-depth customer due diligence. The Compliance Department comprises the second line and has transferred some of its tasks to the first line, to better reflect their responsibility towards KYC. We also updated FMO's FEC Framework, which includes new policies and procedures, enabling the investment teams to conduct in-depth DD in line with applicable laws and regulations. A mandatory anti-bribery and corruption training was rolled out for all (permanent and temporary) investment personnel and relevant support functions, which will continue in 2022. New employees received KYC training during their first weeks at FMO.

The remediation of KYC files was finished as intended by the end of 2021. The results were audited by an independent external validator in the last quarter. Their conclusion was that FMO's FEC framework is compliant and sufficiently reflects FMO's risk profile. The audit also confirmed that FMO's customer files were remediated in accordance with the FEC framework and that FEC processes are operating effectively. FMO established an action plan to follow up on the recommendations identified by the independent external validation such as the further automation of transaction monitoring processes. The Management Board reported compliance with relevant integrity related laws and regulations to the DNB and concluded the remediation program. Everything we have learnt around this process will be used in 2022 and beyond.

Environmental, social and governance standards

Environmental, social, human rights and governance (ESG) standards are an integral part of FMO's investment process and serve several goals. First, they help protect the environment and our stakeholders, such as employees, workers and communities against adverse impact, including infringements of human rights. Second, they help our customers to contribute positively to the Sustainable Development Goals (SDGs). Third, they reduce risks to our customers and, indirectly, to FMO.

In addition, our ESG standards require customers to embrace good corporate governance (CG). Good CG breeds trust between management, investors, employees, and other stakeholders through accountability, transparency, and fair business practices. Poor governance increases risk. Improving governance not only adds value to customers, it also boosts portfolio performance and health.

FMO's ESG standards are anchored in our Sustainability Policy, which guides our contribution to sustainable development with respect to both development impact and ESG. This is supplemented by our position statements on topics such as human rights, land governance and coal. We have adopted the IFC Performance Standards as our operating standard. Furthermore, we are guided by the United Nations Guiding Principles for Business and Human Rights (UNGPs), the OECD Guidelines on Multinational Enterprises, the Equator Principles, the International Labor Organization Declaration on Fundamental Principles and Rights at Work and the Center for Financial Inclusion Customer Protection Principles.

ESG risk management

ESG risk management is a fundamental part of our strategy where we continuously assess and aim to improve the ESG performance of our investments. We see this as crucial to creating genuine impact, while addressing reputational risk to its customers as well as FMO's own organization.

FMO assesses and categorizes the ESG risks of all potential investments. FMO has 29 ESG specialists, who are embedded in our investment teams. They are involved in all *high* ESG risk transactions to support DD and transaction monitoring. They assess a potential customer's performance against our ESG standards, identify risks and opportunities for improvement and prepare action plans. Investment staff are furthermore responsible for ESG performance management on *medium* and *low* ESG risk transactions. Independent scrutiny and challenge are provided by FMO's Credit Department. Following a positive investment decision, ESG requirements are included in a customer's contract. We closely monitor the follow-up of ESG actions through regular contact and site visits, often supported by independent consultants. Our ESG specialists report to the Director of Impact & ESG.

Disclosure and stakeholder feedback is an important element of FMO's ESG risk management process. In 2021, we decided to adjust our disclosure policy regarding the disclosure length of proposed investments and to make it easier for local communities to access ESG information.

We work closely with other DFIs to ensure our ESG approaches are more harmonized. Greater harmonization creates a level-playing field, helps to create greater impact and leads to efficiencies for customers working with multiple DFIs. In 2021, FMO participated in various EDFI harmonization work streams, including the Fossil Fuels exclusions and the update of the Direct Investments E&S harmonized standards.

Human rights

Respecting and promoting human rights is an integral part of sustainable development. While human rights are enshrined in various laws, businesses can undermine these rights through their action or inaction, especially in countries where ESG conditions are less favorable. For example, poor health and safety can violate workers' right to a safe workplace, while pollution can undermine a community's right to health and an adequate standard of living.

At the same time, businesses have significant potential to strengthen human rights, for example by involving local communities in their (planned) activities, providing good-quality jobs or encouraging gender equality where this is not common practice. A rights-based approach to ESG risk management ensures employee, affected community and other stakeholder perspectives are included in customer engagement processes and the measures to respect and strengthen human rights are identified.

In recent years, FMO has strengthened its rights-based approach to ESG risk management. In 2021, we made it easier to share information internally through our centralized serious incident register, which tracks customer reports of fatalities, serious injuries, and environmental accidents. In addition, FMO developed internal guidance to integrate specific aspects with a human rights lens, including how to conduct a country contextual risk assessment and how to include human rights in DD, and developed an approach to ascertaining broad community support.

At FMO we continued to rely on third parties to verify human rights topics through contextual risk assessments, E&S information disclosures and stakeholder engagement, broad community support and a customer's performance. We conducted physical meetings when possible with stakeholders such as affected communities, civil society, and local authorities. For a brief period in Q4 2021, we were able to resume site-based monitoring activities of several high risk and low performing customers.

FMO continued to follow the EDFI harmonized COVID-19 DD and monitoring ESG guidance to mitigate the risk related to outsourcing these activities. More broadly, FMO worked closely with other EDFIs towards improving alignment on human rights DD and has been an active member of the EDFI Human Rights Working Group.

For high E&S risk customers, FMO performs E&S DD with a human rights lens. At the end of 2021, 281 customers in our portfolio went through such an exercise (2020: 301 customers).

Salient human rights issues

FMO considers human rights salient when they pose the most severe negative impact on people through our customers' activities or business relationships. The 'Performance on our strategy' chapter gives insight into these issues, with a breakdown of their risk level and likelihood, and what customers are doing to mitigate them. In addition, we provide an overview of the E&S performance gaps in our portfolio, which includes a description of how rightsholders may be affected in situations where this pertains to human rights infringements. Furthermore, we report on the type and number of fatalities reported by our customers.

How we apply our investment process

Our investment process consists of the following stages. Through case studies we illustrate how ESG is an integral part of this process.

Step 1 | Investment selection

We identify investment opportunities within our markets that contribute to our three SDGs. We check geographic limitations, the exclusion list, the viability of the investment plan and the business itself. We also check if our investment is additional.

Step 2 | Clearance in principle

We make an initial assessment of risks and opportunities, define the terms of our engagement, and scope any further assessment needs. We conduct a KYC assessment to ensure that the customer complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations. We also assess potential effects on environmental, social, governance and human rights issues. We document this in a Clearance in Principle (CiP) proposal, informing our decision to continue preparing for a final investment decision.

Step 3 | Due diligence

We carry out a detailed project assessment. We document the results in a finance proposal informing FMO's final decision to invest. We perform a site visit and meet with stakeholders or seek alternative measures when a site visit is not possible due to COVID-19. Where needed, we engage outside experts. We define and negotiate further ESG requirements and conduct further human rights risk assessments. This includes on-the-ground research and consultation with local civil society.

In practice

FMO considered funding a group of food processors that aimed to improve access to staple foods to vulnerable people in a country on the verge of famine. We needed to assess the impact of financing food imports on human rights, but the country's conflict and COVID-19 situation made it impossible to visit. FMO conducted a virtual due diligence, viewing video footage of the facilities and conducting virtual interviews with staff, UN agencies such as ILO and IOM, local subject matter experts, local Dutch Embassy staff, local and international NGOs. These stakeholders provided valuable information on the human rights risk and mitigation measures.

Step 4 | Decision to invest

Our Credit Department evaluates all finance proposals and writes a credit advice in support of a final investment decision. After approval, FMO discloses proposed investments for 30 days prior to contracting. This gives stakeholders the opportunity to share their concerns with us.

In practice

When asked to approve a refinancing proposal for an existing transmission and distribution customer, FMO was concerned about the number of fatalities at the plant and in the community. Deaths are common in this sector because of electricity theft and poor health and safety measures around plants. FMO views this as a sectoral issue and by 2020 set up internal and external work streams. In 2021, after months of discussions with one of our partners involved in this trajectory, work commenced on a sector-specific health and safety toolkit. This is intended to influence the management and operations of existing and future transmission and distribution customers. FMO approved the transaction based on the ongoing proactive engagement with the issue.

Step 5 | Contracting & investment disclosure

FMO includes ESG requirements and conditions in its agreements with customers to ensure that they are legally binding. We disclose a summary of the proposed and contracted investments during the full tenor of our engagement on the World Map page on our website.

In practice

We received a letter from a group of NGOs after FMO disclosed a planned investment in a financial institution (FI). They expressed concerns about the exposure of the FI to high-risk projects. FMO engaged with the NGOs and listened to their concerns. We explained our policies and procedures, including how E&S risks would be managed and monitored through an environmental and social management system. The NGOs suggested improvements to the FI's grievance mechanism. Based on this, FMO developed and implemented an environmental and social action plan for the transaction, which was enriched by the engagement with the NGOs consortium. FMO continues to work with the FI to enhance its E&S and human rights risk management.

Step 6 | Disbursement

Disbursement can take place upon achievement of the conditions, ESG and other, set out in the legal agreement.

Step 7 | Monitoring & value creation

Throughout the lifetime of the investment, we monitor performance and look for opportunities to add value. We continue to work with our customers to ensure implementation of our ESG requirements. We review the customer's and consultant's ESG monitoring, accident and incident reports. We conduct customer visits and perform an annual customer credit review. We regularly check whether the community still supports the investment.

In practice

After a contractual agreement had been reached by a group of investors, FMO performed a corporate governance review of a ring-fenced subsidiary. Based on this, it helped the company design and adopt far-reaching governance improvements. These included setting up Board, Executive and Audit Committee charters, establishing a Remuneration and Nomination Committee, organizing annual strategy meetings and developing conflict of interest policies. These substantially improved the subsidiary's board structures and processes, so much so that the assignment was extended to the holding company, which was not an FMO customer.

Winch Energy in Uganda

Three solar mini-grids aimed at providing electricity and a Wi-Fi connection to 6 villages on Bunjako Island on Lake Victoria.

Innovation and project development

While we see high levels of liquidity in some of our markets, we also see a lack of bankable projects in which to invest. In markets where risks are still perceived as too high, there is a greater need for de-risking and risk-sharing facilities. This requires FMO to be innovative and think of ways in which to stimulate project development and investment.

Our focus

The OECD predicts a widening financing gap in developing countries to achieve the Sustainable Development Goals (SDGs), because of the pandemic.[1] DFIs such as FMO can and do play a role in tackling this issue by mobilizing private and public capital towards these markets. This goes hand-in-hand with efforts to stimulate market creation and project development.

Key to FMO's approach is forging partnerships that drive change; through complementing skills and expertise we play off one another's strengths to create more impact.

How we make a difference

FMO sees great potential in investing in pioneering and early-stage projects and supports this in several ways. Here we highlight the following examples: NASIRA, FMO's Venture Program, DFCD and our accreditation management services. Other examples such as MFF and CI2 are mentioned in the feature on climate action.

Risk-sharing through the NASIRA facility

There is increasing demand for risk-sharing within the financial institutions market. To cater to this need, we established the NASIRA program, a bilateral loss-sharing scheme between FMO and local financial institutions. The program is backed by the European Commission through the European Fund for Sustainable Development (EFSD) as well as by the Ministry of Foreign Affairs of the Netherlands. NASIRA offers a portfolio guarantee to unlock lending to target groups that are perceived as high risk in an otherwise untapped market of migrant, women and young entrepreneurs in countries neighboring the EU and in Sub-Saharan Africa. Through this risk-sharing facility, we enable access to affordable loans to small business owners through local banks, microfinance institutions and other non-banking financial institutions, which would otherwise not have been available.

In 2021, for example, we provided a US$20 million portfolio guarantee to the Capital Bank of Jordan. This facility enables alternative MSME lenders Liwwa and Sanadcom to access sustainable funding through a local tier 1 bank to offer finance to COVID-19-affected as well as young entrepreneurs. Liwaa is a FinTech start-up operating a crowdfunding platform. Sanadcom is a specialized and SME-focused spinoff of Jordan's Microfund for Women. The facility further mobilizes larger volumes of local funds that would otherwise not be accessible to these alternative lenders.

Early stage investing through FMO's Venture Program

FMO's Venture Program aims to empower innovative business models applying disruptive technology to enable or improve affordable access to goods and services to the un(der)served in emerging markets. The program seeks to support young entrepreneurs by investing in early-stage start-ups and scale-ups in FinTech, AgriTech and energy access as well as in venture capital funds focused on Africa, Asia and the European Neighborhood. The program is supported by the EFSD guarantee program of the European Commission as well as by the Ministry of Foreign Affairs of the Netherlands, allowing for the fund to take on a higher risk appetite.

On average, investments made through the Ventures Program are much smaller and we enter at a much earlier stage compared to other FMO investments. For example, one of the program's leading AgriTech investments in 2021 was in a Series B round for Aerobotics, a South African startup developing intelligent tools to feed the world. Aerobotics enables tree and fruit farmers not only to monitor their crops but also to increase their overall yield and reduce their footprint, through a combination of satellite and drone imagery coupled with machine learning algorithms.

In addition, the Ventures Program offers technical assistance facilities (TAF) to stimulate a vibrant start-up environment in the regions where the program will invest. These facilities aim to build an entrepreneurial ecosystem by helping to improve services of incubators, accelerators, and other entrepreneurial support organizations (ESOs) and by enabling more early-stage financing for ventures in prioritized middle-tier markets. In 2021, FMO partnered with VC4A to enable more ESOs to create a more efficient network of support for early-stage ventures. By bringing together more investors, mentors, and corporates as part of the pipeline development process, this project is helping to increase investment flows into start-ups and strengthen nascent venture capital ecosystems.

Deal origination: Dutch Fund for Climate Development

Many innovative projects address climate resilience, but not all of these are bankable, which means that the risk for investors is still too high. To attract (commercial) finance, projects must develop a profitable revenue model or demonstrate a good track record over time. The Dutch Fund for Climate Development (DFCD) is a fund with an origination facility with several partners led by FMO. The origination is done by consortium partners SNV and WWF, which have so far supported 28 climate projects. We help these projects to create a solid revenue model and business plan and guide them in scaling up through DFCD's technical assistance and grants. As soon as a project moves to the next phase, FMO or the other consortium partner Climate Fund Managers will step in.

In 2021, the DFCD organized the Scalable Climate Solutions Challenge targeting potentially bankable projects in Uganda, Kenya and Bangladesh. The program identified three promising entrepreneurs out of 118 applicants, 103 of which were local entrepreneurs. Together with WWF, Climate Fund Managers, and SNV, FMO assessed their business plans, environmental, and social impacts leading up to a final pitch organized live during COP26 from Glasgow. Entrepreneur Peter Nyeko of Mandulis Energy won the competition with a plan to transform agricultural residues into cooking fuel and electricity. Mandulis Energy's solution won over the jury of experts thanks to a clear business case and proven results for rural communities in Uganda. The company won a €100,000 consultation and capacity development grant to help make their solution bankable. The program showed there is clearly a case for entrepreneurial solutions to adapt to climate change. As a follow-up to this challenge, the DFCD will organize local matchmaking events in 2022 in four different (least developed) countries: Loas, Cambodia, Tanzania and Zambia.

Accreditation management services

Large international public organizations like the European Commission (EC) and the Green Climate Fund (GCF) only fund organizations that have passed a critical fiduciary and strategic threshold test, so called 'accredited entities'. Since 2016, FMO is one of the few organizations to provide accreditation management services in development finance.

The organizational and risk-bearing capacities of FMO and other accredited entities alone are not sufficient to deploy the large resources made available by the EC and GCF. Therefore, FMO facilitates strategic partners, which have not yet or cannot obtain accreditation themselves, to secure financing to build up portfolios that serve their as well as our development and climate ambitions. Based on our in-depth knowledge of emerging markets, FMO is trusted to assess if an idea is solving a market failure and can be executed in a sustainable way and if a pipeline of projects can be created to serve this purpose. We are furthermore entrusted to find the right partners to execute some of these programs, which has resulted in the endorsement and subcontracting of several partners like the EDFI Management Company (ElectriFI and AgriFI), Eversource (Green Growth Equity Fund) and Climate Fund Managers (Climate Investor One) on behalf of the EC and the GCF.

We hold a unique position by offering a channel through which pioneering financing opportunities with global development potential help create new markets. This multiplies our impact by pooling more resources to unlock development finance and private investments.

1 OECD (2020) Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet. https://www.oecd-ilibrary.org/sites/6ea613f4-en/index.html?itemId=/content/component/6ea613f4-en

PERFORMANCE AGAINST OUR STRATEGY

This chapter outlines our 2021 performance with respect to FMO's three strategic pillars: a higher impact portfolio in our chosen industries, deeper relationships and higher productivity. We monitor our results through a set of performance metrics. This allows us to define, steer and track success for each of these pillars.

An overview of our contribution towards the Sustainable Development Goals (SDGs) is provided in the table below and explained in this chapter. For more information on the underlying definitions and methodologies, refer to the 'How we report' chapter.

Indicators	SDG	2020	2021	AFW	EN	FI	PE	OTH
Total committed portfolio[1], of which:	8 DECENT WORK AND ECONOMIC GROWTH	**12,022**	**12,503**	**2,062**	**2,810**	**3,980**	**3,501**	**150**
FMO		*8,166*	*8,338*	*1,017*	*1,951*	*2,426*	*2,796*	*148*
Public funds		*1,148*	*1,352*	*225*	*224*	*196*	*705*	*2*
Mobilized funds		*2,708*	*2,813*	*820*	*635*	*1,358*		
Total new investments[1], of which:		**1,887**	**1,938**	**321**	**268**	**1,013**	**336**	
FMO		*1,259*	*1,184*	*141*	*189*	*612*	*242*	
Public funds		*145*	*233*	*48*	*29*	*62*	*94*	
Mobilized funds		*483*	*521*	*132*	*50*	*339*		
Total number of jobs supported[2], of which:		**672,492**	**644,119**	**84,487**	**77,574**	**265,386**	**216,528**	**144**
Direct jobs		*53,983*	*45,713*	*14,349*	*1,774*	*6,668*	*22,875*	*47*
Indirect jobs		*618,509*	*598,406*	*70,138*	*75,800*	*258,718*	*193,653*	*97*
Green-labelled total committed portfolio	13 CLIMATE ACTION	3,869	4,118	545	2,070	814	686	3
Green-labelled new investments		466	544	71	183	133	157	
Financed avoided greenhouse gas emissions (tCO2e)		1,577,816	1,329,158	4,166	1,080,859	-	244,133	-
Financed absolute greenhouse gas emissions (tCO2e)[2], of which:		**4,962,939**	**5,355,185**	**744,184**	**1,054,788**	**2,126,165**	**1,427,795**	**2,253**
Scope 1 +2		*1,612,610*	*1,407,841*	*301,344*	*606,542*	*91,206*	*407,033*	*1,716*
Scope 3		*3,350,329*	*3,947,344*	*442,840*	*448,246*	*2,034,959*	*1,020,762*	*537*
RI-labelled total committed portfolio	10 REDUCED INEQUALITIES	3,758	4,020	978	835	1,508	699	-
RI-labelled new investments		745	714	62	94	497	61	
ESG target performance		93%	92%	96%	96%	97%	97%	64%

1 This is an alternative performance measure (APM) that is not included in the financial statements and is designed for steering purposes. For a definition of this APM, please refer to the chapter 'How we report'.

2 Due to changes in the Joint Impact Model methodology, the 2020 comparative figure has been restated.

Factors impacting our portfolio

The impact of COVID-19 on FMO's customers has been limited so far. With the support of our partners, where requested, FMO has helped its customers throughout the crisis to support their communities. For example by providing debt payment deferrals for firms in distress or for firms that offer deferrals to their customers, which is common in the microfinance sector.

The response from central banks, multilateral development banks (MDBs) and other development finance institutions (DFIs) resulted in greater liquidity, which in some markets led to more prepayments in our portfolio. At the same time, the pandemic reduced demand for financing, especially in the energy and financial institutions (FI) sector. Energy projects were put on hold, for instance, due to supply chain disruptions. FIs were cautious about providing loans to sectors hit hard by the pandemic, such as tourism. Towards the end of 2021 we saw signs that markets were recovering and demand in these sectors began to pick up.

Our agribusiness, food & water (AFW) portfolio is diversified and held up well. Factories and other logistical operations were able to adapt and production largely continued. Many of the countries in which our AFW customers operate were not able to provide support packages. Some of our customers that rely on manual labor organized vaccinations for their workers, showing the role that the private sector can play in times of crisis.

The pandemic prolonged travel restrictions and affected market conditions well into 2021. The lack of proximity and presence in our markets made it harder for us to identify and act on opportunities, mainly in the equity market. Volumes were further affected by FMO's decision to limit business activity with new customers to prioritize the financial and economic crime (FEC) enhancement program. We were, however, able to focus on existing customers, as well as new customers that had advanced through most of the DD process and syndicate transactions arranged by our partners. We accepted we would have a smaller pipeline and that we would not achieve our new investment and portfolio targets.

Nevertheless, at the end of 2021, we reported a net profit of €491 million, a significant improvement compared to the €205 million net loss reported at the end of 2020. Global equity prices recovered across sectors and geographies. The appreciation of the US dollar also contributed to the financial performance of our equity investments. Although global conditions remain uncertain, deterioration in the credit quality of our customers thus far was limited and the level of new loan defaults was largely in line with pre-COVID-19 years. Where customers were affected it was more often due to political turmoil than the pandemic.

While the above-mentioned factors had material impacts on FMO's level of credit risk, equity valuations, and market risk, these short-term fluctuations did not materially impact FMO's long term strategy, or ability to achieve its strategic objectives.

Higher impact portfolio

We create higher impact by investing in regions where our impact can be greatest and in sectors that are crucial to economic, environmental and social progress.

SDG 8 | Decent Work and Economic Growth

8 DECENT WORK AND ECONOMIC GROWTH

Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation.[8] SDG 8 calls for promoting economic growth that is sustained, inclusive and sustainable as well as employment that is full, productive and decent. Our contributions towards SDG 8 are demonstrated through our total investment volume, number of jobs supported and through our ESG management activities with customers that are focused among others on ensuring decent employment conditions.

Total investment volume

To stimulate economic growth, FMO provides long-term financing to developing countries that the market does not provide or does not provide on an adequate scale or on reasonable terms. Our contribution towards economic growth is measured by the total committed portfolio[9] and new investments[9] made in developing countries.

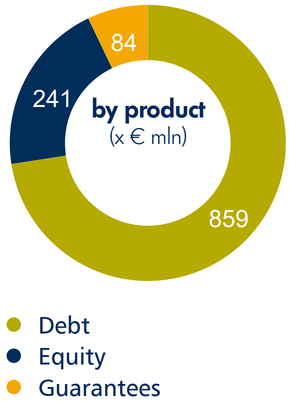
8 United Nations (2015). Addis Ababa Action Agenda of the Third International Conference on Financing for Development. The Addis Ababa Action Agenda – endorsed by the United Nations General Assembly in July 2015 – provides a global framework for financing sustainable development by aligning all financing flows and policies with economic, social and environmental priorities.

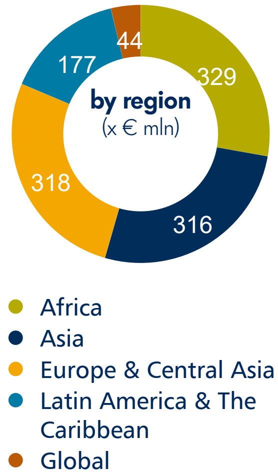
9 This is an alternative performance measure (APM) that is not included in the financial statements and is designed for steering purposes. For a definition of this APM, please refer to the chapter 'How we report'.

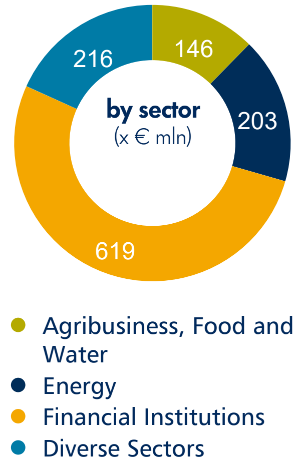
FMO committed portfolio

In 2021, our total committed portfolio in developing and emerging markets amounted to €12.5 billion (2020: €12 billion) of which €8.3 billion was on FMO’s own books (2020: €8.2 billion), €1.4 billion was through public funds (2020: €1.1 billion) and €2.8 billion through mobilized funds (2020: €2.7 billion). Compared to 2020, FMO’s committed portfolio increased by 2%, below our target of €8.8 billion. The appreciation of the US dollar and the higher market valuations in our equity portfolio partly offset the lower volume of new investments and higher prepayments observed in our loan portfolio. However, this was insufficient to further offset other outflows in our debt and equity portfolio related to mobilizing private capital - by selling off risk participations in FMO loans - and exits from direct and fund investments.

FMO new investments







In 2021, we invested a total of €1.9 billion in developing and emerging markets of which €1.2 billion was on FMO’s own books (2020: €1.3 billion), €233 million through public funds (2020: €145 million) and €521 million through mobilized funds (2020: €483 million). In line with our strategy, 54% of FMO's new investments flowed towards Africa and Asia and 29% towards countries in the European Neighborhood.

Jobs supported

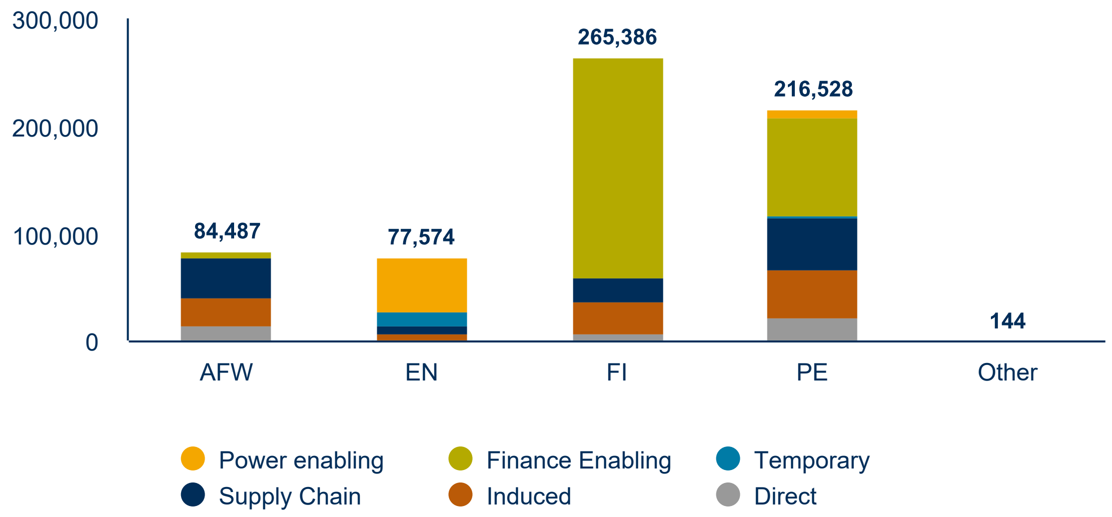
Creating and safeguarding jobs is crucial for sustainable development, as employment creates a path out of poverty. The private sector is one of the most important creators of jobs across emerging and frontier economies. DFIs are promotors of private sector development, where job provision is a key focus.

Direct jobs refer to the number of full-time equivalent (FTE) employees working for the company or project FMO has invested in. Indirect jobs refer to those that are supported by our customers through supply chains, the spending of wages, and economy-wide employment enabled by bank lending and the supply of electricity. The additional output requires more direct employment and intermediary inputs. This, in turn, leads to expansion among existing and new suppliers, thereby supporting and/or creating jobs. Some products and services – notably electricity and finance – remove constraints for other businesses, enabling them to expand and support and/or create jobs. In emerging markets, firm expansion is assumed not to displace employment in competing businesses to a significant extent.

We report on indirect jobs supported using the Joint Impact Model (JIM). It uses the most recent multi-country economic data from databases provided by organizations such as the Global Trade Analysis Project (GTAP). Macroeconomic data from 2019 and 2020 are not yet available and, as such, the numbers for indirect jobs exclude the effects of the pandemic.[10] For direct jobs supported the customer data that was collected in 2021 reflects some of the impact of COVID-19. In 2021, we published a study in the peer reviewed Enterprise Development and Microfinance journal (volume 32, issue 1-2) to look at the potential impact of the pandemic on jobs. The study showed that disruption in supply chains could result in a 2-3% average decrease in the JIM results due to COVID-19, with services requiring proximity being most impacted. It also gave a first estimate of how the pandemic could impact our investments until more up-to-date macro-economic data will become available.

In 2021, FMO's outstanding portfolio resulted in an estimated 644,119 jobs supported (2020: 672,492 jobs supported), of which 45,713 direct jobs and 598,406 indirect jobs. 85% of jobs supported were from FMO's own balance sheet, while 15% were from public funds. We restated the 2020 numbers due to methodological changes to align with the PCAF Global Standard. Compared to 2020, the number of jobs supported decreased, primarily due to improved data coverage.

Jobs supported per investment area



Customers in the AFW portfolio supported jobs in the local economy which stem mainly from supply chain effects, where jobs are supported via sourcing goods and services from producers, and induced effects from spending wages in the economy. The AFW portfolio also includes a few financial institutions focused on providing loans to SME-agribusinesses, which are represented by finance-enabling jobs.

10 The underlying input-output tables are heterogeneous in sources, methodology, base years, and sectoral detail. Thus for achieving consistency, substantial efforts are made to make the disparate sources comparable.

In the energy portfolio, the jobs are mainly supported through power-enabling effects, which attribute the number of jobs to an increase in gigawatt hours (GWh) of electricity supplied to the national system. Another important driver of jobs is due to temporary effects related to projects that are currently in the construction phase.

Through our investments in the FI sector, jobs are mainly driven by finance-enabling effects that relate to economy-wide jobs generated by lending to businesses and individuals.

Through our Private Equity (PE) investments in corporates, funds, energy projects and financial institutions, our impact stems from power-enabling, finance-enabling and induced/supply chain effects, reflecting the wide-ranging activities that PE engages in.

Enhancing our contribution to decent work through our ESG activities

FMO recognizes that it is not just the number of jobs that counts, but also their quality. We require our customers to respect workers' rights with respect to their safety, security and health, working terms and conditions, wages, and accommodation. We expect customers to treat their workers fairly, provide safe and healthy working conditions, avoid the use of child or forced labor, and identify risks in their primary supply chain.

Recognizing that we work in regions with weak regulation and in sectors relying heavily on sub-contracting, we encourage customers to go beyond standard market practices. This includes proactive risk identification, as well as the enforcement and monitoring of these requirements. We also try to increase the quality and inclusiveness of the jobs we support, for example by improving diversity and inclusion in the workforce. Community support programs linked to these projects focus on removing barriers for the employment of women and vulnerable people. Furthermore, we encourage workers' personal development by advocating for and in many cases co-creating training for them.

SDG 10 | Reduced Inequalities

Through its investments, FMO aims to contribute towards reducing inequalities (RI). We invest in the Least Developed Countries (LDCs) to reduce inequality vis-à-vis other countries and in inclusive business to reduce inequality within countries by increasing access to goods, services, and livelihood opportunities to people who live on less than US$8 per day. SDG 10 is strongly linked to SDG 5 on gender equality.

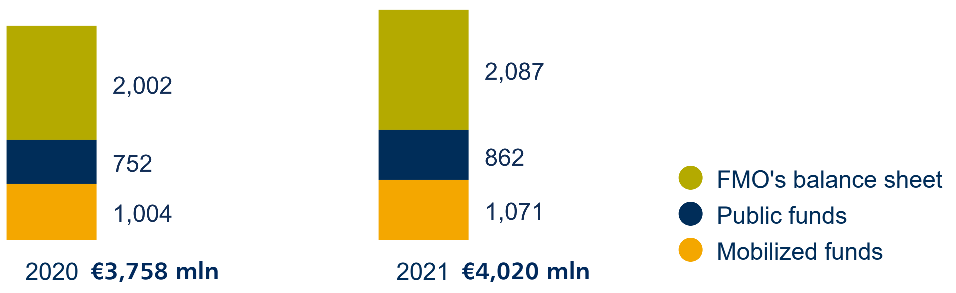
Our results are measured in terms of our RI-labelled investments and the number of micro and SME loans provided by our customers. Beyond this, we also promote ESG management activities with our customers towards inclusivity, particularly of vulnerable people in society.

RI-labelled investments

FMO labels and steers its investments towards reducing inequalities. An investment is eligible for an RI label when the *ex-ante* impact is targeted at LDCs and/or inclusive business. FMO's inclusive business investments target the un(der)banked, the unconnected, youth, women, smallholder farmers and rural populations.

The RI-labelled committed portfolio increased by 7% from €3.8 billion at the end of 2020 to €4 billion at the end of 2021. This represents a 32% share of the total committed portfolio. The increase can be attributed to relatively higher investment volumes than expected, the appreciation of the US dollar and a higher valuation of our equity portfolio.

RI-labelled total committed portfolio



In 2021, FMO invested a total of €714 million in reducing inequalities (2020: €745 million), representing 37% of FMO's total new investment volume (2020: 39%). Of this, €387 million was invested from FMO's own books, €137 million from funds managed on behalf of public entities and €190 million from mobilized funds. FMO was able to do more repeat deals with FI customers and identify opportunities with our customers to invest in reducing inequalities. The focus on existing customers resulted in a higher share of investments in inclusive business vis-à-vis LDCs. €540 million was invested in inclusive businesses, focusing mostly on microfinance and micro financial services, innovative solutions aimed at the bottom 40% of the population, women-owned SMEs and smallholder finance. €283 million was invested in companies and projects operating in LDCs such as Bangladesh, Burkina Faso and Cambodia.

Number of micro and SME (MSME) loans

FMO targets MSMEs because they are financially underserved and typically provide more jobs than larger corporates relative to the capital invested. FMO specifically targets women-owned and youth-owned MSMEs. FMO requires customers to adhere to the Corporate Finance Institute Client Protection Principles that, among others, focuses on the prevention of over-indebtedness, a problem that is common in microfinance.

The number of MSME loans represents the number of loans our customers have provided to MSME customers. In 2021, our customers provided 30 million micro loans (2020: 22 million). Our customers furthermore provided a total of 2.8 million SME loans (2020: 1.8 million). This increase is mainly attributed to the inclusion of micro loans made by investees from our PE funds. For our existing portfolio there was a steady increase in the number of MSME loans, while the inclusion of a large financial institution also contributed to the significant increase.

Enhancing our contribution to reduce inequalities through our ESG activities

Through our ESG management activities we assess the risk of inequality and perform due diligence (DD) using a human rights lens. Our ESG engagement supports inclusivity, often targeting vulnerable groups in the bottom 40% of the global economy. For example, we ask our customers to focus on empowering women, indigenous peoples, and other groups with impaired rights in consultation processes, resettlement plans, trainings, or livelihood support programs. We also stimulate benefit sharing and advocate community ownership.

SDG 13 | Climate action

13 CLIMATE ACTION

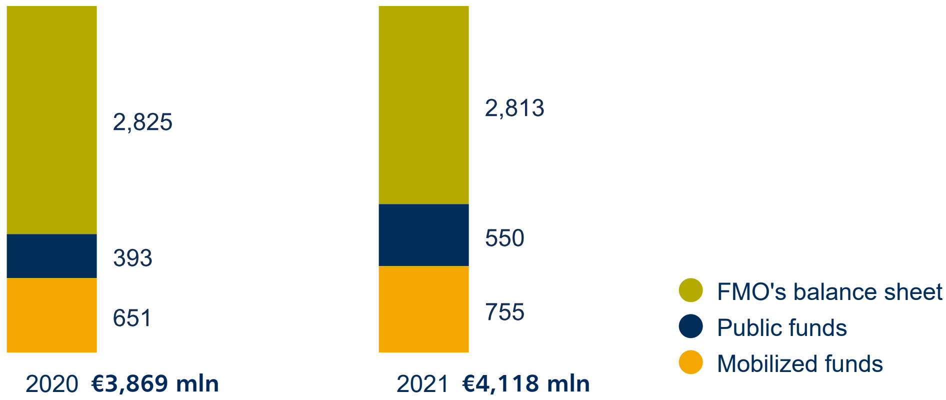
Through its investments, FMO aims to contribute towards the targets of SDG 13 with respect to climate action including both mitigation and adaptation. Our positive contributions are measured in terms of our Green-labelled investments and financed avoided greenhouse gas (GHG) emissions. Negative contributions are measured in terms of absolute GHG emissions from FMO's own operations and financed GHG emissions generated through our investments. Beyond this, we steer our customers towards a resilient and low-carbon economy through our ESG management activities.

Green-labelled investments

FMO steers its investments towards SDG 13. Tackling climate change has been central to our strategy since we adopted our 2050 vision in 2013. FMO's ambition is to align its investment portfolio with a 1.5-degree pathway. One way to support this ambition is to grow our Green portfolio, which is aimed at reducing GHG emissions, increasing resource efficiency, preserving and growing natural capital, and supporting climate adaptation. FMO labels its investments to capture whether, and the extent to which, they contribute towards climate action.

The Green-labelled committed portfolio increased by 6% from €3.9 billion at the end of 2020 to €4.1 billion at the end of 2021. This represents a 33% share of the total committed portfolio. The increase can be attributed to a relatively higher volume of equity investments than expected, the appreciation of the US dollar and a higher valuation of our equity portfolio.

Green-labelled total committed portfolio



In 2021, FMO invested a total of €544 million in Green projects (2020: €466 million), representing 28% of total new investment volume (2020: 25%). Of this total, €268 million was invested from our own books, €155 million from public funds and €121 million from mobilized funds. Compared to previous years, we invested less in renewable energy projects like wind, solar and hydro due to lower market demand, travel restrictions and internal restrictions on doing business with new customers. In addition, there were fewer Green investment opportunities in the FI market due to lower demand and greater availability of (concessional) finance.

GHG emissions

Measuring and reporting the GHG emissions linked to FMO's activities and investments provides insights into our positive and negative climate-related impact and how to steer our investments towards more positive impact in the future.

We report on:

- *Absolute GHG emissions from FMO's own operations* associated with heating and electricity used in our office buildings as well as staff travel. These are naturally much smaller than our financed absolute emissions but show what steps we are taking to reduce our operational footprint.
- *Financed absolute GHG emissions* generated through our investments. These emissions give an understanding of our portfolio's overall climate impact and the opportunity to reduce such emissions.
- *Financed avoided GHG emissions* as a result of our investments, for example through the power production of a new solar park. These emissions quantify our contributions to climate change mitigation activities, which cannot be fully captured by absolute emissions. For example, a museum and a solar park might both have low absolute emissions, but the solar park supports climate change mitigation by avoiding emissions of fossil fuel fired power plants.

We report on absolute emissions scopes 1, 2 and 3 in line with the GHG Protocol. Scope 1 relates to direct emissions resulting from the activities of an organization or under their control (e.g. a power plant burning gas); scope 2 relates to indirect emissions from energy (electricity, heat and steam) used by an organization; scope 3 relates to all other indirect emissions in the value chain related to, for instance, business travel or purchased goods and services.

The financed absolute GHG emissions are reported in line with the Global GHG Accounting and Reporting Standard for the Financial Industry published by the Partnership for Carbon Accounting Financials (PCAF). The majority of FMO's financed absolute GHG emissions are still estimated through economic modeling via the JIM. While we continue to improve our GHG emission data collection, in many of our markets, such data is not yet readily available. The JIM allows us to have a view on our portfolio and sources of emissions in the interim.

Absolute GHG emissions from FMO's own operations

The carbon footprint of FMO's own operations amounted to 420 tCO2e (2020: 1,309 tCO_2e). Scope 1 emissions amounted to 96 tCO_2e, which came from cars leased for use by FMO employees. Scope 2 emissions amounted to 30 tCO_2e connected to district heating that FMO obtains for its head office. Scope 2 emissions related to the use of electricity were equal to zero since FMO purchases electricity from renewable sources. Scope 3 emissions amounted to 294 tCO_2e, mainly from staff travel. As we serve customers around the world, 63% of our own emissions resulted from air travel. The impact of COVID-19 led to reduced staff travel and office use, which has significantly lowered our carbon footprint compared to pre-COVID years.[11] We made further progress to lower the emissions from our own operations through the renovation of our office in The Hague. FMO offsets the remaining emissions by investing in VCS REDD+ certified forestry credits.[12]

Financed absolute GHG emissions

In 2021, FMO's outstanding portfolio resulted in an estimated 5,355,185 tCO_2e absolute GHG emissions (2020: 4,962,939 tCO_2e), of which 1,120,803 tCO_2e were scope 1, 287,038 tCO_2e were scope 2 and 3,947,344 tCO_2e were scope 3. The scope 3 emissions consist of two main GHG Protocol categories: purchased goods and services (1,337,844 tCO_2e) related to the production and transportation of purchased products and services, and investments (2,609,500 tCO_2e) related to emissions in the portfolios of our customers, which are particularly relevant for FIs. Overall, 91% of emissions were attributed to FMO's own balance sheet, while 9% were attributed to funding from public funds.

The 2020 figures were restated due to methodological changes implemented to align with the PCAF Global Standard. With the re-stated emissions from 2020, we see that FMO's portfolio scope 1 and 2 emissions declined from 1,612,610 tCO_2e in 2020 to 1,407,841 tCO_2e in 2021. Scope 3 emissions have increased from 3,350,329 tCO_2e in 2020 to 3,947,344 tCO_2e in 2021. These numbers are not fully comparable because of differences in data quality and data coverage between the years. We are implementing continuous improvements to improve comparability year-on-year. In 2022, FMO is working on further operationalizing its climate commitment, including to determine the best method for steering and tracking the portfolio. In accordance with the Climate Commitment of the Netherlands' Financial Sector, FMO plans to publish its climate targets and action plan in 2022.

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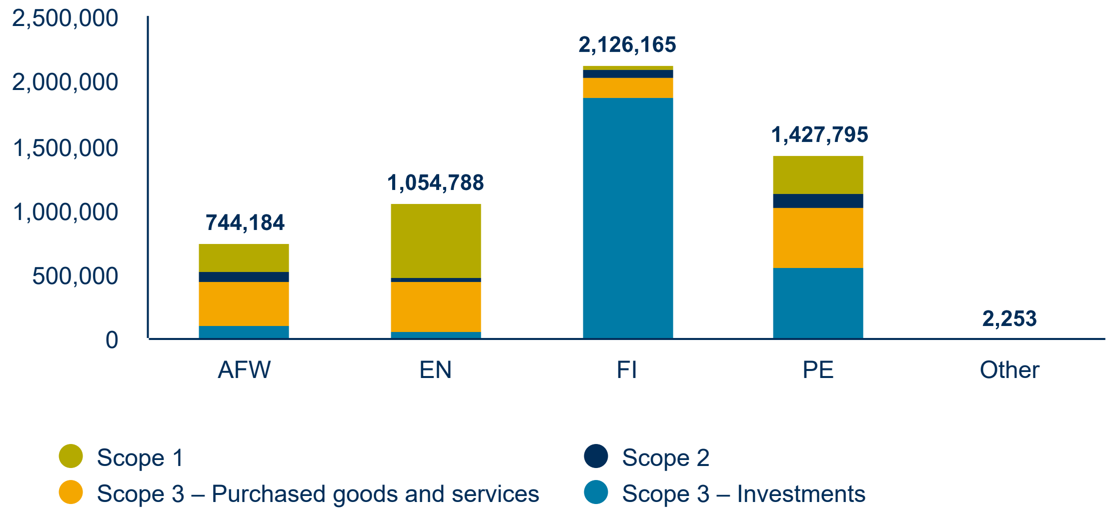
11 The absolute GHG emissions from FMO's own operations do not include any (additional) emissions as a result of employees working from home, such as (increased) electricity use and heating in home offices.

12 VCS is the Verified Carbon Standard, a standard for certifying carbon emissions reductions. REDD+ refers to the focus on Reducing Emissions from Deforestation and forest Degradation, including sustainable management of forests.

Financed absolute GHG emissions per investment area



In our energy portfolio, most scope 1 emissions come from the remaining investments FMO has in fossil fuel-fired power plants. When direct emissions data is unavailable, the emissions estimates based on economic models cannot distinguish between different types of energy investments. In particular, this means that scope 3 emissions are likely overestimated for certain investments such as transmission & distribution and renewable energy.

The AFW portfolio is diverse, giving rise to different sources of GHG emissions. Manufacturing and processing of food products leads to CO_2 emissions from energy usage. Primary agricultural production can have significant non-CO_2 emissions such as methane emissions from livestock and nitrous oxide emissions from fertilizers. The AFW portfolio also includes a few financial institutions focused on providing loans to SME-agribusinesses, which have scope 3 emissions related to their investments. Emission removals from forestry projects and other activities have not been included.

In the FI portfolio scope 1 and 2 emissions are limited as these mainly pertain to the energy use by their office buildings. Most emissions stem from their loan portfolios in sectors such as agriculture, manufacturing and energy. Within their portfolios, 62% come from their customers' scope 1 and 2 emissions and 38% come from emissions related to their customers' scope 3 emissions from purchased goods and services. Specific use of proceeds (e.g. green credit lines) cannot yet be taken into account in emission estimations due to a lack of data.

The PE portfolio contains equity investments in corporates and projects as well as fund investments. One main driver of emissions are the remaining equity investments in fossil fuel-fired power plants. For equity investments in financial institutions and funds, the majority of emissions come from underlying portfolio companies in the energy, manufacturing and agriculture sectors.

Financed avoided GHG emissions

In 2021, FMO's current portfolio resulted in an estimated 1,329,158 tCO_2e avoided GHG emissions. 81% of these came from energy, 18% from PE and the remainder from AFW. The majority of avoided emissions come from our debt and equity portfolio in on-grid renewable power projects. These account for 85% of total avoided emissions (1,124,970 tCO_2e). The avoided GHG emissions have decreased compared to 2020 due to improved data quality, in particular for attribution-related data.

Enhancing our contribution to climate through our ESG activities

We believe contributing to climate action goes hand in hand with good ESG management on an operational level. We recognize that the social dimensions of the transition to a resilient and low-carbon economy need to be carefully managed. Through our ESG engagement we address workplace issues, community benefits from projects, and aim to steer customers towards ethical supply chains. These issues are deeply linked to a 'just transition'. For instance, our E&S activities aim to strengthen the resilience of affected communities to climate-related hazards with a focus on women, local and marginalized communities.

SDG 2 | Zero Hunger

By financing businesses across the entire agri-food chain we contribute to SDG 2, Zero Hunger. The world will need to increase agricultural production by 50% to meet the nutritional needs of a growing global population. FMO targets smallholder farmers because they meet more than 70% of the world's need for food but have a weak market position and limited means to invest in business improvements. [13]

An estimated 480 million smallholder farmers around the world can help achieve SDG 2, especially as food market growth shifts to the emerging world. [14] Smallholder farmers are (sub-)marginal farm producers that own and/or cultivate relatively small plots of land, have low access to technology, and have limited capital, skills, and risk management. They depend on family labor for most activities and have limited capacity for storage, marketing, and processing. [15]

Number of smallholder farmers supported

We invest in companies that support smallholder farmers to improve their yields, and/or reduce environmental degradation, and/or improve social practices during the reporting period. In 2021, companies financed by FMO supported 3.6 million smallholder farmers (2020: 2.4 million). For example, FMO provided US$ 60 million in financing to Ecom Agroindustrial Corp. Ltd, global commodity trading and processing company focusing on coffee, cotton and cocoa in major producing and consuming countries. Ecom plays a crucial role in rural areas, especially with respect to inclusive economies and supporting smallholder farmers to produce more in a more sustainable manner.

SDG 5 | Gender Equality

FMO has had a gender strategy since 2017. We seek investments that encourage more women to participate in the economy, support female entrepreneurs, reach women as end-users of goods and services and include women in the labor market. We also aim to protect women's rights, to understand the gender-specific impact of our investments and to ensure women and men enjoy equal economic opportunities.

We measure impact on SDG 5 in various ways. Firstly, we invest in companies that focus on women-owned MSMEs, women as consumers, and businesses that specifically include women in their value chain. This is covered by FMO's RI label, explained previously. Secondly, we report on gender metrics aligned with the 2X Challenge. As of 2021, this is part of the 2X Collaborative, a newly established industry body that promotes gender lens investing. FMO identifies investments that can be eligible for the 2X Challenge by talking about gender early on in our collaboration with customers.

Gender financing for women-owned SMEs

In 2021, we invested €216 million in gender financing for women-owned or women-led SMEs (2020: €151 million). One of the supported projects was Fin'Elle, La Finance pour Elle in Ivory Coast, which encourages the financial and social emancipation of women entrepreneurs. FMO earmarked €3 million for MSME loans that create favorable conditions for women-owned businesses in agriculture.

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13 https://www.fao.org/news/story/en/item/1395127/icode/

14 World Bank (2019). Working with smallholders – A handbook for firms building sustainable supply chains.

15 Definition according to UN Food and Agriculture Organization (FAO).

2X Challenge

At year end, a total of €83 million of new investments in the agribusiness, food & water, financial institutions, energy and PE sectors qualified for 2X. €43 million was on FMO's own books, €13 million from public funds and €27 million from mobilized funds. This year, FMO has endorsed Sistema.bio, a company manufacturing biodigesters for smallholder farmers in Kenya. Biodigesters extract the methane gas from cow manure, providing a cleaner source of energy for cooking and lighting than kerosene or fuelwood, while reducing the burden of collecting fuelwood, which often falls to women. Additionally, over 40% of the women working at Sistema.bio are in senior management.

SDG 7 | Affordable and Clean Energy

7 AFFORDABLE AND CLEAN ENERGY

Access to energy is not a given in many developing countries. The energy supply in developing countries can be unstable and the energy production is often polluting. SDG 7 aims for access to sustainable, reliable and affordable energy for all, which will improve the quality of life and enable sustainable economic development.

FMO invests in the generation of solar, wind and hydro power in developing countries that, combined with investments in power distribution, improves access to energy. By financing off-grid power solutions, FMO supports access to a more stable energy supply for rural populations. In low-income countries 41% of the population has access to electricity compared to 28% of the rural population. [16]

Energy production and equivalent number of people served

In 2021, the companies in FMO's energy portfolio produced 48,000 GWh per year (2020: 50,000 GWh per Year), of which 61% was generated from renewable energy sources. Approximately 19% came from solar, 22% from wind, 17% from hydro and 3% from other renewable energy sources. The remaining 39% came from non-renewable sources, mostly related to natural gas. While most companies ramped up their energy production, the decrease is due to several customers exiting the portfolio. This served an equivalent of 83 million people (2020: 96 million). [17]

ESG risk management

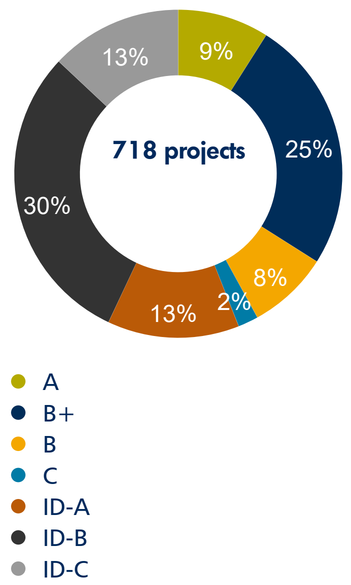
FMO categorizes the E&S risk profile of its customers as follows: A & B+ (high risk), B (medium risk) and C (low risk) for direct investments and ID-A (high risk), ID-B (medium risk) and ID-C (low risk) for indirect exposure through debt and PE funds. The following chart show the risk profile for our entire portfolio and for the new customers that were contracted in 2021.

16 World Bank Development Indicator Database.

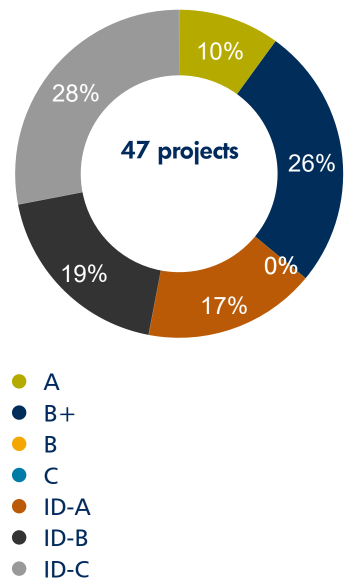
17 2020 comparable figure has been restated in 2021 from 81 million to 96 million.

Number of customers by E&S risk category

Full portfolio

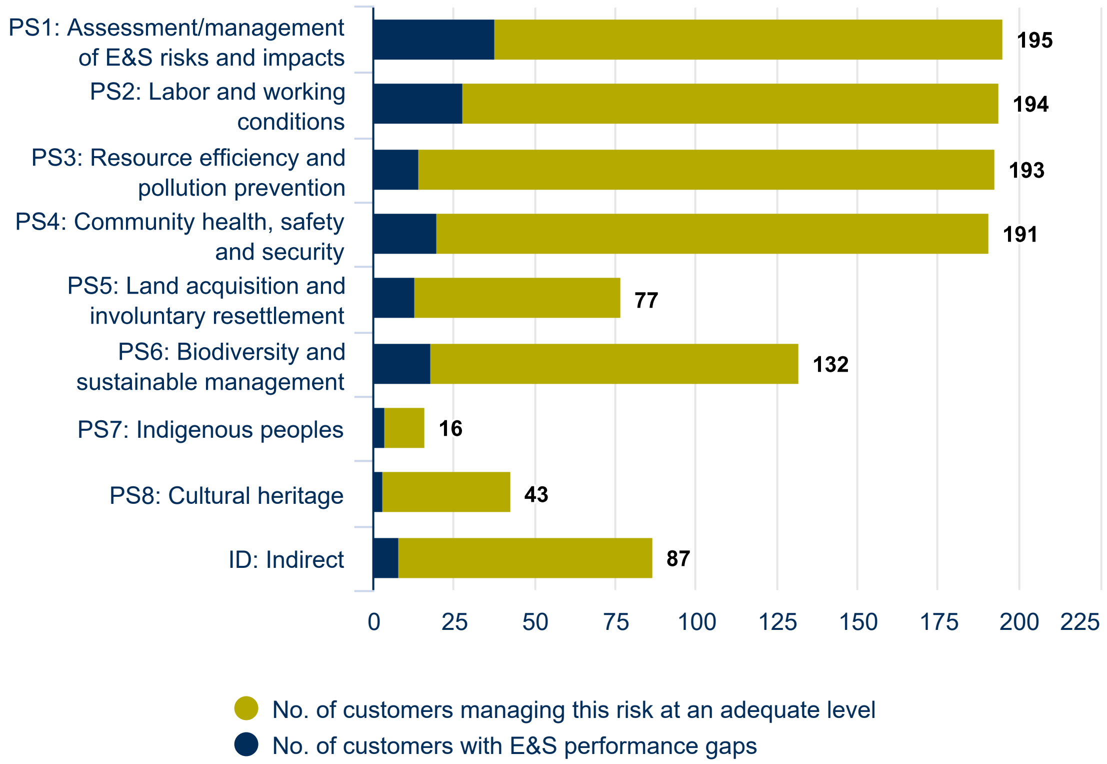


New projects



The following chart displays the type of E&S risks, as per the IFC Performance Standards, and frequency with which high risks occur in our portfolio. The scale of potential issues in our portfolio is determined by the type, frequency and degree to which these risks are managed by our customers. The frequency of E&S risks is sector agnostic in our direct and indirect financing portfolios.

Management of E&S risks by FMO customers



We have five management tools for tracking ESG performance: ESG performance target, environmental and social action plans (ESAPs), overview of E&S performance gaps in our portfolio, serious incidents register and Independent Complaint Mechanisms (ICM).

ESG target performance

The ESG performance target applies to the high ESG risk customers in our portfolio contracted prior to 2021 ('target list'). We register and monitor the different types of ESG risks of our high-risk customers and aim to have at least 90% of the ESG risks managed at a satisfactory level.

We monitor all E&S risks in our portfolio. The target focuses specifically on *high-risk* customers and those supported by a CG specialist. Out of a total 718 customers in our portfolio, 337 customers had a high E&S risk category (A or B+) and three customers received support from a corporate governance specialist. By further consolidating customers belonging to the same corporate group or group of companies, this led to a target list of 268 customers, representing a total of 3,653 ESG risks that were tracked during the year. The 2021 results showed that 92% of risks were managed adequately by our high-risk customers, exceeding our target of 90%.

Environmental and social action plans (ESAPs)

For customers with contractually agreed ESAPs, we monitor progress towards implementation to ensure that our investments comply with our policies and standards within a reasonable time period.

E&S performance gaps in our portfolio

Given the high degree of variation in ESG regulations and practices in our markets, FMO accepts that when we first start working with a customer, the ESG performance may be below standard. We do, however, expect performance to improve over time in line with agreed action plans. This is part of FMO's non-financial additionality in our geographies. Most customers show good progress towards action plans and are receptive to FMO's ESG advice and support.

During 2021, FMO has identified 62 high-risk customers who are not managing E&S risks adequately, which can lead to incidents or issues. FMO works with these customers to address such E&S gaps, to fully realize their positive impact potential. In most cases, we are confident that we can bring customers back on track within a reasonable timeframe. Our E&S engagement and approach with our customers is tailored to their own circumstances. In some instances, E&S non-performance may be the result of a wider (financial) problem that requires the restructuring of a loan or a full exit. Some E&S and human rights impacts are irreversible and together with the customer we look at different remedies.

The following table shows the current E&S performance gaps and our approach. It also includes the number of customers for which subpar performance has been identified (represented by the letter 'n'[18]).

E&S performance gap	Description	Our engagement
Willingness and commitment (PS1) (n = 19)	Resistance to engagement on ESG issues can stem from over-reliance on e.g. DFIs to drive ESG work streams. Commitment can waver due to financial, operational and contextual difficulties. Wavering commitment can have tangible implications on human rights and the environment, for example through delays in implementing management plans or community benefits, or in undertaking required specialist studies.	We use contractual leverage on specific E&S items, raise issues with customer's top management and exert influence on their boards, e.g. to push for improvement of organizational culture.
Environmental and social governance and budget (PS1) (n = 17)	Where the customer's leadership is not fully aware of and involved with E&S performance management, and/or has not allocated sufficient budget, resources or time. Governance issues can result in poor workers' rights protections, a range of risks to communities, as well as damage to the environment.	We use contractual leverage and escalate the issue to top management. We may offer capacity building and advice on integrating E&S costs into financial planning and monitor frequently.
Organizational capacity and competency (PS1) (n = 16)	When E&S staff do not have the required qualifications, teams can be too small, change often, or continue to perform poorly. This is a key issue in many of our target geographies where environmental legislation is developing, and/or state human rights protections are weak in policy or practice.	We use contractual leverage, offer capacity building and look for competent staff in our network.

18 A customer may demonstrate subpar performance in more than one area.

E&S performance gap	Description	Our engagement
Identification and assessment of risks and impacts (PS1) (n = 19)	Weak (initial and ongoing) identification and mitigation of risks. This can adversely impact human rights.	We provide customers with continuous engagement with our ESG staff and capacity building. If needed, we exert formal pressure e.g. through withholding additional financing or triggering default.
Stakeholder Engagement, external communication, grievance mechanisms (PS1) (n = 26)	Trust and communication between FMO's customer and its stakeholders is eroding or has broken down. Ineffective channels of communication play an important part here, particularly ineffective grievance mechanisms, which don't capture grievances, and / or don't enable suitable redress. Poor performance in this area can infringe on the freedom of opinion and expression, and even result in inhuman treatment, retaliation, and risk to lives.	We intensify our customer engagement and offer to connect customers to experts in the field, mediate or providing capacity building.
Working conditions and management of workers relationship (incl. third party workers) (PS2) (n = 21)	Project workers working in substandard conditions, unaware of their rights or without access to grievance mechanisms. This can infringe on labor rights.	We discuss gaps with the customer, enable capacity building and set conditions, e.g. by making disbursements conditional to an improvement.
Occupational health and safety (PS2) (n = 18)	Gaps in ensuring safe and healthy working conditions, possibly leading to serious injuries and fatalities. This could infringe upon the right to health and safety in the workplace, and the right to life.	We discuss gaps with the customer, enable capacity building and set conditions, e.g. by making disbursements conditional to an improvement.
Resource Efficiency and Pollution Prevention (PS3) (n = 14)	Projects reduce the availability of water in arid regions or pollution prevention measures are inefficient. This can infringe upon the right to life, the rights of the child and the right to live in a safe, clean, healthy environment.	We discuss gaps with the customer, enable capacity building and set conditions, e.g. by making disbursements conditional to an improvement.
Community health, safety and security (PS4) (n = 20)	Risks to local communities deriving from projects are poorly managed, especially when security forces are mandated to protect project personnel and assets. This is an increasingly complex area with the increasing fragility of political environments across the geographies we work in.	We discuss gaps with the customer, enable capacity building and set conditions, e.g. by making disbursements conditional to an improvement. FMO can require a root cause analysis and corrective measures or redress.
Land Acquisition and Involuntary Resettlement (PS5) (n = 13)	When resettlement and livelihood restoration plans are poorly managed or insufficiently recognize vulnerable groups and/or have ineffective grievance mechanisms. This can impoverish people and infringe on their right to an adequate standard of living, notably the right to food and adequate housing.	We find an expert to conduct gap analyses and implement recommendations. In the event of an early exit, FMO seeks to remedy of the impacted people.
Biodiversity and living natural resources (PS6) (n = 18)	Biodiversity risks have not been modeled well enough or monitoring and mitigation are insufficient, or new findings are missed or ignored. This reduces biodiversity and access to forest products, thereby infringing on the right to food and/or an adequate standard of living.	We intensify customer monitoring, engage a biodiversity expert and use our influence to improve the situation.
Indigenous Peoples (PS7) (n = 4)	Community engagement processes do not meet FPIC requirement and/ or do not allow for sufficient participation of indigenous people. In some cases, we recognize challenging operating conditions where risks to these communities are difficult to control. May lead to the infringement of indigenous peoples' right to food, their traditions and their sacred sites.	FMO encourages customers to meet FPIC standards, share benefits with communities, and include indigenous groups in livelihood restoration. We may intensify monitoring of contextual risk factors.
Cultural Heritage (PS8) (n = 3)	Failure to protect cultural heritage. This can infringe on the rights of people to benefit from their and other people's cultural heritage.	We exercise our leverage to improve the situation, looking at past and future risks.
Financial intermediaries: financial institutions and fund managers (n=8)	Substandard system for identifying and managing E&S risks of financed activities. Processes and procedures are unclear, E&S management responsibilities are insufficiently defined and/or capabilities are lacking, or inadequate evidence or execution of E&S DD and monitoring. Compounded by contextual risk factors, e.g. lack of exposure to and experience in E&S risks management by the financial sector in our markets and the lack of a level-playing field. This can lead to infringements of all types of human rights as referenced before.	We provide expertise and funding for the ESMS or sit on E&S risk management committees. We negotiate improvement plans and, in some cases, initiate/ contribute to sector initiatives

Serious incidents

Unfortunately, serious incidents cannot always be avoided considering the large number of people that are employed by our customers, the higher-risk countries and sectors we invest in and the challenges of operating in emerging markets. FMO's environmental and social DD identifies areas where existing mitigation practices fall short of (international) standards to be able to agree actions to improve mitigation practices, so our customers can improve their practices to prevent accidents and incidents from occurring.

FMO requires its customers to immediately report any incident occurring on or nearby any site, plant, equipment or facility belonging to the customer that has resulted in the loss of life, has had a material effect on the environment or has resulted in a material breach of the law – inter alia – and how the incident was dealt with. FMO follows up on each incident to ensure that a meaningful root cause analysis is completed and corrective action is taken.

We believe that strong occupational health and safety (OHS) management systems are part of an employer's duty of care, it improves job quality and adds value to a business. Unfortunately, OHS norms and regulatory systems can be weak in emerging markets, leading to serious accidents occurring more frequently. Where a customer’s mitigation practices fall short of (international) standards, FMO develops and agrees an environmental and social action plan with the customer to close those gaps. FMO also helps customers to develop their OHS risk management capabilities, for instance through (funding for) training.

In 2021, we regret to inform that 28 FMO customers reported 50 fatal incidents with a total of 58 casualties. 41 of those were workers (employees or contractors/suppliers) of either our customers or the underlying companies of funds and 17 were members of the general public. Of the 50 incidents, 20 were road accidents, 13 work-related, 11 asset-related [19] , 2 security-related, and 4 were classified as ‘other’. FMO aims to provide a total overview of all fatalities resulting from the activities it finances and trusts that its customers hold themselves to the contractual agreement to report any occurrence. However, as FMO relies on these instances being brought to our attention, there is an inherent risk that some incidents may not have been reported to us and, therefore, have not been included in these numbers.

Incident type	No. of incidents	No. of fatalities	No. of workers	No. of public
Work-related	13	13	13	0
Security-related	2	2	1	1
Road-related	20	24	18	6
Asset-related	11	15	6	9
Other	4	4	3	1
Total	**50**	**58**	**41**	**17**

Independent Complaints Mechanism

FMO has an Independent Complaints Mechanism (ICM) for project-related complaints. This consists of the Complaints Offices of FMO, Deutsche Investitions- und Entwicklungsgesellschaft (DEG) and Proparco and an Independent Expert Panel (IEP). This mechanism ensures the right to be heard for complainants who feel affected by an FMO-financed operation. This can lead to a resolution of the dispute or it enables FMO to apply lessons learnt to future investments through a compliance review.

The IEP decides on the admissibility of each complaint, performs preliminary reviews to determine whether a complaint should proceed to the next stage, and can perform a compliance review or support a dispute resolution process in accordance with the ICM Policy. The ICM also monitors the implementation of measures agreed upon to bring a project into compliance or agreed as outcome of a mediation process. The IEP comprises three members with complementary expertise.

In 2021, COVID-19 continued to impact the ICM’s activities. COVID-19 restrictions on traveling and gatherings have prevented the panel from conducting site visits and in-person consultations in the first nine months of the year. Therefore, the ICM adjusted its case handling, in discussion with the parties involved, where possible. The ICM reverted to videoconferencing and calls, but this wasn’t always possible, causing delays in handling and monitoring cases. The IEP resumed the site visits in September.

In 2021, four new project-related complaints were received. All of these were declared inadmissible by the IEP and closed accordingly (2020: one admissible complaint). For information about the status of complaints filed in earlier years, please refer to our website.

19 Resulting from contact with portfolio company's assets, such as an electricity distribution line.

Other key ESG activities

Corporate governance

FMO supports its customers and investees in the development of good corporate governance (CG). The global pandemic and economic crisis have demonstrated that this is essential to improving readiness and responses to risks and crisis situations. Due to the pandemic we had to virtually make the case for good CG and amend companies' governance structures, something that is best done in person.

FMO continues to invest in its CG approaches, incorporating important developments and insights. In 2021, we have tailored our approach to the specific needs of early-stage companies and have been able to help these companies work towards having more mature CG systems over time.

We have developed a climate risk methodology and approach that will help us to bring this crucial topic to the boardrooms of our customers. In 2021, FMO delivered multiple virtual customer sessions on the matter.

FMO wants to provide our cadre of nominee directors with valuable insights that allow them to be successful in their role as Board member. This year FMO organized a virtual Nominee Director Round Table on Climate Change, Climate Adaptation and Task Force on Climate-Related Financial Disclosures (TCFD). Due to a high uptake, FMO and DEG organized three virtual CG trainings for the directors that sit on the boards of our investee companies and on boards of our partners' investees.

Sector initiatives

Sector initiatives are projects that target and address systemic ESG and impact issues in a given sector or geography. Sector initiatives leverage FMO's ability to bring together multiple perspectives and stakeholders to create positive change. During 2021, several sector initiatives were ongoing and others were started. One example is the Rallying Cry, a nascent platform to connect African women entrepreneurs to leadership opportunities and to mobilize private sector investment in climate- and gender-smart enterprises.

Deeper relationships

FMO attaches strategic importance to deepening relationships with our stakeholders, because by pooling resources and partnering with others we can invest more in our customers and through their activities increase impact. FMO mobilizes and blends funds, builds partnerships, manages programs on behalf of public institutions, including the Dutch government, and empowers its customers and employees.

Customer satisfaction

Our customers are central to achieving FMO's impact ambitions. We provide the financial and non-financial means to support their business activities, aimed at creating positive economic, social and environmental outcomes within the countries and communities in which they operate. In addition to financial products, FMO provides capacity development and ESG advisory services and organizes events to support learning, knowledge sharing and capability building.

Each year, we carry out a customer satisfaction survey to gauge how we can better support them in carrying out these activities. We measure customer satisfaction in terms of the Net Promoter Score (NPS) or the extent to which customers would recommend FMO to others.

Customer NPS

This year, 102 customers participated in the 2021 customer satisfaction survey, representing a response rate of 46%. This resulted in an NPS of 65.5, below our target of 70. This constitutes a decrease for the second consecutive year, down from 70.2 in 2020 and 75.5 in 2019.

Customer satisfaction with FMO's service level has remained constant. Customers appreciate the good relationship with FMO's deal team, and FMO's responsiveness in particular. The drop in NPS seems primarily driven by product satisfaction and lower use or appreciation of value added services. With regards to financial products, fewer customers indicated this year that they felt FMO's product features fit their specific needs. Regarding value added services, the number of customers that indicated the use of capacity development and/or that benefited from knowledge sharing decreased. Furthermore, customers also rated the impact FMO has had on them slightly lower, particularly in the area of corporate governance.

Capacity development

FMO provides development contributions including technical assistance (TA) to strengthen the organizational capabilities of our customers, investees, and prospects. Through the Capacity Development program (CD), we make a financial contribution to the cost for external consultants, trainers, and experts to facilitate knowledge transfer and the provision of technical expertise.

In addition, FMO contributes to shaping markets and building impactful partnerships. The Development Contributions are financed by FMO, the Dutch state, the European Commission and, since 2021, the UK government through the Mobilising Finance for Forests fund.

In 2021, we provided €8 million in CD support (2020: €9.5 million). Demand for CD remains high and focuses on value add and additionality, supporting the business case for bankable and investible projects, creating innovative partnerships and building an ecosystem through sector initiatives.

Customer events

Local entrepreneurs need knowledge and support in best practices, as much as they do funding. In April, FMO and our partners IFC and FinnFund hosted the 2nd Digital African Cheetahs Roundtable, bringing together chief executives of Africa's most promising, fast-growing agribusiness companies, or "cheetahs". This two-day roundtable provided an opportunity for entrepreneurs to share challenges, experiences, and expertise in the areas of route-to-market and supply chain digitization.

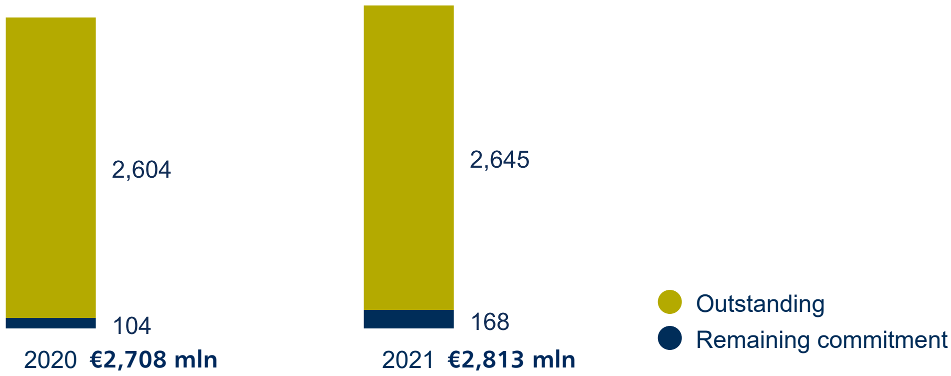
In 2021, we continued with the Agribusiness sustainability webinar series for Eastern Europe and Central Asia that were launched in 2020, focusing on such themes such as AgriTech or the EU Taxonomy. The webinars attracted an increasing number of participants and provides a run-up to the first ECA Agribusiness Sustainability Forum.

Mobilized funds

Private sector investments are among the most important sources of financing for the realization of the SDGs and growth in low and middle-income countries. Increasing private mobilized capital is, therefore, important to FMO. Mobilization efforts resulting from our direct and active involvement are measured in terms of total committed portfolio and new investments. In addition, FMO contributes to shaping markets and building impactful partnerships. The development contributions are financed by FMO, the Dutch state, the European Commission and, since 2021, the UK government through the Mobilising Finance for Forests program.

Over the years, we built up a direct mobilized committed portfolio of €2.8 billion (2020: €2.7 billion), a 4% increase compared to last year. More than half (€1.6 billion) has been mobilized through the private debt funds that FMO Investment Management (FMO IM) advises and through syndications and unfunded risk participations with other commercial parties. We achieved our portfolio target of €2.6 billion as a result of a relatively higher volume of new investments - €521 million (2020: €483 million) – and the appreciation of the US dollar. In 2021, FMO arranged several large, syndicated loans for existing customers and increased the volume of investments made through FMO IM funds and the Unfunded Risk Participation (URP) mobilizing vehicle with Munich Re that was launched in 2020. Below we provide some highlights.

Direct mobilized committed portfolio



Munich Re
The URP Program between Munich Re and FMO continued to show strong growth. During its second investment year Munich Re's participation grew from €101 million in 2020 to €248 million in 2021. By year-end 2021, the URP program with Munich Re had combined commitments of 33 loans to financial institutions, renewable energy projects and agribusinesses.

NN FMO Emerging Markets Loans Fund [20]
The fund continued to attract investors in 2021, opening a second compartment in July at US$150 million. The investors are mainly institutional investors based in Europe and Asia. In September Environmental Finance announced the fund won the 'Fund of the year – private debt' IMPACT Award 2021.

The fund invested over US$400 million since 2018 from its first compartment, and the second compartment has already invested over US$60 million. By year-end 2021, the fund had combined commitments to 62 loans to financial institutions, renewable energy projects and agribusinesses.

FMO Privium Impact Fund [21]
The fund's net asset value increased to US$155 million (2020: US$143 million) which is similar to its pre-COVID-19 value. Investors are mainly family offices and private banking customers including those with managed portfolios. Investors are mostly based in the Netherlands, UK, Spain and France.

Since the launch in 2016, the fund has participated in over 100 loans. The fund ended the year with a total committed portfolio of US$137 million (2020: US$129 million), which includes investments in 63 customers mostly in FMO's three focus sectors.

Actiam-FMO SME Finance Fund [21]
With a net asset value by year-end of €108 million (2020: €133 million), the fund participates in FMO loans to financial institutions to improve access to finance for SMEs in emerging markets. The investors are mostly institutional investors based in the Netherlands. As the fund's end of life is drawing closer (2025), the fund has been making cash distributions since 2020. By the end of 2021, the fund had a total committed portfolio of €90 million (2020: €125 million) across 41 financial institutions.

20 The NN FMO Emerging Markets Loans Fund, due to its legal structure as an Unregulated Securitisation Vehicle, does not fall under the SFDR.

21 The FMO Privium Impact Fund, ACTIAM – FMO SME Finance Fund and ASN Green Project Fund are subject to the EU Sustainable Finance Disclosure Regulation (SFDR) and have been declared Article 9. While FMO itself is not in scope of the SFDR, it has the obligation to deliver information to the best of its ability. Initial disclosures have been made by the fund managers in 2021. Some future requirements may be challenging to fulfill as many of the companies invested in are outside of the EU and thus not subject to EU disclosure directives.

ASN Green Projects Fund[21]

FMO IM has been an investment advisor to the ASN Green Projects Fund since 2017. The investors are Dutch private individuals. In 2021 the fund began to make investments in green credit lines to financial institutions. Earlier, the fund solely participated in renewable energy transactions. By the end of 2021, the fund had participated in a total of nine loans sourced by FMO, bringing the total committed portfolio in FMO loans to US$32 million (2020: US$25 million).

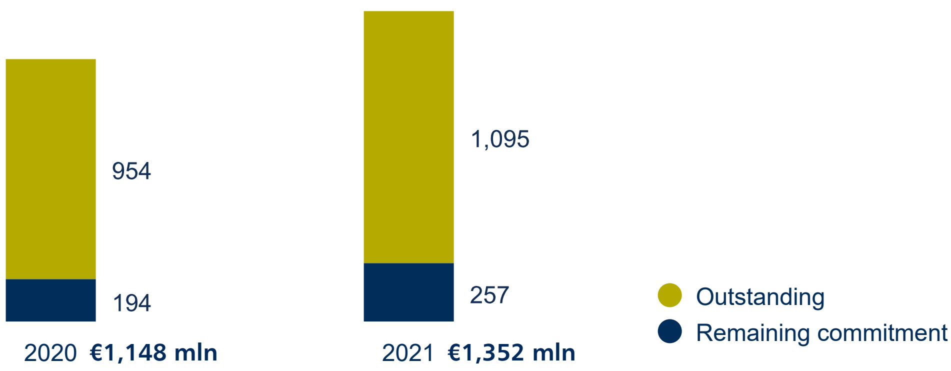
Public programs

Public investment partners allow us to make investments with a higher risk profile and development impact. Our public investment partners include the Dutch state, the UK government, the European Commission and the Green Climate Fund (GCF). On behalf of the Dutch state, we manage the following programs: Building Prospects, the Access to Energy Fund (AEF), the Dutch Fund for Climate and Development (DFCD) and MASSIF. We set up the NASIRA and FMO Ventures program with guarantees from the European Commission and in early 2021 began managing the Mobilising Finance for Forests (MFF) program on behalf of the UK government.

We also manage the CD program that offers grants to strengthen the organizational capabilities of our customers. Finally, as an accredited entity, we receive funds from the EC and the GCF that are ultimately managed by EDFI Management Company (for ElectriFi, AgriFi) and by Climate Fund Managers for Climate Investor One.

We measure our progress in total committed portfolio and annual new investments. Through our public programs we have built up a total committed portfolio of nearly €1.4 billion (2020: €1.1 billion). This is above of our target of €1.3 billion and is explained by higher valuations in our equity portfolio, which makes up more than half of the portfolio, the appreciation of the US dollar as well as relatively higher new investments compared to last year. In 2021, we invested €233 million through our public funds (2020: €145 million). Below we provide highlights for each of these programs.

Public funds committed portfolio



Access to Energy Fund (AEF)

The Dutch government and FMO set up AEF in 2007. AEF supports private sector projects aimed at providing access to energy services. New investments made through AEF amounted to €43 million in 2021 (2020: €17 million).

For instance, AEF provided a US$ 5 million loan to Energy Access Relief Fund (EARF), a new debt fund that provides COVID-19 relief funding to Access to Energy companies such as off-grid solar home systems, clean cooking and mini-grid companies. This fund aims to support access to affordable, reliable and sustainable energy for all and local clean energy jobs.

Building Prospects

Building Prospects was established in 2002 by the Dutch government and FMO to strengthen the agribusiness value chain by increasing access to energy, water, logistics and transport and improving climate resilience and gender equality. New investments made through Building Prospects amounted to €40 million in 2021 (2020: €52 million).

For instance, Building Prospects provided a US$ 5 million loan to Mekong Timber Plantations Limited (MTP), which is one of Laos' largest forestry plantation companies with more than 24,000 ha land. The total plantation area consists of 9,519 ha of high-quality eucalyptus and acacia, all FSC certified. MTP is an investee company of the New Forests Tropical Asia Forest Fund (TAFF), a fund focused on certified plantation forestry with an emphasis on technological, silvicultural, and ESG improvements. With FMO's financing, MTP aims to further expand its plantation area and to establish an integrated saw log, veneer and chipping mill.

MASSIF

MASSIF finances local financial intermediaries and institutions that can contribute to the development of small businesses and micro-entrepreneurs, women and youth entrepreneurs, as well as support innovation in inclusive business. New investments through MASSIF amounted to €57 million in 2021 (2020: €55 million).

For instance, MASSIF and the U.S. government's Development Finance Corporation (DFC) launched a US$75 million co-financing facility to boost the COVID-19 response in developing countries. This facility aims to meet the liquidity needs of financial intermediaries who support MSMEs impacted by the COVID-19 crisis, focused particularly on low-income and fragile countries as well as underserved groups like women, youth, and entrepreneurs active in agricultural or rural areas. DFC will contribute up to US$50 million while MASSIF will allocate the remaining US$25 million.

Dutch Fund for Climate and Development (DFCD)

The DFCD was set up in 2019 by FMO, SNV Netherlands Development Organization, Worldwide Fund for Nature (WWF) and Climate Fund Managers. The DFCD connects the project development expertise of SNV and WWF to the mobilizing and investment power of FMO and Climate Fund Managers. New investments for DFCD amounted to €7.7 million in 2021 (2020: €11 million).

In 2021, the DFCD Land Use Facility provided a US$ 6 million loan to Semrar Sartawi, a microfinance institution in Bolivia that services rural farmers, meant to improve climate resiliency.

Mobilising Finance for Forests (MFF)

MFF was established in 2021 by the UK government and FMO as a blended finance investment program. The program focuses on combating deforestation and other unsustainable land practices in the tropical rainforest regions of Africa, Asia and Latin America.

In 2021, MFF concluded its first investment in &Green Fund. This €29 million commitment will enable &Green to invest in agricultural value chains to protect and restore tropical forests and peatlands and make them more inclusive by involving local communities, producers, financiers, supply chain companies, local and national government and civil society.

NASIRA with EC guarantee

NASIRA is an innovative financial program that supports young, female, and migrant entrepreneurs in Sub-Saharan Africa and the European Neighborhood. In 2020, the scope was expanded to small COVID-19-affected entrepreneurs in the same regions. New investments made through the NASIRA program in 2021 amounted to €82 million, of which €70 million was covered by FMO, €11 million by the EC and €1 million by MASSIF.

In 2021, we made five investments in Jordan, Kenya, Nigeria and Armenia. The Armenian AraratBank, for instance, now benefits from a US$ 10 million NASIRA loan portfolio guarantee. This risk-sharing facility enables AraratBank to support COVID-19 affected MSMEs and an MSME business loan portfolio of youth, women and migrant entrepreneurs from Lebanon, Syrian, Ukraine and Iraq currently living in Armenia.

FMO Ventures Program with EC guarantee

The FMO Ventures Program was set up in 2020, combining €40 million in guarantees provided by the European Commission, €60 million in financing from the Access to Energy, Building Prospects and MASSIF funds and €140 million in financing from FMO's own balance sheet. The funds will be used to invest in early-stage, technology-enabled businesses, technical assistance and the development of venture capital ecosystems in emerging markets. The EC's guarantees will allow FMO to take an equity stake in risky but growing companies, so they can become bankable and scalable in two to three years. New investments made through the program in 2021 amounted to €21 million (2020: €19.4 million), of which €11 million was covered by FMO, €2 million by AEF, €3 million by Building Prospects, €3 million by MASSIF and €2 million by the EC. In 2021, we made seven investments through this program.

Invest International

Following approval from the Senate of the Dutch Parliament in July, Invest International was officially incorporated by the Dutch State (51% of shares A and owner of shares B) and FMO (49% of shares A). FMO's NL Business team and activities have been transferred to this new entity from 1 October 2021.

Invest International supports Dutch companies and non-Dutch companies with a material link to the Dutch economy. It offers finance for international activities aimed at offering innovative solutions that contribute to the realization of the Sustainable Development Goals and the future earning capacity of the Dutch economy.

In addition to financing from its own share capital, Invest International can also offer financing from public programs. These focus on the international financing of Dutch start-ups and SMEs, but also on infrastructure projects of governments in which the Dutch business community can play a role. With an annual budget for project development, the fund can help companies to make international investments financially viable.

Employee engagement

At the end of 2021, we had 605 internal employees (2020: 627 employees), all are covered by a collective labor agreement. FMO invests in the well-being and development of its employees which in turn helps us realize our strategic objectives.

Employee engagement survey

The 2021 Employee Engagement Survey returned an average score of 7.2 (2020: 7.1)[22] , below our ambition of 8.0. On average, employees indicated that they are passionate about FMO's mission and vision and are experiencing pride and joy doing meaningful work. Employees experience a high level of collaboration and support within their team and consider their immediate manager as one of the key contributors towards a positive employee experience. Areas to improve included increasing the level of efficiency in the way we work, achieving a more balanced workload and improving the level of cross team collaboration. Other points that require attention are creating a more inclusive, safe and trustworthy working environment and offering sufficient learning and development opportunities.

COVID-19 and the future of hybrid working

During the second and third lockdown, we continued to look for different ways to collaborate and share experiences online, but also longed for the return of energizing in-person conversations. In 2021, we continued the Open Dialogues and the Culture Conversations to ensure that opinions could be heard, experiences could be addressed, and follow-up could be given in order to further improve workplace behavior, feedback, unconscious bias, diversity and inclusion.

We expect, as many other organizations do, that we will continue to work in a more hybrid way, which will entail working from our home offices at least part of the time. When the restrictive measures have been lifted, we will need to find a new balance between well-being, efficiency and working from different work locations.

22 The 2021 result is based on an updated methodology. The 2020 comparative figure is based on the previous methodology and, therefore, not entirely comparable.

Learning and development

We continued to encourage employees to develop themselves. Our FMO Academy offers various trainings and courses, from personal development to banking knowledge. In 2021, 170 courses and trainings (2020: 283 courses) were followed by 630 employees (2020: 492 employees). In addition, 639 employees have been invited to follow various compliance and Know Your Customer (KYC) topics and 589 have started one or more trainings or modules. Part of these trainings were directly related to the role of the employee and were compulsory. On our virtual learning platform, Udemy, 686 participants made use of 910 courses. The Learning & Development team performed a curriculum review together with HR and the FMO Management teams, further aligning the 2022 curriculum with the learning needs within the organization.

In 2021, we also introduced themed weeks connected to FMO's values. In line with the value of Making the Difference, we organized an impact school focused on climate action, which was attended by 104 participants. In addition, 158 participants joined the first edition of the Learning Week with the aim to strive for the value of Quality by learning, professionalizing, and innovating together.

Diversity and inclusion

FMO aspires to be a diverse and inclusive employer because we believe it leads to better decisions, more creativity and innovation, better solutions for our customers and more impact on the world. In 2020 we published a diversity and inclusion statement in which we express our commitment to a society in which everyone feels valued, respected and included. At FMO, we strive for diversity at all levels of our organization. We do our utmost to create an inclusive working culture for our employees and our stakeholders. We promote diversity of gender, gender identity and sexual orientation, culture (topics around ethnicity and race), age and generations and people with occupational disabilities.

We want to be transparent about how we perform on key performance indicators (KPIs), starting with Gender Equality (SDG 5). Since 2019, we are committed to reporting on our performance on seven gender diversity KPIs.

7 Gender diversity & inclusion metrics					
		total	**female**	**male**	**% female**
1. Gender balance	Total number of employees per December 31, 2021 (headcount)	605	312	293	52%
	Employees in senior and middle management per December 31, 2021	73	33	40	45%
2. Recruitment	New joiners January - December 2021 (headcount)	64	40	24	63%
	Net growth percentage[1]	-3.5%	-0.3%	-6.7%	
3. Turnover	Number of leavers January - December 2021 (headcount)	86	41	45	48%
	Turnover percentage (based on total headcount at beginning of reporting year)	13.7%	13.1%	14.3%	
4. Reward	Gender pay gap: FMO conducts periodically (at least once per year) quantitative research to compare men and women's salaries, while correcting for part-time work, salary scale, age and tenure to have a fair comparison.	The outcome of the (multiple linear regression) analysis with reference date 1 April 2021, showed that men and women at FMO are not awarded the same for equal work. The analysis showed on average a significant difference of a 2.3% lower salary for women (April 2020: 1.3% and April 2019: 1.4%). Although the average difference found is relatively small compared to what is seen in the Netherlands in general, the statistical analysis showed a significant difference at a 5% significance level. This difference refers mainly to employees in the lower salary scales, in client-facing roles or in the age category 35-44.			
5. Bonuses	Share of bonus amount paid in 2021[2]	100%	47%	53%	
6. Promotions	Promotion ratio January - December 2021	17%	18%	15%	
7. Engagement	Engagement score based on latest survey (Nov. 2021)[3]	7.2	7.3	7.1	

1 The negative growth is partly due to the transfer of the NL Business team to Invest International as per 1 October 2021. In total 19 employees were transferred to Invest International.

2 The total bonus amount granted in 2021 was lower compared to previous years and only related to staff recognition for achievements in the KYC-project.

3 The 2021 result is based on an updated methodology. The 2020 comparative figure is based on the previous methodology and, therefore, not entirely comparable.

In 2021, the gender pay gap analysis was performed for the third year in a row. Compared to last year a gender pay gap of 2.3% remains relatively low, but did increase by 1% and showed on average a statistically significant difference. Although it is the first time - since we measure on this - that the pay gap has increased, it could be an indication of a potential downward trend. Therefore, we will monitor this closely and take corrective action to close pay gaps, as required.

Furthermore, FMO has international staff, representing 57 nationalities. Over thirty percent of employees has a nationality other than Dutch and more than one-third of our employees were born outside of The Netherlands.

In 2021, 74 new colleagues joined the Diversity & Inclusion training at our FMO Academy (2020: 63 employees). These trainings were rated with a 7.8 (out of 10) average score and help to create a climate where people from different backgrounds feel comfortable expressing their opinions. In the spring and autumn of 2021 culture conversations at department level were organized to increase attention to the value Diversity and Inclusion. Understanding and accepting diverse cultures starts by being aware of one's own.

Other FMO employee statistics	Dec 31, 2021	Dec 31, 2020
Number of internal employees (headcount)	605	627
Number of internal FTEs	579	599
Percentage non-Dutch employees	31%	30%
Number of nationalities	57	55
Absenteeism	3.3%	3.6%
Number of external employees (headcount)	107	131
Total number of internal and external employees (headcount)	712	758

Higher productivity

During the COVID-19 pandemic, FMO has demonstrated it is resilient and can carry out its mission in a robust, effective and efficient way. In 2021, we focused on carrying out our project portfolio and further embedding KYC processes and governance in our organization.

Strategic projects

FMO continues to invest in an effective and efficient organization through its project portfolio. In 2021, we realized 92% of our project deliverables (2020: 92%), above our target of 85%.

In 2021, we strengthened our project portfolio monitoring and control processes, focusing in particular on resource management. We frequently reported to and aligned with areas of the business demonstrating the greatest resource constraints in order to prevent issues in project execution and/or to prioritize. Furthermore, we extended our monitoring and processes beyond projects to initiatives (smaller more informal cross departmental change activities) to improve steering, accountability, resource allocation, pro-active stakeholder management and timely execution. To support this, we set up a separate governance with more delegated decision-making power at Director level and a lighter monitoring process.

The project with the highest priority was the FEC enhancement program. Furthermore, significant improvements were implemented on managing of and reporting on climate risk, impact and ESG, as well as improvements on data quality for customer/party data. The NL Business portfolio and the related activities were transferred to Invest International; FMO will temporarily provide service support to Invest International. Also, we enabled SOFR based transactions to comply with the revised EU Benchmark Regulation after discontinuation of LIBOR and EONIA as benchmark rates.

Furthermore, we added an impact module to our Sustainability Information System (SIS) that was launched in 2020. SIS allows us to connect impact and ESG domains, consolidate underlying processes and provide clarity on tasks and responsibilities via workflows that are linked to each transaction and customer. The impact module replaces the old system to process and approve label requests and impact data registration. The main advantage of this system is the use and availability of robust information.

Business integrity

One of FMO's core values is integrity. FMO believes it is important that this value is lived by its employees as well as its customers and suppliers. FMO has embedded integrity into its policies, products and procedures. The KYC Framework, the Anti Bribery & Corruption Policy as well as Gifts, Entertainment & Hospitality Policy address the minimum standards our stakeholders, including our employees, should adhere to.

In 2021, all new FMO employees were required to complete the Compliance e-learning that addresses personal integrity topics such as bribery and corruption. In addition, new investment staff were also required to complete the KYC e-learning as part of their onboarding. All new investment staff were also required to undertake additional training related to the FEC program and remediation project.

KYC remediation and incidents

In 2021, FMO continued the KYC remediation effort to align with the latest KYC and FEC requirements. This was finished before the end of the year and forms part of meeting DNB's expectations. In total 951 active customer KYC files were remediated. Independent external validation confirmed that the remediated efforts and KYC files are demonstrably compliant with the relevant requirements, after which the Management Board provided a compliance statement to DNB. The validation identified several recommendations that FMO will follow up on in 2022.

In 2021, we registered one KYC incident at existing customers (2020: two incidents). In this specific case the KYC procedure was not fully followed. Remedial actions were taken and the risk mitigated.

Alleged customer-related integrity issues

This refers to any unusual transactions that could indicate money laundering, corruption, fraud, terrorist financing, or non-compliance with sanctions programs (OFAC/EU/ NL/UN/UK) by customers or other counter parties (such as guarantors, custodians, UBOs). In 2021, a total of 12 new alleged customer-related integrity cases were reported to the Compliance Committee (2020: 20 cases). Issues were triggered by investment staff, other DFIs and partner (International) Finance Institutions (IFIs) or whistle blowers. FMO investigates each case together with partner DFIs/IFIs where needed, to verify its legitimacy and to determine solutions. During 2021, we closed 11 alleged customer-related integrity cases (2020: 24 cases), where either the issues were resolved or FMO decided to end the relationship.

Alleged employee-related integrity issues

Alleged employee-related integrity issues refer to any indication of suspected involvement with bribery, corruption, fraud, privacy violation, conflict of interest due to outside positions, gifts/entertainment/ hospitality, or use of price-sensitive information. In 2021, one case was reported to the Compliance Committee (2020: one case), which has been closed.

Reported data leaks

Over the course of the year, one data leak was reported to the Data Protection Authority (2020: 0 data leaks reported).

Financial performance

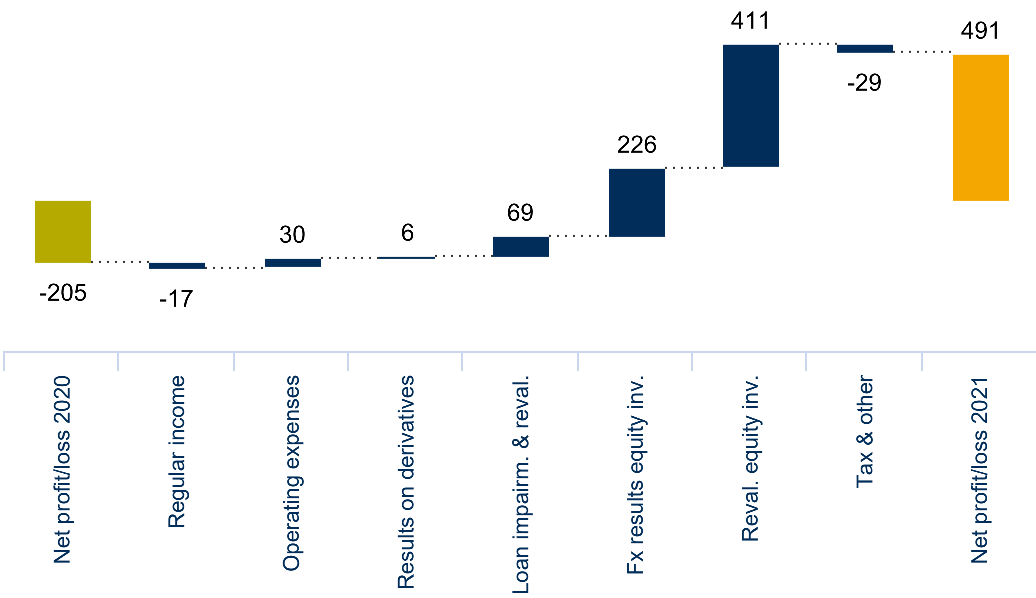
At the end of 2021, we reported a net profit of €491 million. This is a significant improvement compared to the end of 2020 when we reported a loss of €205 million as a result of unfavorable global market conditions, following the COVID-19 pandemic. Given the uncertainty about economic effects at that time, this resulted in a substantial depreciation of FMO's PE portfolio and higher impairment levels.

In 2021, global equity prices recovered across FMO's markets and geographies. In addition, the appreciation of the US dollar increased the value of our assets. Furthermore, most of our customers were able to meet their financial obligations, despite the initial negative outlook in 2020, which has led to a net release in our impairment levels. These three factors have led to a record high profit in 2021.

The NPL ratio increased to 9.5% (2020: 9.3%). Despite the COVID-19 pandemic, the ratio did not increase substantially as a result of calling of guarantees and write-offs of impaired assets.

The following diagram presents the changes in FMO's net result during 2021 in comparison with 2020.

Net result



The financial results can be explained in more detail as follows:

- Regular income [23] , consisting of net interest income, net fee and commission income, dividend income and remuneration for services rendered, decreased by €17 million. This is mainly due to a decrease of the dividend income by €11 million. Lower dividends were received from our investees in the financial sector. Net interest income declined slightly compared to last year due to lower LIBOR rates, higher number of prepayments and relatively fewer contracted loans.
- Results from our equity investments (including associates), amount to a €359 million gain that is the result of:
  - Appreciation of the portfolio resulting in a €252 million gain (2020: €159 million loss);
  - FX effects resulting in a €107 million gain (2020: €118 million loss).
- Loan impairments and revaluations[23] improved significantly by €69 million compared to 2020. This was largely driven by the net release of impairments following improved GDP forecasts and higher recoveries of the written-off loan portfolio. Impairments amounted to €9 million gain (2020: €78 million loss). Revaluations from the fair value loan portfolio amounted to a €27 million loss (2020: €9 million loss). Fair values deteriorated further for specific loans, identified as default during prior years.
- Operating expenses decreased by €30 million, mostly driven by reduction of the past service cost on the pension plan. This is a result of remeasurement of the present value of the defined benefit obligation following from the new pension plan and indexation. Operating expenses amounted to €114 million (2020: €144 million).
- Tax expense increased by €27 million, due to higher income tax payable following the substantial increase of the net profit in 2021. Total income tax expense amounted to €33 million (2020: €4 million).

23 This is an alternative performance measure (APM) that is not included in the financial statements. For a definition of this APM, please refer to the chapter 'How we report'.

FMO’s capital and liquidity buffers exceed the minimum required by the Dutch Central Bank and the higher requirements defined by our internal risk appetite. The total capital ratio decreased to 23.7% (2020: 24.9%). The CET–1 ratio amounted to 22.5% (2020: 23.3%). This change is a result of an increase in risk weighted assets driven by appreciation of the US dollar and Look Through requirements leading to increased deductions of financial sector exposures from own funds. FMO’s regulatory liquidity position remains robust, with consolidated liquidity coverage ratio (LCR) in accordance with the delegated act never falling below 384%. Furthermore, FMO has a survival period exceeding 8 years (2020: more than 8 years). Net stable funding ratio (NSFR) amounted to 117% (2020: 120%).

Net cashflow position amounted to -€47 million (2020: €16 million). The change is mainly driven by change in net cashflow from investment activities following higher amount of purchases of interest bearing securities and investments in associates.

FMO’s diversification strategy, with exposures diversified across sectors and countries, has proven effective during the pandemic as some economies and sectors were affected less than others. FMO continues to receive an AAA rating with a stable outlook from both Fitch and Standard & Poor's. During 2021, the funding position remained stable and FMO issued a US$ 500 million bond. Furthermore, ESG bonds being an important part of FMO's funding strategy amounted for 31% of the funding portfolio in 2021.

In accordance with Article 6 (2) of the State-FMO Agreement of November 16, 1998 and the current dividend policy, the MB and SB propose the AGM to approve the allocation of €491 million net profit (2020: €205 million net loss) as follows: distribution of €12.8 million as cash dividend equal to €32.08 per share A and B and add the remaining net profit of €478 million to the contractual reserve.

For more details and analysis on the financial performance, please refer to the 'Consolidated profit and loss account' in the financial statements. For more information about developments related to equity investments, ECL allowances and impairments, funding and liquidity refer to the Equity Risk, Credit Risk and Liquidity Risk sections in the Risk Management chapter.

Lessons learned

FMO conducts and commissions evaluations to reflect on its strategy, its business model, and the effectiveness of its policies and processes and impact of its investments. This helps us achieve more impact and develop a continuous learning culture. The evaluations conducted in 2021 will serve as input for the update of our 2030 Strategy.

Evaluating the effectiveness of our sustainability policies

Every five years, our work is evaluated by the Dutch government, our principal shareholder. The evaluation of FMO, concluded in 2021, focused on investments made between 2013 and 2018 and assessed our performance on development impact, the mobilization of capital and management of environmental and social issues (E&S).

In the report, FMO was recognized as a leading organization in the E&S field as well as for its experience in blended finance and capability to mobilize private capital towards the SDGs. The evaluation recommended that FMO further develop its impact measurement framework and deepen local partnerships to create greater impact. It further suggested improvements to its sector initiative approach and Independent Complaint Mechanism (ICM), which we have since addressed. In 2021, we developed a standardized approach to sector initiatives and made ICM-related information and tools available in several languages commonly spoken in our markets.

In addition, we completed an evaluation of our contribution towards SDG 10 (Reducing Inequalities) with respect to financial and non-financial additionality and mobilization towards achieving this goal. To analyze the connection between E&S activities and SDG 10, both RI and non-RI investments were included. Overall, FMO performed in line with its targets, where 31% of new investments received an RI label in the reviewed years. However, the absolute volumes of RI-labelled new investments did decline in 2019 and 2020.

The evaluation identified a few areas of improvement. First, to include a global inequality lens to our investments and focus investments more towards countries with relatively high poverty rates. Second, to ensure more coherence between our strategy and the main development gaps such as inclusive businesses in Latin America and the Caribbean and access to energy in Africa.

Furthermore, three strategic studies commissioned to external consultants were finalized in 2021. These studies provided insights into emerging challenges or opportunities and have helped inform our current business and impact strategies.

The first study identified conditions for investing in fragile states, part of MASSIF's strategy and of interest to FMO and the DFI community. The study highlights the challenges of operating in fragile states, particularly relating to weak institutions. Recommendations include taking a more strategic approach in fragile states and investing in context analysis and extended due diligence, considering the importance of informal dynamics (e.g. informal power relations, traditions and beliefs) in addition to formal characteristics. The study also emphasized the importance of adapting financial services for maximum flexibility, leveraging technical assistance, harnessing the power of partnerships and the development of relevant skillsets, including political economy analysis.

The second study assessed evidence for financial inclusion. The study highlighted knowledge gaps, such as the impact of certain types of FinTech business models on women's financial inclusion or the insufficient evidence of the effect of technical assistance for digitalization of financial services on end-beneficiaries. We learned where evidence is strong and therefore confidence of financial inclusion's impact is validated, and where evidence is weak or non-existent, opening space for funders, researchers, and financial institutions to work together. FMO used the study to guide its evaluation agenda on financial inclusion and to engage with stakeholders. In addition, FMO's FinTech strategy took onboard two key findings, namely to generate knowledge around different FinTech business models and their impact, and to improve knowledge management on CD granted for digitalization activities.

The third and final study looked at the impact of clean cookstoves on health, economic and environmental outcomes, and assessed the factors that can help clean cookstoves businesses succeed. We learned that the impact on income and women's welfare are positive, but that there is less evidence for impact on health and the environment. Also, realized impact is highly dependent on the actual usage of the stoves, which is often an obstacle. We furthermore learned, it is important to take local policies into account, invest in companies that know the local context, and ensure that cookstoves meet local needs.

Evaluating FMO's additionality

Additionality[1] is key to FMO's mandate. Two studies commissioned by the Dutch Ministry of Foreign Affairs found that FMO's additionality takes on different forms. The evaluation of FMO's investments between 2013 and 2018 found that additionality is rooted in the longer tenors FMO provides to customers, even compared to other DFIs. In addition, the study identified the flexibility in providing products that suit customer needs as an important differentiator, for example countercyclical financing in local currencies and the adjustments to financing terms during the COVID-19 pandemic. An evaluation of MASSIF investments concluded that FMO's additionality was rooted in helping customers close funding gaps and acting as a strategic anchor in the establishment of investment funds.

FMO completed a review of its trade finance guarantee (TFG) that it has offered for many years. The review concluded that the TFG had a relatively low take-up, offered limited additionality to and impact on our markets, yet put a strain on internal and external resources as a result of regulatory requirements. FMO decided to discontinue the product.

1 For a current definition of additionality, refer to the chapter 'Our value creation model'.

2022 OUTLOOK

Despite the uncertainties, we have set bold ambitions for the coming year.

TARGETS		2022	2021
Higher impact portfolio	Green-labelled total committed portfolio (€ mln / %)	4,310 / 33	4,293 / 34
	RI-labelled total committed portfolio (€ mln / %)	4,275 / 33	3,970 / 31
	Total committed portfolio - FMO	8,805	8,837
	ESG risks managed at an adequate level (rating BB or better) (%)	>90	>90
Deeper relationships	Total committed portfolio - public funds (€ mln)	1,445	1,318
	Total committed portfolio - mobilized funds (€ mln)	2,755	2,624
	Customer satisfaction (NPS score)	70	70
Higher productivity	Realized delivery on project portfolio (%)	85	85
Financial performance	Net profit (€ mln)[1]	177	120

1 The 2021 target for net profit has been restated from €115 million to €120 million.

Economic outlook

The IMF expects global growth to decelerate from 5.9% in 2021 to 4.4% respectively in 2022.[24] Advanced economies are projected to return to pre-pandemic output levels by 2023. For most emerging markets and developing economies the path to recovery is projected to take longer. By 2023, per capita incomes are expected to remain below 2019 levels for about 40% of these markets. This is particularly true for lower income countries (LICs) and countries in fragile and conflict-affected situations.[25]

High inflation due to the resurgence of the pandemic, higher commodity prices, and continued supply chain disruptions could last longer than anticipated. Historically high government debt burden, deteriorating fiscal positions, an anticipated tightening of US monetary policy and adverse climate events put emerging markets and developing economies in a vulnerable position. Internationally, there are concerns that the situation in the Ukraine will further escalate. The IMF predicts that the imposed sanctions on Russia will have a significant impact on the global economy and financial markets that will spill over to other countries. This will further add to existing price inflation.[26] Social tensions and political unrest may increase as a result of rising inequality.

Priorities in 2022

In line with our strategy, our priorities in 2022 will be towards **building back business, adapting to regulatory changes** and **accelerating organizational development**.

Higher impact portfolio

Two consecutive years of lower volumes of new investments has resulted in a declining portfolio compared to 2019. To scale up our impact, we need to bring our portfolio back to pre-COVID-19 levels and focus on **building back business**. In 2022, we aim to achieve the highest production in FMO's history, with a target of €2 billion in new investments on FMO's books to increase FMO's total committed portfolio to €8.8 billion. We will continue to use public funds to bear higher risks in projects with high development impact potential. In addition, we will secure further concessional finance to aid project development and creation of market opportunities. By investing €305 million in such projects, we expect a public funds committed portfolio of €1.4 billion by year-end. In order to scale up our impact, we will invest at least €495 million through third party funds and syndicated loans to bring the direct mobilized committed portfolio up to €2.8 billion.

24 IMF (2022). Economic Outlook Update January 2022.

25 World Bank (2022). Global Economic Prospects January 2022.

26 https://www.imf.org/en/News/Articles/2022/03/05/pr2261-imf-staff-statement-on-the-economic-impact-of-war-in-ukraine

We see opportunities for FMO to play a more active role in specific niches within our focus sectors, for instance, energy distribution and storage and FinTech. We will increase investments made through our most innovative programs and products. For instance, by providing more early-stage capital to start-ups through FMO's Venture Capital Program and by expanding our NASIRA activities to meet an increasing demand for risk-sharing facilities. In addition, we will increase our technical assistance to promote higher impact and market development. Meanwhile, we will refine our existing 2025 strategy with a view towards 2030 that will be launched in the course of 2022.

We continue to see a role for FMO to tackle two of the greatest global challenges: inequality and climate change. We will increase the share of total new investments that contribute towards reducing inequality to 40%. We will do so by investing more in least developed countries, further exploring opportunities to do more in fragile states. In addition, we will invest in areas that lead to improved access to finance and energy, especially in rural areas.

To align with the objectives of the Paris Agreement, we need to step up our efforts to green our portfolio from a climate mitigation and sequestration perspective. In 2022, we will increase the share of our green-labelled new investments to 38%. Although there are fewer opportunities to invest in renewable energy projects, we will continue to invest in this sector and look for opportunities to invest more in climate smart agriculture, forestry and other climate-positive opportunities. In 2022, we will publish climate targets and an action plan towards 2030, as committed to under the Dutch Climate Agreement.

Deeper relationships

In **building back business**, we will continue to strengthen relationships with our stakeholders and explore new opportunities for collaboration. In 2022, we will resume business as usual with new and existing customers. By meeting stricter regulatory requirements, our investment process has become more robust which will increase the quality of our customer relationships. However, at times, customers may find our processes more cumbersome. We will track customer satisfaction and aim to achieve an NPS of 70.

We will work with research institutes and other partners to build more sector expertise and local knowledge to identify investment opportunities. For instance, we are collaborating with the Rabobank on how to unlock the potential of soil carbon sequestration. We will also continue to engage with Dutch and international NGOs to improve our awareness of local issues surrounding our (potential) investments and stimulate our customers to seek open and regular engagement with local communities.

We will invest more in our employees to be able to achieve our ambitious plans. This entails onboarding new employees, strengthening internal capabilities to adapt quicker to change and promoting a healthy work-life balance. Furthermore, we will put an even greater emphasis on cultural diversity, including in our recruitment process.

Higher productivity

FMO is faced with a fast-evolving, complex regulatory landscape and increasing stakeholder expectations. As a regulated bank, it is imperative we respond to these changes adequately and in the most effective way possible. In 2022, we, will therefore focus on **adapting to regulatory requirements** and **accelerating organizational development**.

In the coming years, several new regulations and requirements are coming into force that affect FMO, including the EU Sustainable Finance regulation, ECB requirements related to the disclosure of climate-related risks and opportunities and the transition from LIBOR. FMO will focus on ensuring these requirements are implemented and embedded in the organization.

As change is a constant, FMO needs to invest in strengthening its change management capabilities. This includes developing a standardized approach to adapting business processes, building and retaining internal knowledge and establishing flexible teams. Furthermore, we want to be innovative but minimize complexity to ensure we deliver quality of services and impact.

IN CONTROL STATEMENT

FMO has internal risk management and control systems that enable us to take risks and control them and that are based on international best practices.

Adequate internal risk management and control systems support the attainment of objectives in the following categories:

- Realization of strategic and business objectives;
- Effectiveness and efficiency of processes;
- Reliability of financial reporting; and
- Compliance with laws and regulations.

The Management Board regularly considers the design and effectiveness of FMO's internal risk management and control systems (taking into account the approved risk appetite) and discusses all related significant aspects with senior management. The results of the Management Board's monitoring of FMO's internal risk management and control system – 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 monitoring 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 1.4.2 and 1.4.3 of the Dutch Corporate Governance Code. The Management Board makes the following statement:

As Management Board of FMO, we are accountable for internal risk management and control systems within FMO.

Based upon our assessment of the internal risk management and control systems of FMO and barring unforeseen adverse external and internal conditions, we are of the opinion that:

1. The annual report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
2. The afore mentioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
3. Based on the current state of affairs, as explained in the Financial Performance paragraph, it is justified that the financial reporting is prepared on a going concern basis; and
4. The report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.

Reference is also made to the 'Risk management framework' section in the 'Corporate governance' chapter and the 'Risk management' section for an explanation on FMO's risk management framework, which is organized in adherence to the three lines of defense principle.

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 or others, management overriding controls, or 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.

Regarding internal risk management and control systems the Management Board has identified the following areas of improvement. These are actively managed:

- The extensive financial economic crime (FEC) program was successfully finalized at the end of 2021. To have a smooth transition to business as usual, continuous monitoring is needed in 2022 to ensure improvements in processes and systems identified during the last two years are embedded in the organization.
- The on the ground monitoring of FMO's portfolio has been impacted by travel restrictions due to COVID-19. This especially has an impact on the monitoring of ESG risks which requires increased focus going forward.
- The monitoring and implementation of new and current regulations require significant management attention and resources. New and changed regulations are being monitored on different levels and will be consolidated under a newly established regulatory monitoring framework in 2022.
- Data quality, process automation, reporting and systems support continue to require attention and efforts to further improve the accessibility, consistency, granularity of data and efficiency of processes throughout the organization.
- As we all still face the consequences of the pandemic, much attention still needs to be given to the quality of interaction including the well-being of FMO staff.

Responsibility Statement

We have committed to ensuring, to the best of our abilities, that this report was prepared and is presented in accordance with the Integrated Reporting framework and that the integrity of all information presented can be assured. 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 annual accounts give a true and fair view of the assets, liabilities, financial position and profits 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 2021 financial year of FMO and its consolidated companies; and
- The annual report describes the material risks that FMO faces.

The Hague, March 16, 2022

Fatoumata Bouaré, Chief Risk & Finance Officer
Michael Jongeneel, Chief Executive Officer
Huib-Jan de Ruijter, Chief Investment Officer

02 Report of the Supervisory Board

"The resilience of entrepreneurs making the difference in our markets, despite difficult circumstances, continues to impress and inspire me."

Ward Nusselder
FMO | The Netherlands

REPORT OF THE SUPERVISORY BOARD

For the second year in a row FMO had to deal with challenging circumstances. Externally, the organization once again focused on standing by its customers. Internally, FMO spent significant time and focus on its financial and economic crime (FEC) enhancement that included the KYC remediation process. In the face of these challenges, FMO's staff and Management Board showed great resilience.

FMO and its customers continued to face the effects of the persistent pandemic and the constraints imposed on their operating conditions. Staff were restricted to the home office for the larger part of the year and it was hard for the investment teams to do business with new customers. Within the Supervisory Board we discussed the challenges staff faced situations and how best to address them, and how impressed we were with the results reported on mobilized and public funds. While, it fell short of its target for FMO new investments, we would like to commend FMO's staff and Management Board for showing flexibility, strength and persistence during these difficult circumstances.

The same is true for the way FMO handled the FEC enhancement and KYC remediation project. The fact that this coincided with the pandemic gave FMO more room to focus on further aligning on regulatory requirements. We maintained the bi-weekly meetings with the MB, which were started in 2020 to act as a sounding board, to exchange views and to monitor the progress of the KYC remediation exercise. The KYC project team led the exercise well, keeping a close eye on time and capacity and engaging third parties when necessary. Overall, the KYC remediation project was supported by the entire organization. Important sacrifices were made by staff to ensure FMO fulfilled the commitments communicated to the DNB. FMO is now in a much better place as a result of it. The focus on KYC means it is an even more integral part of the investment process, from onboarding customers to continuously monitoring developments over the lifetime of a customer relationship.

FMO has a clear mandate: investing where commercial parties do not due to the higher risks involved. To achieve high-quality impact, the importance of KYC in FMO's target countries cannot be overstated. In its engagements with for instance civil society, FMO needs to take criticism to heart and fully understand its background. Even more so when working in fragile states, where local partnerships and a firm grip on contextual risk are most crucial. Equally important is the fact that defining and mitigating risk is not the same as fully eliminating risk. Problems will occur and mistakes will happen. It takes a bold and resilient organization to invest where others don't. The challenge is to assess and manage such risks and articulate them clearly to stakeholders and civil society more broadly.

In 2021, the Supervisory Board also devoted significant attention to finding new leadership for FMO. We are very grateful to Linda Broekhuizen for keeping FMO on track through turbulent times as the interim CEO. We would like to repeat the words that we spoke during her farewell-event – that focused on biodiversity: "You have showed relentless interest in the content of your work, just like you excelled in turning words into action. FMO will miss you."

In Michael Jongeneel we found a new CEO who can further shape the future of FMO. Michael brings with him a great deal of positivity, new perspectives and has a good understanding of the people and their thinking. We are pleased to see that the open dialogue to enhance internal connection – with the leadership team on the forefront – has been ongoing. To strengthen the Management Board further, two additional members will be appointed in 2022.

One of the main challenges for Michael and his team will be to guide FMO towards its 2030 agenda. A consultation round with FMO's stakeholders provided valuable insights on what they define as FMO's main challenges, what FMO's priorities should be, and how these could be reached best. A few of the questions that will be answered in the updated strategy are how FMO can further develop its role as an innovative organization within development finance, e.g. in the area of market creation; how to further shape collaboration with EDFIs to enlarge impact; how to better shape interaction with stakeholders; and how to be more transparent on achieved impact and the balancing of different interests.

At the beginning of 2022, we see signs that the pandemic is easing up, which will mean FMO staff can resume visits to customers, perform due diligence on new prospects and initiate projects. At the same time, the world faces a new challenge. The ongoing war in Ukraine creates a humanitarian crisis and is already influencing energy and food prices globally. It makes the support FMO can give to emerging markets even more urgent.

Corporate governance

The Supervisory Board ensures that FMO adheres to all applicable corporate governance codes, further described in the chapter on corporate governance. Specific responsibilities include the tasks described in the Dutch Banking Code 2015 regarding sound and ethical operation.

Composition of the Supervisory Board

FMO aims to have a balanced composition of the different boards in terms of gender, experience, age, professional background and nationality. At the end of 2021, the Supervisory Board was comprised of three male and three female members. The Management Board consisted of one female and two male members. Further personal details on the members of the Supervisory Board can be found in the section 'Members of the Supervisory Board'.

	Supervisory Board	Audit & Risk Committee	Selection, Appointment & Remuneration Committee	Impact Committee
D.J. van den Berg (Chairman)	•		•	
J.V. Timmermans	•	•		
T. Menssen	•	•		•
D.K. Agble	•	•		
M. Demmers	•		•	•
R.P.F. van Haeringen	•		•	•

Permanent education

In this challenging year, the Supervisory Board held its Lifelong Learning program mainly by means of virtual sessions. This included several subjects required by the Dutch Banking Code. The Supervisory Board focused on relevant topics such as the economic outlook for certain regions of FMO’s working area, FMO’s culture and development program 2021, energy transition including a case study and the outcome of the Employee Engagement Survey 2021.

Evaluation

During the year several meetings between Supervisory Board and Management Board members took place to discuss the Management Board composition and to monitor its performance. The Management Board prepared a self-assessment and a team assessment of its functioning in 2021. The Supervisory Board evaluated the individual Management Board members by means of separate interviews that were conducted by two SB members. During those meetings, the self-assessments and the 2021 and 2022 objectives and targets were discussed, as well as the collaboration within the new MB setting. The conclusions from these meetings will be carried forward into the 2022 team and personal goals. The Supervisory Board discussed the outcomes of the evaluation in a concluding session without the Management Board present.

The Banking Code requires an external evaluator to conduct the Supervisory Board evaluation once every three years. This was done over the year 2021, however, in a virtual setting, due to COVID-19. The Supervisory Board evaluated its functioning in the relatively new setting in 2021 by means of a self-assessment questionnaire and discussed the outcome in a separate session prepared by the external evaluator and the Chairman of the Supervisory Board. The functioning of the SB and its three committees were part of the evaluation. It was found that the SB and its members functioned according to what can be expected in its new setting. The composition of the Board was evaluated as sufficiently diverse and covering the range of expertise necessary for adequate supervision. However, also due to the ongoing pandemic, the SB expressed a need for a continued focus on the longer-term strategic challenges of FMO.

Regarding the operations of FMO, the SB will more closely monitor the IT policies of FMO, as well as the design and outcomes of its HR-function. Regarding the SB's own organization of work, it wants to develop a better sense of the daily operations within the organization and review the framework it operates in. The energy spent on permanent education will be invested in keeping the SB's knowledge and understanding up to date regarding the complex environment in which FMO operates and several risk management topics. Suggestions made by the members will be dealt with adequately.

Appointments and reappointments

There were no changes in the composition of the Supervisory Board in 2021. However, Thessa Menssen decided to leave the Supervisory Board as per 1 January 2022. We would like to thank her for her valuable contribution during the past five and a half years.

Meetings of the Supervisory Board

During 2021, the Supervisory Board held five regular meetings. As of mid-June 2020, the Supervisory Board decided to meet on a weekly or bi-weekly basis when the Management Board temporarily consisted of two members. At that time, it was also clear that the pandemic was long-lasting and would have an impact on FMO's customers and FMO's own results, which required close monitoring. The Supervisory Board held eight extraordinary meetings in 2021. Topics that were discussed included: the impact of COVID-19, the appointments to the Management Board for the CEO and CIO positions, the KYC remediation and FEC enhancement and FMO's participation in Invest International. In addition, the SB approved the proposed changes to FMO's current pension plan for existing and future employees. Furthermore, the SB discussed the priorities and ambitions for the Strategy 2021-2024 and the Business Plan 2022 as well as the quarterly performance reports on progress against FMO's strategic targets. The Special Committee, consisting of two SB members, continued to meet biweekly with the MB in a more informal way, to provide support and advice whenever necessary. This committee will cease to meet in the beginning of 2022, or only meet when specifically required.

Committee activities

The Audit and Risk Committee (ARC) supervises and advises on FMO's financial position. It monitors and offers expertise on issues such as our risk management policy, internal and external auditing systems and compliance with legislation and external and internal regulations. One of its key tasks is to monitor the performance of external auditors. The ARC met three times in 2021. These meetings are attended by the ARC members, the CEO, the CRFO, the CIO the Director Finance, the Director Risk, the Director Internal Audit and the external auditor.

In 2021, the ARC discussed, among others, yearly and half yearly reporting, risk appetite reports, the risk appetite framework, internal and external audit plans and reporting, capital and liquidity adequacy, the status of the Know Your Customer and FEC enhancement project, the quality of the portfolio, the transfer of the NL Business activities to Invest International and the Sustainable Finance Regulation project. The following key audit matters were discussed with the external auditor: IFRS9 impairment of loans to the private sector, valuation of equity investments at fair value, reliability and continuity of the information technology and systems, and the Joint Impact Model. The ARC requested more information on – among others – the hedging policy, the withholding tax exemption in participation structures, and non-performing loans.

The main task of the Selection, Appointment and Remuneration Committee is to advise on the proposals on the appointment and re-appointment of Supervisory and Management Board members. Other tasks include monitoring the remuneration policy, preparing proposed adjustments and giving advice on the remuneration of individual Management Board members. The Selection, Appointment and Remuneration Committee officially met four times and had several deliberation sessions. In 2021, it discussed, among others, the appointments of the new CEO and the new CIO, the new five member MB setting, evaluation and goal setting, the job profiles for the new CRO, Co-CIIO and a new Supervisory Board member and the interim appointments of the CEO ad interim and the CIO ad interim.

The Impact Committee assists the Supervisory Board in overseeing the quality and integrity of FMO's statements regarding development Impact. The Impact Committee, among others, prepares the decision-making (and or the advice) of the Supervisory Board around FMO's strategy (including policies and targets) around Impact and ESG. The Impact Committee was established in 2019 and held three meetings in 2021. Throughout the year, it discussed amongst others, impact and ESG targets and steering, a case study, the periodic update of the Independent Complaints Mechanism, several positions statements, investments in fragile states, the Sustainable Finance Regulation project, harmonization of development impact measurement methodologies, the external evaluation of FMO. The Impact Committee requested, amongst others, documentation on the 1.5 degree pathway, in depth information on the Joint Impact Model, a discussion on the ESG target, and next steps with regard to meetings with NGOs.

	Supervisory Board meeting	Extraordinary SB meeting	Audit & Risk Committee	Selection, Appointment & Remuneration Committee	Impact Committee	Lifelong Learning	SB Special Committee
D.J. van den Berg (Chairman)	*4 of 5*	*10 of 10*		*4 of 5*		*3 of 4*	
J.V. Timmermans	*5 of 5*	*9 of 10*	*3 of 3*			*3 of 4*	*20 of 22*
T. Menssen	*5 of 5*	*8 of 10*	*3 of 3*		*3 of 3*	*4 of 4*	
D.K. Agble	*5 of 5*	*10 of 10*	*3 of 3*				*20 of 22*
M. Demmers	*4 of 5*	*8 of 10*		*4 of 5*	*3 of 3*	*3 of 4*	
R.P.F. van Haeringen	*5 of 5*	*9 of 10*		*4 of 5*	*2 of 3*	*4 of 4*	

Independence, conflicts of interest and governance
The Supervisory Board is of the opinion that all of its members are independent, as meant by Best Practice Provisions 2.1.7 up to and including 2.1.9 of the Corporate Governance Code. No direct, indirect or formal conflicts of interest were identified in 2021. 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.

Culture, including compliance
The Supervisory Board ensured that the compliance function is safeguarded within the Management Board and the Supervisory Board. In 2021, the Supervisory Board put even more emphasis on supervising the FEC enhancement, KYC remediation and improvement of KYC procedures. The Supervisory Board is updated in writing on compliance at every regular meeting. The Chairman of the Supervisory Board periodically meets with the Director Compliance and discusses issues where relevant.

The Supervisory Board regularly interacted with the Works Council. The Supervisory Board discussed FMO's culture and development program 2021 and discussed its duties as meant in the Banking Code sound and ethical operation.

Proposals and recommendations to the Annual General Meeting

Having stated all of the above, the Supervisory Board endorses the report of the Management Board. We propose that the AGM adopt the 2021 Annual Accounts audited by EY Accountants LLP. In accordance with Article 6 (2) of the State-FMO Agreement of November 16, 1998 and the current dividend policy, we propose that the AGM approve the allocation of €491 net profit (2020: €205 million net loss) as follows: distribution of €12.8 million as cash dividend equal to €32.08 per share A and B and add the remaining net profit of €478 million to the contractual reserve.

The Supervisory Board will inform its shareholders on the status of the search for two new Management Board members: a Chief Risk Officer and a Co-Chief Impact Investment Officer.

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

Members of the Supervisory Board

SB members on 31 December 2021

Dugald Agble

Marjolein Demmers

Thessa Menssen

Koos Timmermans

Dirk Jan van den Berg (Chairman)

Reintje van Haeringen

D.K. (Dugald) Agble	M. (Marjolein) Demmers	T. (Thessa) Menssen
British, Ghanian, 1970, male	Dutch, 1967, female	Dutch, 1967, female
Appointment in current position: 2020 - 2024	Appointment in current position: 2020 - 2024	Appointment in current position: 2016 - 2021
Principal positions: 1. Director Standard Life Private Equity Trust 2. Director Black Volta limited 3. Director Black Volta Ventures UK limited	Principal position: Director/CEO of Dutch environmental NGO "Natuur & Milieu" Other positions: 1. Member of the Supervisory Board of DRIFT (research, consultancy and education in transitions) 2. Board member of SKAO (Schemabeheerder CO2-prestatieladder) 3. Member of the Strategic Advisory Council of TNO SA&P (Strategic Advisory & Policy) 4. Member of the Supervisory Board of AquaMinerals (Reuse of recovered materials of the water sector) 5. Member of SPIL (Sustainable Pension Investments Lab) 6. Sustainability Board Van Oord 7. Advisory Council Environmental Sciences Group (ESG), WUR, as of Oct 2020 8. Raad van Toezicht Stichting Sustainable Industry Lab, UU, as of November 2020	Positions: 1. Supervisory Board member Post NL, until 20 April 2021 2. Supervisory Board member of the Scheepvaartmusem (National Maritime Museum) 3. Supervisory Board member of the Kröller Müller museum 4. Supervisory Board member Alliander 5. Supervisory Board member Ecorys 6. Supervisory Board member Ordina

J.V. (Koos) Timmermans	D.J. (Dirk Jan) van den Berg	R.P.F. (Reintje) van Haeringen
Dutch, 1960, male	Dutch, 1953, male	Dutch, 1963, female
Appointment in current position: 2017 - 2025	Appointment in current position: 2016 - 2024	Appointment in current position: 2020 - 2024
Positions: 1. Chairman of the Supervisory Board of Stadsherstel Amsterdam 2. Advisor Bain Consultancy, as per February 2021 3. Member of the Supervisory Board of PostNL, as per 1 October 2021 4. Member of the Supervisory Board of Havenbedrijf Rotterdam (Port Authority Rotterdam), as per 1 October 2021 5. Board Member Administratie Kantoor Vopak 6. Board Member Administratie Kantoor Philips 7. Member Curatorium Post Master Controllers Opleiding UVA 8. Member Advisory Board v Lanschot	Principal positions: 1. Chair of the Association of Health Insurance Companies in the Netherlands (Zorgverzekeraars Nederland) Other positions: 1. Member of the Supervisory Board of Air France KLM 2. Vice-Chairman of the Supervisory Board of Gasunie 3. Chair (non-executive) of the Board of TRADESPARENT BV: TP BV 4. Member of the 'Centrale Plancommissie' which has an advisory role for the Netherlands Bureau for Economic Policy Analysis (CPB) 5. President of the Atlantic Committee Netherlands 6. Chair of the Supervisory Board of the Dutch Research Council (NWO)	Principal position: CEO CARE Nederland Other positions: 1. Board member of the Dutch Coalition for Humanitarian Innovation (DCHI) 2. Board member of the 'Samenwerkende Hulp Organisaties' (SHO/Giro555) 3. Member of the CEO Meeting of the Dutch Relief Alliance 4. Advisory Board of TU's initiative on resilience

Araratbank
Family business in Dalar Village, Armenia
Century-long tradition of baking lavash (Armenian flat bread) preserved in many Armenian families.

03 Corporate governance

"We don't let ourselves fall. I didn't want to pay late because the bank has helped me a lot."

Asunción de la Cruz
Client of Banco Solidario | Ecuador

CORPORATE GOVERNANCE

Good corporate governance at FMO is crucial for two reasons. The first reason relates to our mission to empower entrepreneurs to build a better world. We believe that in order to carry out this mission, we should set a high standard for corporate governance ourselves. Secondly, as a public-private development bank, our own governance, structure and reporting lines must be both sound and transparent.

Governance structure

FMO's 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 customers, the Dutch government, shareholders and other providers of capital, employees, NGOs and local communities in the countries where we work, as well as partners.

FMO 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 accountability of the Management Board and Supervisory Board with regards to our shareholders and other stakeholders.

FMO's Supervisory Board supervises and advises the Management Board. New members of the Supervisory Board are appointed by the General Meeting of Shareholders on the nomination of the Supervisory Board. The Supervisory Board currently has three committees: the Audit and Risk Committee, the Selection, Appointment and Remuneration Committee, and, as of 1 July 2019, the Impact Committee, which advise and prepare decision-making. The Impact Committee deals with subjects such as ESG (including human rights), impact strategy, impact measurement, (NGO) stakeholders and communication, audit, reporting and international developments regarding impact.

The daily management of our bank lies with the Management Board, consisting of three members: the Chief Executive Officer, the Chief Risk and Finance Officer and the Chief Investment Officer. They are formally responsible for the management of our bank and are appointed by the Supervisory Board.

F. (Fatoumata) Bouaré	M.A.S. (Michael) Jongeneel	H. (Huib-Jan) de Ruijter
Chief Risk & Finance Officer	Chief Executive Officer	Chief Investment Officer
Ivorian (Ivory Coast), 1966, female	Dutch, 1973, male	Dutch, 1976, male
Appointment in current position 2017-2021, 2021-2025	Appointment in current position: 2021-2025	Appointment in current position: 2021-2025
Other positions:	Other positions:	Other positions:
No other positions	Treasurer of the board of Oxfam International, a Dutch "Stichting". This is a non-executive (supervisory) position.	Member Steering Committee of Agri3 Finance Fund

FMO faces a number of challenges, including a growing pace of change in our markets, the growth of our organization and the need to engage more actively with a larger number of stakeholders. In response, the Supervisory Board and the Management Board have been discussing ways to spread the workload by expanding the Management Board from three to five persons.

Appointments of members of the Supervisory Board and Management Board are subject to the approval by the Dutch Central Bank, which assesses the reliability and suitability of candidates. FMO organizes extra training where necessary and offers a Lifelong Learning Program to its MB and SB members.

Organizational chart

Huib-Jan de Ruijter
Chief Investment Officer

- **Marnix Monsfort**
  Director | Financial Institutions
- **Huub Cornelissen**
  Director | Energy
- **Pieternel Boogaard**
  Director | Agribusiness, Food & Water
- **Jaap Reinking**
  Director | Private Equity
- **Idsert Boersma**
  Director | Partnerships for Impact
- **Jorim Schraven**
  Director | Impact & ESG
- **Steven Duyverman**
  Senior manager a.i. |
  Know Your Customer/KYC

Michael Jongeneel
Chief Executive Officer

- **Catharina Oosterbaan**
  Corporate Secretary
- **Anke Teirlinck**
  MB Secretariat
- **Anneloes Roeleveld**
  Manager | Corporate Communications
- **Yvonne Bol**
  Manager | Corporate Legal & Tax
- **David Wyatt**
  Director | Stakeholders, Strategy and Knowledge Management
- **Vacancy**
  Director | Human Resources
- **Friso Schellekens**
  Director | Internal Audit

Fatoumata Bouaré
Chief Risk & Finance Officer

- **Saskia Welhuis**
  Director | Compliance
- **Anna van Tienhoven**
  Manager | Project & Process Management
- **Tony Bakels**
  Director | Credit, Legal & Special Operations
- **Dietske Simons**
  Director a.i. | Finance, Impact & Data
- **Marjolein Landheer**
  Director | Risk
- **Femke de Jong**
  Director | Information, Communication & Technology
- **Matthijs Pinxteren**
  Director | Treasury
- **Irmgard Arink**
  Director | Operations

Risk management framework

FMO has implemented a comprehensive risk management framework that reflects its banking license, support agreement with the Dutch State, and its mandate to do business in high-risk countries. The risk management framework is based on the three lines of defense principle, with the role of the first line of defense (investment departments and supporting functions) being balanced by the second line (Risk Management and Compliance) and the third line (Internal Audit) to provide independent assurance.

FMO's risk appetite is reconsidered annually and approved by the Management Board and the Supervisory Board. Adherence to risk limits is monitored by dedicated risk committees.

FMO applies a conservative capital management framework. The only risks that FMO actively pursues are credit risk and equity risk, resulting from loans to and investments in private institutions in emerging markets. Diversification of investment risk is ensured through risk limits per country, region, sector, single and group exposures. Other risks that are not actively pursued, but are inherent to FMO's business, are also managed to remain within the risk appetite.

FMO identifies and manages ESG risk over the lifetime of an investment. ESG criteria and requirements are guided by various standards, such as the IFC Performance Standards, OECD Guidelines and the UN Guiding Principles on Business and Human Rights.

Finally, FMO has a compliance framework to ensure compliance with laws, regulations and ethical standards. This framework entails identifying integrity risks, designing policies, monitoring, training and providing ad-hoc advice. FMO monitors compliance risk indicators that are reported to, and steered on, by management.

For further information on our risk management please refer to the Risk Management section in the Consolidated Annual Accounts.

Aligned remuneration policies

The remuneration policies are aligned with the principle of attaching equal importance to investment and risk functions, by ensuring similar salary scales for both functions and avoiding bonus structures that incentivize excessive risk taking. As a purpose-driven organization, FMO does not offer Identified Staff (senior management and staff whose professional activities have a material impact on FMO's risk profile) any form of variable remuneration. Results are mainly based on team effort, innovation and knowledge sharing between colleagues in different disciplines, which does not align very well with offering variable remuneration, like individual bonuses.

FMO's remuneration policy for the Management Board aims to offer a competitive remuneration that allows us to attract, motivate and retain capable directors with sufficient knowledge and experience in international development finance. The remuneration policy is aligned with the mission of FMO, the corporate values, the strategy, the risk appetite as well as the expectations of various stakeholders. The remuneration policy does not incentivize directors to act in their self-interest or to take risks that do not fit with FMO's risk appetite. Furthermore, the policy does not aim to reward this behavior after the event upon discharge of failing directors. The remuneration policy is based on a market median, composed of two equal proportions of a private benchmark (Dutch financial sector) and a public benchmark, taking into account the principles as applied by the State of The Netherlands as majority shareholder of FMO.

Employment contracts of members of the Management Board are awarded for a definite period of time (with the exception of internal appointments). In the event the employment contract is terminated before the expiry date, the maximum severance payment will amount to one year's salary, unless the board member resigns voluntarily or the termination is the result of his or her actions.

The remuneration policy for the Management Board is reviewed every three to four years and amendments are subject to approval of the AGM. During the April 2021 AGM, no amendments to the remuneration policy were proposed or approved.

More details on the remuneration of the Supervisory Board, the Management Board members and other (Identified) staff members can be found on FMO's website. Aspects of Management Board members' remuneration are also disclosed in the paragraph Related Party Information of the Annual Accounts.

The ratio between the remuneration of our CEO (being the highest-paid individual) and the median of all other colleagues (including the other Management Board members) per December 2021 was 3.5 (2020: 3.5). Compared to the financial sector in The Netherlands this is relatively low.

The outcome of the (multiple linear regression) analysis with reference date 1 April 2021, showed that men and women at FMO are not awarded the same for equal work. The analysis showed on average a significant difference of a 2.3% lower salary for women. (In April 2020 this difference was 1.3%, but without sufficient evidence to claim that at FMO for equal work the salaries of women were significantly different from the salaries of men.) Because we continue to strive for adhering to the policy claim 'to reward men and women equally for similar work' in line with SDG 5 (Gender equality) we will further investigate what needs to be adjusted in our working practices to close this relatively small, but significant, gender pay gap.

Independent complaints mechanism

FMO has an Independent Complaints Mechanism together with the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) and the French DFI Proparco. This allows affected parties to raise their complaints with an independent expert panel. The independent expert panel has a dual mandate: a fact-finding and monitoring role and a problem-solving role. Escalating to the problem-solving role is only possible if all parties agree and there is a reasonable expectation that a mutually-agreed resolution of the complaint will be possible. For more information, please see the FMO website.

Corporate governance codes

FMO abides by two governance codes: the Dutch Corporate Governance Code and the Dutch Banking Code. We comply with the Banking Code or will otherwise explain where and how we diverge from the Banking Code, including concrete examples. This document can be found on our website. Monitoring of the Code and other operational risks are further described in the 'Non-financial risk' section in the 'Risk management' chapter.

The Dutch Corporate Governance Code ('the Code') only applies to organizations whose shares are listed on a regulated market. As a non-listed bank, FMO is not required to adhere to the Code, but we have chosen to do so, nonetheless. 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 our various stakeholders. In 2014, FMO published a policy specifically regarding bilateral contacts with our shareholders, which is provisioned by the Code and is available on our website.

FMO promotes diversity at all levels, including the Management Board and Supervisory Board. As principle 2.1.5 of the Code requires, FMO has diversity policies. The aim of our diversity policy - including for the Management Board and Supervisory Board - is to have well-balanced boards, which are up to their task and can come to good solutions, while considering the members' different perspectives, backgrounds and experiences. The Management Board consists of one Ivorian member and two Dutch members. The Management Board, when at full capacity, consisted at year end of 33% women and 67% men.

The Supervisory Board also has one non-Dutch member, Dugald Agble, who has the Ghanaian and British nationality. The Supervisory Board consisted of 50% men and 50% women during the entire year. In both boards, the ages of the members are well distributed, and knowledge and experience comply with the applicable matrices.

The relevant principles and best practice provisions of the new Corporate Governance Code have been implemented, with the exception of the following principles and best practice provisions, which can be explained as follows:

BPP 1.3.6: This provision only applies if the company does not have an internal auditor. FMO does have an internal auditor.

BPP 2.2.2: This provision refers to the reappointment of Supervisory Board members. The third term of four years, as meant in the previous version of the Corporate Governance Code, is split into two terms of two years in the current version of the Corporate Governance Code. Section 2.7 of the Supervisory Board Standing Rules, which deals with reappointments and the duration thereof, will be amended accordingly at the next revision. None of the Supervisory Board members exceeded the eight-year term.

BPP 2.2.4: This provision requires a written (separate) succession plan, which focuses on knowledge, experience and diversity. At FMO, knowledge, experience and diversity are included in the profiles of the Supervisory Board and the Management Board. Succession and knowledge are regularly discussed in meetings of among others the Selection, Appointment and Remuneration Committee. The Supervisory Board retirement schedule is placed on the website. Therefore, there is no separate plan.

BPP 2.3.10: This provision states that the Supervisory Board is supported by the Corporate Secretary of FMO. Section 6.1 of the Standing Rules of the Supervisory Board states that the SB secretary might also be one of its members. In practice, it is the Corporate Secretary of FMO. This will most likely be amended at the occasion of the next amendment.

BPP 2.8.1-2.8.3: Stipulations on takeover bids are not implemented, given our stable majority shareholder, the State of The Netherlands.

BPP 4.1.4: 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 4.2.3: This provision relates to analysts' meetings and presentations to institutional investors. This provision is of no practical significance to FMO and therefore does not apply.

BPP 4.2.6: This best practice provision requires the Management Board to provide a survey in the annual report of all anti-takeover measures to prevent control from being relinquished. FMO has not incorporated any anti-takeover measures in its articles of association, because it has a stable majority shareholder, namely the State of The Netherlands. Therefore, an overview as meant in this provision is not incorporated in this annual report.

BPP 4.3.3: This provision does not apply, as 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 4.3.4: This provision does not apply, as it refers to financing preferred shares, which FMO does not use in its share capital.

BPP 4.3.5 and 4.3.6: These provisions do not apply, as FMO is not an institutional investor.

BPP 4.4.1 – 4.1.8: These provisions 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 5.1.1 – 5.1.5: These provisions do not apply, as FMO does not have a one-tier board.

FMO Investment Management BV

FMO Investment Management B.V. (FMO IM) is a 100% subsidiary of FMO. Its purpose is to build and grow investment management services for professional investors. This is part of FMO's strategic ambition to mobilize commercial investors to invest in emerging markets, thereby increasing its overall impact. FMO IM aims to scale up impact investing by providing investors access to FMO's deal flow in sustainable emerging markets.

FMO IM has a license as an investment firm and is authorized to provide investment advice. FMO IM has its own management board. As sole shareholder of FMO IM, FMO determines the charter and scope within which the company operates, and FMO has approval rights for specific matters.

Scatec Solar Complex in South–Africa
Leading renewable power producer, delivering affordabale and clean energy worldwide.

04 Annex

"Resilience is having the flexibility and patience to adapt to change, whilst trying to keep sight beyond challenging times."

Angelica Ortiz-De Haas
FMO | The Netherlands

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

We engage with a broad group of stakeholders on a regular basis. Stakeholders are individuals and organizations that are directly or indirectly affected by our operations, positively or negatively, or who may affect our ability to create value. We appreciate their wealth of knowledge and find their candid feedback enables us to reflect, learn and improve. We conduct a materiality assessment once a year, which enables us to validate the relevance of our strategic choices and identify topics that affect our work.

Material topics

In our last materiality assessment survey that was carried out in 2020, we set out to learn how our stakeholders perceive our performance vis-à-vis our strategic topics and whether they see new risks and opportunities that might be of importance to FMO. We identified nine topics that we need to pay closer attention to. These were published in our 2020 annual report.

In 2021, we performed an update using the 2020 survey as our point of departure. We conducted interviews with our internal stakeholder account managers and focal points. We asked them to identify any major shifts in how our stakeholders would rate our performance on the current topics, identify the topics that currently matter most to them and share insights into new opportunities and risks. Our approach is to focus in particular on those material topics that receive a lower performance rating in the 2020 survey (see heatmap) or those that our stakeholders signal as main risks or opportunities. For instance, we know that ESG is of key importance for most of our stakeholders. However, our stakeholder performance rating on ESG is positive. Therefore, while we aim to maintain that level of performance, it is not a topic that warrants extra attention at this point. The topics were reviewed internally and approved by the management board.

It should be noted, that this year's assessment is based on interviews with stakeholder account managers within FMO. Outcomes are based on their interpretation of their conversations with stakeholders over the course of 2021 and while they could present be slightly biased we believe they are indicative of trends. The stakeholder dialogue section includes more information on how we interacted with our stakeholders.

Topics needing particular focus

Most of the topics we identified in the 2020 assessment remained relevant in 2021. It did appear that stakeholders believe that our performance against our strategy is not as strong. Our commitments and investments contributing to climate action seem to be perceived more favorably than last year. The topic COVID-19-effects/supporting economic recovery was less prominent in this year's assessment. We assume this is because we now know more about the effects of the pandemic and have gained more experience in how to respond across our business lines. That said, COVID-19 continued to affect our business through 2021 and we will continue to monitor how the pandemic affects our operations and markets.

Stakeholders felt other emerging topics warranted closer attention. These include investing more in fragile states, which was flagged as a key opportunity to drive development impact. We group this topic together with our strategic focus on reducing inequality. Being a responsible, transparent and accountable bank has increased in importance compared to last year. Given that our performance rating on this topic in 2020 was fairly low we decided to give this topic more attention. Finally, staying compliant with regulatory developments was identified as a new risk and is therefore included in our list of material focus topics.

In sum, taking into account the unchanged topics from last year and the three additions of this year's assessment update, we identified the following 11 topics that require particular attention.

- COVID 19-effects/supporting economic recovery
- Combating climate change and its impacts
- Reducing inequality (with greater focus on fragile states in 2021)
- Supporting customers to safeguard human rights
- Supporting women's economic empowerment
- Measuring impact & learning from evaluations
- Investing in innovation
- Ensure employee engagement, health & well-being
- Maintaining financial sustainability and risk appetite of FMO – with a focus on investment & country risks
- Being a responsible, transparent, and accountable bank (greater focus in 2021)
- Being compliant in a changing regulatory environment (greater focus in 2021)

Connectivity table

The material topics resulting from the 2021 materiality assessment are included in the following connectivity table. This table links the material topics to our strategy, key performance indicators, targets, and performance as well as the sections in this annual report that cover each topic. The topics requiring further attention from FMO, as concluded by the recent materiality assessment, are highlighted in the table by an asterisk (*).

Mission: We empower entrepreneurs to build a better world Strategy: Be the preferred partner to invest in local prosperity						
Material topic	**Contributing to SDG**	**Page nr.**	**Key performance indicator**	**2021 performance**	**2021 target**	**2020 performance**
Higher impact portfolio						
Contributing to decent work and economic growth	SDG 8	45, 46	Total committed portfolio - FMO[1]	8,338	8,837	8,166
		45, 46	New investments - FMO[1,2]	1,184	1,470	1,259
		46 - 48	Jobs supported (nr. of jobs)[3]	644,119		672,492
Reducing inequality - focus on fragile states*	SDG 10	48, 49	Reducing Inequality-labelled committed portfolio	4,020	3,970	3,758
		48, 49	Reducing Inequality-labelled new investments	714	596	745
Combating climate change and its impacts*	SDG 13	49, 50	Green-labelled committed portfolio	4,118	4,293	3,869
		49, 50	Green-labelled new Investments	544	592	466
		50 - 52	Financed avoided GHG emissions (tCO$_2$e)	1,329,158		1,577,816
		50 - 52	Financed absolute GHG emissions (tCO2e)[3]	5,355,185		4,962,939
Promoting women's economic empowerment*	SDG 5	53, 54	Gender-line financing	216		151
Promoting ESG best practices	SDG 3, 5, 8, 10, 12, 13, 14, 15	54 - 59	ESG target performance (% of risks managed)	92%	90%	93%
Supporting customers to safeguard human rights*	SDG 3, 5, 8, 10, 12, 13, 14, 15	57, 58	New admissible complaints received	0		1
		38	Nr. of customers in portfolio for which human rights were assessed during due diligence	281		301
COVID-19 effects / supporting economic recovery*			No indicator			
Deeper relationships						
Mobilizing public & private capital	SDG 17	60 - 62	Total committed portfolio - mobilized funds[1]	2,813	2,624	2,708
		60 - 62	New investments - mobilized funds[1]	521	363	483
		62 - 64	Total committed portfolio - public funds[1]	1,352	1,318	1,148
		62 - 64	New investments - public funds[1]	233	241	145
Providing capacity development		60	Total capacity development contracted	8.0		9.5
Investing in innovation*			No indicator			
Cooperation & harmonization with other DFIs			No indicator			
Ensure employee engagement, health and wellbeing*		64 - 66	Employee engagement score[4]	7.2	8.0	7.1
Being an inclusive organization		65	Gender diversity: % women in the workforce	52%	50%	50%
		65	Gender diversity: % women in management positions	45%	50%	42%
Other		59, 60	Customer satisfaction (NPS score)	65.5%	70%	70.2%
Higher productivity						

Mission: We empower entrepreneurs to build a better world Strategy: Be the preferred partner to invest in local prosperity						
Material topic	**Contributing to SDG**	**Page nr.**	**Key performance indicator**	**2021 performance**	**2021 target**	**2020 performance**
Being a high-performing DFI		66	Realized delivery on project portfolio	92%	85%	92%
Measuring impact & learning from evaluations*			No indicator			
Being a responsible, transparent & accountable bank*		-	Score in latest Transparency Benchmark	87%		76%
		67	Nr. of alleged employee-related integrity issues	1		1
		67	Nr. of alleged customer-related integrity issues	12		20
		67	Nr. of alleged customer-related integrity issues closed	11		24
Being compliant in a changing regulatory environment*			No indicator			
Financial performance						
Maintaining financial sustainability and risk appetite of FMO - with a focus on investment & country risks*			Profit & Loss account			
		115	Operating income	565		88
		115	Operating expenses	114		144
		115	Impairments	9		-78
		115	Net profit/(loss)[5]	491	120	-205
		170	Underlying net profit/(loss)	386		-90
			Balance sheet			
		114	Total assets (x €m)	9,303		8,998
		114	Shareholders' equity (x €m)	3,434		2,897
		114	Debentures & notes (x €m)	5,427		5,486
			Ratios at end of period			
		190	Non Performing Loans (%)	9.5%		9.1%
		114	Return on average shareholders' equity (%)[1]	15.5%		-6.8%
		114	Return on assets (%)[1]	5.3%		-2.3%
		184	Common Equity Tier 1 (%)	22.5%		23.3%

1 This is an alternative performance measure (APM) that is not included in the financial statements and is designed for steering purposes. For a definition of this APM, please refer to the chapter 'How we report'.

2 The 2021 target for FMO new investments has been lowered by €85 million following the transfer of NLB activities to Invest International.

3 Due to changes in the Joint Impact Model methodology, the 2020 comparative figure has been restated.

4 The 2021 result is based on an updated methodology. The 2020 comparative figure is based on the previous methodology and, therefore, not entirely comparable.

5 The 2021 target for net profit has been restated from €115 million to €120 million.

Stakeholder dialogue

We see stakeholder engagement as a two-way dialogue. On the one hand we reach out to stakeholders to create partnerships, invest together, harmonize our approaches, and seek insights to inform our policies. For instance, in 2021 we published our *Position Statement on Fossil Fuels in Direct Investments*. This was informed through a consultation process with our stakeholder community, including the Dutch government, several NGOs and financial institutions. In November, we organized a virtual multi-stakeholder forum to gather input for the update to the 2030 strategy. We also cooperated with stakeholders such as the Dutch Fund for Climate and Development to drive impact.

On the other hand, we are also open to receive input from our stakeholders who bring critical perspectives. They alert us to different viewpoints, provide us with critical feedback and challenge us to be more transparent and accountable as an organization. Our dialogue holds up an important mirror so we remain self-reflective and strengthen our processes.

Our engagement per stakeholder group

The table below summarizes the topics our stakeholders find most important in our interactions with us. Overall, we note that most stakeholders engage with us because of the impact we want to achieve through our investments.

Stakeholder Group	Material topics	How we engaged in 2021
Employees. All internal and external staff, incl. directors & Management Board.	Being an inclusive organization Being a high-performing DFI Ensure employee engagement, health and well-being	Due to the government-imposed COVID-19 restrictions, staff were working from home for most of the year. In the future, hybrid working will become the norm. In 2021, greater focus was placed on employee well-being and diversity and inclusion. A well-being working group was formed in 2021 to raise awareness and share tools, activities and ideas on how to improve in this area. We also formed a Diversity and Inclusion Advisory Board to focus more in this area. Management checked in with staff through different means. First, direct reports met through bilateral and team meetings. Second, an annual employee engagement survey and pulse surveys were sent out, incl. on specific topics such as hybrid way of working and KYC, to gauge the overall sentiment. Third, the management board stayed connected with staff through quarterly all-staff meetings, open lunches and wrap-up emails at the end of each week. Finally, management met with the works council on multiple occasions to discuss key matters, incl. the new pension plan.
Customers, incl. corporates, financial institutions, private equity fund managers, and agribusiness and energy project developers.	Impact focus topics & ESG Cooperation & harmonization with other DFIs Mobilizing public & private capital Being a responsible, transparent & accountable bank	Ongoing travel restrictions meant we connected with our customers mainly through virtual means. In addition to business and deal-related meetings, we organized topical events and conferences and brought together customers through communities of practice. In 2021, we continued working with existing customers to identify opportunities to increase impact. Furthermore, we invited customers to connect with FMO staff during our all-staff meetings. In 2021, we carried out our annual customer satisfaction survey to gain insights on what customers think of our products and services.
NGOs & local communities. We engage with Dutch and international NGOs that represent environmental and human rights advocates, knowledge centers and banking whistle blowers, as well as local organizations, and communities.	Promoting environmental, social and governance Being a responsible, transparent & accountable bank Supporting customers to safeguard human rights	We held quarterly dialogue and issue-based meetings with NGOs. NGOs have raised questions on A/B loan structures and demanded more clarity and transparency on investments in financial institutions. In addition, they proposed greater engagement with local communities and stakeholders, which currently takes place through our customers, during our investment process. We are exploring, together with the Dutch government options for interacting more directly with local stakeholders. Furthermore, we also started a consultation with NGOs on a draft Position Statement on ESG standards for financial institutions.
Government. The Dutch government holds a 51% stake in FMO. The Dutch Minister of Finance and the Minister for Foreign Trade and Development Cooperation (part of the Ministry of Foreign Affairs) are politically responsible for FMO.	Being an inclusive organization Being a responsible, transparent & accountable bank Maintaining financial sustainability & risk appetite Ensure employee engagement, health and well-being Impact & ESG topics Cooperation & harmonization with other DFIs Mobilizing public & private capital	The management board, the Ministry of Finance and Ministry of Foreign Affairs met quarterly to discuss topics such as strategic policies and FMO's performance against targets. Other notable topics discussed in 2021 included: • FMO's alignment with the latest FEC requirements; • Finalization of the new Criteria Memorandum, which stipulates the criteria used for investment decisions, country & sector focus, ESG and additionality. The Memorandum was adopted at the Strategic Policy Meeting of 1 July, 2021; • Discussion of the results and FMO's response to the FMO-A evaluation; • Contributing answers to the questions raised by the parliamentary Committee on Foreign Trade and Development Cooperation subsequent to the FMO-A evaluation; • Exploring opportunities to invest more in fragile states; • How to strengthen networks of local stakeholders, e.g. in cooperation with embassies; • FMO's ESG risk appetite; • The update to FMO's 2030 strategy.
Commercial stakeholders, incl. bond investors, institutional and private investors, as well commercial shareholders who own 49% of FMO's shares.	Impact topics Mobilizing public & private capital Being a responsible, transparent & accountable bank Maintaining financial sustainability & risk appetite Investing in innovation	In our efforts to mobilize private capital towards the SDGs, we partner with commercial stakeholders. We engage with our minority shareholders mainly through the Annual General Meeting. Important topics discussed incl. FMO's financial and risk management, development impact and accountability of our activities. In 2021, our interactions with commercial stakeholders had to take place mostly virtual.
Knowledge Community, incl. universities, think tanks and independent consultants who conduct development impact evaluations.	Impact & ESG topics Measuring impact & learning from evaluations	We organized scheduled meetings with our knowledge community to seek feedback on evaluations and defining lessons learned but also to get input on new position statements.
DFIs, international financial institutions and multilateral banks, with whom we co-invest, harmonize our approaches and share knowledge.	Cooperation & harmonization with other DFIs Mobilizing public & private capital Being a responsible, transparent & accountable bank Combating climate change and its impacts	We organized topical knowledge-sharing meetings and participated in EDFI and MDB working groups on topics such as blended finance principles, mobilization, and climate change & emission accounting (PCAF).
Public investment partners, incl. the Dutch government, the European Commission, the Green Climate Fund, and the UK government.	Impact & ESG topics Measuring impact & learning from evaluations	As an accredited entity, FMO receives funds from the EC and the GCF. In 2021, the UK government and FMO established Mobilising Finance for Forests (MFF) as a blended finance investment program to increase private sector investment that will combat deforestation and other environmentally unsustainable land use practices.
Supervisor and regulator.		The DNB supervises FMO to ensure we comply with banking regulations and manage risks in line with our risk appetite. The main topic in 2021 was FMO's efforts ensure full compliance with the Wwft and Sanctions Law by the end of 2021.

Rating & ranking of strategic topics per stakeholder group	Rank	Average score	Civil Society / NGO	FMO Employee	Ministry	Knowledge Community	Commercial Stakeholder	Development Finance Institution	Investee	Debt Customers
Promoting environmental, social and governance (ESG)	1	4.0								
Contributing to decent work and economic growth (SDG8)	2	3.9								
Cooperation & harmonization with other DFIs	3	3.9								
Being an inclusive organization	4	3.9								
Providing capacity development	5	3.9								
Being a high-performing DFI	6	3.9								
Mobilizing public & private capital	7	3.8								
Being a responsible, transparent & accountable bank	8	3.8								
Maintaining financial sustainability & risk appetite	9	3.8								
Supporting Dutch business opportunities	10	3.7								
Combating climate change and its impacts (SDG13)	11	3.7								
Ensure employee engagement, health and wellbeing	12	3.6								
Reducing inequality (SDG10)	13	3.6								
Supporting women's economic empowerment (SDG5)	14	3.6								
Supporting clients to safeguard human rights	15	3.6								
Measuring impact & learning from evaluations	16	3.6								
Investing in innovation	17	3.3								
Total average score per stakeholder group		3.7	3.4	3.5	3.6	3.6	3.7	3.7	4.2	4.3

2.6 2.7 2.8 2.9 3 3.1 3.2 3.3 3.4 3.5 3.6 3.7 3.8 3.9 4.0 4.1 4.2 4.3 4.4 4.5 4.6 4.7

EXTERNAL COMMITMENTS

Our impact goes beyond our investments. To embrace our mission fully, we are committed to doing business in a responsible and sustainable way, guided by global standards and guidelines.

EQUATOR PRINCIPLES	**Equator Principles** We have been implementing the Equator Principles (EP) since 2006. This risk management framework provides financial institutions with a minimum standard for due diligence and monitoring to determine, assess and manage environmental and social risks in projects. Our annual EP report is available online.	Signatory
IFC	**IFC Performance Standards** Our E&S approach is guided by the IFC Performance Standards of Environmental & Social Sustainability. This framework helps us understand, avoid and mitigate E&S risks and impacts, for example through stakeholder engagement and disclosure obligations of the customer in relation to project-level activities.	Adopter
OECD Guidelines for Multinational Enterprises	**OECD Guidelines** We follow OECD Guidelines on responsible business conduct, notably human rights, labor rights and the environment.	Adopter
UNITED NATIONS HUMAN RIGHTS	**UN Guiding Principles on Business and Human Rights** We integrate the set of guidelines defined by the UN for states and companies to prevent, address and remedy human rights abuses in business operations.	Adopter
International Labour Organization	**ILO Standards** We follow the set of ILO legal instruments that set out basic principles and rights at work.	Adopter
INVESTING FOR IMPACT	**Operating Principles for Impact Management** In 2019, FMO became a signatory to and advisory board member of the Operating Principles for Impact Management, a global initiative led by the IFC to increase the transparency and accountability of impact investing.	Signatory
Signatory of: PRI Principles for Responsible Investment	**UN Principles for Responsible Investment** FMO applies PRI's six principles: incorporating ESG into investment practices (Principle 1 and 2), disclosing on ESG issues (Principle 3), supporting acceptance and effective implementation of the principles (Principle 4 and 5), and reporting on progress (Principle 6).	Signatory
UNEP FINANCE INITIATIVE PRINCIPLES FOR RESPONSIBLE BANKING	**UNEP FI | Principles for responsible banking** FMO is a signatory of the Principles for Responsible Banking.	Signatory
GIIN GLOBAL IMPACT INVESTING NETWORK	**Global Impact Investing Network** We support the GIIN because it is dedicated to increasing the scale and effectiveness of impact investing through knowledge sharing, best practice exchanges, and tools / resources production.	Member
SUSTAINABLE DEVELOPMENT GOALS Charter	**Sustainable Development Goals Charter** We joined the SDG Charter Network to foster cooperation between business, civil society and local governments in the Netherlands, in order to achieve the SDGs at home and abroad.	Signatory
IMPACT MANAGEMENT PROJECT	**Impact Management Project** We joined and support the IMP, a forum for building global consensus on how to measure, manage and report impact and for sharing best practices.	Member
Natural Capital Declaration	**Natural Capital Finance Alliance** We closely follow the developments of the NCFA initiative to integrate natural capital considerations into loans, public and private equity, and fixed income and insurance products.	Signatory
UNEP Finance Initiative Changing finance, financing change	**UNEP FI / EBF Working Group on Banking and Taxonomy** We are part of the UNEP Finance Initiative / European Banking Federation Working Group that assesses how the EU Taxonomy on Sustainable Activities can be implemented by banks and applied to selected banking products.	Member
	Dutch Climate Accord We signed the financial sector commitment to fight climate change and support the Dutch Climate Accord to achieve a 49% CO_2 reduction by 2030 in the Netherlands.	Signatory
Climate Action in Financial Institutions	**Mainstreaming climate action in financial institutions**	Signatory

We are following the five principles of the Climate Action in Financial Institutions Initiative. This coalition of public and private financial institutions aims to enhance integration of climate change considerations across their strategies, programs and operations.

	Partnership for Carbon Accounting Financials We are one of the early adopters of PCAF, an industry-led global partnership to develop and implement a harmonized approach to assess and disclose GHG emissions of loans/investments. This facilitates transparency and accountability of the financial sector to the Paris Agreement.	Signatory
	Task Force on Climate-Related Financial Disclosures Since 2019, we report on our approach to climate following the recommendations provided by the TCFD.	Adopter
	Netherlands Advisory Board on Impact Investing FMO is an active member of the Netherlands Advisory Board (NAB) on Impact Investing - a foundation that is part of the Global Steering Group for impact investment and aims to accelerate the growth and improve the effectiveness of the Dutch impact investing market.	Member
	Consultative Group to Assist the Poor We are part of the CGAP global partnership to test, learn and share knowledge intended to help build inclusive and responsible financial systems.	Member
	European Microfinance Platform We are part of the e-MFP network to foster activities that increase global access to affordable, quality, sustainable and inclusive financial services for the un(der)banked through knowledge-sharing, partnership development and innovation.	Member
	2X Challenge In 2019, FMO joined the 2X Challenge, which was launched in 2018 by DFIs from the G7 countries. The initiative allows for setting financial ambitions among DFIs and collaboration with various stakeholders towards female empowerment	Member
	Emerging Market Private Equity Association We are a member of the global EMPEA association. This aims to catalyze the development of private equity and venture capital industries in emerging markets through research, conferences, networking, and advocacy.	Member
	Corporate Governance Development Framework We adopted the Corporate Governance Development Framework as a common approach to corporate governance risks and opportunities in DFI investment operations.	Adopter
	Financial Action Task Force We use the FATF framework to combat money laundering and terrorism financing, as well as the proliferation of weapons of mass destruction.	Adopter
	The Gold Standard For our own operations, we maintain the Gold Standard.	Adopter
	Global Reporting Initiative We report according to the standards defined by the GRI to help businesses and governments understand and communicate about their impact on critical sustainability issues.	Adopter
	Value Reporting Foundation - Integrated Reporting Framework We follow the Integrated Reporting framework to produce our annual report. In line with this, we link our strategy and performance to the external environment and value creation in the longer term.	Adopter

HOW WE REPORT

We prepared this integrated annual report using the principles of the Integrated Reporting framework and the GRI standards. We strive for transparent reporting on our strategy, the dilemmas that we face and the way in which we are implementing our strategy in order to create value for our stakeholders.

Legal entity

This report covers the activities of Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), FMO Investment Management B.V. (FMO IM), NedLinx B.V. and FMO's intermediate holding subsidiaries: Asia Participations B.V., and Equis DFI Feeder L.P. FMO has a 63% stake in Equis DFI Feeder L.P. and all other subsidiaries are 100% owned.

FMO also manages funds for the Dutch government – MASSIF, Building Prospects, and the Access to Energy Fund – and executes on the Capacity Development subsidy scheme. FMO partners with SNV Netherlands Development Organization, World Wide Fund for Nature and Climate Fund Managers to manage the Dutch Fund for Climate and Development (DFCD) on behalf of the Dutch government. Furthermore, FMO manages the 'Mobilising Finance for Forests' (MFF) fund on behalf of the UK government. Lastly, FMO manages several programs for the European Commission – NASIRA and Ventures Capital (VC).

As it is based in the Netherlands, the FMO group falls under the Dutch tax regime. Our interest income, dividends and capital gains are subject to local tax laws, taking into account double taxation treaties between the Netherlands and the countries where we invest.

Reporting policy

The period covered by this report is the calendar year 2021. The publication date of the previous annual report was March 23, 2021. There have been no significant changes to our legal structure, activities, or policies in the course of 2021 that would require a restatement of information.

The method for measuring ESG performance and the model for estimating the number of jobs supported and GHG emissions have changed compared to 2020. Regarding ESG performance, in 2020 only high and medium ESG risks were assessed. In 2021, the scope increased to include low ESG risks as well. Consequently, the 2020 ESG target result was restated to include low risks, leading to an increase in the number of ESG risks assessed from 2,872 to 3,197. The 2020 target performance result of 93% has not been impacted despite the change in scope. FMO aims to have at least 90% of the ESG risks managed at a satisfactory level.

Regarding jobs supported and GHG emissions, changes to the Joint Impact Model (JIM) methodology led to the restatement of the numbers for 2020. For jobs supported, the number changed from 427,489 to 672,492 (36% increase). For GHG emissions, the number changed from 2,939,695 to 4,962,939 tCO_2e (69% increase). A summary of the methodological changes can be found in the sections 'Jobs supported' and 'GHG emissions' further down in this chapter. A full overview of the changes to the methodology can be found on our website.

Following the launch of the 2X Collaborative, the 2X Challenge eligibility criteria have been reviewed and a new counting method for indirect investments has been applied as of 2021. As a result, for several transactions only 30% of the total commitment would be tallied, relatively decreasing our annual contribution to the program in comparison to 2020.

The figures and percentages in this annual report (not the annual accounts) include the figures for FMO and its subsidiaries as well as those of the FMO-managed public funds, unless stated otherwise.

Many of our financing and investing activities take place in foreign currencies, mostly in US dollars. Unless explicitly stated otherwise, all investment amounts mentioned throughout the report have been translated into our functional currency, the Euro, based on the foreign exchange rates at the date of contracting. Figures referring to the year-end committed portfolio have been translated into euros using the year-end foreign exchange rates.

For the closing-of-the-books processes, data was taken from our internal systems. Data pertaining to our portfolio was taken from financial systems. Non-financial elements of our portfolio, specifically data for measuring impact and footprint, are based on data from customers and macroeconomic data sources. Information on human resources comes from our HR systems and is linked to our salary administration system.

Data quality is important as it forms the basis for management reporting and steering. To safeguard data quality, financial and non-financial data registration are embedded in our core investment process. The results are analyzed by an employee independent of the investment process, both on project level during the year and on an aggregated level after closing of the books. Beyond that, as a third line of defense, FMO's Internal Audit department considers data quality and the underlying processes to be important audit areas.

The case studies included throughout the report offer insight into our activities and are not necessarily representative of our entire portfolio. They do, however, exemplify projects within our regions and strategic sectors, and highlight material activities of FMO and their inherent dilemmas from the perspective of different stakeholders.

Standards and reporting guidelines

This report has been prepared according to the legal requirements of section 2:391 of the Dutch civil code and the Dutch legal guidelines for management board reports, RJ 400. We have used the Integrated Reporting framework to describe how we create value for our stakeholders through our strategy aimed at being the preferred partner to invest in local prosperity. In the External Environment and Our Business Model chapters we describe how we are steering the organization and what this means to achieving our strategy.

We apply the GRI Standards and the specific financial sector guidelines and have chosen to report in accordance with the Core option. The Board Report consists of chapters At a glance, Report of the Management Board, Report of the Supervisory Board, Corporate Governance, Stakeholder engagement and materiality assessment, and How we report. Please refer to the separate GRI index for a detailed overview of all GRI disclosures.

The European Parliament has adopted an EU directive that requires eligible organizations and all banks to disclose non-financial and diversity information. We have incorporated this directive into this report. Please refer to the reference table in the Indexes section of the online report (annualreport.fmo.nl) to find the relevant information.

Since 2019, we report on our approach to climate following the recommendations provided by the Task Force on Climate-Related Financial Disclosures (TCFD). Please refer to the separate TCFD report available on our website for more information.

In 2020, FMO became a signatory to the UN Principles for Responsible Banking – a single framework for a sustainable banking industry developed through an innovative partnership between banks worldwide and United Nations Environment's Finance Initiative. The Principles for Responsible Banking set out the banking industry's role and responsibility in shaping a sustainable future and in aligning the banking sector with the objectives of the UN Sustainable Development Goals and the 2015 Paris Climate Agreement. Signatory banks are required to report no later than 18 months after signing the Principles, and annually thereafter. To meet this requirement, FMO is publishing its first PRB report and self-assessment in March 2022.

Reporting governance

The Management Board (MB) is responsible for the contents of the integrated annual report. The MB has entrusted the Impact Measurement and Integrated Reporting (IMIR) team with the coordination of the report. At the start of the reporting process, the MB agrees with IMIR on the outline of the report. IMIR collects information through interviews with the business departments, data from internal systems, and other internal and external sources. Representatives from the business departments review the draft report to assess its accuracy and completeness. IMIR safeguards compliance of the report with relevant standards and guidelines (see paragraph Standards and reporting guidelines). IMIR also coordinates external assurance of the integrated annual report.

External assurance

We have engaged Ernst & Young Accountants LLP to audit the annual accounts, to perform a review of the sustainability information in specific chapters in scope and an audit of selected elements of this report. The following elements were subject to an audit: the materiality assessment as presented in the chapter 'Stakeholder engagement and materiality assessment', the indicator Green-labelled new investment volume as disclosed - among others - in the chapter 'At a glance', and the diversity KPIs as disclosed in the chapter 'Performance against our strategy' (Deeper relationships). The scope of the review on this report is limited to the chapters 'About this report', 'At a glance', 'External environment' (excl. EU taxonomy), 'Our strategy', 'Our value creation model', 'Our investment process', 'Performance against our strategy', 'Stakeholder engagement and materiality assessment' and 'How we report'. The review has been conducted in accordance with Dutch Standard 3810N.

Joint Impact Model

Over the years, development finance institutions (DFIs) and multilateral development banks (MDBs) used input-output modeling to estimate indirect impact associated with their investments. In 2019, AfDB, BIO, CDC, FinDev Canada, FMO and Proparco together with Steward Redqueen (SRQ) signed a Memorandum of Cooperation to harmonize their methodologies on indirect jobs, value added and emissions estimations. Later, CIF, OeeB, KFW, and PIDG joined the initiative and formed the Development Panel. The initiative was named the Joint Impact Model (JIM).

In 2021, these partners worked on several work streams to further improve the JIM and align it with international standards. In November 2021, the JIM 2.0 was launched, which aligns with the PCAF Global Standard. This led to considerable changes in several estimates. For comparability reasons, we have restated the 2020 results to align with JIM 2.0. The full description is available in the JIM application document.

However, one key point to mention is the shift from marginal to average asset to turnover ratios. This means that for finance enabling effects we no longer look at the marginal change that occurs from the lending to local business, but instead we look at the average effects. This increases the finance enabling numbers, but it is ultimately aligned with the PCAF methodology.

Limitations of the model

The impact model allows quantifying the wider impact of investing in various economic regions and sectors, both directly and through financial institutions and funds. The model makes use of data from international statistical sources and investment-specific information which we obtain from our customers’ annual accounts. The impact model is an economic input-output model, which enables the model to trace product and money flows through an economy. It can provide more complete impact insights as it is applicable to the full portfolio, and has low data burden. As with any model, there are several limitations:

1. Estimates of indirect impact are based on industry averages (via input/output tables). In reality indirect effects will be different at the individual company level due to differences in individual company characteristics. As a result, model outcomes become less accurate for smaller numbers of investments.
2. Estimates are based on historical relations, while the methodology is based on the most recent (macro) economic data available, which means that the JIM does not reflect the negative effects of the COVID-19 pandemic.

3. FMO's investments are treated as investments from any other lender and it has been assumed that FMO's financial support does not affect the relations of sectors within an economy.

Local impact only

Taking these limitations into account, we report results only on the portfolio (and sub portfolio) level. In addition, we perform activities to provide insight in ex-post development effects, such as monitoring of direct effects, sector evaluations, effectiveness studies and impact evaluations. More information is available on our website with regards to how we measure impact and the JIM methodology.

JIM attribution rules

FMO provides part but not all of the capital a company needs. Other investors likely also contribute to a company's business (either by providing capital or advice). In addition, external circumstances such as changing market conditions, climate change and technological developments may also influence the impact created by a business. This raises the question of attribution: which portion of results of an invested company or portfolio of companies is due to the activities of an investor, taking into account other investors and additional factors that may have influenced the achievement of the results? The JIM takes a pragmatic approach to this attribution question and applies prorating to attribute part of the impact to the investor's intervention. In line with the PCAF Global Standard we moved from fair values to book values for debt investments and now apply an ownership percentage for equity. For a full description please see the JIM application methodology.

Reporting definitions

Below we have included the definitions of the reported indicators. These have been aligned with internationally harmonized definitions where available and possible.

2X Challenge

Eligibility for the 2X Challenge is assessed using evidence-based criteria pertaining to entrepreneurship, leadership, employment, consumption, and investments through financial intermediaries. They have been translated into a set of indicators and harmonized with the Global Impact Investing Network's IRIS+ system. Each of the metrics has relevant thresholds that need to be met for an investment to qualify.

ESG reporting

ESG risk categorization

During the early stages of the investment process, FMO screens all transactions on environmental and social (E&S) risk and categorizes them in accordance with our Sustainability Policy. This classification is based on inherent E&S risk, irrespective of how it is managed by the customer. It allows us to determine the relevant E&S requirements and the (initial) resources needed. We have the following categories available: A & B+ (high risk), B (medium risk) and C (low risk) for direct investments and ID-A (high risk), ID-B (medium risk) and ID-C (low risk) for indirect investments in Financial Institutions and Funds. The E&S risk category of most customers is relatively stable, but if the risk profile of a customer changes following, for example, a significant shift in a fund's portfolio or pipeline, we adjust the categorization.

During the early stages of the investment process, FMO makes an initial assessment of the corporate governance (CG) risk for a customer. A questionnaire supports the investment staff with identifying CG risk factors and determining whether a CG Officer should be consulted. The outcome of the CG Questionnaire is either low or high CG Risk. If the outcome is high, a CG officer should be consulted.

ESG performance target

To monitor the E&S performance of our high-risk customers, we use predefined tracking sheets structured around the IFC Performance Standards and international best practices. Our E&S specialists assess customers' exposure to applicable risks (low, medium, high) and how well they mitigate such risks, efforts we rate as exemplary, good, satisfactory, caution and unacceptable. They update the scoring after due diligence and the assessment is included in the financing proposal to support the investment decision. The rating gets evaluated again during annual review and when significant changes occur. In addition, before contracting, an independent validation of the information is carried out by an E&S specialist in the Credit Department.

To monitor performance on CG, the CG officer or the investment officer assesses the maturity of the corporate governance of a customer, based on five CG attributes derived from the DFI Corporate Governance Framework in a predefined tracking sheet: commitment to CG, structure and functioning of the board of directors, control environment and processes, transparency and disclosure, and shareholder rights. Subsequently, the officer assesses whether the maturity level (basic, emerging, or developed) is adequate for the company. The conclusion on the adequacy of the corporate governance considers the size, risks, and complexity of the company, country context and (absence of) strong CG regulations, as well as the track-record with FMO. If the CG maturity is considered inadequate, FMO agrees on a CG action plan with the customer.

Investment teams complete a tracking sheet after due diligence. The assessment is included in the Financing Proposal to support investment decisions. The CG adequacy assessment gets evaluated again during annual review and when significant changes occur. The Credit Department reviews and approves the CG tracking sheet as part of the transaction approval.

Since 2018 we have been using an ESG performance tracking system. The initial performance target was set for a limited number of new customers classified as high-risk or supported by a corporate governance specialist in transactions where FMO was in the lead. Each subsequent year the target list was expanded to include a bigger part of our portfolio. As of 2021, the list consists of all high-risk customers and those supported by a CG specialist, including investments where another financial institution is in the lead (e.g. IFC, DEG, Proparco, etc.). In the past only high and medium ESG risks were in scope of the target. As of 2021, low ESG risks are also in scope, so our goal since then is to have 90% of all ESG risks managed in line with our standards or evidently towards meeting our standards.

E&S performance gaps

The overview of the E&S performance gaps in our portfolio was prepared in two steps. First, as part of our E&S performance tracking, we identified activities with a potential for (serious) adverse impact on people and/or environment that are not adequately managed. Second, we summarized the performance gaps by theme and prepared a table which illustrates the high priority issues that still require attention. The information was anonymized to respect customer confidentiality.

Energy production and equivalent number of people served

FMO tracks the amount of energy produced per year per project, based on customer reports. This is done both for direct customers such as corporates and operational projects, as well as for indirect customers, which are investees under funds. The reported energy production concerns grid production only. The off-grid energy production, for example from rooftop solar panels installed by our customers, is excluded.

The number of people served via on-grid power generation projects is estimated by dividing the annual amount of electric energy delivered to customers during the reporting period by the power consumption per connected capita. The power consumption per connected capita is calculated as the electric power consumption per capita divided by the electrification rate.

Employee statistics

Employee statistics included in the management report include the following:

- Total number of (internal) employees: the total number of employees (with a definite or indefinite employment contract with FMO N.V.) at the last day of the reporting period, minus the employees leaving the organization as per that same day. Interns are not included.
- Employees in senior and middle management: number of employees in a management position including Management Board member and Director, at the end of the reporting period, excluding the incumbents in these positions leaving FMO on the last day of the reporting period. Ad interim directors and managers are included.
- Number of new joiners: number of new joiners during the reporting period, being between the last day of the previous reporting period and the last day of the actual reporting period. Employees joining and leaving in the same reporting period are included as new joiners and as leavers.
- Number of leavers: number of leavers between the last day of the previous reporting period and the last day of the actual reporting period. Employees joining and leaving in the same reporting period are included as new joiners and as leavers.
- Net growth percentage: number of new joiners minus number of leavers divided by the total head count at the start of the reporting period.

- Staff turnover percentage: number of departures during the reporting period divided by the total head count at the start of the reporting period.
- Share of bonus amount paid in the period: percentage of total bonus amount paid out to female and male employees related to the performance review over the previous year.
- Promotion ratio in the period: the percentage (of a category) of employees progressing to a higher salary scale during the reporting period divided by the total number (of a category) of employees.
- Employee engagement: engagement score based on latest employee engagement survey (November 2021) sent to all employees at least three months in service.
- Number of internal FTEs: sum of the related full-time equivalents (FTE, as contractually agreed) of all internal employees at the reference date.
- Percentage non-Dutch employees: total number of employees with a nationality other than Dutch divided by the total number of employees.
- Number of nationalities: total number of different nationalities of employees in service of FMO N.V. based on employees' passports when joining FMO. Note: if an employee has other nationalities in addition to the Dutch one, this will count as Dutch nationality.
- Absenteeism: percentage of total sick leave (short, medium and long-term sick leave) calculated as total number of sick leave days divided by the sum of work days during the indicated period.
- Number of external employees: Total number of people working for FMO as "temporary external" on an agreement not being an employment contract with FMO N.V.

Greenhouse gas (GHG) emissions

Absolute GHG emissions from FMO's own operations

The absolute GHG emissions from FMO's own operations are reported in line with the GHG Protocol. The emissions are calculated based on measured data which is collected internally, such as diesel/petrol consumption by leased cars, heating consumption of the FMO office in The Hague as well as information on commuting and flights.

Financed absolute GHG emissions

The financed absolute GHG emissions are reported in line with the Global GHG Accounting and Reporting Standard for the Financial Industry published by the Partnership for Carbon Accounting Financials (PCAF). We use the Joint Impact Model (JIM) to calculate our absolute emissions. In November 2021, the JIM 2.0 was launched, which aligns with the PCAF Global Standard. One important change is the increase in the asset turnover ratio, which leads to higher modelled emissions in the Scope 3 Category Investments. Moreover, the attribution factor was changed from a fair value approach to a book value approach.

In addition, some changes in methodological assumptions were made:

- Emissions during construction: for project finance in construction, all construction emissions are aggregated in Scope 3 in line with the PCAF Global Standard, as we assume these emissions come from a third-party construction company. The construction emissions were calculated based on the total project size assuming an average construction phase of three years.
- Imported emissions: the imported Scope 3 emissions from the JIM were included in the Scope 3 estimates in addition to the local Scope 3 emissions.
- Revenue estimation for investees: in line with the asset turnover ratio in the JIM, we adjusted the ratio used to estimate revenues for portfolio companies in funds when limited information is available
- Estimate emissions for FI investments: for FI customers without emission or revenue information available, we estimated the revenues using an asset turnover ratio specific for the financial service sector

It should be emphasized that the financed emissions reported still contains a large margin of error due to data quality considerations and methodological uncertainties. First, for the majority of our customers we do not yet have direct emissions data, which means the emissions have to be modelled by the JIM. In addition, the PCAF Global Standard does not yet factor in investments in funds, nor loans to financial institutions (FI). As such, FMO has made assumptions how to classify and calculate emissions for the investees of funds and the borrowers of FI customers in its portfolio. Data improvements and methodological refinements will be made in the future, which will affect our emissions estimations in subsequent years.

Financed avoided GHG emissions

Avoided emissions are the emissions avoided as a result of a project when compared to a baseline scenario established in accordance with the GHG Protocol. For example, this can be emissions avoided by additional renewable energy capacity that is assumed to replace future fossil fuel-based power plants, or emissions avoided through the protection of forests against illegal logging. GHG avoidance for renewable energy projects is calculated as the annual electricity production during the latest available reporting year, multiplied by the country emission factors in accordance with the IFI harmonized list of emission factors.

The financed avoided GHG emissions are reported in line with the PCAF Global Standard, except compared to the PCAF Global Standard we are reporting avoided emissions for all our investments and use a slightly different emission factor for renewable energy. Moreover, due to the aforementioned update to the Joint Impact Model, the attribution calculation has been significantly modified compared to the previous annual report.

Green-labelled investments

Definition

Green-labelled investments contribute to climate mitigation, climate adaptation or other footprint reduction (water, waste, biodiversity). Green labels are applied ex-ante for the new commitments in a running year. Please note that we apply the labels to new commitments, but that these are referred to as investments throughout the report. To facilitate steering on SDG 13 through our Green label, we set an annual target on Green as a percentage of new commitments that influences customer selection, project preparation and investment decisions. FMO’s Green criteria for climate mitigation and climate adaptation are in line with the IDFC-MDB list of Green investments. FMO Green definition also recognizes activities that do not directly target climate change mitigation or adaptation yet have a positive impact on the environment, including water treatment, waste management and biodiversity conservation ('other footprint reduction').

All Green investments need to comply with two underlying principles by default. First, Green investments should contribute to a genuine improvement beyond the local regulatory requirements. Second, Green investments should not contribute to a long-term lock-in of high carbon infrastructure. Based on these principles, FMO has defined a non-exhaustive list of pre-approved eligible activities such as making, installing, distributing or financing renewable energy projects/products and agriculture in line with certain certification schemes. Improvements that are not included on this list, may still be eligible if they meet the Green principles. In these cases, a minimum threshold of 20% improvement against a baseline needs to be substantiated. For example:

- Upgrade: If the investment is going towards an activity/equipment that is 20% more efficient than what it is replacing, FMO’s investment will be labelled 'Green' based on the amount of FMO's investment going towards that specific upgrade.
- Expansion: If the investment is going towards an activity that is 20% more resource efficient than the company's current practice, FMO’s investment will be labelled 'Green' based on the amount of FMO's investment going towards that specific expansion.
- Greenfield: If the investment is going towards an activity that is 20% more resource efficient than the norm, FMO’s investment will be labelled as 'Green' based on the amount of FMO's investment going towards that specific greenfield.

Approval process

Investments can only be labelled Green following a robust approval process. The deal team is responsible for assessing its investments based on FMO's Green principles and Green definition. The deal team makes an application for a Green label through FMO’s Sustainability Information System (SIS). The deal team should supplement the request with adequate substantiation for the Green eligibility of the financed activities. A credit specialist independent of the investment teams assesses the label request and determines the Green percentage. For example, if FMO finances an agricultural holding that has 30% of its operations certified under a pre-approved FMO certification while the rest are not certified and don’t have other underlying Green elements, then the Green percentage for that investment will only be 30%. The approval process is traced and documented in SIS.

Scope
The volume of Green investments includes a decrease or increase in an existing commitment for an existing customer, a new commitment for an existing customer, or a new commitment for a new customer. The volume of Green investments includes investments from FMO's own books, funds managed on behalf of public entities and direct mobilized funds. Direct mobilized funds are amounts committed by third parties that are demonstrably mobilized by FMO as well as guarantees provided by third parties on investments on FMO's existing portfolio.

FMO also reports on its Green investments at portfolio level. Ex-ante labelling is applied to both the volume of new Green investments and the Green portfolio. Therefore, our criteria, the label process and documentation requirements are only enforced prior to providing a credit facility or making an equity investment. FMO's full Green methodology is available on FMO's website.

Human rights due diligence indicator

The total number of significant investment agreements in FMO's portfolio for which E&S due diligence including human rights was performed, or human rights clauses were included in the contract. This includes high E&S risk customers in our portfolio per 31 December 2021 with an approved E&S tracker.

Jobs supported

Direct jobs are a common indicator for corporates and DFIs. It enables us to report on how our investments impact employment. Direct jobs are defined following the HIPSO definition as the "number of full-time equivalent employees as per local definition working for the client company or project". This includes directly hired individuals and individuals hired through agencies as long as those individuals provide on-site services related to the operations of the customer company. Also, this includes full-time equivalent worked by seasonal, contractual and part-time employees.

Part-time jobs are converted to full-time equivalent jobs on a pro rata basis, based on local definition (e.g. if working week equals 40 hours, a 24 hour a week job would be equal to 0.6 FTE job). Seasonal or short-term jobs are prorated on the basis of the portion of the reporting period that was worked (e.g. a full-time position for three months would be equal to 0.25 FTE if the reporting period is one year). If the information is not available, the rule of thumb is two part-time jobs equal one full-time job.

By using the JIM, we model the estimated indirect jobs supported by our portfolio businesses through supply chains, jobs supported from the spending of wages, and economy-wide employment enabled by bank lending and the supply of electricity. The additional output requires more direct employment and intermediary inputs. This, in turn, leads to expansion among existing and new suppliers, thereby supporting and/or creating jobs. Some products and services – notably electricity and finance – remove constraints for other businesses, enabling them to expand and support and/or create jobs. In emerging markets, firm expansion is assumed not to displace employment in competing businesses to a significant extent.

Net Promoter Score

Net Promoter Score (NPS) shows the extent to which customers would recommend FMO to others. The customer is regarded as 'promoter', 'passive' or as 'detractor', based on the score she gives. The NPS is calculated by subtracting the percentage of 'detractors' from the percentage of 'promoters'. The score is expressed as an absolute number between -100 and +100. The scores for 2021 are based on the responses from customers that participated in a customer satisfaction survey that was sent out in December 2021 and closed in January 2022.

New admissible complaints received

Number of complaints filed with the Independent Complaints Mechanism (ICM) in the reporting period that were declared admissible by the Independent Expert Panel (IEP). When the IEP groups several complaints pertaining to the same project as one case, this is treated as one complaint.

Number of micro and SME loans

In line with the IFC definition, microloans are those that have an original value up to US$10,000 remaining on the customer's balance sheet at the end of the reporting period, whereas SME loans have an original value between US$10,000–1,000,000 remaining on the customers balance sheet at the end of the reporting period. Both the number and volume of micro and SME loans are requested from our customers.

Number of smallholder farmers supported

Smallholder farmers are defined as marginal and sub-marginal farm households that own and/or cultivate relatively small plots of land, have low access to technology, have limited capital, skills, and risk management, depend on family labor for most activities, and have limited storage, marketing, and processing. Smallholder farmers supported have had active support from a company in order to improve production practices that have beneficial effects on yields, and/or reduce environmental degradation, and/or improve social practices during the reporting period. For Financial Institutions, smallholder farmers supported receive support from a customer company. There is still limited data on smallholders' economics, therefore counting the number of smallholder farmers supported can be used as a proxy. Information is collected directly from our customers via our impact questionnaires.

Reducing Inequalities-labelled investments

Definition

FMO defines two sub-categories in social projects aimed at reduced inequalities: investments in the least developed countries (reducing inequality among countries) and investments in inclusive business (reducing inequality within countries). Least developed countries (LDCs) are identified by the United Nations as low-income countries confronting severe structural impediments to sustainable development.

Investments in inclusive businesses expand access to goods, services and livelihood opportunities on a commercially viable basis, either at scale or scalable, to people at the Base of the Pyramid (BOP). This is done by making them part of companies' value chain of suppliers, distributors, retailers or customers. Deals are eligible for inclusive business in case they relate to investment in inclusive business:

- Microfinancial services;
- Financial services to underserved SMEs
    - Agriculture SMEs;
    - Rural SMEs;
    - Women-owned or women-led SMEs;
    - Youth-owned or youth-led SMEs;
    - Migrant or refugee owned or led SMEs;
    - SMEs owned or led by other marginalized groups;
- Smallholder farmers as part of the value chain;
- Last-mile delivery of power;
- Basic goods and services to low-income and marginalized populations.

Whereas the sub-categories are similar to the inclusive business/gender categories of IFC, the eligibility criteria and thresholds are FMO-specific as other DFIs (including IFC) have not developed similar eligibility criteria.

Approval process

Similar to Green labels, requests for Reducing Inequalities (RI) labels are made through SIS. For the LDC sub-label, a request is not needed if the investment is single-country and the country of impact is the same as the Country of Risk Exposure. A request for the LDC sub-label is only needed if the investment is multi-country with at least 50% of the investment expected to benefit LDC countries, or in the case the country of impact is an LDC and is different from the Country of Risk Exposure.

For the inclusive business sub-label, a request through SIS is always required. A deal team submits a request via SIS. The deal team should supplement the request with adequate substantiation for the RI eligibility of the financed activities. A credit specialist independent of the investment teams assesses the request for the relevant labels and decides whether the labels are granted. If the (sub)label is likely to be granted but more evidence is needed at a later stage (e.g. evidence of a use of funds clause in the contract), the label request can be conditionally approved. The approval process is traced and documented in SIS.

Scope
Same scope as mentioned for the Green-labelled investments.

Serious incidents
FMO considers a serious incident to be an incident occurring on or nearby any site, plant, equipment or facility belonging to the customer that has resulted in the loss of life, has had a material effect on the environment or has resulted in a material breach of the law.

Taxonomy eligible activities
The EU Taxonomy is a regulatory classification tool encompassing a standard set of definitions for sustainable economic activities centered around six environmental objectives. The tool aims to standardize reporting, provide clarity on what is 'sustainable' and encourage investment flows towards sustainable projects and activities.

Starting in January 2022, companies in scope of SFDR and NFRD are required to disclose Taxonomy eligibility on two of the environmental objectives: climate change mitigation and adaptation. An economic activity can be eligible for Taxonomy alignment if it can be mapped to one of the environmentally sustainable activities described in the Delegated Acts accompanying the Taxonomy Regulation.

As all of FMO's investments are made outside the EU in emerging markets, none of our counterparties are in scope of the NFRD and thus are not required to disclose their taxonomy eligibility or alignment. As FMO's eligibility disclosures must be based on actual information disclosed by financial or non-financial undertakings, and estimates are not permitted, for FMO's mandatory disclosures 0% of the balance sheet is Taxonomy eligible.

Total investment volume
Total investment volume is measured in terms of total committed portfolio and new investments. We report these numbers for FMO, public funds and mobilized funds.

Total committed portfolio
Total committed portfolio reflects the risk exposure taken by FMO or another party on active commitments. For debt this includes the outstanding portfolio plus remaining commitments that have not yet been disbursed, reduced by the guarantees received from third parties. For equity, it includes the current exposure plus the remaining commitment reserved for all previously made investments. For guarantees it includes the limit amount reduced by the guarantees received from third parties.

New investments
New investments refer to the volume of new commitments made to customers. This includes increases of an existing commitment and new commitments to existing or new customers. Both metrics cover investments made on FMO's own books as well as investments made through public funds that are under FMO's management or through funds that have been mobilized from third party participants. This includes all loans, equity investments, guarantees and mezzanine products. Grants provided through for instance the Capacity Development program and sub-delegated funds under the management of third parties are excluded from the results.

Direct mobilized amounts reflect the commitments made by third parties in a given reporting period, which distinguishes between new investments made to customers and transfers of risk from FMO to third parties. We focus on direct mobilization, which are investments made by other public and private participants due to the direct and active role of FMO. Indirect mobilization, where we participate in deals that are led by other DFIs and MDBs, is excluded. Direct mobilized funds include commitments made by syndicate partners, FMO loan commitments that have been transferred to a third party (funded risk participation), and credit risk related to specific loan commitments that have been transferred to a third party (unfunded risk participation). It excludes equity investments. Parallel loans fall under the definition of direct mobilization but are excluded from the total committed portfolio figures as payments are administered by each parallel partner in the transaction and, as such, are not known to FMO.

Alternative performance measures

In disclosing on our performance, FMO uses specific alternative performance measures (APMs) that are not defined by IFRS and different to what is included in the financial statements. APMs should not be considered as alternatives to the equivalent IFRS measures but rather as supplementary information in conjunction with the most directly comparable IFRS measures. Alternative performance measures do not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Where a non-financial measure is used to calculate an operational or statistical ratio, this is also considered an alternative performance measure.

Total committed portfolio

Total committed portfolio is most comparable to the 'gross exposure' that is reported in the financial statements, with a few notable differences. Gross exposure includes on balance items for FMO only and includes accruals. Total committed portfolio includes on balance (excluding accruals) as well as off balance items for FMO, public funds under FMO's management and Direct Mobilized funds. Total committed portfolio is the sum of outstanding portfolio and remaining commitments.

The outstanding portfolio for debt is equal to the 'principal amount outstanding' reduced to the amount of the used Unfunded Risk Participation, if any; for the equity portfolio (including associates) this is equal to the sum of fair value of the underlying assets. For guarantees, this is equal to the 'effective guarantees issued' (contingent liabilities) that have been called.

The remaining commitment is an off balance item. This consists of the committed not disbursed amount, or in other words the principal amount available for disbursement to the customer by the funding party. The funding party can be FMO, the public funds under FMO's management or Direct Mobilized funds. In the case of guarantees, this includes the contingent liabilities that are reported in the financial statements.

New investments

New investments is a business term that is specifically used for steering purposes with a unique set of business rules that cannot be reconciled with any of the items reported in the cashflow or any other information included in the financial statements.

Regular income

FMO's regular income relates to income following from financing activities and administrative services. Regular income does not include income related to value adjustments of financial instruments and consists of net interest income, net fee and commission income, dividend income and remuneration from services rendered.

Impairments and revaluations

Impairments and revaluations relate to gains/losses following from value adjustments of FMO's loan portfolio. Impairments can be reconciled to the consolidated profit and loss account. Revaluations include fair value gains/losses (presented under line item 'results from financial transactions') arising from the loan portfolio measured at FVPL and gains/losses due to derecognition.

Results on derivatives

Result on derivatives relate to gains/losses following from valuation adjustments of FMO's derivative portfolio. These are included under line item 'results from financial transactions' in the consolidated profit and loss account.

Return on average shareholders' equity

A measure to indicate how the profitability is in relation to the average shareholders' equity. This financial metric is expressed in the form of a percentage which is equal to net profit/(loss) divided by the average shareholders' equity for prior year and current reporting year.

Return on assets

A measure that indicates how the profitability is in relation to total assets. The financial metric is expressed in the form of a percentage which is equal to net profit/(loss) divided by the total assets for a specific reporting year.

05 Consolidated Annual Accounts

"Our global presence in renewable development has helped prepare us for delivering change in challenging times."

Aiden Wildschut
Scatec | South-Africa

Consolidated balance sheet

For the year ended December 31, 2021

	Notes	2021	2020
Assets			
Banks	(1)	95,873	46,775
Current accounts with State funds and other programs	(2)	648	678
Short-term deposits	(3)		
-of which: Amortized cost		1,149,877	994,814
-of which: Fair value through profit or loss		193,302	302,547
Other receivables	(4)	22,477	17,370
Interest-bearing securities	(5)		
-of which: Amortized cost		463,971	371,076
Derivative financial instruments	(6)	235,673	462,269
Loans to the private sector	(7)		
-of which: Amortized cost		4,152,713	4,172,748
-of which: Fair value through profit or loss		621,978	585,716
Equity investments	(9)		
-of which: Fair value through OCI		140,425	115,504
-of which: Fair value through profit or loss		1,876,825	1,688,437
Investments in associates	(10)	298,737	179,955
Property, plant and equipment	(11)	27,243	29,504
Intangible assets	(12)	17,958	20,867
Deferred income tax assets	(30)	5,589	9,847
Total assets		**9,303,289**	**8,998,107**
Liabilities			
Short-term credits	(13)	123,359	341,199
Current accounts with State funds and other programs	(14)	1,017	214
Derivative financial instruments	(6)	192,225	129,592
Debentures and notes	(15)	5,426,596	5,485,949
Current tax liabilities	(30)	36,929	3,863
Wage tax liabilities		576	429
Accrued liabilities	(16)	28,208	42,203
Other liabilities	(17)	22,400	26,704
Provisions	(18)	27,592	66,190
Deferred income tax liabilities	(30)	10,748	5,063
Total liabilities		**5,869,650**	**6,101,406**
Shareholders' equity			
Share capital		9,076	9,076
Share premium reserve		29,272	29,272
Contractual reserve		2,658,032	2,180,172
Development fund		657,981	657,981
Fair value reserve		30,910	26,200
Actuarial result pensions		-7,433	-17,156
Translation reserve		-392	-17,727
Other reserves		43,338	32,162
Undistributed result		12,831	-3,347
Shareholders' equity (parent)		**3,433,615**	**2,896,633**
Non-controlling interests		24	68
Total shareholders' equity		**3,433,639**	**2,896,701**
Total liabilities and shareholders' equity	**(19)**	**9,303,289**	**8,998,107**

Consolidated profit and loss account

For the year ended December 31, 2021

	Notes	2021	2020
Income			
Interest income from financial instruments measured at AC		278,420	321,862
Interest income from financial instruments measured at FVPL[1]		-11,857	1,771
Interest expenses from financial instruments measured at AC		-106,780	-120,828
Interest expenses from financial instruments measured at FVPL[2]		71,084	38,351
Interest expenses on leases		-158	-168
Net interest income	**(20)**	**230,709**	**240,988**
Dividend income	(21)	22,066	32,908
Results from equity investments	(22)	295,535	-210,844
Total results from equity investments		**317,601**	**-177,936**
Fee and commission income		11,568	7,393
Fee and commission expense		-5,871	-3,794
Net fee and commission income	**(23)**	**5,697**	**3,599**
Results from financial transactions	(24)	-26,419	-10,808
Remuneration for services rendered	(25)	32,257	29,936
Gains and losses due to derecognition	(26)	5,135	2,000
Other operating income	**(27)**	**116**	**293**
Total other income		**11,089**	**21,421**
Total income		**565,096**	**88,072**
Operating expenses			
Staff costs	(28)	-73,121	-101,193
Administrative expenses	(29)	-28,802	-30,038
Depreciation and impairment of PP&E + intangible assets	(11), (12)	-11,934	-12,665
Other operating expenses		-293	-254
Total operating expenses		**-114,150**	**-144,150**
Impairments on			
Interest-bearing instruments	(5)	51	-36
Loans	(7),(8)	3,257	-76,406
Loan commitments	(31)	1,841	877
Guarantees issued	(31)	3,917	-2,817
Total impairments		**9,066**	**-78,382**
Results on associates			
Share in the result of associates		**63,902**	**-66,416**
Profit/(loss) before taxation		**523,914**	**-200,876**
Income tax	(30)	-33,268	-4,391
Net profit/(loss)		**490,646**	**-205,267**
Net profit/(loss) attributable to			
Owners of the parent company		490,690	-205,232
Non controlling interest		-44	-35
Net profit/(loss)		**490,646**	**-205,267**

1 Amount is related to interest from those derivative financial instruments (economic hedges) that are associated with the 'loans to the private sector' and is therefore considered as 'interest income'.

2 Amount is related to interest from those derivative financial instruments (hedge accounting and economic hedges) that are associated with 'debentures and notes' and therefore considered as 'interest expense'.

Consolidated statement of comprehensive income

For the year ended December 31, 2021

	Notes	2021	2020
Net profit/(loss)		**490,646**	**-205,267**
Other comprehensive income			
Share of other comprehensive income of associates due to exchange differences		17,335	-14,985
Income tax effect		-	-
Items to be reclassified to profit and loss	**(32)**	**17,335**	**-14,985**
Fair value reserve of equity instruments at FVOCI		24,919	-7,458
Actuarial gains/losses on defined benefit plans	(18)	12,857	-5,027
Income tax effect		-8,819	2,421
Items not reclassified to profit and loss	**(32)**	**28,957**	**-10,064**
Total other comprehensive income, net of tax		**46,292**	**-25,049**
Release from fair value reserve		-14,524	-
Total comprehensive income		**522,414**	**-230,316**

Total comprehensive income attributable to:			
Owners of the parent company		522,458	-230,281
Non-controlling interests		-44	-35
Total comprehensive income		**522,414**	**-230,316**

Consolidated statement of changes in shareholders' equity

For the year ended December 31, 2021

	Share capital	Share premium reserve	Contrac-tual reserve	Develop-ment fund	Fair value reserve	Actuarial result pensions	Trans-lation reserve	Other reserves	Undis-tributed result	Non-controlling interests	Total
Balance at January 1, 2020	**9,076**	**29,272**	**2,379,350**	**657,981**	**33,082**	**-13,974**	**-2,742**	**32,162**	**2,707**	**123**	**3,127,037**
Exchange differences on associates	-	-	-	-	-	-	-14,985	-	-	-	-14,985
Fair value reserve of equity instruments at FVOCI	-	-	-	-	-7,458	-	-	-	-	-	-7,458
Actuarial gains/ losses on defined benefit plans	-	-	-	-	-	-5,027	-	-	-	-	-5,027
Income tax effect other comprehensive income	-	-	-	-	576	1,845	-	-	-	-	2,421
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**-6,882**	**-3,182**	**-14,985**	**-**	**-**	**-**	**-25,049**
Changes in subsidiary Equis DFI Feeder L.P.[2]	-	-	-	-	-	-	-	-	-	-20	-20
Net profit[1]	-	-	-199,178	-	-	-	-	-	-6,054	-35	-205,267
Dividends	-	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2020	**9,076**	**29,272**	**2,180,172**	**657,981**	**26,200**	**-17,156**	**-17,727**	**32,162**	**-3,347**	**68**	**2,896,701**
Exchange differences on associates	-	-	-	-	-	-	17,335	-	-	-	17,335
Fair value reserve of equity instruments at FVOCI	-	-	-	-	24,919	-	-	-	-	-	24,919
Actuarial gains/ losses on defined benefit plans	-	-	-	-	-	12,857	-	-	-	-	12,857
Income tax effect other comprehensive income	-	-	-	-	-5,685	-3,134	-	-	-	-	-8,819
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**19,234**	**9,723**	**17,335**	**-**	**-**	**-**	**46,292**
Changes in subsidiary Equis DFI Feeder L.P.[2]	-	-	-	-	-	-	-	-	-	-	-
Release from fair value reserve	-	-	-	-	-14,524	-	-	14,524	-	-	-
Net profit /(loss)[1]	-	-	477,860	-	-	-	-	-3,348	16,178	-44	490,646
Dividend declared	-	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2021	**9,076**	**29,272**	**2,658,032**	**657,981**	**30,910**	**-7,433**	**-392**	**43,338**	**12,831**	**24**	**3,433,639**

1 Under the Agreement State-FMO of November 16, 1998, it is required to add this part of the net profit to the contractual reserve. Therefore this profit is not distributable.

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

Consolidated statement of cash flows

For the year ended December 31, 2021

	Notes	2021	2020
Operational activities			
Net profit/(loss)		490,646	-205,267
Adjustment for non-cash items:			
- Result of associates		-63,902	66,416
- Unrealised (gains) losses arising from changes in fair value[1]		-75,501	192,831
- Unrealised (gains) losses arising from changes in foreign exchange rates		-217,808	218,830
- Unrealised (gains) losses arising from other changes[2]		-7,354	-11,274
- Amortization of premiums/discounts debentures and notes		-3,744	8,488
- Impairments		-9,066	78,382
- Depreciation and impairment of PP&E and intangible assets	(11),(12)	11,934	12,665
- Income tax expense/(gain)		33,268	4,391
Changes in:			
- Income taxes payable / receivable		-3,863	46,484
- Loans		224,328	-222,271
- Equity investments		94,358	-117,423
- Other assets and liabilities[3]		-48,877	10,919
- Short-term deposits > 3 months[3]		-43,911	-76,116
- Short-term credits[3]		-222,151	239,794
Net cash flow from operational activities	**(33)**	**158,357**	**246,849**
Investment activities			
Purchase of interest-bearing securities	(4)	-160,324	-104,234
Redemption of interest-bearing securities	(4)	77,317	77,463
Investments in PP&E and intangible fixed assets	(11),(12)	198	-13,758
Disinvestments in PP&E and intangible fixed assets	(11),(12)	852	2,563
Investments in Associates	(10)	-38,006	-13,977
Disinvestments in Associates	(10)	636	20,779
Net cash flow from investment activities	**(34)**	**-119,327**	**-31,164**
Financing activities			
Proceeds from issuance of debt securities, debentures and notes	(15)	627,296	1,180,466
Redemption of debt securities, debentures and notes	(15)	-709,702	-1,376,328
Lease payments	(11)	-3,367	-3,402
Dividend paid		-	-
Net cash flow from financing activities	**(35)**	**-85,773**	**-199,264**
Net cash flow		**-46,743**	**16,421**
Cash and cash equivalents			
Net foreign exchange difference		97,748	-110,388
Banks and short term deposits at January 1		1,344,136	1,438,103
Banks and short term deposits at December 31	(36)	1,395,141	1,344,136
Total cash flow		**-46,743**	**16,421**
Operational cash flows from interest and dividends			
Interest received		271,751	326,523
Interest paid		-35,695	-82,478
Dividend received		22,066	32,908
Interest paid for lease liabilities		-158	-168

1 Unrealized (gains) losses arising from changes in fair value related to fair value changes in loans to private sector, derivatives, equity investments, debentures and notes.

2 Unrealized (gains) losses arising from other changes relate to changes in accrual and amortizable fees of financial assets and liabilities.

3 Movement is excluding foreign exchange results. Foreign exchange results are included in unrealized gains (losses) arising from foreign exchange rates.

Accounting policies

Corporate information

The 2021 financial statements of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereafter referred to as ‘FMO’ or ‘the company’) were prepared by the members of the Management Board and signed by all members of the Management Board and the Supervisory Board on March 16, 2022 and will be submitted for adoption in the General Meeting of Shareholders on April 28, 2022.

FMO was incorporated in 1970 as a public limited company with 51% of shares held by the Dutch Government and 49% held by commercial banks, state unions and other members of the private sector. The company is located at Anna van Saksenlaan 71, 2593 HW The Hague, The Netherlands and is registered under ID 27078545 in the Chamber of Commerce. FMO finances activities in developing countries to stimulate private sector development. In addition, FMO provides services in relation to government funds and programs.

Financing and investing activities

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

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

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

We arrange syndicated loans to mobilize funds, by bringing together investors – commercial banks and other development finance institutions (DFIs) - with FMO for structuring these transactions. This enables us to provide our clients with increased access to finance and more diversified lending, while giving our financial partners efficient opportunities to enter new markets.

Commercial fund management

FMO's subsidiary, FMO Investment Management B.V. (FMO IM), works with third party investment funds, which participate in FMO’s transactions in emerging and developing markets. Through these funds FMO IM offers investors access to our expertise in responsible emerging market investing.

Services in relation to government and public funding

Apart from financing activities from its own resources, FMO provides loans, guarantees and equity capital from government funding, within the conditions and objectives stipulated in the agreements. The funding consist of subsidies provided under the General Administrative Law Act regarding MASSIF, Access to Energy Fund (AEF), Building Prospects, Capacity Development Program (CD), Partnership Development Fund (PDF) (transferred to Invest International per October 1, 2021), Development Accelerator (DA) (transferred to Invest International per October 1, 2021), Fund Emerging Markets for Developing Countries (also called FOM-OS) and Dutch Fund for Climate and Development (DFCD). In addition, funding is provided by the UK Government for Mobilizing Finance for Forests (MFF). The FOM - OS program will terminate as per December 31, 2021.

FMO incurs a risk in MASSIF as it has an equity share of 2.17% (2020: 2.17%). With respect to the remaining interest in MASSIF, and the full risk in the other government programs, FMO has a contractual right and obligation to settle the results arising from the programs’ activities with the Dutch Government. The economic risks related to these funds are predominantly taken by the Dutch Government, and FMO has limited control over policy issues regarding these funds. FMO receives a remuneration fee for managing these funds. Therefore, with the exception of FMO’s equity share in MASSIF, the funds' assets, results and liabilities are not included in the annual accounts.

The European Development Financial Institutions (EDFI) Management Company (of which FMO is one of the shareholders together with the other EDFIs) was established in Brussels to manage European Commission (EC) funding for the Electri-FI global facility, the Agri-FI investment facility and the Electri-FI Country. FMO, as accredited entity for the EC, acts as delegatee (contractee) for the EC and has sub-delegated all operational activities related to these facilities to the EDFIMC.

FMO was accredited by Green Climate Fund (GCF) and capitalizes on FMO's experience in mobilizing and enabling the private sector in developing countries towards low-emission and climate-resilient investments. In this context, FMO has received funds from the EU, USAID and the Dutch Government with the purpose to invest directly in Climate Investor One (CIO), a facility raised by FMO and managed by Climate Fund Managers (CFM). Climate Investor One (CIO) is a blended finance, capital-recycling facility mandated with delivering renewable energy infrastructure projects in emerging markets through its contribution to each phase of a projects lifecycle.

The EC and FMO have an agreement for risk sharing facility NASIRA for an amount of €75 million. The facility uses guarantees to allow banks to on-lend to underserved entrepreneurs within the European neighborhood and Sub-Saharan Africa. The goal of these guarantees is to allow local banks to provide loans to groups they perceive as too risky. Following the COVID - 19 outbreak, the EC together with FMO scaled up the NASIRA facility. This measure is a joint response and include a top-up of €25 million from the European Fund for Sustainable Development and an expansion in scope to support COVID-19 affected entrepreneurs.

Furthermore, FMO and the European Commission (EC) signed the guarantee agreement for the FMO Ventures Program. The EC has provided €40 million in guarantees to FMO’s innovative early-stage investment program. The program will aim to invest a total of €200 million in both fund and direct investments in Africa, the European Neighborhood and Asia (excluding China). Next to equity investments, the Program will also have a dedicated technical assistance program, for which the EC is providing €6.5 million, to support investees of FMO Ventures Program and will promote the development of local Venture Capital ecosystems.

In 2021, Mobilizing Finance for Forests (MFF) was established by the United Kingdom (UK) government as a blended finance investment program to combat deforestation and other environmentally unsustainable land use practices contributing to global climate change. Through MFF, FMO has been appointed by the UK government to invest up to £150 million across a mix of investment funds and direct investments in selected tropical forest regions in Africa, Asia and Latin America.

Significant accounting policies

Basis of preparation

The consolidated annual accounts (the ‘annual accounts’) have been prepared in accordance with International Financial Reporting Standards (‘IFRS’) as endorsed by the European Union and with Part 9 of Book 2 of the Dutch Civil Code for the financial period ended on December 31, 2021. These annual accounts are based on the ‘going concern’ principle.

The consolidated annual accounts are measured at historical cost except for:

- Money market funds, commercial paper and all derivative instruments that are mandatory measured at fair value;
- Equity investments which are measured mandatory at fair value through profit and loss (FVPL) or fair value through other comprehensive income (FVOCI);
- The part of loans to the private sector which is measured (mandatory) at fair value (refer to business model assessment and contractual cash flow assessment in this chapter below)
- The carrying value of debt issued that qualifies for hedge accounting, is adjusted for changes in fair value related to the hedged risk;
- The provision for defined benefit pension obligations is calculated using the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, after adjusting for unrecognized actuarial gains/losses and past service costs.

Loans to the private sector and private equity investments (including FVOCI) are recognized on the balance sheet when funds are transferred to the customers’ account. Other financial assets and liabilities are recognized on the same day that FMO becomes a party to the contractual terms and conditions of the financial instrument.

Group accounting and consolidation

The company accounts of FMO and the company accounts of the subsidiaries Asia Participations B.V., FMO Investment Management B.V., Equis DFI Feeder L.P. and Nedlinx B.V. are consolidated in these annual accounts. During 2021, FMO Medu II Investment Trust Ltd. and Nuevo Banco Comercial Holding B.V. were liquidated and are no longer part of the consolidation structure of FMO's consolidated accounts. The subsidiaries were 100% owned by FMO. They were inactive at the time of liquidation with the balance sheets comprising only immaterial balances for equity and other reserves. The liquidation of these entities did not result in a transfer of assets, liabilities or consideration and does not have a material impact on FMO's balance sheet or FMO's current business activities.

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

Fiscal Unity

FMO forms a fiscal unity for corporate income tax purposes with its fully-owned Dutch subsidiaries Asia Participations B.V. and FMO Investment Management B.V. As a consequence, FMO is liable for all income tax liabilities for these subsidiaries.

Adoption of new standards, interpretations and amendments

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

Interest Rate Benchmark - Reform Phase 2 - Amendments to IFRS 9, IAS 39 and IFRS 7

These amendments, mandatory and effective from 1 January 2021, provide reliefs and practical expedients on issues that affect financial reporting when an existing interest rate benchmark is replaced with a RFR. No early adoption of Phase 2 amendments is implemented by FMO. The main IBOR rate used by FMO is USD LIBOR for pricing of loans to private sector, derivatives and debentures and notes (funding). FMO will use SOFR as the successor base rate for USD LIBOR. FMO is managing the transition in the form of the BMR&IBOR project and has planned the transition in various working streams. FMO has prepared to originate new loans, derivatives and funding with new reference rates as from the fourth quarter of 2021. Moreover, the switch in discounting regime has taken place in fourth quarter of 2021 for bilateral derivatives (cross currency and interest rate swaps) for majority of FMO's swap counterparties. This transition did not have a material impact on the financial statements. The LIBOR SOFR transition of existing loans and remaining derivatives to the new reference rates is planned from 2022 onwards and is expected to last up to the first half-year of 2023.

Considering the transitions in 2020 and 2021 from EONIA to ESTR discounting and from FedFunds to SOFR discounting did not have a material impact from a financial perspective, the effect of the transition further is expected to be immaterial. The impact related to the operational aspect is considered as medium.

The table below summarizes the maximum amount of exposures per financial instrument category impacted by IBOR reform as per December 31, 2021.

	USD LIBOR	EURIBOR	Other benchmark rates	Not subject to IBOR Reform	Total
Non-derivative financial assets					
Loans to private sector	2,176,383	357,282	227,487	2,137,461	4,898,614
Non - derivative financial liabilities					
Debentures and notes	-	-	120,183	5,263,067	5,383,250
Derivatives (notional amounts)					
o/w: Hedge Accounting	1,645,091	1,770,000	995,414	-	4,410,505
o/w: Other Derivatives	4,022,029	119,671	-	-	4,141,700

COVID-19-Related Rent Concessions and COVID-19-Related Rent Concessions beyond June 30, 2021 – Amendments to IFRS 16

IFRS 16 Leases has been amended to make it easier for lessees to account for COVID-19-related rent concessions such as rent holidays and temporary rent reductions. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021. The amendment was effective from June 1, 2020.

In March 2021, the Board amended IFRS 16 to extend the availability of the practical expedient by one year (2021 amendment). The practical expedient in the 2021 amendment applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022, provided the other conditions for applying the practical expedient are met. The amendment applies to annual reporting periods beginning on or after April 1, 2021.

FMO has not made use of any rent concessions.

Issued but not yet adopted standards

Other significant standards issued, endorsed by the European Union but not yet effective up to the date of issuance of FMO's Annual Report 2021, are listed below.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts. In June 2020 IFRS 17 was amended whereby the effective date was extended to financial periods beginning on or after January 1, 2023. This standard does not have an impact on FMO.

Amendments to IFRS 3 - Reference to the Conceptual Framework

The amendments to IFRS 3 update the reference to the 2018 Conceptual Framework, as well as making reference to IAS 37 when determining whether a present obligation exists as a part of an acquisition. In addition, IFRS 3 now explicitly states contingent assets acquired in a business combination are not recognised. The amendments are effective for business combinations entered into on or after 1 January 2022. They are not expected to have a significant impact on FMO's treatment of business combinations.

Amendments to IAS 16 - Property, Plant and Equipment - Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. The amendments are effective for annual periods beginning on or after 1 January 2022 and are applied retrospectively. Given the nature of FMO's property, plant and equipment, this amendment is not expected to have a significant impact on the accounting treatment of these items.

Amendments to IAS 37 - Onerous Contracts

The amendments provide clarity on which costs an entity considers in assessing whether a contract is onerous. The amendments are effective for annual periods beginning on or after 1 January 2022 and to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. There are currently no contracts which FMO believes will be significantly impacted by the amendments.

Annual Improvements 2018-2020

Subsidiary as a First-Time Adopter (IFRS 1)

IFRS 1 allows subsidiaries that become a first-time adopter later than its parent to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements. The amendment extends this relief to the cumulative translation differences for foreign operations. The amendment is effective for annual periods beginning on or after 1 January 2022. The amendment will not have an impact on the consolidated financial statements of FMO.

Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (IFRS 9)

When considering the derecognition of a financial liability, IFRS 9 indicates that the terms of the instrument are deemed to be substantially different (and therefore qualify for derecognition) if the discounted present value of the remaining cash flows under the new terms are at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability ('10 per cent' test). The amendment clarifies which fees an entity should include when applying the '10 per cent' test. The amendment is effective for annual periods beginning on or after 1 January 2022 and is not expected to have a significant impact on the accounting treatment for derecognition of financial liabilities.

Taxation in fair value measurements (IAS 41)

The amendment removes the requirement for entities to exclude tax related cash flows when measuring the fair value of assets in the scope of IAS 41. The amendments apply to the financial period beginning 1 January 2022 and will have no impact on the FMO annual financial statements.

Lease Incentives (IFRS 16)

The amendment removes an illustrative example on the reimbursement of leasehold improvements and has no impact on the accounting treatment for leases.

Other significant standards issued, not yet endorsed by the European Union and not yet effective up to the date of issuance of FMO's Annual Report 2021, are listed below.

Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current

These amendments affect the presentation of liabilities in the statement of financial position. They clarify the considerations that determine whether a liability should be classified as current or non-current. The amendments are not expected to have an impact on how FMO classifies liabilities in the statement of financial position. The amendments are effective from 1 January 2023 and are applied retrospectively.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful. The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments are not expected to change the way FMO applies materiality judgements.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a new definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments are not expected to have a material impact on FMO and will be considered for judgement purposes, when changes are to be applied in a reporting period.

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify the application of the initial recognition exemption provided in IAS 12. The initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. The amendments are not expected to have a significant impact for FMO.

Significant estimates, assumptions and judgments

In preparing the annual accounts in conformity with IFRS, management is required to make estimates and assumptions affecting reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment is inherent to the formation of estimates. Although these estimates are based on management’s best knowledge of current events and actions, actual results could differ from such estimates and the differences may be material to the annual accounts. For FMO the most relevant estimates and assumptions relate to:

- The determination of the fair value of loans to private sector, derivative financial instruments and equity investments based on generally accepted modeled valuation techniques;
- The determination of the ECL allowance for loans to private sector, loans commitments, guarantees given, interest bearing securities;
- The estimation of pension liabilities.

Information about judgements made in applying accounting policies are related to the following:

- Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payments of principal and interest;
- The inputs and calibration of the ECL models which include the various formulas and the choice of inputs, aging criteria and forward-looking information.
- Assessment of risks, rewards and control, when considering the recognition and derecognition of assets or liabilities and the consolidation or deconsolidation of structures.

Changes in accounting estimate

Management overlay - ECL Stage 1 and Stage 2 - COVID - 19

In the first half of 2020, a management overlay ('country crisis override') was introduced to reflect the impact of significant increases in credit risk on certain exposures of the loan portfolio, as a result of COVID-19. The overlay was derived by changing the country cap applied when assessing the client's credit rating as a part of calculating the expected credit losses (‘ECL’). During the second half of 2020 FMO partially unwound the country crisis overrides on exposures where more relevant and up-to-date customer information become available for use in the regular ECL calculation process. The overall impact of the country crisis overrides in the financial results for the year ending December 2020 was an increase in impairments of EUR 34 million. During the first half of 2021, FMO continued to substitute credit ratings previously overwritten as a part of the country crisis override as new relevant information became available. Updated

information is available for most customers as of this reporting date, thereby negating the need for manually overwritten client ratings.
After taking into account updated individual client ratings, there has been a release of Stage 1 and Stage 2 allowances of approximately EUR 11 million for the current loan portfolio. The remaining impact of the 2020 overlay is released due to a large number of prepayments during 2021 or is embedded in the updated individual client ratings.

Foreign currency translation

The Consolidated Annual Accounts are stated in euros, which is the presentation and functional currency of FMO. All amounts are denominated in thousands of euros unless stated otherwise. In accordance with IAS 21, foreign currency transactions are translated to euro at the exchange rate prevailing on the date of the transaction. At the balance sheet date, monetary assets and liabilities are reported using the closing exchange rate. Non-monetary assets that are not measured at cost denominated in foreign currencies are reported using the exchange rate that existed when fair values were determined.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the profit and loss account under 'results from financial transactions'.

Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. When a gain or loss for non-monetary financial asset is recognized through FVOCI (fair value through other comprehensive income), any foreign exchange component of the gain or loss is also recognized through FVOCI.

When preparing the annual accounts, assets and liabilities of foreign subsidiaries and FMO's share in associates are translated at the exchange rates at the balance sheet date, while income and expense items are translated at weighted average rates for the period. Differences resulting from the use of closing and weighted average exchange rates, and from revaluation of a foreign entity's opening net asset value at closing rate, are recognized directly in the translation reserve within shareholders' equity. These translation differences are maintained in the translation reserves until disposal of the subsidiary and/or associate.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and when there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. FMO only applies offsetting on derivatives with a master netting agreement.

Fair value of financial instruments

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

Amortized cost and gross carrying amount

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

Gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Assets

Financial assets - classification

On initial recognition, a financial asset is classified as measured at amortized cost (AC), fair value through P&L (FVPL) or fair value through other comprehensive income (FVOCI).

A financial asset is measured at AC if it meets both of the following conditions and is not classified as at FVPL:

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

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

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

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

Derivatives are mandatorily held at FVPL.

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

Transaction costs related to financial assets, not measured at FVPL, are directly added to its fair value for initial recognition and therefore attributed directly to its acquisition.

Business model assessment

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

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

Financial assets whose performance is measured on a fair value basis are carried at FVPL because they are neither held to collect the contractual cash flows nor are they held both to collect contractual cash flows and to sell financial assets.

Contractual cash flow assessment

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

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

Reclassification

Financial assets can be only reclassified after initial recognition in very infrequent instances. This happens if the business model for managing financial assets has changed and this change is significant to FMO operations.

Cash and cash equivalents (Banks and Short-term deposits)

Cash and cash equivalents consist of banks and short-term deposits that usually mature in less than three months from the date of acquisition. Short-term deposits are all measured at AC with the exception of money market funds and commercial paper which are measured at FVPL. These financial instruments are very liquid with high credit rating and which are subject to an insignificant risk of changes in fair value. There is no restriction on these financial instruments and FMO has on demand full access to the carrying amounts. Unrealized gains or losses on the money market funds & commercial loan portfolio (including foreign exchange results) are reported in the results from financial transactions.

Interest bearing Securities

Interest bearing securities include bonds which are held for long-term liquidity purposes. These securities are measured at AC since they comply with the classification requirements for AC as indicated in the section 'Financial assets – classification'. The securities are initially measured at fair value of the consideration paid, including transaction costs incurred. Subsequently, they are measured at AC using the effective interest rate method. For the interest-bearing securities an ECL allowance is estimated. For more details on ECL allowance we refer to the section 'Financial assets – Impairment'.

Loans to private sector

Loans originated by FMO include:

- Loans to the private sector in developing countries for the account and risk of FMO;
- Loans provided by FMO and to a certain level, guaranteed by the Dutch government.

Loans to the private sector on the balance sheet of FMO include:

- Loans measured at AC which comply with the classification requirements for AC as indicated in the section 'Financial assets – classification'. These loans are initially measured at fair value of the consideration paid including incremental direct transaction costs incurred. Subsequently, the loans are measured at AC using the effective interest rate method;
- Loans mandatorily measured at FVPL which do not comply with the classification requirements for AC as indicated in the section 'Financial assets – classification'. These are measured at fair value with changes recognized in profit and loss.

Equity Investments
Equity investments on the balance sheet of FMO include investments in which FMO has no significant influence:

- Equity investments are measured at FVPL. FMO has a long-term view on these equity investments, usually selling its stake within a period of 5 to 10 years. Therefore these investments are not held for trading and are measured mandatorily at fair value with changes recognized in profit and loss;
- Equity investments designated as at FVOCI. The designation is made, since these are held for long-term strategic purposes and not for trading. These investments are measured at fair value. Dividends are recognized as income in profit and loss unless the dividend clearly represents a recovery part of the cost of the investment. Other net gains and losses are recognized in the fair value reserve (OCI) and are never reclassified to profit and loss.

Investments in associates
Measurement and criteria
Equity investments in companies in which FMO has significant influence (‘associates’) are measured using the equity accounting method. Significant influence is normally evidenced when FMO has from 20% to 50% of a company’s voting rights unless:

- FMO is not involved in the company’s operational and/or strategic management by participation in its Management, Supervisory Board or Investment Committee; and
- There are no material transactions between FMO and the company; and
- FMO makes no essential technical assistance available.

Investments in associates are initially recorded at cost and the carrying amount is increased or decreased after the date of acquisition to recognize FMO’s share of the investee’s profit or loss. Distributions received from the investee reduce the carrying amount of the investment.

Impairment of investments in associates
Investments in associates are reviewed and analyzed at least on a semi - annual basis. A net investment in an associate is impaired or impairment losses occur where there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the net investment and the loss event has an impact on the estimated future cash flows from the net investment that can be reliably estimated. A significant or prolonged decline in the fair value of an investment in an associate below its cost is considered as the primary objective evidence of impairment, in addition to other observable loss events. FMO considers more than 10% difference between fair value and its cost as significant and greater than one year as prolonged. When FMO decides to take an impairment on one of these investments, the impairment is recognized in the profit and loss account under 'Share in the results on associates'.

Property plant and equipment
Property plant and equipment (PP&E) includes tangible assets such as buildings, vehicles, furniture, and office equipment.

Furniture and leasehold improvements
Furniture and leasehold improvements are stated at historical cost less accumulated depreciation.

Depreciation of furniture and leasehold improvements
Depreciation for furniture and leasehold improvement is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. Useful life for furniture is 5 years and 5 to 10 years for leasehold improvements.

These assets are reviewed for impairment whenever triggering events indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are reported in operating profit.

IFRS 16 leases: right-of-use assets and lease liabilities
FMO records the right-of-use assets for it's operational leases according to IFRS 16. These assets consist of buildings, lease vehicles and office equipment.

FMO assesses whether a contract is or contains a lease, at inception of a contract. FMO recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for leases of low value assets (value below EUR 5 thousand). For these leases, FMO recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

FMO recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of use assets are subject to impairment testing. Useful life for buildings is 10 years. Useful life for vehicles is 5 years and for office equipment ranges from 3 to 5 years.

At the commencement date of the lease FMO recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable and amounts expected to be paid under residual value guarantees. In calculating the present value of lease payments, FMO uses the incremental borrowing rate at the lease commencement date as the interest rates implicit in the lease agreements are not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Interest expenses on IFRS 16 leases are recognized under a separate line under net interest income. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying value of the right-of-use asset.

Intangible assets

Software products

Expenditures directly associated with identifiable and unique software products or internally developed software, controlled by FMO and likely to generate economic benefits are recognized as assets. These assets include staff costs incurred to make these software products operable in the way management intended for these software products. These assets are recognized at cost less accumulated amortization and accumulated impairment losses. These assets generally have a definite useful life between 3 - 5 years.

Costs associated with maintaining software programs are recognized in the profit and loss account as incurred. Expenditure that enhances or extends the performance of software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software.

Amortization and impairment

Internally developed software is amortized on basis of the useful life on straight - line basis. Furthermore, these assets are tested for impairment when there is an indication of impairment, or annually in the case of software that is not yet ready for use. In case an asset is no longer in use, the asset is impaired.

Financial assets – Impairment

FMO estimates an allowance for expected credit losses for the following financial assets:

- Banks;
- Interest bearing securities;
- Loans to the private sector;
- Loan commitments and financial guarantee contracts issued (off balance items).

No impairment loss is recognized on equity investments. Specific impairment on loans which are guaranteed by the Dutch Government are taken by FMO for unguaranteed amounts, however these unguaranteed amounts can be eligible for compensation in specific cases.

Impairment stages loans to the private sector

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

- Stage 1 – Performing loans: when loans are first recognized, an allowance is recognized based on a 12-month expected credit loss;
- Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, an allowance is recorded for the lifetime expected credit loss;
- Stage 3 – a lifetime expected credit loss is recognized for these loans. In addition, in Stage 3, interest income is accrued on the AC of the loan net of allowances.

ECL measurement

The ECL model is primarily an expert based model and this model is frequently bench marked with other external sources if possible.

ECL measurement Stage 1 and Stage 2

ECL allowance reflects unbiased, probability-weighted estimates based on loss expectations resulting from default events over either a maximum 12-month period from the reporting date or the remaining life of a financial instrument. The method used to calculate the ECL allowances for Stage 1 and Stage 2 assets are based on the following parameters:

- PD: the Probability of Default is an estimate of the likelihood of default over a given time horizon. FMO uses a scorecard model based on quantitative and qualitative indicators to assess current and future clients and determine PDs. The output of the scorecard model is mapped to the Moody's PD master scale based on idealized default rates. For accounting purposes a point in time adjustment is made to these PDs using a z-factor approach to account for the business cycle;
- EAD: the Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, scheduled by contract or otherwise, expected draw downs and accrued interest from missed payments. Guarantees due to Unfunded Risk Participants are deducted from the Exposure at Default to an obligor for ECL measurement;
- LGD: the Loss Given Default is an estimate of FMO's loss arising in the case of a default at a given time. It is based on the difference between the contractual cash flows due and any future cashflows that the FMO would expect to receive;
- Z-factor: the z-factor is a correction factor to adjust the client PDs for current and expected future conditions. The z-factor adjusts the current PD and PD two years into the future. GDP growth rates per country from the IMF, both current and forecasted, are used as the macro-economic driver to determine where each country is in the business cycle. Client PDs are subsequently adjusted upward or downward based on the country where they are operating.

Macro economic scenarios in PD estimates

In addition to the country-specific z-factor adjustments to PD, FMO applies probability-weighed scenarios to calculate final PD estimates in the ECL model. The scenarios are applied globally, and are based on the vulnerability of emerging markets to prolonged economic downturn. The scenarios and their impact are based on IMF data and research along with historical default data in emerging markets.

The three scenarios applied are:

- Positive scenario: Reduced vulnerability to an emerging market economic downturn;
- Base scenario: Vulnerability and accompanying losses based on FMO's best estimate from risk models;
- Downturn scenario: Elevated vulnerability to an emerging market economic downturn.

ECL measurement Stage 3

The calculation of the expected loss for Stage 3 is different when compared to the Stage 1 and Stage 2 calculation. Reason for this is that loan-specific impairments provide a better estimate for Stage 3 loans in FMO's diversified loan portfolio. The following steps are taken which serve as input for the Investment Review Committee (IRC) to decide about the specific impairment level:

- Calculate probability weighted expected loss based on multiple scenarios including return to performing (and projected cash flows), restructuring, and write-off or sale;
- Based on these probability weights, a discount curve is generated and the discounted cashflow (DCF) model is used to determine the percentage to be applied on the outstanding amount of a loan;
- Take expected cash flows arising from liquidation processes, unfunded risk participations and “firm offers” into account. The cashflows from unfunded risk participations and "firm offers" serve as a cap for the provision (or a floor for the value of the loan).

Staging criteria and triggers

Financial instruments classified as low credit risk

FMO considers all financial instruments with an investment grade rating (BBB- or better on the S&P scale or F10 or better on FMO's internal scale) to be classified as low credit risk. For these instruments, the low credit risk exemption is applied and irrespective of the change of credit risk (as long as it remains investment grade) a lifetime expected credit loss will not be recognized. This exemption lowers the monitoring requirements and reduces operational costs. This exemption is applied for Interest bearing securities, Banks and Current accounts with subsidiaries and state funds.

No significant increase in credit risk since origination (Stage 1)

All loans which have not had a significant increase in credit risk since contract origination are allocated to Stage 1 with an ECL allowance recognized equal to the expected credit loss over the next 12 months. The interest revenue of these assets is based on the gross amount.

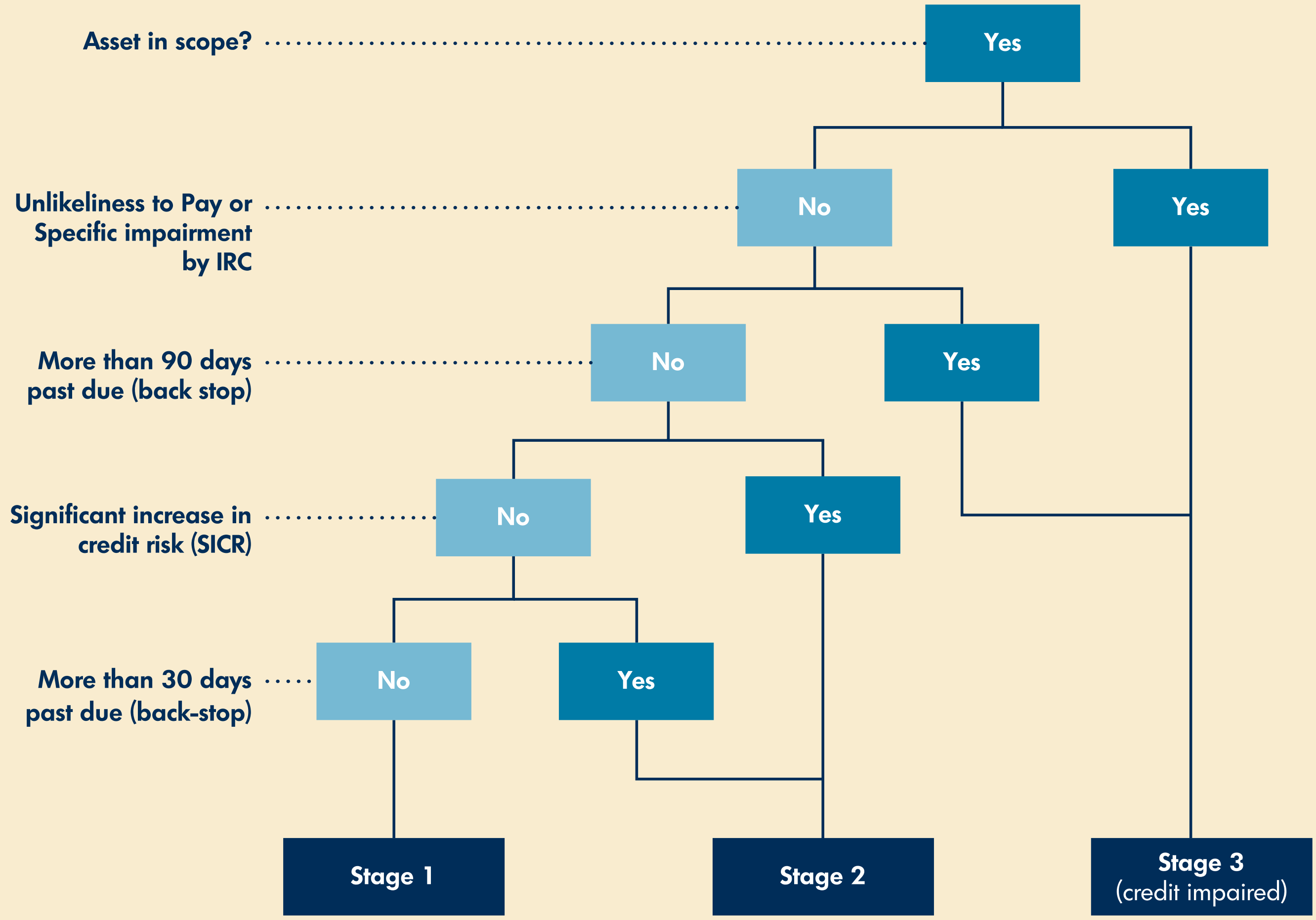
Significant increase in credit risk (Stage 2)
IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognized based on their lifetime ECLs. FMO considers whether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

- The fact that an early warning signal has triggered financial difficulty following a transfer to the watchlist;
- The fact that the financial asset is 30 days past due or more on any material obligation to FMO, including fees and excluding on charge expenses (unless reasonable information and supportable information is available demonstrating that the client can service its debt).

Definition of default - Stage 3 financial assets
A financial asset is considered in default when any of the following occurs:

- The client is past due more than 90 days on any material obligation to FMO, including fees (excluding on-charged expenses);
- FMO judges that the client is unlikely to pay its credit obligation to FMO due to occurrence of credit risk deterioration and the IRC decides on a specific impairment on individual basis. The triggers for deciding on specific impairment include among others bankruptcy, days of past due, central bank intervention, distressed restructuring or any material adverse change or development that is likely to result in a diminished recovery of debt;

The following diagram provides a high level overview of IFRS 9 staging triggers at FMO



Reversed staging
Reversed staging relates to criteria which trigger a stage transfer to Stage 1 for loans which are in Stage 3 or Stage 2. The following conditions must apply for a transfer to stages representing lower risk:

- Loans which are in stage 3 will revert to Stage 2 when the specific impairment is released by the IRC and there are no obligations past due for more than 90 days;
- Loans which are in stage 2 will only revert to stage 1 when there is no indication of financial difficulty and the exposure is removed from watchlist, the regulatory forbearance probation period of minimum two years has passed and no material amounts are past due for more than 30 days.

Written-off financial assets
A write-off is made when a claim is deemed non - collectible, when FMO has no reasonable prospects of recovery after, among others, enforcement of collateral or legal enforcement with means of lawsuits. Furthermore, a write-off is performed when the loan is being forgiven by FMO. There are no automatic triggers, which would lead to a write-off of the loan; specific impaired loans are assessed on individual basis depending on their circumstances. Generally when the impairment percentage exceeds 95%, the IRC is advised to consider a write - off.

Write-offs are charged against previously booked impairments. If no specific impairment is recorded on basis of IRC decision making from the past, the write-off is included directly in the profit and loss account under 'Impairments'.

Modification of financial assets
FMO has defined specific events-based triggers, related to the type of restructuring being carried out in order to determine whether a specific change in contractual terms gives rise to derecognition or modification, instead of relying only on a quantitative threshold related to differences in net present value (NPV).

Modification of contractual cashflows and terms and conditions, arise from lending operations where FMO enters into arrangements with their clients, which implies modifications to existing contractual cash flows or terms and conditions. Such arrangements are usually initiated by FMO when financial difficulty occurs or is expected with a borrower. The purpose of such an arrangement is usually to collect original debt over different terms and conditions from the borrower. Modifications may include extending the tenor, changing interest rate percentages or their timing, or changing of interest margin.

During the modification assessment, FMO will evaluate whether the modification event leads to a derecognition of the asset or to a modification accounting treatment. Generally loans that are sold to a third party or are written off lead to a derecognition. When existing debt is converted into equity, a derecognition of the debt will occur and recognized again on the balance sheet as equity. For modifications in interest percentages or tenor changes of existing amortized cost loans do not pass the SPPI test, the loan will also be derecognised and will be recognised as new loans on FMO's balance sheet according to the new classification.

When modification measures relate to changes in interest percentages or extensions of tenors and the loan is at amortized cost, FMO will recalculate the gross carrying amount of the financial asset by discounting the modified expected cash flows using the original effective interest rate and recognizes the difference in the gross carrying amount as a modification gain or loss in profit and loss. However when the NPV of the original loan is substantially different than the NPV of the modified loan, the original loan is derecognized and re-recognized on the balance sheet. FMO considers a variance of greater than 10% as substantially different.

Modification of contractual terms versus forbearance
Forbearance is not an IFRS term, but relates to arrangements with clients which imply modifications to cashflows or modification to existing terms and conditions due to financial difficulties of the client. Financial difficulties include, among others, prospects of bankruptcy or central bank intervention. Forbearance must include concessions to the borrower such as release of securities or changes in payment covenants that implies giving away payment rights. Forbearance measures do not necessarily lead to changes in contractual cash flows (e.g. waiver of specific covenant breaches).

Theoretically modification of contractual cash flows or terms and conditions, does not necessarily apply to clients in financial difficulties or performed due to potential higher credit risk. However at FMO, a modification of the contractual terms is usually initiated when financial difficulty occurs or is expected. Therefore only in exceptional cases, changes in modifications of contractual terms not following from credit risk related triggers, will not lead to forbearance e.g. in case of an environmental covenant breach. At FMO, generally modifications will follow from financial difficulties of the borrower and will be classified as forborne assets.

Derivative instruments

Derivative financial instruments are initially recognized at fair value on the date FMO enters into a derivative contract and are subsequently remeasured at fair value. Changes in the fair value of these derivative instruments are recognized immediately in profit and loss. All derivatives are classified as assets when fair value is positive and as liabilities when fair value is negative.

Embedded derivatives

Part of the derivatives related to the asset portfolio concerns derivatives that are embedded in other financial instruments. Such combinations are known as hybrid instruments and arise predominantly from providing mezzanine loans and equity investments.

Derivatives embedded in host contracts, where the host is a financial asset in the scope of IFRS 9, are not separated. Instead, the whole hybrid financial instrument as a whole is assessed for classification as set out in the section 'Financial assets- Classification'.

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. An assessment is carried out when FMO first becomes party to the contract. When there is a change in the terms of the contract that significantly modifies the expected cash flows, the modification results in derecognition of the original instrument and leads to recognition of a new instrument again on the balance sheet.

Treasury derivatives

FMO uses derivative financial instruments as part of its asset and liability management to manage exposures to interest rates and foreign currencies. FMO applies micro fair value hedge accounting to the funding portfolio with the purpose of mitigating exposure to interest rate risk (refer to hedge accounting paragraph in this section).

Furthermore, economic hedges are conducted to hedge items which do not fulfill the criteria of hedge accounting and are presented as 'Derivatives other than hedging derivatives'. Changes of market value for these derivatives are immediately recognized under profit or loss.

Definition Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the statement of profit or loss, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest- bearing instruments, amortized through the statement of profit or loss over the remaining term of the original hedge or recognized directly when the hedged item is derecognized. For non-interest-bearing instruments, the cumulative adjustment of the hedged item is recognized in the statement of profit or loss only when the hedged item is derecognized.

Hedge Accounting

FMO applies micro fair value hedge accounting when transactions meet the specified criteria. When a financial instrument is designated as a hedge, FMO formally documents the relationship between the hedging instrument(s) and hedged item(s). Documentation includes its risk management objectives and its strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. FMO only applies micro fair value hedge accounting on the funding portfolio. Changes in the fair value of these derivatives are recorded in the profit and loss account under results of financial transactions. Any changes in the fair value of the hedged liability that are attributable to the hedged risk are also recorded in the profit and loss account. If a hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the ‘unamortized fair value adjustment’) is amortized and included in net profit and loss over the remaining term of the original hedge. If the hedge item is derecognized, e.g. sold or repaid, the unamortized fair value adjustment is recognized immediately in profit and loss.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the statement of profit or loss, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, amortized through the statement of profit or loss over the remaining term of the original hedge or recognized directly when the hedged item is derecognized.

FMO only applies micro-hedging strategies to a part of the fixed rate funding portfolio, hence at hedge inception the prospective test is conducted.

A hedging relationship qualifies for hedge accounting, if it meets all of the below effective requirements:

- There is an economic relationship between the hedged item and the hedging instrument, Economic relationship means that the hedging instrument and the hedged item must be expected to move in opposite directions as a result of a change in the hedged risk;
- The effect of credit risk does not dominate the value changes that result from that economic relationship. In other words, credit risk that can arise on both the hedging instrument and the hedged item in the form of counterparty's credit risk or the entity's own credit risk does not have a very significant effect on the fair value of the hedged item or the hedging instrument;
- The critical terms of the hedged item and hedging instrument have a match. In case the critical terms of the hedge do not match, the hedge ratio is assessed. The hedge ratio defined as the ratio between the amount of hedged item and the amount of hedging instrument shall not reflect an imbalance that would create hedge ineffectiveness. For a perfectly match of the underlying of the hedging instrument with the designated hedged risk, the hedge ratio would be 1:1 or less. The level of the hedge will be discussed by Treasury and Risk Management.

Hedge accounting shall be discontinued if the qualification criteria are not met. The scenarios are as follows:

Scenario	Discontinuation
The risk management objective has changed	Full or partial
There is no longer an economic relationship between the hedged item and the hedging instrument	Full
The effect of credit risk dominates the value changes of the hedging relationship	Full
As part of rebalancing, the volume of the hedged item or the hedging instrument is reduced	Partial
The hedging instrument expires	Full
The hedging instrument is (in full or in part) sold, terminated or exercised	Full or partial
The hedged item (or part of it) no longer exists or is no longer expected to occur	Full or partial

Further reference is made to Note 'Derivative financial instruments and hedge accounting'.

Rebalancing
Rebalancing is performed to align accounting with what has happened in the actual basis relationship, between the hedged item and hedging instrument by either altering one of them. Rebalancing only affects the expected relative sensitivity between the hedged item and the hedging instrument going forward, as ineffectiveness from past changes in the sensitivity will have already been recognized in profit or loss. FMO will rebalance a hedging relationship if that relationship still has an unchanged risk management objective but no longer meets the hedge effectiveness requirements regarding the hedge ratio.

For more details on hedge accounting we refer to Note 'Derivative financial instruments and hedge accounting'.

Guarantees

Issued financial guarantee contracts are measured at the higher of:

- ECL allowance or the amount of the provision under the contract; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies as set out in sections 'Interest income' and 'Fee and commission income'. These fees are recognized as revenue on an accrual basis over the period commitment.

FMO applies the same methodology as loans to private sector for measurement of ECL allowance of guarantees. Refer to chapter 'Financial assets - impairment' in this section. Provisions resulting from guarantees are included in line item "Provisions" on the balance sheet.

Financial liabilities

Debentures and notes

Debentures and notes consist of medium-term notes under FMO's Debt Issuance Programme or other public issues. Furthermore a subordinated note is also included in the Debentures and Notes. Under IFRS this note is classified as financial liability, but for regulatory purposes it is considered as Tier 2 capital.

Debentures and notes can be divided into:

- Notes qualifying for hedge accounting (measured at AC and adjusted for the fair value of the hedged risk);
- Notes that do not qualify for hedge accounting (valued at AC).

Debentures and notes measured at amortized cost

Debentures and notes are initially measured at cost, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is AC, using the effective interest rate method to amortize the cost at inception to the redemption value over the life of the debt.

Debentures and notes eligible for hedge accounting

When hedge accounting is applied to debentures and notes, the carrying value of debt issued is adjusted for changes in fair value related to the hedged risk. The fair value changes are recorded in the profit and loss account. Further reference is made to sections 'Derivative instruments' and 'Hedge accounting' of this chapter.

Provisions

Provisions are recognized when:

- FMO has a present legal or constructive obligation as a result of past events; and
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

A provision is made for the liability for retirement benefits, loan commitments, guarantees, legal events and severance arrangements. Further reference is made to section 'Retirement benefits'.

Retirement benefits

FMO provides all employees with retirement benefits that are categorized as a defined benefit. A defined benefit plan is a pension plan defining the amount of pension benefit to be provided, as a function of one or more factors such as age, years of service or compensation.

This scheme is funded through payments to an insurance company determined by periodic actuarial calculations. The principal actuarial assumptions are set out in Note 18. All actuarial gains and losses are reported in shareholders' equity, net of applicable income taxes and are permanently excluded from profit and loss.

The net defined benefit liability or asset is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for unrecognized actuarial gains/losses and past service costs. Independent actuaries perform an annual calculation of the defined benefit obligation using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using, in accordance with IAS 19, interest rates of high-quality corporate bonds, which have terms to maturity approximating the terms of the related liability. FMO has a contract with a well-established insurer, in which all nominal pension obligations are guaranteed and the downside risk of pension assets is mitigated.

When the fair value of the plan's assets exceeds the present value of the defined benefit obligations, a gain (asset) is recognized if this difference can be fully recovered through refunds or reductions in future contributions. No gain or loss is recognized solely as a result of an actuarial gain or loss, or past service cost, in the current period.

FMO recognizes the following changes in the net defined benefit obligations under staff costs:

- Service costs comprising current service costs, past-service costs (like gains and losses on curtailments and plan amendments);
- Net interest expense or income.

Past-service costs are recognized in profit and loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that FMO recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

During 2021 FMO amended the defined benefit plan resulting in a curtailment to the plan and the introduction of a defined contribution plan that will be effective from 1 January 2022. The details of the amendment are described in the "Pension schemes" section within the Provisions note.

Taxation

Income tax profits is based on the applicable tax laws in each jurisdiction and recognized as an expense in the period in which profits arise. The tax effects of income tax losses, available for carry-forward, are recognized as a deferred tax asset if it is probable that future taxable profit will be available against which those losses can be utilized. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods using the liability method. Deferred tax assets are recognized for temporary differences, resulting in deductible amounts in future periods, but only when it is probable that sufficient taxable profits will be available against which these differences can be utilized.

The main temporary differences arise from the post-retirement benefits provision and the fair value movements on equity investments accounted for at FVOCI.

Shareholders' equity

Contractual reserve

The contractual reserve consists of the cumulative part of the annual net results that FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998. This reserve cannot be freely distributed.

Development fund

This special purpose reserve contains the allocations of risk capital provided by the Dutch Government to finance the portfolio of loans and equity investments.

Fair value reserve

The fair value reserve includes gains and losses of equity investments designated as at FVOCI. Gains and losses on such equity investments are never reclassified to profit or loss. Cumulative gains and losses recognized in this reserve are transferred to "Other reserves" on disposal of an investment.

Translation reserve

The assets, liabilities, income and expenses of foreign subsidiaries and associates are translated using the closing and weighted average exchange rates. Differences resulting from the translation are recognized in the translation reserve.

Actuarial result pensions

The unrealized actuarial gains and losses related to the defined benefit plans are included in the "Actuarial result pensions". The movements in this reserve are not reclassified to the profit and loss account.

Other reserves

The other reserves include the cumulative distributable net profits. Dividends are deducted from other reserves in the period in which they are declared.

Undistributed result

The undistributed result consists of the part of the annual result that FMO is not obliged to distribute under the Agreement Dutch State-FMO of November 16, 1998.

Non-controlling interests

The non-controlling interest is related to the investment in Equis DFI Feeder L.P. held by other investors.

Profit and loss

Net interest income: interest income and interest expenses

Interest income and interest expenses from financial instruments measured at AC are recognized in the profit and loss account for all interest-bearing financial instruments on an accrual basis using the ‘effective interest’ method based on the amortised cost at inception. Interest income and interest expenses also include amortized discounts, premiums on financial instruments and interest related to derivatives. When a financial asset measured at AC is credit-impaired and regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net AC of the financial asset. If the financial asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

Interest income and interest expenses from financial instruments measured at FVPL reflect fair value gains and losses mainly related to the derivatives portfolio. Interest on derivatives related to loans to the private sector is classified as interest income and interest on derivatives related to debentures and notes is classified as interest expense. Moreover, interest income from loans measured at FVPL are also recognized under 'Interest income from financial instruments measured at FVPL'.

Furthermore, interest expenses on IFRS 16 leases are recognized under the interest expenses separately

Fee and commission income and expense

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

- *Fees that are an integral part of the effective interest rate of a financial instrument (IFRS 9)*
  These fees (such as front-end fees) are generally treated as an adjustment to the effective interest rate. When the facility is not used and the commitment period expires, the fee is recognized at the moment of expiration. However, when the financial instrument is to be measured at fair value subsequent to its initial recognition, the fees are recognized as interest-income;
- *Fees earned when services are provided (IFRS 15)*
  Fees charged by FMO for servicing a loan (such as administration fees and agency fees) are recognized as revenue when the services are provided. Portfolio and other management advisory and service fees are recognized in line with the periods and the agreed services of the applicable service contracts;
- *Fees that are earned on the execution of a significant act (IFRS 15)*
  These fees (such as arrangement fees) are recognized as revenue when the significant act has been completed.

Dividend income

Dividends are recognized in dividend income when a dividend is declared. The dividend receivable is recorded at declaration date.

Results from equity investments

Gains and losses in valuation of FMO's equity investment portfolio are recognized under "Results from equity investments". These gains and losses include foreign exchange results of equity investments which are measured at fair value. As mentioned earlier, the foreign exchange results for equity investments, measured at fair value through OCI are recognized in the Shareholder's equity.

Results from financial transactions

Results from financial transactions include foreign exchange translation results (excluding foreign exchange results related to equity investments measured at fair value), valuation gains and losses related to derivatives, driven by changes in the market. Furthermore, the valuation gains and losses related to loans measured at fair value are recognized in the profit and loss under "Results from financial transactions".

Remuneration for services rendered

Remuneration for services rendered relate to fees which FMO receives from the Dutch and UK Government to manage subsidized programs on their behalf. These fees are recognized in accordance with IFRS 15. The performance obligations arising out of the program agreements are established at the inception of the agreement. The performance obligations are satisified over the course of the year.

Fee income is recognised at an amount that represents the consideration to which FMO is entitled in return for the program management services. Fees are calculated quarterly based on a fixed rate and the value of the respective program's committed portfolio at the quarter-end. The income relating to the fees is recognised at the end of each quarter.

Other operating income

Other operating income relates to any other income which is not related to loans to private sector, equity investments and treasury instruments.

Impairments

Financial assets of FMO and off-balance items are subject to impairments. For impairment methodologies and criteria, reference is made to relevant 'Financial Assets' paragraph in this section above.

Reimbursement of staff costs

FMO receives reimbursements on its staff costs for the time spent on various government initiated activities. These reimbursements are deemed to be government grants related to income in accordance with IAS 20. Based on the presentation options available in IAS 20 FMO has elected to present the reimbursements as a deduction against the expense line-items to which the grants relate. Given FMO receives the amounts as compensation for the staff costs incurred on the program, the amount is presented as a reduction against staff costs.

Segment Reporting

The operating segments are reported in a manner consistent with internal reporting to FMO’s chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board. FMO presents its operating segments based on servicing units instead of strategic sector to be more aligned with internal reporting towards the Management Board. Reference is made to the section 'Segment Information' for more details on operating segments

Notes to the consolidated annual accounts

Notes to the consolidated balance sheet: assets

1. Banks

	2021	2020
Banks	95,873	46,775
Balance at December 31	**95,873**	**46,775**

The cash on bank accounts can be freely disposed of. All bank accounts are classified as Stage 1

2. Current accounts with State funds and other programs (assets)

	2021	2020
Current account EIB	231	231
Current account Land Use Facility	-	447
Current account Mobilising Finance for Forests	417	-
Balance at December 31	**648**	**678**

Current accounts can be freely disposed of and are classified as stage 1

3. Short-term deposits

	2021	2020
Collateral delivered (related to derivative financial instruments)	118,594	59,128
Dutch central bank	1,027,997	932,747
Mandatory reserve deposit with Dutch central bank	1,833	2,939
Collateral delivered to European Central Bank	1,453	-
Short term deposits measured at AC	**1,149,877**	**994,814**
Commercial paper	149,361	159,425
Money market funds	43,941	143,122
Short term deposits measured at FVPL	**193,302**	**302,547**
Balance at December 31	**1,343,179**	**1,297,361**

Mandatory reserve deposits are not available for use in FMO's day-to-day operations.

Fair value results on money market funds and commercial paper portfolio recorded in the profit and loss amounts to a profit of €72k (2020: €59k loss). The amount attributable to change in credit risk is limited.

Short term deposits have a maturity of less than three months except for a part of commercial paper.

Short term deposits at amortized cost are classified as Stage 1. ECL for interest bearing instruments amounts to €8k

4. Other receivables

	2021	2020
Receivables related to equity disposals	1,905	1,504
Taxes and social premiums	264	703
To be declared on State guaranteed loans	2,449	2,428
Transaction fee receivables and prepayments	17,859	12,735
Balance at December 31	**22,477**	**17,370**

Other receivables are classified as Stage 1.

5. Interest-bearing securities

This portfolio contains marketable bonds with fixed interest rates. All interest-bearing securities (credit quality of AA+ or higher) are classified as Stage 1. An amount of €44k (2020: €101k) is calculated for the ECL as per December 31, 2021.

	2021	2020
Bonds (listed)	463,971	371,076
Balance at December 31	**463,971**	**371,076**

All interest-bearing securities are classified as amortized cost. The movements can be summarized as follows:

	2021	2020
Balance at January 1	371,076	350,237
Amortization premiums/discounts	113	4,075
Purchases	160,324	104,234
Redemptions	-77,317	-77,463
Changes in ECL allowances	59	-36
Changes in accrued income	53	-1,183
Exchange rate differences	9,663	-8,788
Balance at December 31	**463,971**	**371,076**

6. Derivative financial instruments and hedge accounting

Use of derivatives and hedge accounting

Derivatives are held for both economic hedging purposes and for hedge accounting. FMO uses derivatives for hedging purposes in the management of its asset and liability portfolios and structural risk positions. These risks are hedged with interest rate swaps, cross currency swaps and cross currency interest rate swaps. The objective of hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The objective of FMO hedging activities is to optimize the overall cost to the bank of accessing debt capital markets and to mitigate the risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS hedge accounting rules.

Derivatives that qualify for hedge accounting under IFRS are classified and accounted for in accordance with the nature of the instrument hedged and the type of IFRS hedge model that is applicable. FMO applies fair value hedge accounting to the funding portfolio with interest rate swaps as hedging instruments. To qualify for hedge accounting under IFRS, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the statement of profit or loss and recorded under the line results from financial transactions. If hedge accounting is applied under IFRS, it is possible that during the hedge a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the statement of profit or loss may be higher than would be expected from an economic point of view. With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; however they do not represent amounts at risk.

For the year ended December 31, 2021, FMO recognized net gain for €1.1 million for hedge ineffectiveness on the micro fair value hedges (2020: €2.8 million net gain). The loss on the hedging instruments amounts to €124.3 million (2020: €72.4 million gain). The profit on hedged items attributable to the hedged risk amounts to €125.4 million (2020: €69.6 million loss). The result is mainly attributed to higher USD average libor rates.

Micro fair value hedge accounting

FMO only applies micro-hedging strategy, hence at hedge inception the test is conducted. FMO’s micro fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. Gains and losses on derivatives designated under fair value hedge accounting and hedged items are recognized in the statement of profit or loss.

The amounts relating to derivatives designated as fair value hedging instruments and hedge ineffectiveness were as follows:

December 31, 2021	Notional amount	Carrying amount Assets	Carrying amount Liabilities	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recorded in profit or loss	Line item in P&L that includes hedge ineffectiveness
Interest rate swaps	4,383,939	106,328	24,506	-124,252	1,152	Results from financial transactions
December 31, 2020						
Interest rate swaps	3,792,072	207,289	364	72,346	2,776	Results from financial transactions

The amounts relating to items designated as hedged items were as follows:

December 31, 2021	Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item			
Balance sheet line item	**Liabilities**	**Assets**	**Liabilities**	**Change in fair value used for calculating hedge ineffectiveness**	**Accumulated amount remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses**
Debentures and notes	4,428,818	-	-	125,404	-
December 31, 2020					
Debentures and notes	4,015,469	-	-	-69,571	-

Hedge of debentures and notes December 31, 2021	Maturity				
Risk category (interest rate)	**Less than 1 month**	**1-3 months**	**3 months - 1 year**	**1-5 years**	**more than 5 years**
Nominal amount (in millions of euro)	-	-	506.0	2,942.0	935.0
Average fixed interest rate (%)	-	-	0.2	1.6	0.8
Hedge of debentures and notes December 31, 2020					
Nominal amount (in millions of euro)	-	-	47.7	2,350.2	1,394.2
Average fixed interest rate (%)	-	-	2.7	1.5	0.9

Derivatives other than hedge accounting instruments

The following table summarizes the notional amounts and the fair values of the 'derivatives other than hedge accounting instruments'. These derivatives are held to reduce interest rate risks and currency risks but do not meet the specified criteria to apply hedge accounting at reporting period. The following table also includes derivatives related to the asset portfolio.

December 31, 2021		Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedge accounting instruments:				
·	Currency swaps	84,217	290	1,486
·	Interest rate swaps	943,510	11,084	23,795
·	Cross-currency interest rate swaps	3,293,367	117,971	133,260
Subtotal		**4,321,094**	**129,345**	**158,541**
Embedded derivatives related to asset portfolio		-	-	9,178
Total derivative assets (/liabilities) other than hedge accounting instruments		**4,321,094**	**129,345**	**167,719**

December 31, 2020		Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedge accounting instruments:				
·	Currency swaps	99,773	50	1,570
·	Interest rate swaps	697,241	10,091	24,182
·	Cross-currency interest rate swaps	3,306,196	240,798	101,782
Subtotal		**4,103,210**	**250,939**	**127,534**
Derivatives related to asset portfolio		-	4,041	1,694
Total derivative assets (/liabilities) other than hedge accounting instruments		**4,103,210**	**254,980**	**129,228**

7. Loans to the private sector

These loans to the private sector include:

- Loans to the private sector in developing countries are for the account and risk of FMO;
- Loans in developing countries which are individually guaranteed by the Dutch Government for 80% to 95% or other financial guarantors. Any losses will be compensated by the guarantors up to the guaranteed amount. Refer to our Credit Risk Management Chapter for details of these guarantees received.

The movements of these loans can be summarized as follows:

	Loans measured at AC	Loans measured at FVPL	Total 2021
Balance at January 1, 2021	4,405,969	585,716	4,991,685
Disbursements	822,792	105,411	928,203
Loan Consolidation	62	-	62
Interest Capitalization	2,621	7,602	10,223
Conversion from loan to equity	-	-	-
Part sold	-94,387	-13,718	-108,105
Repayments	-979,952	-74,759	-1,054,711
Write-offs / disposals	-46,427	-3,817	-50,244
Derecognized and/or restructured loans	293	-	293
Changes in amortizable fees	4,063	-278	3,785
Amortized Premium Discount	98	-	
Changes in fair value	-	-16,741	-16,741
Changes in accrued income	42	-606	-564
Exchange rate differences	239,642	33,168	272,810
Balance at December 31, 2021	**4,354,816**	**621,978**	**4,976,794**
Impairment	-202,103	-	-202,103
Total balance at December 31, 2021	**4,152,713**	**621,978**	**4,774,691**

	Loans measured at AC	Loans measured at FVPL	Total 2020
Balance at January 1, 2020	4,574,050	696,513	5,270,563
Disbursements	1,286,275	25,360	1,311,635
Loan Consolidation	12,574	-322	12,252
Interest Capitalization	5,074	8,808	13,882
Conversion from loan to equity	-	-	-
Part sold	-143,291	-4,793	-148,084
Repayments	-882,127	-85,287	-967,414
Write-offs / disposals	-62,673	-1,610	-64,283
Derecognized and/or restructured loans	1,325	29	1,354
Changes in amortizable fees	3,144	-	3,144
Changes in fair value	-	-7,486	-7,486
Changes in accrued income	6,900	-1,981	4,919
Exchange rate differences	-395,282	-43,515	-438,797
Balance at December 31, 2020	**4,405,969**	**585,716**	**4,991,685**
Impairment	-233,221	-	-233,221
Total balance at December 31, 2020	**4,172,748**	**585,716**	**4,758,464**

The contractual amount of assets that were written off during the period are still subject to enforcement activity.

The following tables summarize the loans segmented by sector and areas of geography.

Loans segmented by sector	2021				
	Stage 1	Stage 2	Stage 3	Fair value	Total
Financial Institutions	1,797,460	216,998	30,949	260,838	2,306,245
Energy	677,834	383,145	111,667	107,617	1,280,263
Agribusiness	537,968	75,674	17,469	153,491	784,602
Multi-Sector Fund Investments	2,009	10,671	-	4,901	17,581
Infrastructure, Manufacturing and Services	158,255	87,925	44,689	95,131	386,000
Total balance at December 31	**3,173,526**	**774,413**	**204,774**	**621,978**	**4,774,691**

Loans segmented by sector	2020				
	Stage 1	Stage 2	Stage 3	Fair value	Total
Financial Institutions	1,491,118	336,364	23,890	212,729	2,064,101
Energy	1,008,764	250,165	70,369	115,014	1,444,312
Agribusiness	542,220	73,915	17,894	119,433	753,462
Multi-Sector Fund Investments	15,171	5,764	-	40,047	60,982
Infrastructure, Manufacturing and Services	191,865	102,284	42,965	98,493	435,607
Total balance at December 31	**3,249,138**	**768,492**	**155,118**	**585,716**	**4,758,464**

Loans segmented by geographical area	2021				
	Stage 1	Stage 2	Stage 3	Fair value	Total
Africa	850,355	267,300	65,458	146,552	1,329,665
Asia	691,791	123,526	64,425	132,421	1,012,163
Latin America & the Caribbean	809,997	135,707	60,857	66,951	1,073,512
Europe & Central Asia	666,645	235,444	14,034	204,051	1,120,174
Non - region specific	154,738	12,436	-	72,003	239,177
Total balance at December 31	**3,173,526**	**774,413**	**204,774**	**621,978**	**4,774,691**

Loans segmented by geographical area	2020				
	Stage 1	Stage 2	Stage 3	Fair value	Total
Africa	911,401	177,169	18,661	145,095	1,252,326
Asia	706,644	83,678	40,925	165,708	996,955
Latin America & the Caribbean	694,880	334,639	67,493	66,768	1,163,780
Europe & Central Asia	776,409	129,801	28,039	142,426	1,076,675
Non - region specific	159,804	43,205	-	65,719	268,728
Total balance at December 31	**3,249,138**	**768,492**	**155,118**	**585,716**	**4,758,464**

Loans to private sector - other information	2021	2020
Gross amount of loans to companies in which FMO has equity investments	259,131	202,327
Gross amount of subordinated loans	343,993	272,588

The movements in the gross amounts and ECL allowances for loans to the private sector at AC are as follows:

Changes in Loans to the private sector at AC in 2021	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	Gross carrying amount	**ECL allowance**	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**
At January 1, 2021	3,289,746	-40,608	814,362	-45,870	301,861	-146,743	4,405,969	-233,221
Additions	745,218	-7,528	77,575	-2,967	-	-	822,793	-10,495
Exposure derecognised or matured/lapsed (excluding write offs)	-794,539	3,373	-251,804	4,677	-27,996	307	-1,074,339	8,357
Transfers to Stage 1	230,450	-10,585	-230,450	10,585	-	-	-	-
Transfers to Stage 2	-401,759	6,359	410,816	-8,066	-9,057	1,707	-	-
Transfers to Stage 3	-38,256	635	-67,544	9,108	105,800	-9,743	-	-
Modifications of financial assets (including derecognition)	-17,648	-	14,878	-	5,746	-260	2,976	-260
Changes in risk profile (including changes in accounting estimates)	-	29,649	-	5,077	-	-33,147	-	1,579
Amounts written off/ disposals	-	-	-	-	-46,427	46,427	-46,427	46,427
Changes in amortizable fees	1,818	-	1,479	-	765	-	4,062	-
Premium/Discount	98	-	-	-	-	-	98	-
Changes in accrued income	-262	-	-2,630	-	2,934	-	42	-
Foreign exchange adjustments	179,146	-1,781	37,253	-2,066	23,243	-10,643	239,642	-14,490
At December 31, 2021	**3,194,012**	**-20,486**	**803,935**	**-29,522**	**356,869**	**-152,095**	**4,354,816**	**-202,103**

Changes in Loans to the private sector at AC in 2020	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	Gross carrying amount	**ECL allowance**	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**	**Gross carrying amount**	**ECL allowance**
At January 1, 2020	3,666,093	-32,524	527,065	-25,227	380,892	-182,190	4,574,050	-239,941
Additions	1,199,867	-15,555	98,982	-9,513	-	-	1,298,849	-25,068
Exposure derecognised or matured/lapsed (excluding write offs)	-833,313	7,360	-150,523	3,838	-41,582	6,009	-1,025,418	17,207
Transfers to Stage 1	60,029	-1,257	-60,029	1,257	-	-	-	-
Transfers to Stage 2	-476,239	5,734	521,281	-9,520	-45,042	3,786	-	-
Transfers to Stage 3	-41,592	593	-46,441	4,600	88,033	-5,193	-	-
Modifications of financial assets (including derecognition)	1,541	-	1,209	-	3,649	-1,751	6,399	-1,751
Changes in risk profile (including changes in accounting estimates)	-	-8,849	-	-16,917	-	-42,305	-	-68,071
Amounts written off/ disposals	-	-	-	-	-62,673	62,673	-62,673	62,673
Changes in amortizable fees	1,549	-	984	-	611	-	3,144	-
Changes in accrued income	3,268	-	-101	-	3,733	-	6,900	-
Foreign exchange adjustments	-291,457	3,890	-78,065	5,612	-25,760	12,228	-395,282	21,730
At December 31, 2020	**3,289,746**	**-40,608**	**814,362**	**-45,870**	**301,861**	**-146,743**	**4,405,969**	**-233,221**

Total impairments on loans in the consolidated profit and loss account

	2021	2020
Additions	-10,495	-25,068
Exposure derecognised or matured/lapsed (excluding write - offs)	8,357	17,207
Changes in risk profile (including changes in accounting estimates)	1,579	-68,071
Recoveries (written off loans)	5,045	2,674
Other	-1,229	-3,147
Balance at December 31	**3,257**	**-76,405**

8. ECL allowances - assessment

FMO calculates ECL allowances for Interest bearing Securities, Loans at private sector at AC (including off balance loan commitments) and Guarantees Given to customers. The movement in ECL allowances for each of these items is presented in their relevant notes.

To demonstrate the sensitivity of the SICR criteria, the tables below presents the distribution of stage 2 impairments by the criteria that triggered the migration to stage 2.

December 31, 2021

ECL allowance Stage 2 - Trigger assessment	Loans to private Sector	Guarantees	Loan Commitments	Total
More than 30 days past due	-	-	-	-
Deterioration in credit risk - financial difficulties	-29,522	-36	-880	-30,438
Total	**-29,522**	**-36**	**-880**	**-30,438**

December 31, 2020

ECL allowance Stage 2 - Trigger assessment	Loans to private Sector	Guarantees	Loan Commitments	Total
More than 30 days past due	-	-	-	-
Deterioration in credit risk - financial difficulties	-45,870	-2,630	-1,748	-50,248
Total	**-45,870**	**-2,630**	**-1,748**	**-50,248**

The table show the values of the IMF GDP forecasts used in each of the economic scenarios for the ECL calculations for 2020 and 2021. The upside and downside scenario calculations are derived from the base case scenario, adjusted based on an indicator of public debt to GDP in emerging markets.

The macroeconomic scenarios' model was updated following the publication of the new macroeconomic outlook data by the International Monetary Fund (IMF) in 2021. The updates of the model based on more optimistic GDP forecast, caused new point-in-time adjustments to probability of defaults in the impairment model, leading to a release in combined stage-1 and stage-2 impairment charge.

IMF GDP % Growth Forecasts (the figures are based on the latest forecast in October 2021)	2021	2020
Turkey	8.95	-4.99
India	9.50	-10.29
Georgia	7.69	-5.00
Argentina	7.50	-11.78
Nigeria	2.64	-4.28
Uganda	4.71	-0.29
Bangladesh	4.60	3.80
Ghana	4.71	0.93
Armenia	6.46	-4.46
Costa Rica	3.90	-5.50

The following tables outline the impact of multiple scenarios on the ECL allowance. Given the developments due to COVID -19 in 2020 leading to modified macroeconomic forecasts, the probabilities of macroeconomic scenarios (making point-in-time adjusted probability of default) were updated using the data provided by the International Monetary Fund (IMF).

Note that macroeconomic scenarios have been updated by using the latest available information by the IMF, as published in October 2021. Considering that no update has been made available after Russia invaded Ukraine on February 21, 2022, the impact following current events in Ukraine cannot be assessed at this stage.

December 31, 2021	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector[2]	Guarantees	Bonds and Cash	Total
ECL Scenario:						
Upside	187,575	2%	3,740	10	1	3,752
Base case[1]	206,192	50%	102,690	380	26	103,096
Downside	237,678	48%	113,508	553	25	114,085
Total			**219,938**	**942**	**52**	**220,933**

1 The total unweighted amount for the base case scenario of €210 million is an aggregation of €206 million (ECL amount - note 7), €4 million (ECL off balance items including loan commitments - note 31)

2 Loans to private sector in this table include amounts related to ECL allowances for off balance loan commitments (refer to note 31)

December 31, 2020	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector[2]	Guarantees	Bonds and Cash	Total
ECL Scenario:						
Upside	204,023	2%	4,021	58	2	4,080
Base case[1]	242,737	50%	119,065	2,252	51	121,368
Downside	296,666	48%	139,413	2,938	49	142,400
Total			**262,499**	**5,248**	**102**	**267,849**

1 The total unweighted amount for the base case scenario of €242 million is an aggregation of €233 million (ECL Note 7), 10 million (ECL off balance items including loan commitments - Note 3).

2 Loans to private sector in this table include amounts related to ECL allowances for off balance loan commitments (refer to note 31

Refer to the 'Accounting policies' chapter on macro-economic scenarios on PD estimates.

9. Equity investments

Equity investments in developing countries are for FMO's account and risk. The movements in fair value of the equity investments are summarized in the following table. Equity investments of FMO are measured at FVPL or at FVOCI.

	Equity measured at FVOCI	Equity measured at FVPL	Total
Total balance at January 1, 2021	115,504	1,688,437	1,803,941
Purchases and contributions	31,064	228,245	259,309
Conversion of loans to equity	-	-	-
Conversion Associate/FVPL	-	-	-
Return of Capital (including sales)	-31,909	-321,758	-353,667
Changes in fair value	25,766	281,901	307,667
Total balance at December 31, 2021	**140,425**	**1,876,825**	**2,017,250**

	Equity measured at FVOCI	Equity measured at FVPL	Total
Total balance at January 1, 2020	122,921	1,756,644	1,879,565
Purchases and contributions	40	230,366	230,406
Conversion of loans to equity	-	-	-
Conversion Associate/FVPL	-	17,066	17,066
Return of Capital (including sales)	-	-112,982	-112,982
Changes in fair value	-7,457	-202,657	-210,114
Total balance at December 31, 2020	**115,504**	**1,688,437**	**1,803,941**

The following table summarizes the equity investments segmented by sector:

	2021	2020
Financial Institutions	538,768	459,922
Energy	256,053	271,626
Agribusiness	180,646	119,132
Multi-Sector Fund Investments	801,294	635,006
Infrastructure, Manufacturing and Services	240,489	318,255
Net balance at December 31	**2,017,250**	**1,803,941**

FMO has designated the investments shown in the following table as equity investments at FVOCI. The FVOCI designation was made because the investments are expected to be held for long-term strategic purposes.

	Fair value at December 31, 2021	Dividend income recognized during 2021	Fair value at December 31, 2020	Dividend income recognized during 2020
TCX Investment Company	-	-	27,552	-
The Currency Exchange Fund N.V.	130,109	-	78,153	-
Seed Capital	10,276	-	9,759	-
EDFI Management Company	40	-	40	-
Balance at December 31	**140,425**	**-**	**115,504**	**-**

In 2021, the investment in TCX Investment Company has been disposed off to The Currency Exchange Fund N.V. with no result recognized in the profit and loss.

Amount recognized on fair value reserve related to TCX Investment Company is reclassified to other reserves in FMO's Shareholders' equity.

10. Investments in associates

The movements in the carrying amounts of the associates are summarized in the following table.

	2021	2020
Net balance at January 1	179,955	285,867
Purchases and contributions	38,006	13,977
Conversion from loans to equity	-	-
Conversion Associates/FVPL	-	-17,066
Return of capital (including sales)	-636	-20,779
Share in net results	63,902	-66,416
Exchange rate differences	17,510	-15,628
Net balance at December 31	**298,737**	**179,955**

All investments in associates from FMO are measured based on the equity accounting method. Cash dividend for associates amounts to €2.7 million (2020: €7.8 million).

The following tables summarize FMO's share in the total assets, liabilities, total income and total net profit/loss of the associates and segments the associates by sector.

Associate	Carrying amount	Economic ownership %	Total assets	Total liabilities	Total income	Total profit/loss
Banyantree Growth Capital LLC	7,450	27%	-	-	-	-
Cooperatief Climate Fund Managers	2,722	50%	4,419	1,748	5,419	1,184
Arise BV	254,492	27%	266,258	7,018	888	26,101
Be C&I Solutions Holding Pte. Ltd.	30,073	27%	39,782	9,709	2,182	-1,979
Invest International B.V.	4,000	49%	4,000	-	-	-
Total	**298,737**					

	2021	2020
Financial Institutions	258,492	158,083
Energy	32,795	16,732
Multi-Sector Fund Investments	7,450	5,140
Net balance at December 31	**298,737**	**179,955**

Invest International is a new associate, established on July 28, 2021. Share capital is split between A-shares where the Dutch Government owns 51% and FMO 49% and B-shares which are owned for 100% by the Dutch Government.

Arise B.V. is a private limited liability company incorporated in the Netherlands whose statutory seat is registered at Croeselaan 18, 3521 CB Utrecht, the Netherlands and registered in the Dutch commercial register under number 64756394. FMO's share and voting rights in Arise B.V. is 27%.

In 2016 FMO signed an agreement to set up an investment vehicle, Arise B.V., together with Norfund and Rabobank. This investment vehicle is set up to invest in African financial institutions. FMO's initial commitment amounts to US$211 million. As of 31 December 2021 our remaining commitment towards Arise B.V. amounts to US$17 million.

11. Property, plant and equipment

Property, plant and equipment (PP&E) includes tangible assets which are used by FMO. These assets include buildings, office equipment and vehicles which are rented by FMO from third parties. These leases have been recognized on the balance sheet following the implementation of IFRS 16.

Furthermore, PP&E includes furniture owned by FMO and expenses related to leasehold improvements.

	Furniture	Leasehold improvement	Right-of-use assets	Total
Cost at December 31, 2020	8,497	8,695	27,357	44,549
Accumulated amortization at December 31, 2020	-8,042	-411	-6,592	-15,045
Balance at December 31, 2020	**455**	**8,284**	**20,765**	**29,504**
Carrying amount at January 1, 2021	455	8,284	20,765	29,504
Investments	889	-	1,278	2,167
Depreciation	-218	-882	-3,257	-4,357
Disposals	-	-	-71	-71
Accumulated depreciation on disposals	-	-	-	-
Balance at December 31, 2021	**1,126**	**7,402**	**18,715**	**27,243**
Cost at December 31, 2021	9,386	8,695	28,564	46,645
Accumulated amortization at December 31, 2021	-8,260	-1,293	-9,849	-19,402
Balance at December 31, 2021	**1,126**	**7,402**	**18,715**	**27,243**

Right-of-use assets consists of operational leases and include building, vehicles and office equipment.

	Buildings	Office equipment	Vehicles	Total right-of-use assets	Lease liabilities
January 1, 2020	21,060	602	1,762	23,424	23,509
Additions	80	-	1,113	641	641
Disposals	-503	-	-49	-	-
Depreciation	-2,327	-127	-845	-3,299	-
Finance costs	-	-	-	-	168
Payments	-	-	-	-	-3,402
December 31, 2020	**18,310**	**475**	**1,981**	**20,766**	**20,916**
Additions	331	-	947	1,278	1,278
Disposals	-	-	-71	-71	-71
Depreciation	-2,365	-126	-767	-3,258	-
Finance costs	-	-	-	-	159
Payments	-	-	-	-	-3,366
December 31, 2021	**16,276**	**349**	**2,090**	**18,715**	**18,916**

The following table presents the maturity breakdown of the leases

December 31, 2021	< 1 year	1-5 years	>5 years	Total
Buildings	2,331	9,347	4,780	16,458
Office Equipment	109	218	24	351
Vehicles	686	1,421	-	2,107
Total	**3,126**	**10,986**	**4,804**	**18,916**

December 31, 2020	< 1 year	1-5 years	>5 years	Total
Buildings	2,283	9,145	7,017	18,445
Office Equipment	127	325	26	478
Vehicles	672	1,321	-	1,993
Total	**3,082**	**10,791**	**7,043**	**20,916**

12. Intangible assets

Intangible assets include expenditures associated with identifiable and unique software products or internally developed software, controlled by FMO. For internally developed software, only expenses related to development phase are capitalized. Expenses related to research phase are immediately recognized in the P&L under 'Temporary Staff Expenses'.

	ICT software	Internally developed software	Total
Cost at December 31, 2020	5,622	28,116	33,738
Accumulated amortization at December 31, 2020	-4,104	-8,767	-12,872
Balance at December 31, 2020	**1,518**	**19,349**	**20,867**
Carrying amount at January 1, 2021	1,518	19,349	20,867
Investments	1,002	3,661	4,663
Amortization	-793	-5,998	-6,791
Impairment/disposals	-	972	972
Accumulated depreciation on disposals	-	-1,753	-1,753
Balance at December 31, 2021	**1,727**	**16,231**	**17,958**
Cost at December 31, 2021	6,624	32,749	39,373
Accumulated amortization at December 31, 2021	-4,897	-16,518	-21,415
Balance at December 31, 2021	**1,727**	**16,231**	**17,958**

Impairment relates to software which is not in use anymore.

Notes to the consolidated balance sheet: liabilities

13. Short-term credits

	2021	2020
Collateral received (related to derivative financial instruments)	123,359	341,199
Balance at December 31	**123,359**	**341,199**

Short-term credits reflect the cash collateral received for derivative contracts we held with positive value. Refer also to the section 'Counterparty credit risk' in the Risk Management chapter.

14. Current accounts with State funds and other programs (liability)

	2021	2020
Current account MASSIF	112	106
Current account Building Prospects	77	23
Current account Access to Energy Fund	122	85
Current account FOM-OS	703	-
Current account Land Use Facility	3	-
Balance at December 31	**1,017**	**214**

15. Debentures and notes

Debentures and notes includes issued debt instruments in various currencies under FMO's Debt Issuance Programmes. In addition, a subordinated note of €250 million is also included in the Debenture and Notes. Under IFRS this note is classified as financial liability, but for regulatory purposes it is considered as Tier 2 capital. This note was issued on July 15, 2020 with a maturity date of January 15, 2031. The note is issued at 99.764% of the aggregated nominal amount at a fixed coupon rate of 0.625%. The note is non-convertible and can be called on first call date after five years till July 15, 2026.

The movements can be summarized as follows:

	2021	2020
Balance at January 1	5,485,949	5,808,182
Amortization of premiums/discounts	9,909	8,488
Proceeds from issuance	627,296	1,180,466
Redemptions	-723,355	-1,376,328
Changes in fair value	-125,404	69,571
Changes in accrued expense	-4,020	864
Exchange rate differences	156,221	-205,294
Balance at December 31	**5,426,596**	**5,485,949**

Line item 'changes in fair value' represents the fair value changes attributable to the hedge risk in connection with the debentures and notes used for hedge accounting purposes.

The following table summarizes the carrying value of the debentures and notes.

	2021	2020
Debentures and notes under hedge accounting	4,428,818	4,015,469
Debentures and notes valued at AC	997,778	1,470,480
Balance at December 31	**5,426,596**	**5,485,949**

The nominal amounts of the debentures and notes are as follows:

	2021	2020
Debentures and notes under hedge accounting	4,355,318	3,823,783
Debentures and notes valued at AC	983,610	1,450,634
Balance at December 31	**5,338,928**	**5,274,417**

16. Accrued liabilities

	2021	2020
Personnel payables	2,555	2,423
Tax refund credits	6,779	5,840
Accrued costs	11,689	10,552
Payables to third parties	7,185	23,388
Balance at December 31	**28,208**	**42,203**

17. Other liabilities

	2021	2020
Costs related to guarantees	1,193	751
Payments to third parties	74	68
Lease liabilities	18,916	20,916
Other liabilities	2,217	4,969
Total other liabilities	**22,400**	**26,704**

Lease liabilities arise from IFRS 16 leases. For a breakdown of the lease liabilities, reference is made to Note 'Property, Plant and Equipment'

18. Provisions

The amounts recognized in the balance sheet are as follows.

	2021	2020
Pension schemes	21,481	49,126
Allowance for loan commitments	3,277	8,771
Allowance for guarantees	759	642
Other provisions	2,075	7,651
Balance at December 31	**27,592**	**66,190**

The movements in allowance for loan commitments and liabilities for guarantees are set out in 'Off - balance sheet information' section.

Pension schemes

FMO’s pension schemes cover all its employees. The pension schemes are defined benefit plans and are mostly based on average-pay-schemes. FMO has a contract with a well established insurer, in which all nominal pension obligations are guaranteed.

Due to the expiration on December 31, 2021 of FMO's existing pension agreement, and taking into account upcoming changes in regulations impacting defined benefit pension plans, FMO made the decision during 2021 to amend its current pension plan for existing and future employees. All relevant approvals for the amendment took place in 2021 and the existing defined benefit pension plan will be curtailed such that contributions under the plan will cease from December 31, 2021 and employees will participate in a defined contribution plan from January 1, 2022. The current defined benefit plan will continue to exist in order to reflect the net pension liability attributable to members of the plan on December 31, 2021.

From January 1, 2022 the pension entitlements of existing and future employees will accumulate in the new pension plan. Therefore the present value of future defined benefit obligations relating to the existing plan are remeasured to account for the migration of entitlements from future contributions into the new plan. This results in a decrease in the defined benefit obligation from €297,881k to €275,888k. The reduction of €21,993k in the defined benefit obligation is classified as a "past service cost" in terms of IAS 19 but results in a gain in profit and loss. The quantitative impact is illustrated in the movement schedule for the defined benefit obligation below.

The amounts recognized in the balance sheet are as follows:

	2021	2020
Present value of funded defined benefit obligations	275,888	314,839
Fair value of plan assets	-254,407	-265,713
Liability in the balance sheet	**21,481**	**49,126**

The movements in the present value of the defined benefit obligations can be summarized as follows:

	2021	2020
Present value at January 1	314,839	270,013
Service cost	21,014	17,915
Interest cost	2,688	2,550
Actuarial (gains)/losses due to changes in financial assumptions	-35,978	28,830
Actuarial (gains)/losses due to changes in demographic assumptions	-69	-7,020
Actuarial (gains)/losses due to experience assumptions	-1,542	6,229
Past service cost (curtailment)	-21,993	-
Benefits paid	-3,071	-3,678
Present value at December 31	**275,888**	**314,839**

The movements in the fair value of plan assets can be summarized as follows:

	2021	2020
Fair value at January 1	-265,713	-230,425
Expected return on plan assets	-2,251	-2,167
Employer contribution	-12,745	-12,319
Plan participants' contributions	-1,500	-1,468
Actuarial (gains)/losses due to changes in financial assumptions	27,958	-23,511
Actuarial (gains)/losses due to changes in demographic assumptions	-	5,134
Actuarial (gains)/losses due to experience assumptions	-3,227	-4,635
Benefits paid	3,071	3,678
Fair value at December 31	**-254,407**	**-265,713**

The actuarial profit on the pension liability amounts to €12,857k (2020: €5,027k loss) and is mainly due to the decrease of the expected indexation for active participants and the increase of the discount rate.

No direct asset allocation is held in relation to the new pension insurance contract. Therefore, the fair value of the plan assets can no longer be determined based on a certain asset allocation. Due to this, paragraph 115 of IAS 19 has been applied in estimating the fair value of plan assets based on accrued pension rights and actuarial rates.

The movement in the liability recognized in the balance sheet is as follows:

	2021	2020
Balance at January 1	49,126	39,588
Annual expense	-1,193	17,532
Contributions paid	-13,595	-13,021
Actuarial gains/losses	-12,857	5,027
Balance at December 31	**21,481**	**49,126**

The amounts recognized in the profit and loss account as net periodic pension cost are as follows:

	2021	2020
Current service cost	21,864	18,617
Net interest cost	436	383
Subtotal	**22,300**	**19,000**
Contribution by plan participants	-1,500	-1,468
Past service cost (curtailment)	-21,993	-
Total annual expense	**-1,193**	**17,532**

The principal assumptions used for the purpose of the actuarial valuations at year-end are as follows:

	2021 (%)	2020 (%)
Discount rate	1.3	0.8

The assumption for future salary growth is a range of percentages which are based on the age of individual employees. The pension indexation is conditional.

Significant actuarial assumptions are the discount rate, indexation for active participants and (general) wage inflation. Reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Increase (+0.5%)	Decrease (-0.5%)
Discount rate	-31,427	37,085

Other provisions

Other provisions include mainly legal provisions. The KYC provision recognized in 2020 has been utilized during 2021.

	2021	2020
Balance at January 1	7,651	1,486
Addition	305	6,336
Release	-	-
Paid out	-5,881	-171
Balance at December 31	**2,075**	**7,651**

19. Shareholders' equity

Share capital

The authorized capital amounts to €45,380k, consisting of A shares of €22.69 each, which are held by the Dutch Government, and B shares of €22.69 each as well, which are for held by commercial banks and private investors. The Dutch Government holds 51% of the total shares of FMO, while commercial banks and private investors hold the remaining 49%. The voting rights for A shares and B shares are equal. In addition, the equity of the company comprises of three reserves, which result from the Agreement State-FMO of November 16, 1998. These are the share premium reserve, the development fund and the contractual reserve. As long as the company continues its activities, these reserves are not available to the shareholders. Upon liquidation of FMO these reserves fall to the Dutch Government, after settlement of the contractual return to the shareholders.

	2021	2020
AUTHORIZED SHARE CAPITAL		
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
Balance at December 31	**45,380**	**45,380**

ISSUED AND PAID-UP SHARE CAPITAL		
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
Balance at December 31	**9,076**	**9,076**

Share premium reserve

Share premium reserve is sole contributed by Shareholders of A shares on the transfer to the company of investments administrated on behalf of the Dutch Government at the time of the financial restructuring and amounts to €29,272k (2020: €29,272k).

Contractual reserve

The addition relates to that part of the annual profit that FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998 (see section 'additional information').

Development fund

This special purpose reserve contains the allocation of risk capital provided by the Dutch Government to finance the portfolio of loans and equity investments.

Fair value reserve

Total fair value reserve

	2021	2020
Balance at January 1	26,200	33,082
Fair value reserve of equity instruments at FVOCI	24,919	-7,458
Income tax effect other comprehensive income	-5,685	576
Release from fair value reserve	-14,524	-
Balance at December 31	**30,910**	**26,200**

Actuarial result pensions

Actuarial gains/losses on defined benefit plans

	2021	2020
Balance at January 1	-17,156	-13,974
Gains/losses during the period	9,723	-3,182
Balance at December 31	**-7,433**	**-17,156**

Translation reserve

Translation reserve	2021	2020
Balance at January 1	-17,727	-2,742
Change	17,335	-14,985
Balance at December 31	**-392**	**-17,727**

Other reserves

Other reserves	2021	2020
Balance at January 1	32,162	32,162
Release Fair value reserve	14,524	-
Distribution of undistributed result prior year	-3,348	-
Dividend	-	-
Balance at December 31	**43,338**	**32,162**

Non-controlling interests

Equis DFI Feeder L.P.	2021	2020
Balance at January 1	68	123
Fair value changes	-	-20
Changes in subsidiary	-	-
Share in net profit	-44	-35
Balance at December 31	**24**	**68**

Notes to the consolidated profit and loss account

20. Net interest income

Interest income

	2021	2020
Interest on loans measured at AC	276,068	319,185
Interest on interest-bearing securities	2,352	2,677
Total interest income from financial instruments measured at AC	**278,420**	**321,862**
Interest on loans measured at FVPL	35,854	43,503
Interest on short-term deposits	328	4,910
Interest on derivatives related to asset portfolio	-48,039	-46,642
Total interest income from financial instruments measured at FVPL	**-11,857**	**1,771**
Total interest income	**266,563**	**323,633**

Included in the interest income on loans is €15,088k (2020: €25,694k) related to Stage 3 loans (adjusted on basis of net carrying amount).

Interest expense

	2021	2020
Interest on debentures and notes hedged	-53,012	-52,846
Interest on debentures and notes not hedged	-49,063	-64,161
Interest on short-term credits	-1	-374
Interest expenses related to banks (assets)[1]	-4,704	-3,447
Total interest expense from financial instruments measured at AC	**-106,780**	**-120,828**
Interest on derivatives related to funding portfolio	71,084	38,351
Total interest expense from financial instruments measured at FVPL	**71,084**	**38,351**
Interest on leases	-158	-168
Total interest expense	**-35,854**	**-82,645**

1 Interest expense is related to Cash and balances held at Central Bank. Overnight deposit rates at central banks are negative in the Eurozone, implying interest expense on assets.

In the derivatives related to funding FMO usually receives fixed EUR/USD/Other currency and pays floating USD Libor. As the USD Libor interest rate was much lower in 2021 compared with 2020 (average 2020: 1.13% and 2021: 0.23%), interest expense for these derivatives was significantly lower in 2021.

21. Dividend income

Dividend income relates to income from equity investments including associates.

	2021	2020
Dividend income direct investments	16,311	27,698
Dividend income fund investments	5,755	5,210
Total dividend income	**22,066**	**32,908**

22. Results from equity investments

	2021	2020
Results from equity investments:		
Unrealized results from capital results	174,616	-84,290
Unrealized results from FX conversions - capital results	8,209	98
Unrealized results from FX conversions - cost price	99,076	-118,447
Results from Fair value re-measurements	**281,901**	**-202,639**
Results from sales		
Realized results	79,681	2,785
Release unrealized results	-66,047	-10,990
Net results from sales	**13,634**	**-8,205**
Total results from equity investments	**295,535**	**-210,844**

23. Net fee and commission income

	2021	2020
Prepayment fees	5,904	1,140
Fees for FVPL loans	865	-95
Administration fees	1,949	3,550
Other fees (like arrangement, cancellation and waiver fees)	2,850	2,798
Total fee and commission income	**11,568**	**7,393**
Custodian fees and charges for the early repayment of debt securities	-521	-976
Guarantee fees related to unfunded risk participants	-5,319	-2,818
Other fee expenses	-31	-
Total fee and commission expense	**-5,871**	**-3,794**
Net fee and commission income	**5,697**	**3,599**

24. Results from financial transactions

	2021	2020
Gain/(losses) on remeasurement of on valuation of hedged items	125,404	-69,571
Gain/(losses) on remeasurement of hedging instruments	-124,252	72,346
Result on hedge accounting	**1,152**	**2,776**
Result on sale and valuation of treasury derivatives not under hedge accounting	6,700	-12,606
Result on sale and valuation of derivatives related to asset portfolio	-11,729	-1,607
Result on sale and valuation of loans at FVPL	-20,860	-9,305
Result on financial instruments mandatory at FVPL	**-25,889**	**-23,518**
Foreign exchange results loans at FVPL	33,167	-43,515
Foreign exchange results Derivatives	45,876	48,250
Foreign exchange results on other financial assets/liabilities	-81,128	5,259
Foreign exchange results	-2,085	9,994
Other financial results	403	-59
Total result from financial transactions	**-26,419**	**-10,808**

Lower average USD libor interest rates and devaluation of the USD against EUR are the main factors driving the results from financial transactions.

25. Remuneration for services rendered

	2021	2020
Funds and programs managed on behalf of the State:		
- MASSIF	11,020	10,680
- Building Prospects	8,930	9,095
- Access to Energy Fund	3,253	2,988
- FOM OS	100	100
- Syndication fees, remuneration from directorships and others	8,954	7,073
Total remuneration for services rendered	**32,257**	**29,936**

Remuneration for managing funds and programs is assessed for market conformity and expressed in gross amounts. Related management expenses are included in operating expenses.

26. Gains and losses due to derecognition

Gains and losses due to derecognition arise from loans measured at amortized cost, when terms and conditions of a loan arrangement have been modified significantly.

	2021	2020
Gains and losses due to derecognition	5,135	2,000

27. Other operating income

	2021	2020
Other operating income	116	293
Total other operating income	**116**	**293**

28. Staff costs

The number of FTE at December 31,2021 amounted to 579 (2020: 599 FTEs). All FTE are employed in the Netherlands except for 2 FTEs, which are employed in foreign offices.

Per October 1, 2021 the number of FTEs decreased by 19 FTE due to the transfer of the NL-Business team of FMO to Invest International B.V..

	2021	2020
Salaries	-58,045	-57,267
Social security costs	-6,935	-6,788
Pension costs	1,193	-17,532
Temporaries	-11,291	-18,245
Travel and subsistence allowances	-300	-924
Other personnel expenses	2,257	-437
Total staff costs	**-73,121**	**-101,193**

The Pension costs line item includes an amount of €21,993k in the 2021 balance that relates to the curtailment of the defined benefit pension obligation. The details of the curtailment are included in the Pension schemes section within the Provisions note.

Other personnel expenses include reimbursements on staff costs amounting to €8,476k (2020: €5,300k) which relate to activities performed on behalf of various government agencies. These reimbursements are treated as government grants related to income and are presented as a reduction against staff costs.

29. Administrative expenses

	2021	2020
IT expenses	-7,783	-7,214
Advisory costs	-9,008	-12,186
Other operational expenses	-12,011	-10,638
Total administrative expenses	**-28,802**	**-30,038**

These expenses consist primarily of services from third parties and other operational expenses. The remuneration paid to the Supervisory Board is included in these expenses. At December 31, 2021, the Supervisory Board consisted of six members (2020: six). The members of the Supervisory Board were paid a total remuneration of €135k (2020: €127k).

With reference to Section 2:382a(1) and (2) of the Netherlands Civil Code, the following fees for the financial year have been charged by Ernst & Young Accountants LLP (2020: Ernst & Young Accountants LLP) to the company and its subsidiaries. Other assurance services include assurance in respect of sustainability disclosures, regulatory reporting, specific financial reporting of government and EU funds and capital market transactions.

Fee charged by auditors	2021	2020[1]
Statutory audit of annual accounts	-711	-693
Other assurance services	-788	-763
Other assurance services - non-EY NL	-	-49
Total	**-1,499**	**-1,456**

1 Compared to 2020, updates have been made to how fees are split between "statutory audit" and "other assurance services". This only impacts the split between categories and does not change the total fee.

30. Income taxes

Income tax by type

	2021	2020
Current income taxes	-34,222	-5,406
Deferred income taxes	954	1,015
Total income tax	**-33,268**	**-4,391**

The reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

		2021	2020
Profit/(loss) before taxation		523,914	-200,875
Income taxes at statutory rate of 25% (2020 25%)		-130,979	50,219
Increase/decrease resulting from:			
·	Settlement with local withholding taxes	2,100	5,427
·	Non-taxable income (participation exemption facility)	92,426	-59,799
·	Tax adjustments to prior periods	3,369	-205
·	Other	-184	-33
Total income tax		**-33,268**	**-4,391**
Effective income tax rate		6.3%	-2.2%

Current income tax

FMO received €838k (2020: €44,941k received) from tax authorities. The remaining current income tax payable amounts to €36,929k (2020: €3,863k tax payable). Per year end 2021 there were no unused tax losses and the unused tax credits amount to €0 (2020: €0).

Deferred tax

FMO's deferred income tax assets and liabilities are summarized as follows:

	2021	2020
Deferred tax assets		
Pension provision	2,958	3,925
Actuarial gains and losses on defined benefit plans	2,583	5,718
Tax depreciation fixed assets	-	169
Operational leases	48	35
Total deferred tax assets	**5,589**	**9,847**
Deferred tax liabilities		
Fair value movements equity investments	-10,748	-5,063
Total deferred tax liabilities	**-10,748**	**-5,063**
Net balance at December 31	**-5,159**	**4,784**

In 2021 the Dutch government announced a higher corporate tax rate which will be implemented in 2022. Therefore, FMO changed the applicable tax rate to 25.8% accordingly.

Off-balance sheet information

31. Irrevocable and contingent liabilities

To meet the financial needs of borrowers, FMO enters into various irrevocable commitments (loan commitments, equity commitments and guarantee commitments) and contingent liabilities. These contingent liabilities consist of financial guarantees, which commit FMO to make payments on behalf of the borrowers in case the borrower fails to fulfill payment obligations. Though these obligations are not recognized on the balance sheet, they are subject to Credit Risk similar to loans to private sector. Therefore, provisions are calculated for financial guarantees and loan commitments according to ECL measurement methodology.

Furthermore, the contingencies include an irrevocable payment commitment (IPC) to the Single Resolution Board (SRB) in Brussels. In April 2016, the SRB provided credit institutions with the option to fulfill part of their obligation to pay the annual ex - ante contributions to the Single Resolution Fund (SRF) through IPCs.

Moreover, FMO receives guarantees from various guarantors, which participate in the risk FMO takes. For more details refer to section 'Credit Risk' within the Risk Management chapter

The outstanding amount for financial guarantees issued by FMO and amount of guarantees received by FMO is as follows:

	2021	2020
Contingent liabilities		
Encumbered funds (single resolution fund)	1,453	832
Effective guarantees issued	69,341	66,009
Less: provisions, amortizing fees	-1,953	-5,256
Total guarantees issued	**67,388**	**60,753**
Total contingent liabilities	**68,841**	**61,585**
Effective guarantees received	-334,221	-233,679
Total guarantees received	**-334,221**	**-233,679**

Nominal amounts for irrevocable facilities is as follows:

		2021	2020
Irrevocable facilities			
Contractual commitments for disbursements of:			
·	Loans	627,630	506,896
·	Grants	-	-
·	Equity investments and associates	701,141	711,599
·	Contractual commitments for financial guarantees given	136,450	331,374
Total irrevocable facilities		**1,465,221**	**1,549,869**

The movement in exposure for the financial guarantees issued (including contractual commitments) and ECL allowance is as follows:

Movement financial guarantees[1] in 2021	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	Outstanding exposure/ Nominal amount	**ECL allowance**	**Outstanding exposure/ Nominal amount**	**ECL allowance**	**Outstanding exposure/ Nominal amount**	**ECL allowance**	**Outstanding exposure/ Nominal amount**	**ECL allowance**
At January 1, 2021	300,939	-1,875	105,612	-2,630	-	-	406,551	-4,505
Additions	176,488	-1,317	1,881	-78	-	-	178,369	-1,395
Exposures matured (excluding write-offs)	-285,081	964	-107,507	1,922	-	-	-392,588	2,886
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	1,583	-	797	-	-	-	2,380
Foreign exchange adjustments	11,307	-78	2,152	-47	-	-	13,459	-125
At December 31, 2021	**203,653**	**-723**	**2,138**	**-36**	**-**	**-**	**205,791**	**-759**

1 Financial guarantees represent EUR 69,341 classified as contingent liabilities and EUR 69,341 classified as irrevocable facilities

Movement financial guarantees in 2020	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	Outstanding exposure/ Nominal amount	**ECL allowance**	**Outstanding exposure/ Nominal amount**	**ECL allowance**	**Outstanding exposure/ Nominal amount**	**ECL allowance**	**Outstanding exposure/ Nominal amount**	**ECL allowance**
At January 1, 2020	311,775	-1,067	86,207	-483	2,167	-542	400,149	-2,092
Additions	113,050	-1,166	2,060	-193	-	-	115,110	-1,359
Exposures matured (excluding write-offs)	-52,735	244	-21,607	62	-1,947	487	-76,289	793
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-45,793	374	45,793	-374	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-317	-	-1,712	-	-	-	-2,029
Foreign exchange adjustments	-25,358	57	-6,841	70	-220	55	-32,419	182
At December 31, 2020	**300,939**	**-1,875**	**105,612**	**-2,630**	**-**	**-**	**406,551**	**-4,505**

The movement in nominal amounts for loan commitments and ECL allowances is as follows:

Movement of loan commitments in 2021	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	Nominal amount	**ECL allowance**	**Nominal amount**	**ECL allowance**	**Nominal amount**	**ECL allowance**	**Nominal amount**	**ECL allowance**
At January 1, 2021	378,990	-3,160	54,904	-1,748	18,360	-	452,254	-4,908
Additions	1,472,825	-4,351	30,858	-3,149	4,394	-	1,508,077	-7,500
Exposures derecognised or matured (excluding write-offs)	-1,318,527	4,010	-40,817	3,595	-16,609	-	-1,375,953	7,605
Transfers to Stage 1	5,233	-836	-5,233	836	-	-	-	-
Transfers to Stage 2	-21,884	167	21,884	-167	-	-	-	-
Transfers to Stage 3	-3,578	37	-	-	3,578	-37	-	-
Changes to models and inputs used for ECL calculations	-	1,840	-	-177	-	37	-	1,700
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	19,160	-104	3,376	-70	754	-	23,290	-174
At December 31, 2021	**532,219**	**-2,397**	**64,972**	**-880**	**10,477**	**-**	**607,668**	**-3,277**

Movement of loan commitments in 2020	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	Nominal amount	**ECL allowance**	**Nominal amount**	**ECL allowance**	**Nominal amount**	**ECL allowance**	**Nominal amount**	**ECL allowance**
At January 1, 2020	685,149	-3,187	100,122	-3,087	4,849	-	790,120	-6,274
Additions	208,037	-1,841	1,850	-37	1,100	-20	210,987	-1,898
Exposures derecognised or matured (excluding write-offs)	-454,629	2,980	-38,867	1,196	-	-	-493,496	4,176
Transfers to Stage 1	1,732	-2	-1,732	2	-	-	-	-
Transfers to Stage 2	-1,489	15	1,489	-15	-	-	-	-
Transfers to Stage 3	-12,809	-	-	-	12,809	-	-	-
Changes to models and inputs used for ECL calculations	-	-1,418	-	-3	-	-	-	-1,421
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-47,001	293	-7,958	196	-398	20	-55,357	509
At December 31, 2020	**378,990**	**-3,160**	**54,904**	**-1,748**	**18,360**	**-**	**452,254**	**-4,908**

Related party information

FMO defines the Dutch Government, FMO's subsidiaries, associates, the Management Board (MB) and Supervisory Board (SB) as related parties.

Dutch Government

The Dutch Government holds 51% of FMO's share capital. The remaining 49% is held by commercial banks and other private investors. In 2005 FMO received its last contribution to the development fund from the Dutch Government. FMO has a support agreement with the Government, which is detailed in section 'additional information'.

FMO stimulates the development of small and medium Dutch-sponsored enterprises in selected emerging markets through the 'Faciliteit Opkomende Markten' (FOM). This facility is a joint initiative with the Dutch Government. The Dutch Government acts as a guarantor for 80% to 95% of the outstanding loans. As of 1 July 2016, the mandate of this facility has been transferred to the 'Rijksdienst voor Ondernemend Nederland' (RVO). After the transfer, only existing loans in the portfolio and pipeline were serviced. These loans are included in the consolidated annual accounts under 'Loans to the private sector'.

FMO manages several government programs at the risk and expense of the Dutch Government. Below is a description of the various programs:

1. MASSIF: FMO manages the MASSIF program on behalf of the Dutch Government. MASSIF enhances financial inclusion for micro-entrepreneurs and small- and medium-sized enterprises (MSMEs) in the poorest social-economic segments, to those which are underserved by the local financial sector. The program supports financial intermediaries that reach out to MSME's in fragile and low-income countries, in rural areas and agriculture, female and young entrepreneurs and innovative sectors. FMO has a 2.16% (2020: 2.16%) stake in this program. For 2021, FMO received a fixed remuneration of €11.0 million (2020: €10.7 million). In 2021, no transfers related to loan and equity investments were conducted from MASSIF to FMO.

2. *Building Prospects*: Through this program, FMO focuses on the development of the social and economic infrastructure in least developed countries. The objective is to stimulate private investors to invest in private or public-private infrastructure projects in these countries. For 2021, FMO received a fixed remuneration for services rendered of €8.9m (2020: €9.1 million) in accordance with the subsidy order. In 2021, one loan was transferred from Building Prospects to FMO (€10.8 million), no private equity investment positions were transferred to FMO.

3. *Access to Energy Fund (I and II):* The Access to Energy Fund I is jointly initiated by the Dutch Government and FMO in 2007 to support private sector projects aimed at providing long-term access to energy services in Sub-Saharan Africa. Through this program, FMO provides financing through equity, local currency loans, subordinated debt and grants to facilitate projects that generate, transmit or distribute sustainable energy. In 2017, the Access to Energy Fund II committed US$55.6million to Climate Investor One, an investment vehicle with three interlinked funds that invest in projects during their whole lifetime. For 2021, FMO received a fixed remuneration for services rendered of €3.3 million (2020: €3.0 million). In 2021, no loans or private equity investments were transferred from AEF I and II to FMO.

4. *Dutch Fund for Climate and Development: Land Use Facility :* In 2019, the Dutch Government awarded a tender to manage the €160.0million Dutch Fund for Climate and Development (DFCD) to the consortium of FMO, Stichting SNV Nederlandse Ontwikkelingsorganisatie, Stichting Het Wereld Natuur Fonds-Nederland, and Coöperatief Climate Fund Managers U.A. (through Climate Investor Two). FMO is the lead partner in the DFCD consortium and responsible for the management of the DFCD's Land Use Facility. In 2021, the Dutch Government provided €20.2 million for the Land Use Facility (in addition to the aggregate amount of €22.5 million, disbursed in previous years).

5. *Capacity Development Program:* The Capacity Development Program invests in inclusive projects, focusing particularly on the themes of climate change and gender. For 2021, FMO received no remuneration for the services provided.

In our role of program and program manager for the assets under management, FMO holds current account positions with the government programs mentioned above. The balances of those current account positions are disclosed under Note 14.

The government program Partnership Development Facility (PDF) and Development Accelerator (DA) were managed by FMO until October 1, 2021. Thereafter, management of the programs is performed by Invest International, a new associate of FMO. This transfer does not have any impact on the financial statements of FMO. Although, FMO has ceded the responsibility for the programs' management, we do provide administrative services to Invest International. FMO received no remuneration for the program management services for 2021, except compensation for travel costs and staff expenses.

The aim of the FOM-OS program, managed by FMO, was to finance private sector companies with a strong focus on food security and water. The program has been closed for new commitments at the request of the Ministry of Foreign Trade and Development Corporation as per June 30, 2014 and ended in 2021. At reporting date, the program was in the final stage of unwinding. The remaining portfolio was transferred to FMO in 2021. For 2021, FMO received a fixed remuneration of €0.1 million (2020: €0.1 million).

Subsidiaries

The consolidated subsidiaries Asia Participations B.V. and Equis DFI Feeder L.P. are used for intermediate holding purposes. The subsidiary FMO Investment Management B.V. carries out portfolio management activities for third party investment funds which are invested in FMO's transactions in emerging and developing markets. Nedlinx B.V. has the focus on financing activities to Dutch SME companies investing abroad. Nuevo Banco Comercial Holding B.V., FMO Medu II Investment Trust Ltd. were liquidated during 2021.

The transactions during the year are summarized in Note C of the Company balance sheet.

Associates

We hold stakes directly in private equity companies or indirectly via fund structures. These equity stakes are held as a part of FMO's overall investing activities, or in some cases, for strategic purposes (for example the Invest International investment). Investments are treated as associates in case the applicable criteria in accordance with our accounting policies are met.

We refer to the significant accounting policies and Note 'Investments in associates' for transactions during the year.

Remuneration of the Management Board

General

FMO's remuneration policy for the Management Board aims to offer a competitive remuneration allowing to attract, motivate and retain capable directors with sufficient knowledge and experience in international development finance. The remuneration policy is aligned with the mission of FMO, the corporate values, the strategy, the risk appetite as well as with the expectations of the various stakeholders. The remuneration policy is based on a market median, composed of two equal proportions of a private benchmark (Dutch Financial sector) and a public benchmark, taking into account the principles as applied by the Dutch Government as majority shareholder of FMO.

Furthermore, the policy aims to be unambiguously and transparent and should never constitute an incentive for the conduct of directors that is aimed at their own interest, or for taking risks that do not fit within the mission and established strategy of the company, or that leads to 'rewarding' behaviour of failing directors upon discharge.

Employment contracts of members of the Management Board are awarded for a definite period of time (with exception of internal appointments). In the event the employment contract is terminated before the expiry date, the maximum severance payment will amount one year's salary, unless the board member resigns voluntary or the termination is the result of his or her actions.

The remuneration policy for the Management Board will be reviewed periodically (every 3-4 years) and amendments will be subject to approval of the AGM. During the AGM 2021 no amendments were made with respect to the remuneration policy. The next policy review is scheduled for 2022.

Changes in Management Board

As per September 1, 2021, Michael Jongeneel was appointed as FMO's new CEO. On the same date Linda van Broekhuizen stepped down as CEO ad interim and continued as Advisor to the Management Board until February 28, 2022.

In 2021 the decision was made to extend the Management Board with two extra members. The total board will then consist of five functions: apart from the CEO, two Chief Investment Officers, a Chief Risk Officer and a Chief Finance & Operations Officer. At the beginning of 2022 the recruitment process for two new Management Board members (CIO and CRO) has started.

In July 2021 Fatoumata Bouaré has been re-appointed in her role as CRFO and member of the Management Board for a second four-year term, until October 15, 2025.

With effect from July 8, 2021 Huib-Jan de Ruijter (CIO, ad interim since October 9, 2020) has been appointed as CIO and member of the Management Board for a period of four years. The compensation related to these (re)appointment are aligned with the remuneration policy of the Management Board.

Remuneration package

The total remuneration consists of a fixed salary (including holiday allowance), a pension arrangement and other benefits. A summary of the employment arrangements and amounts constituting the total remuneration per Management Board member in 2021 are provided below.

Fixed salary remuneration

Over 2021 members of the Management Board have agreed a voluntary salary cut of 5% of their fixed income considering the net loss of FMO for 2020. Moreover, all Directors have voluntary agreed to a one-year freeze of their fixed income over 2021 for the same reason.

As per July 1, 2021 the maximum salary caps applicable to the Management Board members have increased with 1.4% (in conformity with the collective labor agreement, CLA Banks, of that date). During 2021 the fixed remuneration for the CEO was equal to the maximum cap of €293k per annum. For the other members of the Management Board this cap was to €249k and for Directors the salary cap was €215k (as per July 1, 2021). In the future only structural salary adjustments as indicated by the CLA Banks, will be applicable to the salary caps.

Variable compensation

Members of the senior management (Management Board members and Directors) and other members of the identified staff are not entitled to any form of variable income (e.g. individual bonuses).

Pension arrangements

For pensionable salary up to the applicable threshold, which for 2021 amounted to €112k, a defined benefit, average-pay pension scheme applies with a conditional indexation arrangement. The nominal pension obligations are guaranteed by a pension insurer. The participant contribution consists of 3.5% of the actual pension base. As per January 1, 2022 the pension scheme will change into a Defined Contribution scheme for all employees of FMO, including members of the Management Board.

Effective from January 1, 2015, no pension is accrued for tax purposes for the proportion of income in excess of €112k (2021). In alignment with the general practice in the Netherlands, FMO has compensated the employees concerned for this diminution. At the end of 2021 only one of the Management Board members is eligible for this individual fixed Allowance for retirement.

Other benefits

The other benefits consist accident and disability insurance, appropriate expense allowances and the use of a company car, NS business card or mobility allowance. The company has also taken out a directors' and officers' liability insurance on behalf of the Management Board members.

The members of the Management Board have no options, shares or loans related to the company. Acceptance of ancillary positions requires the explicit approval of the Supervisory Board.

Tenure

All members of the Management Board are appointed for a period of 4 years, which can be renewed. Mrs Bouaré serves in her second term of appointment and has an employment contract for a definite period of time. Mr De Ruijter is serving in his first term and has an employment contract for an indefinite period of time (related to his internal promotion). Mr Jongeneel serves in his first term and has an employment contract for a definite period of time.

Remuneration ratio's

There are no employees at FMO who earn more than the CEO. In accordance with the GRI Standards, the ratio between the total fixed remuneration of the highest-paid individual, the CEO, and the median of the rest remained 0.29 (2020: 0.29). Or in other words the highest-paid individual received a total fixed remuneration of 3.5 times the amount paid to the Median of (the rest of) the total staff population. Compared to what is seen in the financial sector in the Netherlands this ratio is relatively low.

Remuneration of the Management Board

On December 31, 2021 the Management Board consisted of three statutory members (2020: three). The total remuneration of the Management Board in 2021 amounts to €1,064k (2020: €1,064k) and is specified as follows:

	Fixed remuneration	Allowance for retirement	Other short term employee benefits	Pension	Total 2021
Fatoumata Bouaré	235	-	22	34	291
Linda Broekhuizen 1)	267	32	24	42	365
Huib-Jan de Ruijter 2)	235	1	26	32	294
Michael Jongeneel 3)	98	-	6	10	114
Total	**835**	**33**	**78**	**118**	**1,064**

1 Linda Broekhuizen stepped down as per September 1, 2021 as CEO ad interim and will continue up to February 28, 2022 as advisor to the Management Board. The remuneration presented in the table entails the total remuneration in 2021 as CEO and advisor. The remuneration related to the advisory role amounts to €116k (o/w: €83k relates to fixed remuneration).

2 Huib-Jan de Ruijter, CIO ad interim, was appointed in the function of CIO per July 8, 2021. The remuneration presented in the table entails the total remuneration in 2021. The remuneration related to the CIO ad interim role amount to € 156k (o/w: € 121k relates to fixed remuneration).

3 Michael Jongeneel was appointed as CEO per September 1, 2021.

	Fixed remuneration	Allowance for retirement	Other short term employee benefits	Pension	Total 2020
Fatoumata Bouaré	246	-	22	31	299
Linda Broekhuizen 1)	266	32	24	51	373
Huib-Jan de Ruijter 2)	55	-	4	8	67
Peter van Mierlo 3)	241	-	53	31	325
Total	**808**	**32**	**103**	**121**	**1,064**

1 Pro - rata until October 9, 2020 as CIO, thereafter Linda Broekhuizen was appointed as CEO ad interim. Due to arrangements made before applying maximum levels to MB's and directors' fixed remuneration, her salary is above the applied cap.

2 Pro - rata from October 9, 2020 - date when Huib - Jan Ruijter was appointed CIO ad interim

3 Peter van Mierlo stepped down on June 11, 2020 as CEO and continued up to October 31, 2020 as advisor to the Management Board. The remuneration presented in the table entails the total remuneration as CEO and advisor. The remuneration related to the advisory role amounts to €168k (o/w: €132k relates to fixed remuneration)

Except for pensions of €118k (2020: €121k) all components above are short term employee benefits.

Remuneration of Supervisory Board

The remuneration policy for the Supervisory Board will be reviewed periodically, taking into account the principles as applied by the Dutch Government as majority shareholder. Amendments will be subject to the approval of the AGM. The members of the Supervisory Board have no shares, options, or loans related to the company.

The annual remuneration of the members of the Supervisory Board is as follows:

	Remuneration member 2021 [1)]	Committees 2021	Total 2021	Total 2020
Pier Vellinga[2)]	-	-	-	9
Alexandra Schaapveld[3)]	-	-	-	6
Dirk Jan van den Berg [4)]	25	3	28	26
Koos Timmermans[5)]	16	4	20	20
Thessa Menssen[6)]	16	7	23	23
Dugald Agble[7)]	16	3	19	13
Reintje van Haeringen[7)]	16	7	23	16
Marjolein Demmers[7)]	16	5	21	15
Total	**105**	**29**	**134**	**127**

1 As per July 1, 2021 the remuneration of SB has increased by 1.4%.

2 Pier Vellinga resigned from the SB as per April 23, 2020, until then member of the SARC.

3 Alexandra Schaapveld resigned from the SB as per April 23, 2020, until then member of the ARC.

4 Dirk Jan van den Berg was per April 23, 2020 appointed as Chair of the SB and member of the SARC.

5 Koos Timmermens is the Chair of the ARC.

6 Thessa Menssen is member of the ARC and the Chair of the Impact Committee.

7 Dugald Agble, Marjolein Demmers and Reintje van Haeringen joined the SB as per April 23, 2020; Dugald Agble is member of the ARC; Marjolein Demmers and Reintje van Haeringen are both members of the Impact Committee; Reintje van Haeringen is Chair of the SARC; Marjolein Demmers is member of the SARC.

Subsequent events

On February 24, 2022 the Russian Federation started to invade Ukraine. The move followed shortly after Russian President Putin recognized two Eastern-Ukrainian provinces as independent states and invaded those areas for a “peacekeeping” mission. FMO has been mostly active in Ukraine for decades. FMO’s exposure to Ukraine is around €200 million with fourteen customers. This exposure is includes loans to private sector (~56%), equity investments (~37%) and guarantees (~7%) with fourteen customers. Moreover, FMO has an exposure via debt funds for €14 million.

In addition, exposure to Belarus is around €20 million, largely related to equity investments. In an adverse scenario, FMO would have to write - off the full exposure resulting in maximum exposure loss and capital ratio will be impacted, however would remain sufficiently above regulatory requirements. Impact on FMO's liquidity position is expected to be limited. Refer to Risk Management Chapter under Concentration Risk section for more details.

There have been no other significant subsequent events between the balance sheet date and the date of approval of these accounts which should be reported by FMO.

Notes to the consolidated statement of comprehensive income

32. Other comprehensive income

Other comprehensive income	2021	2020
Items to be reclassified to profit and loss		
Exchange differences on translating foreign operations	17,335	-14,985
Income tax effect	-	-
Total to be reclassified to profit and loss	**17,335**	**-14,985**
Items not reclassified to profit and loss		
Fair value reserve of equity instruments at FVOCI:		
· Unrealized results during the year	16,533	1,247
· Foreign exchange results	8,385	-8,704
Total Fair value reserve of equity investments at FVOCI	24,919	-7,458
Actuarial gains/losses on defined benefit plans	12,857	-5,027
Income tax effect	-8,819	2,421
Total not reclassified to profit and loss	**28,957**	**-10,064**
Release from fair value reserve	-14,524	-
Total other comprehensive income at December 31	**31,768**	**-25,049**

Tax effects relating to each component of other comprehensive income

	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	17,335	-	17,335
Fair value reserve of equity instruments at FVOCI	24,919	-5,685	19,234
Actuarial gains/losses on defined benefit plans	12,857	-3,134	9,723
Release from fair value reserve	-14,524	-	-14,524
Balance at December 31, 2021	**40,587**	**-8,819**	**31,768**

	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	-14,985	-	-14,985
Fair value reserve of equity instruments at FVOCI	-7,458	576	-6,882
Actuarial gains/losses on defined benefit plans	-5,027	1,845	-3,182
Balance at December 31, 2020	**-27,470**	**2,421**	**-25,049**

Notes to the consolidated statement of cash flows

The consolidated cash flow statement shows the sources of liquidity that became available during the year and the application of this liquidity. The liquidity is measured by the balance sheet accounts ‘banks’ and ‘short-term deposits’. The cash flows are broken down according to operational, investing and financing activities. The cash flow statement is prepared using the indirect method.

33. Net cash flow from operational activities

The net cash flow from operational activities includes the company’s portfolio movements, such as loans to the private sector and under guarantee of the Dutch Government, equity investments, subsidiaries and associates. The net cash flow further includes the movements in working capital and current accounts with the State in regard to government funds and programs.

34. Net cash flow from investing activities

The net cash flow from investing activities includes the movements in the investment portfolio, such as the interest-bearing securities. The movements in PP&E assets are also included in the cash flow from investing activities.

35. Net cash flow from financing activities

The net cash flow from financing activities includes movements in the funding attracted from the capital market. Also included in the cash flow from financing activities are the additions to and reductions from the company’s capital.

36. Banks and short term deposits

The balance as mentioned in the cash flow statement corresponds with the following items in the consolidated balance sheet:

Cash position maturity bucket < 3 months	**2021**	**2020**
Banks	95,873	46,775
Short term deposits measured at AC	1,149,877	994,814
Short term deposits measured at FVPL	193,302	302,547
-of which > 3 months	-43,911	-
Banks and short term deposits < 3 months	**1,395,141**	**1,344,136**

Cash and cash equivalents include banks, short term deposits at AC and a part of short term deposits at FVPL, which consists of commercial paper with a maturity of less than three months. For breakdown of short term deposits, reference is made to Note 3.

Segment information

Segment reporting by operating segments

The Management Board sets performance targets, approves and monitors the budgets prepared by servicing units. Servicing units are not identical to the strategic sectors.

FMO's strategic sectors represent the economic sectors in which FMO operates. The three strategic sectors are Agribusiness Food & Water, Financial Institutions and Energy, which represent economic sectors. As per December 31, 2021, FMO's Management Board steers on the following five (in 2020: six) servicing units: Agribusiness Food & Water, Financial Institutions, Energy, Private Equity (PE) and Other. In 2021, the Management Board decided to allocate the Partnership for Impact segment to the main servicing units related to the asset portfolio. The comparatives for December 31, 2020 have been updated accordingly in this section.

In 2021, one transaction is identified, which is reallocated to a different servicing unit.

FMO presents the results of the operating segments using a financial performance measure called underlying profit. Underlying profit excludes the EUR/USD currency effects related to the results from equity investments, since all fair value changes including currency effects are now recorded in the profit and loss account instead of shareholder's equity since the adoption of IFRS 9.

Underlying profit as presented below is an alternative performance measure. A reconciliation of the underlying net profit to the net profit as reported under the statement of profit and loss is performed in the table here below.

December 31, 2021	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Other	Total
Interest income	105,708	103,276	48,206	2,807	6,566	266,563
Interest expenses	-7,251	-8,456	-3,723	-12,282	-4,142	-35,854
Net fee and commission income	843	6,322	-1,365	349	-452	5,697
Dividend income	-	-	-	22,066	-	22,066
Results from equity investments	-	-	-	188,254	-	188,254
Results from financial transactions	1,559	-10,844	-4,161	-19,083	6,110	-26,419
Remuneration for services rendered	6,742	5,893	4,426	10,600	4,596	32,257
Gains and losses due to derecognition	536	3,505	1,094	-	-	5,135
Other operating income	-	-	-	-	116	116
Allocated income	1,939	2,261	995	3,284	-8,479	-
Total underlying income	**110,076**	**101,957**	**45,472**	**195,995**	**4,315**	**457,815**
Operating expenses	-29,356	-26,010	-19,517	-34,016	-5,251	-114,150
Total operating expenses	**-29,356**	**-26,010**	**-19,517**	**-34,016**	**-5,251**	**-114,150**
Impairments on loans and guarantees	22,930	-8,397	-4,850	-1,424	807	9,066
Total impairments	**22,930**	**-8,397**	**-4,850**	**-1,424**	**807**	**9,066**
Profit/(loss) before taxation	103,650	67,550	21,105	160,555	-129	352,731
Share in results from associates	-	-	-	63,902	-	63,902
Taxation	-22,526	-14,681	-4,587	11,180	28	-30,586
Underlying net profit/(loss)	**81,124**	**52,869**	**16,518**	**235,637**	**-101**	**386,047**
Currency effect equity investments	-	-	-	104,599	-	104,599
Net profit/(loss)	**81,124**	**52,869**	**16,518**	**340,236**	**-101**	**490,646**

December 31, 2020	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Other	Total
Interest income	128,411	127,472	53,277	6,895	7,578	323,633
Interest expenses	-17,835	-21,258	-9,038	-24,035	-10,479	-82,645
Net fee and commission income	1,146	2,058	117	636	-358	3,599
Dividend income	-	-	-	32,908	-	32,908
Results from equity investments	-	-	-	-92,502	-	-92,502
Results from financial transactions	-1,248	-3,786	-2,807	-3,371	404	-10,808
Remuneration for services rendered	5,436	6,398	4,455	10,202	3,445	29,936
Gains and losses due to derecognition	-	-	2,000	-	-	2,000
Other operating income	-	-	-	38	255	293
Allocated income	-784	-934	-397	-1,056	3,171	-
Total underlying income	**115,126**	**109,950**	**47,607**	**-70,285**	**4,016**	**206,414**
Operating expenses	-35,464	-32,363	-27,420	-38,743	-10,160	-144,150
Total operating expenses	**-35,464**	**-32,363**	**-27,420**	**-38,743**	**-10,160**	**-144,150**
Impairments on loans and guarantees	-32,258	-35,294	-8,578	-2,111	-141	-78,382
Total impairments	**-32,258**	**-35,294**	**-8,578**	**-2,111**	**-141**	**-78,382**
Profit/(loss) before taxation	47,404	42,293	11,609	-111,139	-6,285	-16,118
Share in results from associates	-	-	-	-66,416	-	-66,416
Taxation	-8,050	-7,181	-1,971	8,782	1,070	-7,350
Underlying net profit/(loss)	**39,354**	**35,112**	**9,638**	**-168,773**	**-5,215**	**-89,884**
Currency effect equity investments	-	-	-	-115,383	-	-115,383
Net profit/(loss)	**39,354**	**35,112**	**9,638**	**-284,156**	**-5,215**	**-205,267**

Segment assets December 31, 2021	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Other	Total
Loans to the private sector	2,260,346	1,514,056	960,103	25,166	15,020	4,774,691
Equity investments and investments in associates	-	-	-	2,315,987	-	2,315,987
Other assets	705,330	472,454	299,595	730,545	4,687	2,212,611
Total assets	**2,965,676**	**1,986,510**	**1,259,698**	**3,071,698**	**19,707**	**9,303,289**
Contingent liabilities – Effective guarantees issued	49,905	18,919	-	517	-	69,341
Assets under management (loans and equity investments) managed for the risk of the state	145,350	179,044	139,367	561,741	-	1,025,502

Segment assets December 31, 2020	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Other	Total
Loans to the private sector	2,026,486	1,656,547	973,813	35,105	66,513	4,758,464
Equity investments and investments in associates	-	-	-	1,983,896	-	1,983,896
Other assets	677,988	554,220	325,802	675,484	22,253	2,255,747
Total assets	**2,704,474**	**2,210,767**	**1,299,615**	**2,694,485**	**88,766**	**8,998,107**
Contingent liabilities – Effective guarantees issued	22,953	43,056	-	-	-	66,009
Assets under management (loans and equity investments) managed for the risk of the state	157,327	173,442	136,136	457,885	-	924,790

Information about geographical areas

FMO operates in the following four geographical regions: Africa, Asia, Europe & Central Asia, Latin America & the Caribbean.

The following table shows the allocation of FMO's income based on the country risks arising from the geographical areas in which FMO invests. As FMO obtains revenues from customers in developing countries, no revenues are derived from FMO's country of domicile, the Netherlands.

December 31, 2021	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Results from debt products	66,588	49,219	61,029	49,427	10,143	236,406
Results from equity investments	88,626	132,205	40,277	43,333	13,160	317,601
Share in results from associates	64,301	-4,068	-	-	3,669	63,902
Other income	5,612	-26,690	-18,311	61,736	-11,258	11,089
Total income	**225,127**	**150,666**	**82,995**	**154,496**	**15,714**	**628,998**

December 31, 2020	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Results from debt products	72,435	49,826	64,929	52,440	4,957	244,587
Results from equity investments	-112,124	-36,514	-25,810	-7,405	3,917	-177,936
Share in results from associates	-56,921	-6,504	-	-	-2,991	-66,416
Other income	18,358	-14,755	7,954	5,089	4,775	21,421
Total income	**-78,252**	**-7,947**	**47,073**	**50,124**	**10,658**	**21,656**

Disaggregation of revenue

The following table sets out the disaggregation of the Remuneration for services rendered based on the primary geographical areas and strategic sector. The table also includes a reconciliation of the Remuneration of services rendered with FMO's operating segments.

	Operating segments					
December 31, 2021	**Financial Institutions**	**Energy**	**Agribusiness, Food & Water**	**Private Equity**	**Other**	**Total**
Primary geographical areas						
Africa	395	566	-	-	31	992
Asia	729	192	43	-	19	983
Latin America & Caribbean	740	269	4	-	20	1,033
Europe & Central Asia	4,855	4,826	4,294	10,600	4,520	29,095
Non-region specific	23	40	85	-	6	154
Total remuneration for services rendered	**6,742**	**5,893**	**4,426**	**10,600**	**4,596**	**32,257**

	Operating segments					
December 31, 2020	**Financial Institutions**	**Energy**	**Agribusiness, Food & Water**	**Private Equity**	**Other**	**Total**
Primary geographical areas						
Africa	743	515	-	-	35	13,581
Asia	243	194	56	-	26	6,001
Latin America & Caribbean	387	310	380	-	26	2,426
Europe & Central Asia	4,052	5,340	3,569	10,202	3,353	4,245
Non-region specific	11	39	450	-	5	3,683
Total remuneration for services rendered	**5,436**	**6,398**	**4,455**	**10,202**	**3,445**	**29,936**

Segment reporting of funds and programs managed for the risk of the Dutch Government and for other public funding

Funds managed for the risk of the Dutch Government and other public funding

Apart from financing from its own resources, FMO provides loans, guarantees and equity investments from special government funds, within the conditions and objectives of these programs. The funds consist of subsidies provided under the General Administrative Law Act and other official third parties. In case of MASSIF, FMO has an equity stake of 2.17% (2020: 2.17%). In section ‘Related parties’, the arrangements between the Dutch Government and FMO regarding these funds and programs is described in detail.

Furthermore, FMO provides guarantees and equity investments with resources obtained from other public organizations, such as the European Commission (EC) and the United Kingdom government. The mandate financing is conducted in line with conditions and objectives of these programs.

Loans and equity managed for the risk of the Dutch Government and other public funding

These loans and equity investments are managed for the risk of the Dutch government and other programs

	2021 Gross exposure	2020 Gross exposure
Loans to private sector	531,482	524,576
Equity investments	516,898	423,591
Total	**1,048,380**	**948,167**

Loans managed for the risk of the Dutch Government and other public funding

The loan portfolio comprises the loans issued by the following funds.

	2021 Gross exposure	2020 Gross exposure
MASSIF	196,819	209,358
Building Prospects	262,070	258,302
Access to Energy Fund	64,711	52,196
FOM OS	36	1,394
Land Use Facility	7,846	3,326
Total	**531,482**	**524,576**

Equity investments managed for the risk of the Dutch Government and other public funding

The equity investments have been made by the following funds.

	2021 Gross exposure	2020 Gross exposure
MASSIF	283,740	243,359
Building Prospects	140,935	105,606
Access to Energy Fund	85,632	68,493
Land Use Facility	6,591	6,133
Total	**516,898**	**423,591**

Analysis of financial assets and liabilities by measurement basis

The significant accounting policies summary describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following table provides a breakdown of the carrying amounts of the financial assets and financial liabilities by category as defined by balance sheet heading.

December 31, 2021	FVPL - mandatory	Fair value hedging instruments	FVOCI-equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
Financial assets measured at fair value						
Short-term deposits	193,302	-	-	-	-	193,302
Derivative financial instruments	129,345	106,328	-	-	-	235,673
Loans to the private sector	621,978	-	-	-	-	621,978
Equity investments	1,876,825	-	140,425	-	-	2,017,250
Total	**2,821,450**	**106,328**	**140,425**	**-**	**-**	**3,068,203**
Financial assets not measured at fair value						
Banks	-	-	-	95,873	-	95,873
Current accounts with state funds and other programs	-	-	-	648	-	648
Short-term deposits	-	-	-	1,149,877	-	1,149,877
Interest-bearing securities	-	-	-	463,971	-	463,971
Loans to the private sector	-	-	-	4,152,713	-	4,152,713
Other receivables	-	-	-	22,477	-	22,477
Total	**-**	**-**	**-**	**5,885,559**	**-**	**5,885,559**
Financial liabilities measured at fair value						
Derivative financial instruments	167,719	24,506	-	-	-	192,225
Total	**167,719**	**24,506**	**-**	**-**	**-**	**192,225**
Financial liabilities not measured at fair value						
Short-term credits	-	-	-	123,359	-	123,359
Debentures and notes	-	-	-	997,778	4,428,818	5,426,596
Current accounts with state funds and other programs	-	-	-	1,017	-	1,017
Accrued liabilities	-	-	-	28,208	-	28,208
Other liabilities	-	-	-	22,400	-	22,400
Total	**-**	**-**	**-**	**1,172,762**	**4,428,818**	**5,601,580**

December 31, 2020	FVPL - mandatory	Fair value hedging instruments	FVOCI- equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
Financial assets measured at fair value						
Short-term deposits	302,547	-	-	-	-	302,547
Derivative financial instruments	254,980	207,289	-	-	-	462,269
Loans to the private sector	585,716	-	-	-	-	585,716
Equity investments	1,688,437	-	115,504	-	-	1,803,941
Total	**2,831,680**	**207,289**	**115,504**	**-**	**-**	**3,154,473**
Financial assets not measured at fair value						
Banks	-	-	-	46,775	-	46,775
Current accounts with state funds and other programs	-	-	-	678	-	678
Short-term deposits	-	-	-	994,814	-	994,814
Interest-bearing securities	-	-	-	371,076	-	371,076
Loans to the private sector	-	-	-	4,172,748	-	4,172,748
Other receivables	-	-	-	17,370	-	17,370
Total	**-**	**-**	**-**	**5,603,461**	**-**	**5,603,461**
Financial liabilities measured at fair value						
Derivative financial instruments	129,228	364	-	-	-	129,592
Total	**129,228**	**364**	**-**	**-**	**-**	**129,592**
Financial liabilities not measured at fair value						
Short-term credits	-	-	-	341,199	-	341,199
Debentures and notes	-	-	-	1,470,480	4,015,469	5,485,949
Current accounts with state funds and other programs	-	-	-	214	-	214
Accrued liabilities	-	-	-	429	-	429
Other liabilities	-	-	-	42,203	-	42,203
Total	**-**	**-**	**-**	**1,854,525**	**4,015,469**	**5,869,994**

Fair value of financial assets and liabilities

Fair value hierarchy

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

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

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

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

Valuation processes

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

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

Valuation techniques

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

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

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

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

FMO uses internal valuation models to value all (derivative) financial instruments. Due to model imperfections, there are initial differences between the transaction price and the calculated fair value. These differences are not recorded in the profit and loss at once, but are amortized over the remaining maturity of the transactions.

Equity investments are measured at fair value when a quoted market price in an active market is available or when fair value can be estimated reliably by using a valuation technique. The main part of the fair value measurement related to equity investments (level 3) is based on net asset values of investment funds as reported by the fund manager and are based on advanced valuation methods and practices. When available, these fund managers value the underlying investments based on quoted prices, if not, multiples are applied as input for the valuation. For the valuation process of the equity investments we further refer to the accounting policies and related notes within these Annual Accounts. The determination of the timing of transfers is embedded in the quarterly valuation process, and therefore recorded at the end of each reporting period.

The table below presents the carrying value and estimated fair value of FMO's financial assets and liabilities, not measured at fair value.

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

The valuation technique we use for the fair value determination of these financial instruments is the discounted cash-flow method. The discount rate we apply is a spread curve based on the average spread of the portfolio. The fair value calculation is mainly based on level 3 inputs.

Financial assets-liabilities not measured at fair value	**2021**		**2020**	
At December 31	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Short term deposits at AC	1,149,877	1,149,877	994,814	994,814
Banks	95,873	95,873	46,775	46,775
Interest-bearing securities	463,971	466,521	371,076	381,443
Loans to the private sector at AC	4,152,713	4,247,515	4,172,748	4,312,599
Financial assets not measured at fair value	**5,862,434**	**5,959,786**	**5,585,412**	**5,735,630**
Short-term credits	123,359	123,359	341,199	341,199
Debentures and notes	5,426,596	5,435,668	5,485,949	5,512,880
Financial liabilities not measured at fair value	**5,549,955**	**5,559,027**	**5,827,148**	**5,854,079**

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

December 31, 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets mandatorily at FVPL				
Short-term deposits	193,302	-	-	193,302
Derivative financial instruments	-	235,673	-	235,673
Loans to the private sector	59,831	-	562,147	621,978
Equity investments	70,134	-	1,806,691	1,876,825
Financial assets at FVOCI				
Equity investments	-	-	140,425	140,425
Total financial assets at fair value	**323,267**	**235,673**	**2,509,263**	**3,068,203**
Financial liabilities mandatorily at FVPL				
Derivative financial instruments	-	183,047	9,178	192,225
Total financial liabilities at fair value	**-**	**183,047**	**9,178**	**192,225**

December 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets mandatorily at FVPL				
Short-term deposits	302,547	-	-	302,547
Derivative financial instruments	-	458,228	4,041	462,269
Loans to the private sector	56,837	-	528,879	585,716
Equity investments	10,247	-	1,678,190	1,688,437
Financial assets at FVOCI				
Equity investments	-	-	115,504	115,504
Total financial assets at fair value	**369,631**	**458,228**	**2,326,614**	**3,154,473**
Financial liabilities mandatorily at FVPL				
Derivative financial instruments	-	131,286	-1,694	129,592
Total financial liabilities at fair value	**-**	**127,898**	**1,694**	**129,592**

The following table shows the movements of financial assets measured at fair value based on level 3.

Movements in financial instruments measured at fair value based on level 3	**Derivative financial instruments**	**Loans to the private sector**	**Equity investments and associates**	**Total**
Balance at December 31, 2019	5,788	629,866	1,871,839	2,507,493
Total gains or losses				
-In profit and loss (changes In fair value)	-1,457	-2,529	-85,404	-89,390
-In other comprehensive income (changes in fair value)	-	-	-7,458	-7,458
Purchases /disbursements	-	25,360	228,885	254,245
Sales/repayments	-	-90,080	-112,983	-203,063
Interest Capitalization	-	8,808	-	8,808
Write-offs	-	-1,610	-	-1,610
Accrued income	-	-1,953	-	-1,953
Exchange rate differences	-290	-38,690	-118,253	-157,233
Derecognition and/or restructuring FVPL versus AC	-	-293	-	-293
Conversion from loans to equity	-	-	-	-
Conversion Associate/FVPL	-	-	17,066	17,066
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
Balance at December 31, 2020	**4,041**	**528,879**	**1,793,694**	**2,326,614**
Total gains or losses				
-In profit and loss (changes In fair value)	-4,373	-16,126	196,922	176,423
-In other comprehensive income (changes in fair value)	-	-	25,766	25,766
Purchases /disbursements	-	68,779	257,900	326,679
Sales/repayments	59	-52,570	-353,667	-406,178
Interest Capitalization	-	7,602	-	7,602
Write-offs	-	-3,817	-	-3,817
Accrued income	-	-187	-	-187
Exchange rate differences	273	29,587	101,836	131,696
Derecognition and/or restructuring FVPL versus AC	-	-	-	-
Conversion from loans to equity	-	-	-	-
Conversion Associate/FVPL	-	-	-	-
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-75,335	-75,335
Balance at December 31, 2021	**-**	**562,147**	**1,947,116**	**2,509,263**

Type of debt investment	**Fair value at December 31, 2021**	**Valuation technique**	**Range (weighted average) of significant unobservable inputs**	**Fair value measurement sensitivity to unobservable inputs**
Loans	93,942	Discounted cash flow model	Based on client spread	A decrease/increase of the used spreads with 1% will result is a higher/lower fair value of approx €1m.
	206,742	ECL measurement	Based on client rating	An improvement / deterioration of the Client Rating with 1 notch will result in 1% increase/decrease
	43,661	Credit impairment	n/a	n/a
Debt Funds	217,802	Net Asset Value	n/a	n/a
Total	**562,147**			

Type of equity investment/ associate	Fair value at December 31, 2021	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity based on the significant unobservable inputs
Private equity fund investments	1,106,687	Net Asset Value	n/a	n/a
Private equity direct investments	18,749	Recent transactions	Based on at arm's length recent transactions	n/a
	464,037	Book multiples	1.0 – 1.7	A decrease/increase of the book multiple with 10% will result in a lower/ higher fair value of €46 million.
	231,401	Earning Multiples	Depends on several unobservable data such as EBITDA multiples (range 1.0 - 11.1)	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €231million.
	34,457	Discounted Cash Flow (DCF)	Based on discounted cash flows	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €3 million.
	76,538	Put option	The guaranteed floor depends on several unobservable data such as IRR, EBITDA multiples, book multiples and Libor rates	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €8 million.
	15,247	Firm offers	Based on offers received from external parties	n/a
Total	**1,947,116**			

Transfers between levels 1 and 2

There were no material transfers between levels 1 and 2.

Transfers from levels 1 and 2 to level 3

There were no material transfers between level 1 and 2 to level 3.

Risk management

This chapter provides an overview of FMO's risk governance and risk management approach. The sections describe the key risk domains relevant for FMO and developments throughout 2021. Together with the quantitative Pillar 3 disclosures - available on FMO's website - it constitutes FMO's Pillar 3 disclosure.

Risk governance

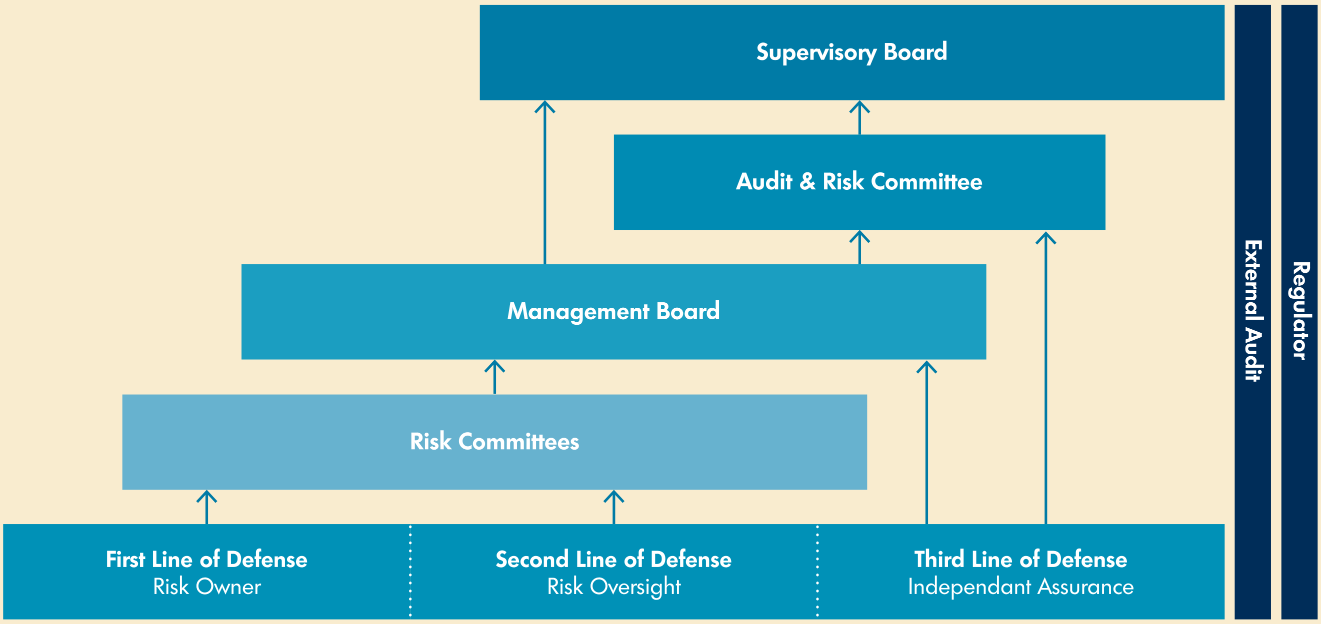
FMO defines risk as the effect of uncertainty on objectives. FMO has a comprehensive framework in place to manage and control risk, reflecting its banking license, state support agreement and a mandate to do business in high-risk countries. The purpose of FMO's risk management framework is to support the institution's ambitions while safeguarding its long-term sustainability. Risk management practices are integrated across the institution, from day-to-day activities to strategic planning, to ensure both compliance with relevant regulations and adherence to the risk appetite. A sound risk management framework is required to preserve the institution's integrity, which is essential for fulfilling its mission and upholding good reputation. To accomplish these goals, employees are expected to fulfill their roles within the bank with integrity and care, and carefully consider the interests of all stakeholders.

The risk management framework is based on the principle of 'three lines of defense', where the first line of defense (Investment Department and supporting functions) is being balanced by the second line of defense (Risk), and the third line (Internal Audit) that perform independent assessments whether risks are adequately managed.

FMO has a two-tier board structure in place, consisting of a Supervisory Board and a Management Board. The Supervisory Board (SB) appoints the members of the Management Board and supervises its activities. The SB advises the Management Board and approves the annual budget, the strategic development, and the risk appetite. Each SB member has specific expertise in FMO's primary areas of operation. The SB members are appointed in the Annual Meeting of Shareholders.

The Management Board (MB) comprises of three statutory directors: the Chief Executive Officer (CEO), the Chief Investment Officer (CIO), and the Chief Risk and Finance Officer (CRFO). The MB is accountable for compliance with relevant legislation and regulations. FMO has the intention to expand the MB to five statutory directors: the Chief Executive Officer (CEO), two Chief Investment Officers (CIOs), the Chief Finance Operations Officer (CFOO) and the Chief Risk Officer (CRO).

The organizational structure is shown in the figure below.



The Management Board has established risk committees to assist it in fulfilling its oversight responsibilities regarding the risk appetite of FMO, the risk management framework and the governance structure that supports it. The main risk committees are shown in the figure and described below.

The Asset and Liability Committee (ALCO). The ALCO assists the MB by evaluating, monitoring and steering the financial risk profile of FMO in accordance with the risk appetite approved by the SB. The ALCO approves, monitors and evaluates policies, limits and procedures to manage the financial risk profile of FMO on a portfolio level, except for credit and equity risk related policies. The ALCO is responsible for overseeing FMO's capital and liquidity positions and defining possible interventions. The CRFO (Chair), Director Risk, Director Treasury, Director Credit, Legal & Special Operations (CLS) and two Directors from Investment departments are voting members of the ALCO.

The Financial Regulation Committee (FRC). The FRC- a sub-committee of the ALCO- ensures that FMO adheres to existing prudential and financial regulation and assesses impact of new developments on FMO's business strategy. The FRC for financial regulation is chaired by the Director Treasury, while the FRC for prudential regulation is chaired by the Director Risk. Members of the committees are senior representatives of Finance, Treasury and Risk.

The Accounting Policy Committee (APC). The APC ensures that FMO adheres to existing financial regulation and informs the ALCO on existing and future IFRS regulations. It discusses and approves new and updated accounting policies, facilitates the implementation process and analyses emerging accounting issues. The APC is a sub-committee of the ALCO.

The Operational Risk Committee (ORC). The ORC is mandated by the MB to evaluate, monitor and steer the operational risk profile of FMO in accordance with the risk appetite. The ORC approves policies and supporting standards and takes decisions in the context of the Product Approval and Review Process (PARP). The Committee is chaired by the CRFO.

The Investment Committee (IC). The IC is responsible for approving financing proposals and advising MB on transactions in terms of specific counterparty, product as well as country risk. The IC is chaired by the Director CLS and consists of senior representatives of Investment departments and CRFO departments. All financing proposals are accompanied by the advice of the Credit department. This department is responsible for credit risk assessment of both new transactions and the existing portfolio. Credit also has the authority to approve new transactions with small exposures.

The Investment Review Committee (IRC). The IRC is responsible for monitoring the portfolio asset quality and for reviewing financial exposures, which require specific attention, and decide on needed measures. The IRC also decides on specific loan impairments, approves credit risk and concentration risk policies and is responsible for internal credit rating models. It is chaired by the CRFO.

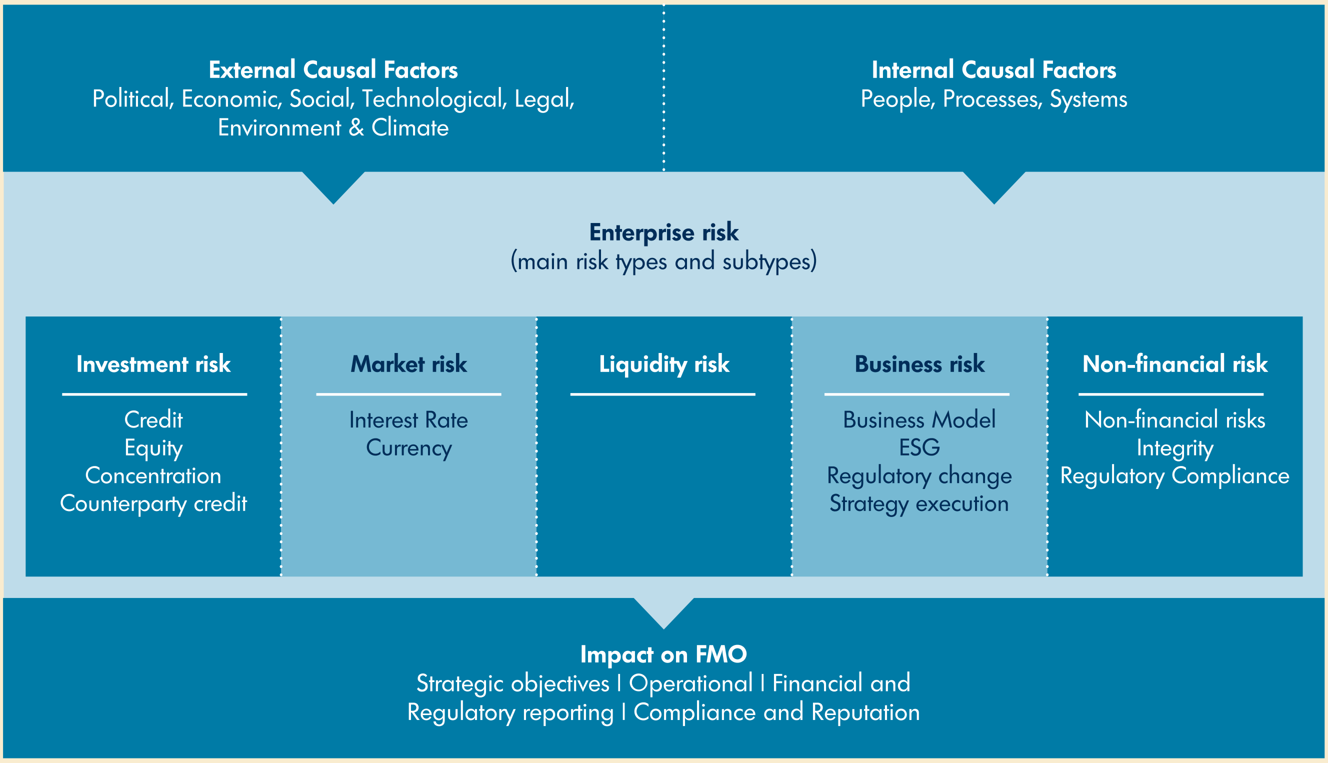
The Compliance Committee (CC). The CC is delegated by the MB to take decisions on compliance related matters and issues based on proposed solutions. The CC is chaired by the CRFO and is held in two different sessions that focus either on customer cases or on regular compliance topics. The former session is held on a monthly basis, while the latter meets at least four times per year. If it is required, the CC can escalate decisions to the MB. The CC is responsible for implementing developments, related projects, laws and regulations, policies and procedures related to compliance matters.

Risk appetite and taxonomy

The Risk Taxonomy defines the main risk types and risk subtypes FMO is exposed to in the pursuit of its objectives. This common set of risk categories, types and subtypes facilitates the structuring of other elements of the risk management framework, such as the Risk Appetite and Risk Policies.

The Risk Appetite defines appetite bandwidths, alert and tolerance levels for main risk types and subtypes. The Risk Appetite Framework (RAF) is reviewed by the Management Board and approved by the Supervisory Board on an annual basis. If necessary, it can be revised during the year in case of material developments or a change in the strategic goals.

The risk appetite, governance, and monitoring metrics for each risk domain are described in more detail in the sections below.



Developments

A company-wide project is initiated to increase the maturity of the control environment, the processes for risk-management and internal control, and the central Governance Risk and Compliance (GRC) tooling. The structure of the framework is improving, through alignment of risk-types, policies, and responsibilities, in line with the principle of three lines of defense. The project is in the first phase (gap analysis and description of desired end-state) and a detailed project plan will be delivered in March 2022 after discussion with the MB.

Pillar 3 disclosure

FMO publishes the required Pillar 3 disclosures on an annual basis in conjunction with the publication of the Annual Report. Together these documents fulfill the Pillar 3 disclosure requirements of the Capital Requirements Directive (CRD) IV and V regulation.

The objective of FMO's disclosure policies is to ensure maximum transparency in a practical manner. The consolidation scope for prudential reporting is equal to the accounting scope for FMO. FMO was granted the Solo Waiver for prudential reporting based on Article 7 and therefore only reports figures related to CRR on a consolidated basis.

Capital Adequacy

Definition

FMO aims to maintain a strong capital position that exceeds regulatory requirements and supports its AAA rating.

Risk appetite and governance

FMO maintains a strong capital position by means of an integrated capital adequacy planning and control framework. Capital adequacy metrics are calculated by Risk and regularly reviewed by the ALCO and senior management.

FMO uses both regulatory capital ratios and an internal economic capital ratio to determine its capital position. The regulatory ratios, the Total Capital Ratio and Common Equity Tier 1 (CET1) Ratio, are calculated based on the standardized approach of the Capital Requirements Regulation (CRR) and take credit, market, operational and credit valuation adjustment risks into account. The internal ratio (Economic Capital Ratio) is based on an economic capital model having credit risk as the most important element. Other risks in FMO's economic capital framework are operational, market, credit value adjustment, interest rate risk and ESG risk impacting FMO's reputation.

FMO has implemented a Capital Management Framework that aggregates all elements to manage FMO's current and future capital position in line with the RAF. The Capital Management Framework provides insights to FMO's management about the degree to which the strategy and capital position may be vulnerable to (unexpected) changes. These insights may require a management intervention to steer FMO's capital position against these unexpected events. Risk is responsible for flagging potential capital issues and proposing and quantifying possible interventions to ALCO.

Developments

FMO's Total Capital Ratio decreased from 24.9% at year-end 2020 to 23.7% at year-end 2021, which is well above the Supervisory Review and Evaluation Process (SREP) minimum and the other regulatory requirements. The second half-year profit of 2021 is not yet included within the capital base. Upon profit recognition from DNB, the Total Capital Ratio would be 26%. Given that FMO has no additional tier 1 and limited tier 2 capital, the Total Capital ratio is more restrictive than the CET-1 ratio. The recovery following the effects of the COVID-19 crisis was strong and the net profit, reflecting the value increase of the equity portfolio, strengthened further the capital position. The slight reduction of the overall portfolio that followed almost two years of relatively low production levels, also benefited the regulatory capital position of FMO and balanced the effect of the USD appreciation observed over 2021.

The Economic Capital Ratio is calculated based on CET-1 capital increased from 14.9% to 15.2%. The increase is mainly the result of the profit recorded in 2021. In 2021 the Economic Capital Ratio is calculated under a more conservative assumption whereby only the going concern capital is taken into account, thus excluding the Tier 2 capital issued by FMO from the total available capital. The methodology changed from June 2021 onwards and has been applied prospectively. Comparatives for 2022 have not been adjusted according to the new methodology.

Regulatory capital

Under the CRR/CRD banks are required to hold sufficient capital to cover for the risks they face. FMO reports its capital ratio to the Dutch Central Bank (DNB) on a quarterly basis according to the standardized approach for all risk types. Per December 31, 2021, FMO's total available qualifying capital equals €3,004 million (2020: €2,908 million).

	2021	2020
IFRS shareholders' equity	3,433,616	2,896,636
Tier 2 capital	250,000	250,000
Regulatory adjustments:		
-Interim profit not included in CET 1 capital	-292,265	-
-Other adjustments (deducted from CET 1)	-293,381	-171,239
-Other adjustments (deducted from Tier 2)	-94,059	-67,868
Total capital	**3,003,911**	**2,907,529**
Of which Common Equity Tier 1 capital	2,847,970	2,725,398
Risk weighted assets	**12,655,587**	**11,685,685**
Of which:		
- Credit and counterparty risk	10,256,838	9,560,702
- Foreign exchange	1,882,322	1,574,772
- Operational risk	492,475	510,739
- Credit valuation adjustment	23,951	39,472
Total capital ratio	23.7%	24.9%
Common Equity Tier 1 ratio	22.5%	23.3%

Following specific provisions in the CRR, FMO is required to deduct from its regulatory capital significant and insignificant stakes for subordinated loans and (in)direct holdings of financial sector entities above certain thresholds. These thresholds correspond to approximately 10% of regulatory capital. Exposures below the 10% thresholds are risk weighted accordingly.

As part of the SREP, DNB sets the minimum capital requirements for credit institutions. For 2021, The Dutch Central Bank has set a prudential requirement for FMO in terms of total capital at 17.3% and CET1 of 11.3%. The total prudential requirement consists of the total SREP capital ratio (13.8%), the combined buffer requirement (2.5%) and a Pillar 2 Guidance (1.0%).

The combined buffer requirement applicable to FMO consists of the capital conservation buffer and the institution specific countercyclical buffer (currently insignificant). As of 2021, the capital conservation buffer was recognized at 2.5%.

The Pillar 2 guidance (P2G) determines the adequate level of capital to be maintained above the existing capital requirements to have sufficient capital buffer to withstand stressed situations. The P2G is a non-binding requirement and no automatic restrictions on distributions of dividends or bonuses are imposed.

FMO's regulatory target capital ratio incorporates the fully phased-in capital requirement by DNB supplemented with

- (i) a management buffer, and
- (ii) a dynamic FX buffer. The dynamic FX buffer is in place to cover variations in the regulatory capital ratio following changes in the EUR/USD exchange rate that are not covered by the structural hedge. This structural hedge functions as a partial hedge against an adverse effect of the exchange rate on the regulatory capital ratios. Further information regarding the structural hedge is provided in the currency risk section.

Economic capital

Economic capital is calculated using a conservative confidence interval of 99.99%. This level is chosen to support a AAA rating. The economic capital model differs in two elements from the regulatory capital ratios. First, the EC model captures risks that are not covered under Pillar 1: reputational risk, interest rate risk in the banking book (IRRBB). Second, the EC model applies an internal model approach for credit risk resulting from FMO’s emerging market loan portfolio. FMO invests in emerging markets, which results in a profile with higher credit risk exposure than generally applies to credit institutions in developed economies. The internal model is more risk sensitive, leading to a higher capital requirement than the standardized approach. The most important parameters for calculating credit risk capital requirements are the probability of default and loss given default calculated using FMO’s internal credit risk rating. Please refer to the 'credit risk' section for more information regarding the internal credit risk rating system.

	2021	2020
Pillar 1		
Credit risk emerging market portfolio (99.99% interval)	1,414,178	1,390,721
Credit risk treasury portfolio	52,253	8,527
Market risk	150,586	125,982
Operational risk	39,398	40,859
Credit valuation adjustment	1,916	3,158
Total pillar 1	**1,658,331**	**1,569,247**
Pillar 2		
Interest rate risk in the banking book	72,518	74,331
Reputation risk	69,760	79,440
Economic capital (pillar 1 & 2)	**1,800,609**	**1,723,018**
Available capital		
Total Capital	3,412,230	3,122,513
Surplus provisioning (capped at 0.6% RWA)	-	82,384
Total available capital	**3,412,230**	**3,204,897**
EC - Risk weighted assets (internal model)	22,520,109	21,537,715
EC - Capital ratio	**15.2%**	**14.9%**

1 Surplus provisioning for the loan portfolio refers to the difference between the total provisioning minus total expected loss.

Leverage ratio

The leverage ratio represents a non-risk-adjusted capital requirement, defined as tier 1 capital as a percentage of FMO's total unweighted exposures. FMO’s leverage ratio equals 29% (2020: 28%[27]) which is far above the minimum requirement of 3% proposed by European authorities.

27 The leverage ratio for 2020 has been retrospectively adjusted due to an overstatement of the off–balance amount.

Financial Risk

Investment risk

Investment risk is defined as the risk that actual investment returns will be lower than expected returns, and includes credit, equity, concentration and counterparty credit risks.

Credit risk

Definition

Credit risk is defined as the risk that the bank will suffer an economic loss because a customer fails to meet its obligations in accordance with agreed terms.

Risk appetite and governance

For FMO's emerging market loan portfolio, adverse changes in credit quality can occur due to specific customer and product risk, or risks relating to the country in which the customer conducts its business. The main source of credit risk arises from investments in emerging markets and off-balance instruments such as loan commitments and guarantees.

Credit Risk management is very important at FMO, both in the context of project selection and project monitoring. In this process, a set of investment criteria per sector and product is used that reflects minimum standards for the required financial strength of FMO's customers. This is further supported by credit risk models that are used for risk quantification, calculations of expected credit loss allowance, and the determination of economic capital use per transaction. Funding decisions depend on the risk profile of the customer and financing instrument. For credit monitoring, FMO's customer are subject to annual reviews at a minimum. FMO also monitors customers that are identified due to financial difficulties through a quarterly Watch List process to proactively manage loans before they become non-performing. For distressed assets, the Special Operations department actively manages workout and restructuring.

FMO has set internal appetite levels for non-performing loans and specific impairments on loans. If any of the metrics exceed the appetite levels, Credit will assess the underlying movements and analyze trends per sector, geography and any other parameter. Credit will also consider market developments and peer group benchmarks. Based on the analysis, Credit will propose mitigating measures to the IRC. If any of the indicators deteriorate further, Risk Management will be involved to assess to what extent the trend is threatening FMO's capital and liquidity ratios.

Developments

FMO has embarked on an overhaul of its credit risk policy and processes. The objective is to implement a more aligned and effective portfolio management framework across the organization. Implementation has started in 2021 via the Investment Risk Project, which will continue further in 2022.

In the first half of 2020, a management overlay ('country crisis override') was introduced to reflect the impact of significant increases in credit risk on certain exposures of the loan portfolio, as a result of COVID-19. The overlay was derived by changing the country cap applied when assessing the customer's credit rating as a part of calculating the expected credit losses ('ECL'). The overall impact of the country crisis overrides in the financial results for the year ending December 2020 was an increase in impairments of EUR 34 million. During 2021, FMO continued to substitute credit ratings previously overwritten as a part of the country crisis override as new relevant information became available. Updated information is available for most customers as of this reporting date, thereby negating the need for manually overwritten customer ratings. Therefore, the overlay has been removed in 2021.

Exposures and credit scoring

The following table shows FMO's total gross exposure to credit risk per year-end. The exposures, including derivatives, are shown gross, before impairments and the effect of mitigation using third-party guarantees, master netting, or collateral agreements. Regarding derivative financial instruments, only the ones with positive market values are presented. The maximum exposure to credit risk decreased during the year to €8.09 billion as of year-end 2021 (2020: €8.20 billion). There was an increase in short term deposits at the Dutch Central Bank accompanied by a slight increase of 4 million in FMO's credit exposure from loans to the private sector in emerging markets, which stayed at €5.09 billion.

Maximum exposure to credit risk, including derivatives	2021	2020
On-balance		
Banks	95,873	46,775
Current accounts with State funds and other programs	648	678
Short-term deposits		
-of which: Amortized cost	120,048	59,129
-of which: Fair value through profit or loss	193,302	302,547
Interest-bearing securities	464,015	371,178
Short-term deposits – Dutch central bank	1,029,829	935,685
Derivative financial instruments	235,673	462,269
Loans to the private sector		
-of which: Amortized cost	4,400,086	4,452,774
-of which: Fair value through profit or loss	690,949	634,260
Current tax receivables	-	-
Other receivables	22,477	17,370
Deferred income tax assets	5,589	9,847
Total on-balance	**7,258,489**	**7,292,512**
Off-balance		
Contingent liabilities (guarantees issued)	69,341	66,009
Irrevocable facilities	764,080	838,270
Total off-balance	**833,421**	**904,279**
Total credit risk exposure	**8,091,910**	**8,196,791**

In measuring the credit risk of the emerging market portfolio at customer level, the main parameters used are the credit quality of the counterparties and the expected recovery ratio in case of defaults. Credit quality is measured by scoring customers on various financial and key performance indicators. FMO has a Customer Risk Rating (CRR) methodology. The model follows the EBA guidelines regarding the appropriate treatment of a Low Default Portfolio and uses an alternative for statistical validation to perform the risk assessment of the models when there is limited or no default data.

The CRR models are based on quantitative and qualitative factors and are different for respective customer types. The models for Banks and Non-Banking Financial Institutions (NBFIs) use factors including the financial strength of the customer, franchise value, and the market and regulatory environment. The model for Corporates uses factors including financial ratios, governance, and strategy. The Project Finance model uses factors focusing on the transaction characteristics, market conditions, political and legal environment, and financial strength of the borrower.

Based on these scores, FMO assigns ratings to each customer on an internal scale from F1 (lowest risk) to F20 (default) representing the Probability of Default. This rating system is equivalent to the credit quality rating scale applied by Moody's and S&P. Likewise, the Loss Given Default is assigned by scoring various dimensions of the product specific risk and incorporating customer characteristics. The probability of default and loss given default scores are also used as parameters in the IFRS9 expected credit loss model. Please refer to the section 'Significant accounting policies', for further details on the Expected Credit Loss (ECL) calculation methodology.

The majority of our gross loan portfolio (77%) remains in the F11 to F16 ratings categories.

Credit quality analysis

Loans to the private sector at December 31, 2021 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Fair value	Total	%
F1-F10 (BBB- and higher)	298,631	-	-	15,691	314,322	6%
F11-F13 (BB-,BB,BB+)	1,882,765	143,029	-	347,046	2,372,840	47%
F14-F16 (B-,B,B+)	1,019,114	344,623	-	197,785	1,561,522	31%
F17 and lower (CCC+ and lower)	28,180	324,275	359,469	130,427	842,351	17%
Gross exposure	**3,228,690**	**811,927**	**359,469**	**690,949**	**5,091,035**	**100%**
Less: amortizable fees	-34,678	-7,992	-2,600	-	-45,270	
Less: ECL allowance	-20,486	-29,522	-152,095	-	-202,103	
Plus: FV adjustments	-	-	-	-68,971	-68,971	
Carrying amount	**3,173,526**	**774,413**	**204,774**	**621,978**	**4,774,691**	

Loans to the private sector at December 31, 2020 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Fair value	Total	%
F1-F10 (BBB- and higher)	116,469	3,965	-	-	120,434	2%
F11-F13 (BB-,BB,BB+)	1,379,685	66,660	-	214,999	1,661,344	33%
F14-F16 (B-,B,B+)	1,757,032	451,781	-	277,524	2,486,337	49%
F17 and lower (CCC+ and lower)	73,702	299,442	304,039	141,737	818,920	16%
Gross exposure	**3,326,888**	**821,848**	**304,039**	**634,260**	**5,087,035**	**100%**
Less: amortizable fees	-37,142	-7,486	-2,177	-	-46,806	
Less: ECL allowance	-40,608	-45,870	-146,743	-	-233,221	
Plus: FV adjustments	-	-	-	-48,544	-48,544	
Carrying amount	**3,249,138**	**768,492**	**155,118**	**585,716**	**4,758,464**	

Apart from on-balance finance activities, FMO is also exposed to off-balance credit-related commitments. Guarantees, which represent contingent liabilities to make payments if a customer cannot meet its obligations to third parties, carry similar credit risks as loans. Most of the guarantees are quoted in US Dollars. Guarantees on export facilities are collateralized by the underlying letters of credit, and therefore carry less credit risk than direct uncollateralized borrowing. The following table shows the credit quality and the exposure to credit risk of the financial guarantees for the period.

Financial guarantees[1]		**2021**		
Indicative counterparty credit rating scale of S&P	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
F1-F10 (BBB- and higher)	8,715	385	-	9,100
F11-F13 (BB-,BB,BB+)	142,825	609	-	143,434
F14-F16 (B-,B,B+)	40,187	1,144	-	41,331
F17 and lower (CCC+ and lower)	11,926	-	-	11,926
Sub-total	**203,653**	**2,138**	**-**	**205,791**
ECL allowance	-723	-36	-	-759
Total	**202,930**	**2,102**	**-**	**205,032**

1 Financial guarantees represent €69,341 classified as contingent liabilities and €136,450 classified as irrevocable facilities as per Note 'Irrevocable and contingent liabilities'

Financial guarantees[1]		**2020**		
Indicative counterparty credit rating scale of S&P	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
F1-F10 (BBB- and higher)	24,532	-	-	24,532
F11-F13 (BB-,BB,BB+)	76,306	26,972	-	103,278
F14-F16 (B-,B,B+)	189,003	32,848	-	221,851
F17 and lower (CCC+ and lower)	11,098	45,792	-	56,890
Sub-total	**300,939**	**105,612**	**-**	**406,551**
ECL allowance	-1,875	-2,630	-	-4,505
Total	**299,064**	**102,982**	**-**	**402,046**

1 Financial guarantees represent €66,099 classified as contingent liabilities and €340,451 classified as irrevocable facilities as per Note 'Irrevocable and contingent liabilities'

Additionally, irrevocable facilities represent commitments to extend finance to customers and consist of contracts signed but not disbursed yet which are usually not immediately and fully drawn.

The following table shows the credit quality and the exposure to credit risk of the loan commitments which are part of the irrevocable facilities for the period.

Loans commitments			2021		
Indicative counterparty credit rating scale of S&P	**Stage 1**	**Stage 2**	**Stage 3**	**Other [1)]**	**Total**
F1-F10 (BBB- and higher)	36,471	-	-	-	36,471
F11-F13 (BB-,BB,BB+)	248,726	46,138	-	19,265	314,129
F14-F16 (B-,B,B+)	212,836	16,496	-	-	229,332
F17 and lower (CCC+ and lower)	34,186	2,338	10,477	697	47,698
Total nominal amount	**532,219**	**64,972**	**10,477**	**19,962**	**627,630**
ECL allowance	-2,397	-880	-	-	-3,277
Total	**529,822**	**64,092**	**10,477**	**19,962**	**624,353**

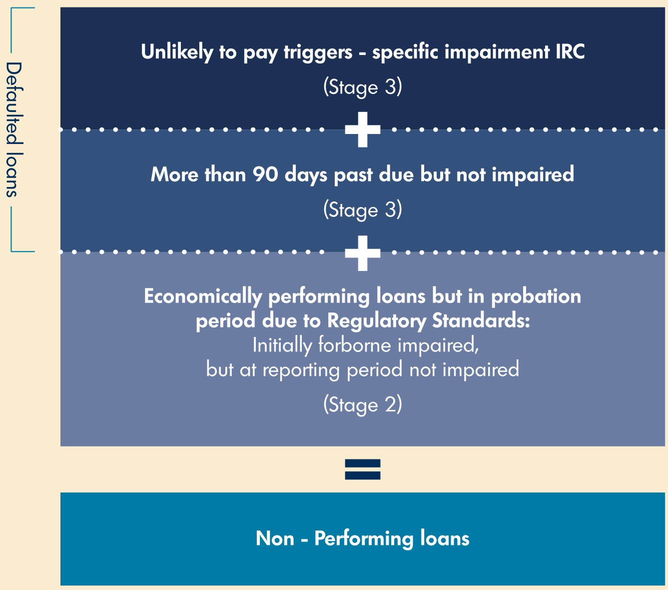
Loans commitments			2020		
Indicative counterparty credit rating scale of S&P	**Stage 1**	**Stage 2**	**Stage 3**	**Other [1)]**	**Total**
F1-F10 (BBB- and higher)	13,141	-	-	-	13,141
F11-F13 (BB-,BB,BB+)	124,256	40,232	-	16,355	180,843
F14-F16 (B-,B,B+)	213,055	1,794	-	35,545	250,394
F17 and lower (CCC+ and lower)	28,538	12,878	18,360	2,742	62,518
Total nominal amount	**378,990**	**54,904**	**18,360**	**54,642**	**506,896**
ECL allowance	-3,160	-1,748	-	-	-4,908
Total	**375,830**	**53,156**	**18,360**	**54,642**	**501,988**

1 Loan commitments for which no ECL is calculated (Fair Value loans or expired availability date).

Non-Performing Loans

Non-Performing Loans (NPL) are defined when any of the following occur:

- When FMO judges that the customer is "unlikely to pay" its credit obligation to FMO and IRC decides on a specific impairment on a loan (Stage 3);
- Loans with interest, principal or fee payments that are past due for more than 90 days (Stage 3);
- One of the loans is classified as non-performing due to criteria mentioned above, all loans of the customer will be identified as non-performing (Stage 3);
- Forborne exposures which are economically performing but are still in probation (curing) period due to Regulatory Standards (Stage 2). Probation period before returning to performing status is one year;
- Additional forbearance measures are applied for forborne performing loans which have exited the NPL probation (Stage 2);
- Performing forborne loans which have exited the NPL probation period have past due amounts for more than 30 days (Stage 2).



As of 31 December 2021, FMO's NPLs amounted to €483 million (2020: €464 million) or 9.5% as a percentage of FMO's Loan Portfolio (2020: 9.1%)

NPLs remain concentrated in a few large facilities. Top three NPLs are 18% of the total, top ten are 45%. As a result, a limited number of large new NPLs result in large movements in the NPL percentage. In terms of sector, in absolute terms, NPLs are highest in Energy, at €181 million, followed by other sectors (€178 million), AFW (€77 million) and FI (€47 million). In relative terms (as percentage of the exposure in that sector) NPLs remain highest in other sectors, at 37%, followed by Energy (13%), AFW (9%) and FI (2%). FMO stopped providing Loans to other sector customers in 2017. NPLs excluding other sectors are 6.6%.

Geographically, NPLs remain highest in India. In response to the high NPL levels in India, FMO tightened the investment process for new loans in this country from 2017 onwards. Although India's part of NPLs decreased from 27% as of 31 December 2018 to 20% as of 31 December 2021, it is deemed too early to conclude whether this will result in improved performance in India, considering the lead times between approval, signing and defaults. In 2021 NPLs increased in Myanmar to 10% of total NPLs (2020: 0%). The latter was due to deterioration of the country's risk profile. NPLs also increased in Uganda, to 9% of total NPLs (2020: 0%), due to two Energy projects becoming non-performing. NPLs decreased in Argentina to 7% (2020: 17%) of FMO's total NPLs, as a result of a write-off and a project becoming performing again. NPL levels in FMO's portfolio partially reflect long recovery periods, which are inherent in markets where FMO operates.

Past due information related to FMO's loans portfolio is presented in the tables below.

Loans past due and impairments 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Fair Value**	**Total**
Loans not past due	3,222,515	811,927	75,658	651,035	4,761,135
Loans past due:					
-Past due up to 30 days	6,154	-	11,558	-	17,712
-Past due 30-60 days	-	-	38,340	-	38,340
-Past due 60-90 days	21	-	6,612	-	6,633
-Past due more than 90 days	-	-	227,301	39,914	267,215
Gross exposure	**3,228,690**	**811,927**	**359,469**	**690,949**	**5,091,035**
Less: amortizable fees	-34,678	-7,992	-2,600	-	-45,270
Less: ECL allowance	-20,486	-29,522	-152,095	-	-202,103
Less: FV adjustments	-	-	-	-68,971	-68,971
Carrying amount	**3,173,526**	**774,413**	**204,774**	**621,978**	**4,774,691**

Loans past due and impairments 2020	Stage 1	Stage 2	Stage 3	Fair Value	Total
Loans not past due	3,326,888	785,485	46,284	589,659	4,748,316
Loans past due:					
-Past due up to 30 days	-	2,752	-	6,528	9,280
-Past due 30-60 days	-	33,611	-	-	33,611
-Past due 60-90 days	-	-	-	-	-
-Past due more than 90 days	-	-	257,755	38,073	295,828
Gross exposure	**3,326,888**	**821,848**	**304,039**	**634,260**	**5,087,035**
Less: amortizable fees	-37,142	-7,486	-2,177	-	-46,806
Less: ECL allowance	-40,608	-45,870	-146,743	-	-233,221
Less: FV adjustments	-	-	-	-48,544	-48,544
Carrying amount	**3,249,138**	**768,492**	**155,118**	**585,716**	**4,758,464**

The table below presents the distribution of Stage 3 loans according to regions and sectors.

Stage 3 - ECL distributed by regions and sectors

December 31, 2021	Financial Institutions	Energy	Agribusiness	Infrastructure, Manufacturing, Services	Total
Africa	-	13,852	260	16,279	30,391
Asia	5,534	35,091	959	10,645	52,229
Latin America & the Caribbean	2,463	6,558	30,210	15,958	55,189
Europe & Central Asia	-	2,320	11,966	-	14,286
Non-region specific	-	-	-	-	-
Total	**7,997**	**57,821**	**43,395**	**42,882**	**152,095**

Stage 3 - ECL distributed by regions and sectors

December 31, 2020	Financial Institutions	Energy	Agribusiness	Infrastructure, Manufacturing, Services	Total
Africa	-	6,371	-	7,320	13,691
Asia	7,504	26,181	-	1,873	35,558
Latin America & the Caribbean	621	5,298	56,623	16,289	78,831
Europe & Central Asia	135	3,051	6,267	9,210	18,663
Non-region specific	-	-	-	-	-
Total	**8,260**	**40,901**	**62,890**	**34,692**	**146,743**

Modified financial assets

Changes in terms and conditions usually include extending the maturity, changing the interest margin and changing the timing of interest payments. When the terms and conditions are modified due to financial difficulties, these loans are qualified as forborne. Refer to paragraph related to 'Modification of financial assets' in Accounting Policies section.

The Credit department reviews modified loans periodically in accordance with the watch-list process. When a loan is deemed no longer collectible, it is written off against the related loss allowance. In 2021, FMO's write-offs including disposals equaled to €50.2 million (2020: €64.2 million).

The following table provides a summary of FMO's forborne assets, both classified as performing and non-performing, as of December 31, 2021.

December 31, 2021	**Performing**	of which: performing but past due > 30 days and <=90 days	of which: performing forborne	**Non Performing**	of which: non performing forborne	of which: impaired	**Gross exposure**	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	**Carrying amount**
Loans to the private sector (Amortised Cost)	**4,030,437**	-	235,341	**369,649**	237,052	171,548	**4,400,086**	-45,270	-202,103	-	**4,152,713**
Loans to the private sector (Fair value)	**577,776**	-	23,544	**113,173**	70,942	-	**690,949**	-	-	-68,971	**621,978**
Total	**4,608,213**	-	258,885	**482,822**	307,994	171,548	**5,091,035**	-45,270	-202,103	-68,971	**4,774,691**

December 31, 2020	**Performing**	of which: performing but past due > 30 days and <=90 days	of which: performing forborne	**Non Performing**	of which: non performing forborne	of which: impaired	**Gross exposure**	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	**Carrying amount**
Loans to the private sector (Amortised Cost)	**4,096,033**	33,611	218,083	**356,742**	84,577	292,501	**4,452,775**	-46,806	-233,221	-	**4,172,748**
Loans to the private sector (Fair value)	**526,801**	-	9,071	**107,459**	80,331	-	**634,260**	-	-	-48,544	**585,716**
Total	**4,622,834**	33,611	227,154	**464,201**	164,908	292,501	**5,087,035**	-46,806	-233,221	-48,544	**4,758,464**

The following table shows the movement of gross outstanding amount and ECL impact of Stage 2 and Stage 3 loans which were modified during 2021.

	Post - modification		Pre - modification	
December 31, 2021	**Gross outstanding amount**	**Corresponding ECL**	**Gross outstanding amount**	**Corresponding ECL**
Restored loans since forbearance and now in Stage 1	8,075	-82	6,095	-147
Loans that reverted to Stage 2/3 once restored	25,996	-1,263	29,462	-518

	Post - modification		Pre - modification	
December 31, 2020	**Gross outstanding amount**	**Corresponding ECL**	**Gross outstanding amount**	**Corresponding ECL**
Restored loans since forbearance and now in Stage 1	29,462	-518	31,697	-553
Loans that reverted to Stage 2/3 once restored	-	-	-	-

The table below includes Stage 2 and Stage 3 assets for which terms and conditions were modified including the related net modification result

	2021	**2020**
Amortised cost of financial assets modified during the period	16,554	80,243
Net modification result	208	1,291

Credit risk mitigation

As per December 31, 2021, the total carrying value of the FMO's loan portfolio is €4.8 billion; of which €1.0 billion is guaranteed by either the Dutch government or highly rated guarantors. The following table shows a breakdown of guarantee amounts received and carrying values of guaranteed loans per credit ranking of the guarantors.

	2021		2020	
Guarantor credit ranking based on rating scale S&P	**Amount of guarantees received**	**Guaranteed loans - carrying amount**	**Amount of guarantees received**	**Guaranteed loans - carrying amount**
Dutch State	4,789	5,575	8,798	10,424
AA- and higher ratings	325,853	1,001,419	210,672	579,408
A+ to A-	-	-	-	-
BBB+ to B-	3,579	33,662	20,795	52,226
CCC+ and lower ratings	-	-	-	-
Total	**334,221**	**1,040,656**	**240,265**	**642,057**

The total carrying value of defaulted (stage 3) loans in FMO's loan portfolio is €205 million; of which €70 million is guaranteed by either the Dutch government or highly rated guarantors. The following table shows a breakdown of guarantee amounts received and carrying values of guaranteed loans.

	2021		2020	
Stage of guaranteed loans	**Amount of guarantees received**	**Guaranteed loans - carrying amount**	**Amount of guarantees received**	**Guaranteed loans - carrying amount**
1	264,439	865,760	169,858	487,533
2	51,058	105,332	51,476	107,104
3	18,724	69,564	18,931	47,420
Total	**334,221**	**1,040,656**	**240,265**	**642,057**

Equity risk

Definition

Equity risk is the risk that the fair value of an equity investment decreases. It also includes exit risk, which is the risk that FMO's stake cannot be sold for a reasonable price and in a sufficiently liquid market.

Risk appetite and governance

FMO has a long-term view on its equity portfolio, usually selling its equity stake within a period of 5 to 10 years. FMO can accommodate an increase in the average holding period of its equity investments and thereby wait for markets to improve again to materialize exits. The equity investment portfolio consists of direct investments, largely in the financial institutions and energy sectors, co-investments with aligned partners (mainly in cooperation with funds) and indirect investments in private equity funds. Equity investments are approved by the Investment Committee. In close cooperation with the Credit and Finance departments, the Private Equity department assesses the valuation of equity investments on a periodic basis which are approved by the IRC. Diversification across geographical area, sector and equity type across the total portfolio is evaluated before new investments are made. Based on this performance and the market circumstances, direct exits are pursued by involving intermediaries. For co-investments our fund managers do initiate the exit process as they are in the lead. Exits are challenging due to limited availability of liquidity differing per market and the absence of well-developed stock markets.

The risk of building an equity portfolio is driven by two factors:

- Negative value adjustments due to currency effects (EUR/USD and USD/Local FX), negative economic developments in emerging markets (EM) and specific investee related issues. This would negatively affect the profitability of FMO.
- Liquidity of the portfolio – in case FMO is not able to liquidate (part) of its maturing equity portfolio by creating sufficient exits for its direct and co- investment portfolio. This is also reflected in the fund portfolio where some fund managers have to hold longer to their portfolio due to the lack of good exit opportunities.

Developments

In 2021, equity market conditions clearly improved from the situation in 2020, when markets were impacted by COVID-19, the US–China trade war, and devaluation of the USD versus the EUR. The strong recovery, combined with the expansion of the money supply, resulted in higher market valuations and increased liquidity.

FMO could benefit from the situation in which we experienced larger exits and higher-than-expected fund distributions. Another significant trend in 2021 was the remarkable increase in the value of the VC market in emerging markets. FMO benefits from this trend through its Venture Capital program, which we initiated a few years ago.

In 2021 our committed equity portfolio (including associates) increased to €2.8 billion (2020: €2.6 billion) due to an increase in underlying valuations of €225.0 million and FX results of €107.0 million, driven by the strengthening USD. This was partly offset by distributions from funds and direct exits, which returned more money than we paid-in during 2021. The percentage of direct investments versus fund investments dropped from 45% to 43% because we did more fund investments in 2021 and realized several large direct exits. Dividend income amounted to €22.1 million (2020: €32.9 million). We received less dividends in 2021, as banks – which in the past delivered the bulk of dividends – were restricted from paying out dividends in a lot of markets to keep their buffers at a healthy level.

Exposures

The total outstanding equity portfolio at December 31, 2021, amounts to €2.3 billion (2020: €2.0 billion) of which €1.1 billion (2020: €900 million) is invested in investment funds.

Equity portfolio including Associates distributed by region and sector

December 31, 2021	Financial Institutions		Energy		Agribusiness		Multi-Sector Fund Investments		Infrastructure, Manufacturing, Services		Total	
	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds
Africa	338,451	23,331	35,872	29,839	46,787	5,217	-	343,601	57,568	-	478,678	401,988
Asia	147,460	12,833	40,015	94,041	61,150	4,595	-	297,715	54,754	-	303,379	409,184
Latin America & the Caribbean	62,602	-	-	33,281	17,659	1,906	-	56,226	49,365	-	129,626	91,413
Europe & Central Asia	4,849	6,665	-	6,498	42,364	-	-	93,300	9,708	-	56,921	106,463
Non-region specific	143,195	57,874	20,958	28,344	-	968	-	17,902	69,094	-	233,247	105,088
Total	**696,557**	**100,703**	**96,845**	**192,003**	**167,960**	**12,686**	**-**	**808,744**	**240,489**	**-**	**1,201,851**	**1,114,136**

Equity portfolio including Associates distributed by region and sector

December 31, 2020	Financial Institutions		Energy		Agribusiness		Multi-Sector Fund Investments		Infrastructure, Manufacturing, Services		Total	
	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds
Africa	240,490	24,768	44,818	18,513	26,790	4,906	-	275,710	108,749	-	420,847	323,897
Asia	170,643	4,415	54,730	96,685	38,830	5,966	-	233,232	52,183	-	316,386	340,298
Latin America & the Caribbean	2,907	4,381	-	9,853	23,900	-	-	64,428	39,454	-	66,261	78,662
Europe & Central Asia	84,843	-	-	20,978	16,763	1,977	-	55,561	24,794	-	126,400	78,516
Non-region specific	39,489	46,069	21,698	21,083	-	-	-	11,215	93,075	-	154,262	78,367
Total	**538,372**	**79,633**	**121,246**	**167,112**	**106,283**	**12,849**	**-**	**640,146**	**318,255**	**-**	**1,084,156**	**899,740**

The equity portfolio is left unhedged for FX risk. For more information please refer to the sections on Currency risk and Structural Hedge.

Concentration risk

Definition

Concentration risk is the risk that FMO's exposures are too concentrated within or across different risk categories. Concentration risk may trigger losses large enough to threaten the institution's health or ability to maintain its core operations or trigger material change in institution's risk profile.

Risk appetite and governance

Strong diversification within FMO's emerging market portfolio is ensured through stringent limits on individual counterparties (single and group risk limits), sectors, countries and regions. These limits are monitored by Risk, reviewed regularly and approved by the IRC. Diversification across countries, sector and individual counterparties is a key strategy to safeguard the credit quality of the portfolio.

Developments
Following a 2% contraction in the developing market economy in 2020, 2021 showed clear signs of recovery, with an estimated GDP increase of 6.5 % (IMF WEO Jan 2022). In the coming years, emerging markets are expected to grow at a moderate rate of around 5% in 2022 and 2023. The projections are still clouded by uncertainty about the development and emergence of new covid-19 variants, which could have even more disruptive effects on global supply chains, travel restrictions, and rising energy prices. FMO has been closely monitoring its portfolio throughout 2021 and will continue to do so in the future. Given FMO's diverse exposure across more than 70 markets, it is well positioned to mitigate the negative effects of specific country crises.

Conflict in Ukraine
On Thursday 24th of February 2022, the Russian Federation started to invade Ukraine. The move followed shortly after Russian President Putin recognized two Eastern-Ukrainian provinces as independent states and invaded those areas for a "peacekeeping" mission on the 21st of February. Since then, large-scale missile attacks in Ukrainian cities have been carried out and parts of the country are controlled by Russian troops. The UK, US and EU have imposed sanctions to several individuals and taken actions to restrict the ability of the Russian state and government to access capital and financial markets. Flights from and to Russia are halted. Belarus has also been targeted with sanctions. FMO is deeply concerned with the developments.

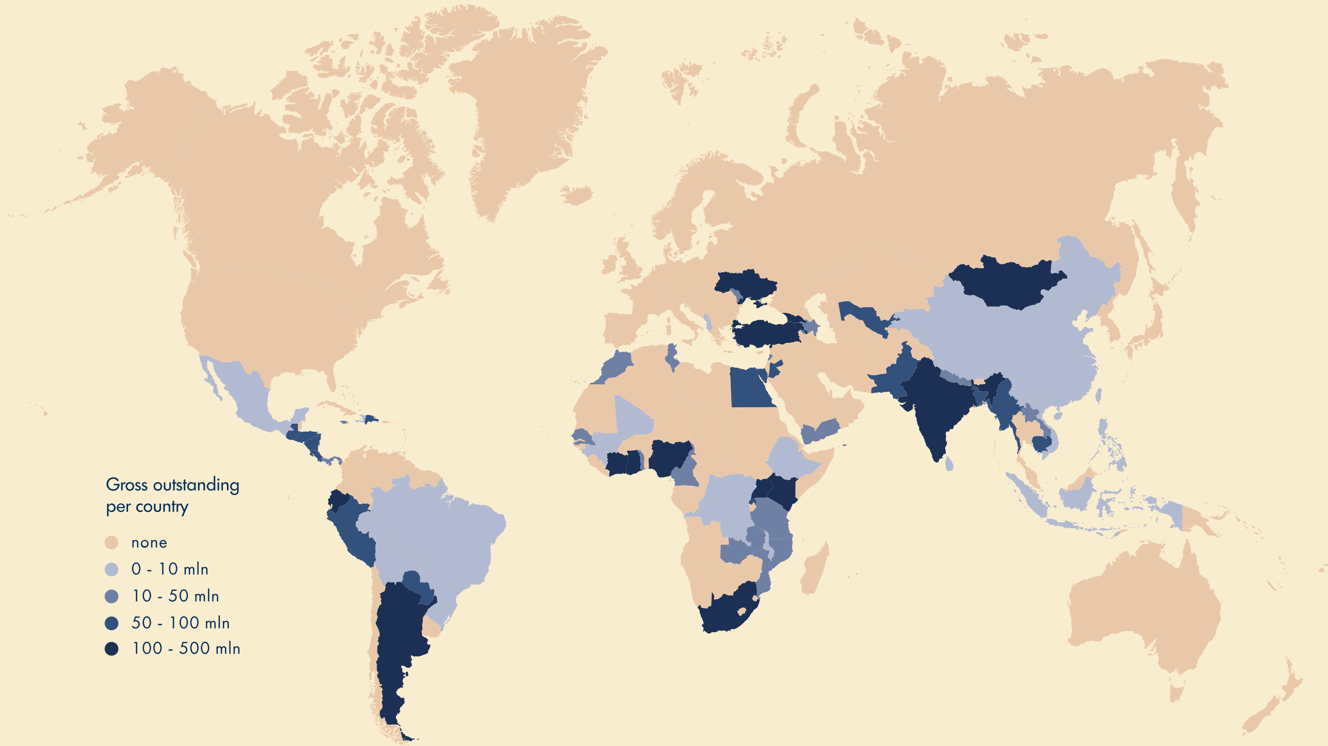
FMO has been active in Ukraine for decades. As per February 2022, FMO's direct exposure to Ukraine is around EUR 200 million with 14 customers. This exposure is in debt products (56%), equity (37%) and guarantees (7%), within two of the three FMO's strategic sectors, Energy and Agri Food and Water. Moreover, FMO has indirect exposure in Ukraine through debt funds amounting to 14 million. No direct exposure in the Financial Industry sector is held in Ukraine. FMO has no direct exposure and a limited indirect exposure to Russia. Furthermore, FMO has no cash or derivative contract in Russian Ruble or Ukrainian Hryvnia. The exposure towards Belarus is around 20 million, mostly in equity. A sensitivity analysis has been performed to assess the financial impact on FMO's liquidity position and capital ratios. This assessment shows that even in a strongly adverse scenario FMO remains widely above all regulatory requirements and internal appetite.

As a response to the crisis and following an agreement to impose an enhanced monitoring regime, FMO has set-up a country crisis working group which includes members of FMO's investment departments, Credit, the IRC, Risk and Compliance. On the 28th of February, the IRC approved a country rating downgrade from F15 to F18 (from B to CCC), consequently customer ratings have been adjusted accordingly. In line with further developments, this rating may be re-adjusted from time to time. For the time being, FMO has paused new activities in the country. It's too early to know all the implication of this crisis, FMO is assessing the impact of the developments also for other customers in the region and, where appropriate, impairment assessments will be made.

Country, regional and sector exposures
Country risk arises from country-specific events that adversely impact FMO's exposure in a specific country. Within FMO, country risk is broadly defined. It includes all relevant factors that have a common impact on FMO's portfolio in a country such as economic, banking and currency crises, sovereign defaults and political risk events.

To ensure diversification within FMO's emerging market portfolio across regions, a country limit framework is in place to minimize concentration risk from the perspective of the portfolio as a whole. Country limits range from 8% to 22% of FMO's shareholders equity, depending on the country rating, where FMO sets higher limits in less risky countries. The assessment of the country rating (F-rating scoring in line with internal credit risk rating) is based on a benchmark of external rating agencies and other external information.

In determining the limit usage within a country for loans, the committed portfolio amount as well as underlying transaction specific elements - which may lead to effective reduction of country risk - are considered. The figure below provides an overview of the diversification over the countries of FMO's gross outstanding in the loan portfolio.



In general, the loan portfolio remains well diversified across different countries. The single largest country exposure is under 10% of the total loan book. The three largest country exposures in the loan book at the end of 2021 were India, Turkey, and Argentina, together 19% of the total loan exposure. Throughout 2021, the ratings of these countries did not change throughout the year. Noteworthy changes in country ratings are downgrades of the African region to F16 (2020: F15), Kenya to F15 (2020: F14), Myanmar to F18 (2020: F15) and Sri Lanka to F18 (2020: F14), Côte d'Ivoire upgraded to F13 (2020: F14).

Overview country ratings loan book based on rating scale S&P

Indicative external rating equivalent	2021 (%)	2020 (%)
F9 and higher (BBB and higher ratings)	2.5	3.4
F10 (BBB-)	7.3	8.5
F11 (BB+)	2.2	2.3
F12 (BB)	5.3	5.9
F13 (BB-)	11.5	7.5
F14 (B+)	26.6	30.1
F15 (B)	22.0	24.2
F16 (B-)	10.5	8.1
F17 and lower (CCC+ and lower ratings)	12.1	10.0
Total	**100.0**	**100.0**

On top of country risk limits, FMO has additional limits in place to ensure adequate diversification across sectors and regions. Below an overview of the gross exposure of loans distributed by region and sector is given.

Gross exposure of loans distributed by region and sector

	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
December 31, 2021						
Africa	505,316	573,562	159,705	18,025	143,483	1,400,091
Asia	548,005	329,285	123,855	-	134,980	1,136,125
Latin America & the Caribbean	583,634	336,359	152,352	-	84,842	1,157,187
Europe & Central Asia	661,916	143,212	235,419	-	115,916	1,156,463
Non-region specific	49,357	11,288	172,632	-	7,892	241,169
Total	**2,348,228**	**1,393,706**	**843,963**	**18,025**	**487,113**	**5,091,035**
December 31, 2020						
Africa	407,484	551,531	176,209	20,479	155,059	1,310,762
Asia	485,768	336,734	112,768	-	132,518	1,067,788
Latin America & the Caribbean	573,520	434,656	196,210	-	90,127	1,294,513
Europe & Central Asia	580,066	211,136	199,810	33,751	92,849	1,117,612
Non-region specific	78,743	8,611	154,847	6,148	48,010	296,359
Total	**2,125,581**	**1,542,668**	**839,844**	**60,378**	**518,563**	**5,087,034**

Single and group risk exposures

Regarding single and group risk exposures, FMO has set stringent internal limits where the maximum loss possible for one single clustomer or group is set as a percentage of FMO's shareholders' equity. At year-end, all exposures are well within these limits. These internal single and group risk limits are set to be more stringent than the regulatory limits such as the ones foreseen under the CRR norm of 25% of eligible regulatory capital.

Climate Change risk

FMO defines climate-related risk as the risks posed by direct exposure to climate change, or indirect exposure through counterparties that may potentially be affected by, or contribute to, climate change. These include two strongly interlinked perspectives:

- An inside-out perspective, defined as the impact BY FMO and its customers to climate (which is mainly covered by the ESG risk framework);
- An outside-in perspective, defined as the impact ON FMO due to transition and physical risks, of which:
  - Physical Risk: are the risks arising from the physical effects of climate change, either chronic or acute;
  - Transition Risk: are the risks arising from the uncertainty related to the timing and speed of the process of adjustment to an environmentally sustainable economy; this can materialize through policy and regulation, technology, market, or behavioral changes.

FMO has initiated project activities to embed climate-related and environmental risks within the organization. The focus initially is on climate risk specifically, based on the “ECB Guide on Climate Related and Environmental Risks”. In the future, also environmental risks will be included in the scope for implementation.

The implementation is based on the development of an integrated and consistent climate risk framework, not only looking at the assessment of FMO's current portfolio and new investments, but also at how climate risks impact strategy, at creating awareness, organize training, setting up governance through roles, responsibilities and committees and integrating climate risk in risk documentation and disclosure. This will also require a change in the way how climate related risks are considered within FMO's risk appetite and taxonomy, since climate-related risk is not a separate risk type but an external causal factor of FMO's existing risk types. For further information regarding the topic, please also refer to the separate Task Force on Climate-related Financial Disclosures (TCFD) report.

Counterparty credit risk

Definition
Counterparty credit risk in the treasury portfolio is the risk that FMO will suffer economic losses because a counterparty fails to fulfill its financial or other contractual obligations from open positions in the portfolio.

Risk appetite and governance
The main responsibility of FMO’s Treasury department is to fund the core business of FMO and to efficiently and effectively mitigate risks in line with the Treasury’s mandate. The main goal of the treasury portfolio is to maintain a liquidity buffer such that FMO can serve its liquidity needs in both on- going business and in stressed circumstances. FMO’s Treasury department does not have its own trading book and does not actively take open positions in the pursuit of profits. FMO aims to balance between keeping losses within its limited risk tolerance and supporting FMO's business strategy, thereby minimizing credit risk and concentration risk in the treasury portfolio, derivative portfolio, and several bank accounts.

The Treasury department is responsible for day-to-day counterparty risk management. Risk is the second line of defense and responsible for assessing, quantifying, and monitoring counterparty risk daily. Limit excesses and material findings are reported to the ALCO on a monthly basis, together with recommended mitigations and/or actions. The Risk Department is also responsible for updating related policies and processes and for setting up limits, including minimum credit rating requirements, exposure limits, as well as transaction limits. The policies, processes, relevant parameters, and limits are reviewed and approved by the ALCO annually.

Developments
There have been developments in the (L)IBOR transition to new benchmark rates affecting the valuations of transactions with all counterparties. Furthermore, the internal limit monitoring framework for exposures to derivatives counterparties got reviewed in 2021. For more details, please refer to the section ‘Interest rate risk in the banking book’.

Exposures
Counterparty risk exposures in FMO’s treasury portfolios originate from short-term investments (deposits, investment in money market funds, commercial papers (CP's), and collaterals related to transacted derivatives), interest-bearing securities (bonds), and transacted derivatives for hedging purpose. The tables below show outstanding positions as of 31 December.

Overview interest-bearing securities based on rating scale S&P and Fitch

At December 31	2021	2020
AAA	327,673	247,583
AA- to AA+	136,298	123,493
Total	**463,971**	**371,076**

Geographical distribution interest-bearing securities

At December 31	2021 (%)	2020 (%)
Belgium	5	7
Finland	16	17
France	4	5
Germany	33	25
Netherlands	18	21
Philippines	4	5
Sweden	4	8
Supra-nationals	16	12
Total	**100**	**100**

Overview short-term deposits

At December 31	S&P rating (short-term)	2021	2020
European Central Bank		1,453	-
Dutch central bank		1,029,830	935,686
Financial institutions	A-1	253,781	213,936
	A-2	14,174	4,617
	A-3	-	-
	Unrated	-	-
Money market funds	A-1+	43,941	143,122
Total		**1,343,179**	**1,297,361**

Supra-nationals are international organizations or unions in which member states delegate part of their national powers to a collective decision-making body.

FMO mitigates its counterparty credit risk through various means. Minimum requirements of credit quality are set for counterparties of treasury activities. Netting and collateral agreements are also utilized to reduce counterparty credit risk originating from derivative transactions. FMO has Credit Support Annexes (CSAs) with all derivative counterparties. Additionally, part of the derivative portfolio, particularly EUR and USD interest rate swaps, is cleared through central counterparties, as required by the European Market Infrastructure Regulations (EMIR).

Derivative financial instruments distributed by rating, based on rating scale S&P and Fitch

	2021		2020	
	Net exposure	**CSA (%)**	**Net exposure**	**CSA (%)**
AA- to AA+	-		-	
A- to A+	204,295	100	409,797	100
BBB to BBB+	13,442	100	24,184	100
Central cleared	-		-	
Total	**217,737**	**100**	**433,980**	**100**

The exposure of derivative financial instruments is presented for only derivatives with positive market value, if possible, netted with derivatives with a negative market value if it concerns the same counterparty. For this reason, the total amount shown in the table above does not equal the exposure presented in the other tables.

The disclosures as set out in the tables below include financial assets and financial liabilities that:

- are offset in the consolidated balance sheet of FMO; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated balance sheet.

FMO receives and pledges only cash collateral with respect to derivatives.

	(a)	(b)	(c)=(a)-(b)	(d)		(e)=(c)+(d)
				Related amounts not offset in the balance sheet		
December 31, 2021	**Gross amounts recognized in balance sheet**	**Gross amount of financial assets/ liabilities offset in the balance sheet**	**Net amount presented in the balance sheet**	**Financial instruments (including non-cash collateral)**	**Cash collateral**	**Net amount**
Financial assets						
Derivatives	235,673	-	235,673	-	-	-
Financial liabilities						
Derivatives	-192,225	-	-192,225	-		
Total	**43,448**	**-**	**43,448**	**-**	**-4,729**	**38,719**

	(a)	(b)	(c)=(a)-(b)	(d)		(e)=(c)+(d)
				Related amounts not offset in the balance sheet		
December 31, 2020	**Gross amounts recognized in balance sheet**	**Gross amount of financial assets/ liabilities offset in the balance sheet**	**Net amount presented in the balance sheet**	**Financial instruments (including non-cash collateral)**	**Cash collateral**	**Net amount**
Financial assets						
Derivatives	463,436	-	463,436	-	-	-
Financial liabilities						
Derivatives	-129,592	-	-129,592	-		
Total	**333,844**	**-**	**333,844**	**-**	**-282,054**	**51,790**

Liquidity risk

Definition

Liquidity risk is defined as the risk for FMO not being able to fulfill its financial obligations due to insufficient availability of liquid means.

Risk appetite and governance

FMO’s risk appetite is to maintain adequate liquidity buffers to fulfill FMO’s current and future financial obligations. The appetite follows a similar rationale as for capital and it is aimed to maintain enough liquidity to ensure FMO would never need to fall back on the guarantee provided by the Dutch State to our investors. To realize this ambition, minimum liquidity requirements apply as prescribed by the regulator.

FMO’s Liquidity Risk Policy Framework is built on four pillars.

1. Survival period and minimum liquidity buffer under stress
2. Maturity matched funding
3. Diversified funding
4. Regulatory ratio requirements

Based on these four pillars. FMO’s risk appetite levels are defined to ensure a minimum buffer above the 7-months minimum survival period under stress, a liquidity coverage ratio (LCR) to exceed 135%, a Net Stable Funding Ratio (NSFR) to exceed 110%, and restrictions on failed funding periods and cost of wholesale funding above peers. Additional thresholds such as matching funding and liquidity in specific currencies are also in place for managing and monitoring the risk profile of the bank. These monitoring metrics are delegated to Director Risk and Director Treasury and are subject to a formal sign- off procedure and reported to the ALCO. The ALCO is also responsible to approve the Liquidity Risk Policy.

FMO traditionally has a conservative liquidity policy and funding strategy that is well suited to its business. Stress tests are conducted on FMO’s liquidity position on weekly basis to ensure this conservative position is maintained. During the Internal Liquidity Adequacy Assessment Process (ILAAP), FMO performs additional stress tests including scenarios provided by DNB and includes reverse stress testing. A continuous review is performed on the liquidity position, FMO’s assumptions, internal expectations and external market conditions to ensure that FMO’s liquidity planning is accurate.

The Liquidity Contingency Plan sets out FMO’s strategy for addressing liquidity needs in the case of a crisis, ensuring that various sources of emergency liquidity are available to meet all current and future financial obligations, whilst avoiding excessive funding costs, incurring unacceptable losses and significantly changing the business profile. The liquidity sources include a long-term bond portfolio and a portfolio of short-term instruments such as cash, Money Market Funds, Commercial Paper (CP) and Treasury Bills. The long-term bonds and CP can be used as collateral in repurchase agreements to obtain short-term cash from the Dutch Central Bank or from commercial parties.

Developments

FMO's liquidity position remained comfortably above regulatory requirements and internal managerial limits in 2021, with an LCR never falling below 384 %. The amending Regulation (EU) 2019/876 ('CRR2') went into effect in June 2021, and FMO began reporting its Net Stable Funding Ratio (NSFR) in accordance with the new reporting requirements. FMO's NSFR increased slightly as a result of the new regulation, owing primarily to the new weighting factors in required stable funding.

In addition, over the past few years, FMO has established a key role in local currency frontier markets and is keen to continue issuances in 2022, fostering capital markets development in line with its mandate. In total, FMO issued approximately US$ 129.0 million of equivalent funding in local currency transactions during 2021.

Liquidity position

Throughout the course of 2021, FMO's liquidity position has been compliant with internal and regulatory metrics.

The following table shows the categorization of the balance sheet per maturity bucket. This table shows the timing of the undiscounted principal cash flows, and not the market values, per instrument. The totals per instrument may therefore differ from the totals on the balance sheet. Expected cash flows resulting from irrevocable facilities being drawn are not included in the liquidity gap. For internal liquidity planning and management, cash flows from irrevocable facilities are included in the cash flow forecasts.

Categorization of principal cash flows per maturity bucket

December 31, 2021	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
Assets						
Banks	95,873	-	-	-	-	95,873
Current accounts with State funds and other programs	-	-	-	-	648	648
Short-term deposits						
-of which: Amortized cost	1,029,830	-	-	-	120,047	1,149,877
-of which: Fair value through profit or loss	149,391	43,911	-	-	-	193,302
Other receivables	22,477	-	-	-	-	22,477
Interest-bearing securities	17,576	50,000	340,140	56,000	-	463,717
Derivative financial instruments	1,854	33,054	61,420	69,143	-	165,472
Loans to the private sector						
-of which: Amortized cost	164,997	620,496	2,559,557	908,278	-	4,253,328
-of which: Fair value through profit or loss	12,412	168,396	257,644	201,245	-	639,697
Equity investments						
-of which: Fair value through OCI	-	-	-	-	140,425	140,425
-of which: Fair value through profit or loss	-	-	-	-	1,876,825	1,876,825
Investments in associates	-	-	-	-	298,737	298,737
Current tax receivables	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	27,243	27,243
Intangible assets	-	-	-	-	17,958	17,958
Deferred income tax assets	-	-	-	-	5,589	5,589
Total assets	**1,494,410**	**915,856**	**3,218,762**	**1,234,667**	**2,487,472**	**9,351,167**
Liabilities and shareholders' equity						
Short-term credits	-	-	-	-	123,359	123,359
Current accounts with State funds and other programs	1,017	-	-	-	-	1,017
Current tax liabilities	36,929	-	-	-	-	36,929
Derivative financial instruments	41,606	9,399	96,502	1,851	-	149,358
Debentures and notes	53,500	897,029	3,365,957	1,058,429	-	5,374,916
Wage tax liabilities	-	-	-	-	576	576
Accrued liabilities	-	-	-	-	28,208	28,208
Other liabilities	568	2,558	10,986	4,804	3,484	22,400
Provisions	-	-	-	-	27,592	27,592
Deferred income tax liabilities	-	-	-	-	10,748	10,748
Shareholders' equity	-	-	-	-	3,433,639	3,433,639
Total liabilities and shareholders' equity	**133,621**	**908,986**	**3,473,445**	**1,065,084**	**3,627,606**	**9,208,742**
Liquidity gap 2021	**1,360,790**	**6,871**	**-254,684**	**169,582**	**-1,140,134**	**142,425**

Categorization of principal cash flows per maturity bucket

December 31, 2020	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
Assets						
Banks	46,775	-	-	-	-	46,775
Current accounts with State funds and other programs	-	-	-	-	678	678
Short-term deposits						-
-of which: Amortized cost	994,814	-	-	-	-	994,814
-of which: Fair value through profit or loss	302,547	-	-	-	-	302,547
Other receivables	17,371	-	-	-	-	17,371
Interest-bearing securities	-	57,241	273,574	40,000	-	370,815
Derivative financial instruments	1,349	41,940	117,745	79,436	-	240,470
Loans to the private sector						-
-of which: Amortized cost	150,342	1,045,546	2,516,683	589,545	-	4,302,116
-of which: Fair value through profit or loss	5,144	140,048	400,061	33,779	-	579,031
Equity investments						-
-of which: Fair value through OCI	-	-	-	-	115,504	115,504
-of which: Fair value through profit or loss	-	-	-	-	1,688,437	1,688,437
Investments in associates	-	-	-	-	179,955	179,955
Current tax receivables	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	29,504	29,504
Intangible assets	-	-	-	-	20,867	20,867
Deferred income tax assets	-	-	-	-	9,847	9,847
Total assets	**1,518,342**	**1,284,774**	**3,308,063**	**742,760**	**2,044,792**	**8,898,731**
Liabilities and shareholders' equity						
Short-term credits	-	-	-	-	341,199	341,199
Current accounts with State funds and other programs	214	-	-	-	-	214
Current tax liabilities	3,863	-	-	-	-	3,863
Derivative financial instruments	5,728	18,806	57,244	8,022		89,800
Debentures and notes	85,938	616,881	3,051,516	1,560,939	-	5,315,274
Wage tax liabilities	429	-	-	-	-	429
Accrued liabilities	42,203	-	-	-	-	42,203
Other liabilities	5,788	-	-	-	20,916	26,704
Provisions	-	-	-	-	66,189	66,189
Deferred income tax liabilities	-	-	-	-	5,063	5,063
Shareholders' equity	-	-	-	-	2,896,701	2,896,701
Total liabilities and shareholders' equity	**144,164**	**635,687**	**3,108,760**	**1,568,961**	**3,330,068**	**8,787,640**
Liquidity gap 2020	**1,374,177**	**649,087**	**199,303**	**-826,201**	**-1,285,276**	**111,091**

The tables below are based on the final availability date of the contingent liabilities and irrevocable facilities.

Contractual maturity of effective guarantees issued and irrevocable facilities

December 31, 2021	< 3 months	3-12 months	1-5 years	>5 years	Total
Effective guarantees issued	-	-	1,186	68,155	69,341
Irrevocable facilities	12,858	1,830	132,425	1,318,108	1,465,221
Total off-balance[1)]	**12,858**	**1,830**	**133,611**	**1,386,263**	**1,534,562**

December 31, 2020	< 3 months	3-12 months	1-5 years	>5 years	Total
Effective guarantees issued	-	1,285	46,200	18,524	66,009
Irrevocable facilities	19,616	29,438	301,869	1,208,113	1,559,036
Total off-balance1)	**19,616**	**30,723**	**348,068**	**1,226,637**	**1,625,045**

1 FMO expects that not all of these off-balance items will be drawn before expiration date.

FMO complies with DNB's Pillar 2 liquidity requirements methodology for Less Significant Institutions (LSIs) which have been applied from the Supervisory Review and Evaluation Process (SREP). The liquidity requirements are a survival period of at least 6 months based on internal stress testing methodology, a Net Stable Funding Ratio (NSFR) of 100% and a specific Liquidity Coverage Ratio (LCR) requirement of 100%. FMO's internal liquidity appetite levels include a safety cushion over and above these minimum requirements as described in the section above.

Following the risk appetite, FMO's liquidity position has been well above regulatory requirements and internal appetite levels throughout 2021. Per reporting date, FMO has a survival period exceeding > 8 years (2020:> 8 years), of LCR 970% (2020: 1116%) and a NSFR of 117% (2020: 127%).

FMO's major liquidity exposures are in EUR and USD currencies. However, some transactions are denominated – and may be settled – in local currencies. These exposures are specifically hedged using financial instruments to minimize liquidity and settlement risks.

Funding and sustainability bonds

Treasury aims to ensure good market access by diversifying FMO's funding sources. The result of this is a balanced funding mix in terms of currency, instrument and maturity.

Eurodollar (i.e. USD investors outside the United States) constitute key markets for FMO. Treasury has identified USD and EUR as strategic funding markets. Other markets to attract funding include Australia, Sweden, UK, Japan and local frontier currencies. Typical investors in FMO debentures and notes, either through public or private issuances, hold these instruments till maturity. A final important factor to note about FMO funding, except for our Tier II issuance, is that it is plain vanilla and generally senior unsecured funding.

ESG bonds are an important part of FMO's funding strategy, that accounted for about 31% of the funding portfolio in 2021. The FMO Sustainability Bonds Framework was updated in March 2020 and allows us to issue Green Bonds, Social Bonds or Sustainability Bonds to support FMO's Strategy.

Market risk

Market Risk is the risk that the value and/or the earnings of the bank decline because of unfavorable market movements. At FMO, this includes interest rate risk and currency risk.

Interest rate risk in the banking book

Definition

Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Changing interest rates mainly influence the fair value of fixed interest balance sheet items and affect the bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII).

Risk appetite and governance

FMO has no trading book and all assets (loans and investments) are part of the banking book. FMO's policy is to match assets and liabilities within defined limits. As the loan portfolio is more granular, loans are pre-funded and new funding is obtained periodically and matched to the asset portfolio in terms of expected maturity and interest rate sensitivity. Interest rate risk arises from the residual tenor mismatch, mismatch in fixed rate assets funded by floating rate liabilities, and differences in reference rates or currencies resulting in basis risk. FMO has little optionality in its portfolio and has no material exposure to rates-driven prepayment risk. The volatility of the market value of assets and liabilities over the holding period due to interest rate movements is of less concern as these are held until maturity.

Interest rate risk management falls under the responsibility of the ALCO. Treasury department acts as the first line of defense and is responsible for the day-to-day management of interest rate risk and daily transactions. The quantification, monitoring and control of market risk is the responsibility of Risk. Interest rate risk is monitored using earnings-based metrics and value-based metrics.

Earnings-based methods capture short-term effects of interest rate re-fixing or re-pricing that may impact net interest incomes. The metrics below are used for this purpose.

- The interest rate gap provides a static overview of the full balance sheet's repricing and refinancing characteristics. The gap is monitored over different time buckets where limits are in place both per bucket and on cumulative level, for all currencies (aggregate and currency-by-currency).
- Earnings-at-Risk (EaR) provides a dynamic projection of net interest income sensitivity to yield curve shocks. FMO monitors EaR on a 2-year forward looking basis and applies different scenarios simultaneously that allow for identification of basis risk as well.

Economic value methods capture changes in net present values of assets, liabilities and off-balance sheet items to changes in yield curves. Value-based metrics measure long-term effects of interest rate changes over the full tenor of the balance sheet. The following economic value metrics are calculated:

- Basis Point Value (BPV) provides the change in market value of assets, liabilities and interest-rate risk sensitive off-balance items for a one basis point change in yield curves. Limits are in place for the whole balance sheet, and for main currencies (EUR and USD) separately.
- Equity Value at Risk (EVaR) provides changes in the economic value of the shareholder's equity given certain shifts in yield curves. The impacts of a 200 basis-points parallel shift and a 200 basis-points gradual shift and SA-IRRRB scenarios are reported.

The interest rate gap and BPV exposure are monitored on weekly basis against limits set by the ALCO. Limits are defined dynamically to accommodate a 200 basis-points shock within 5% of shareholder's equity. The EVaR limit is defined in the Risk Appetite Framework and set at 5% of shareholder's equity. The EaR is used for monitoring purposes only and thresholds are defined based on 5% of projected net interest income.

Developments

After extensive preparations for the (L)IBOR transition to new benchmark rates, the transitions for non-cleared derivatives (cross-currency and interest rate swaps) went as planned: The following transitions occurred in Q4 2021: transition from EONIA to ESTR discounting, transition from FedFunds to SOFR discounting. FMO's interest rate position was not significantly impacted as a result of the transition. The FMO's BMR&IBOR ending project is still closely monitoring the benchmark rate reform and the discontinuation of LIBOR.

Exposures

The limits with respect to interest rate risk were not breached in 2021. The following table summarizes the interest re-pricing characteristics for FMO's assets and liabilities.

Interest re-pricing characteristics

December 31, 2021	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
Assets						
Banks	95,873	-	-	-		95,873
Current accounts with State funds and other programs	-	-	-	-	648	648
Short-term deposits						
-of which: Amortized cost	1,149,877	-	-	-	-	1,149,877
-of which: Fair value through profit or loss	149,399	43,903	-	-	-	193,302
Other receivables	-	-	-	-	22,477	22,477
Interest-bearing securities	17,821	50,000	340,150	56,000	-	463,971
Derivative financial instruments1	161,125	74,548	-	-	-	235,673
Loans to the private sector						
-of which: Amortized cost	1,324,895	729,113	1,013,583	1,085,121	-	4,152,713
-of which: Fair value through profit or loss	139,355	171,507	244	310,872	-	621,978
Equity investments						
-of which: Fair value through OCI	-	-	-	-	140,425	140,425
-of which: Fair value through profit or loss	-	-	-	-	1,876,825	1,876,825
Investment in associates	-	-	-	-	298,737	298,737
Property, plant and equipment	-	-	-	-	27,243	27,243
Intangible assets	-	-	-	-	17,958	17,958
Deferred income tax assets	-	-	-	-	5,589	5,589
Total assets	**3,038,345**	**1,069,070**	**1,353,977**	**1,451,993**	**2,389,902**	**9,303,289**
Liabilities and shareholders' equity						
Short-term credits	123,359	-	-	-		123,359
Current accounts with State funds and other programs	-	-	-	-	1,017	1,017
Derivative financial instruments1	166,827	25,398	-	-	-	192,225
Debentures and notes	92,966	889,493	3,304,787	1,139,351	-	5,426,596
Current tax liabilities	-	-	-	-	36,929	36,929
Wage tax liabilities	-	-	-	-	576	576
Accrued liabilities	-	-	-	-	28,208	28,208
Other liabilities	-	-	-	-	22,400	22,400
Provisions	-	-	-	-	27,592	27,592
Deferred income tax liabilities	-	-	-	-	10,748	10,748
Shareholders' equity	-	-	-	-	3,433,639	3,433,639
Total liabilities and shareholders' equity	**383,151**	**914,892**	**3,304,787**	**1,139,351**	**3,561,109**	**9,303,289**
Interest sensitivity gap 2021	**2,655,194**	**154,179**	**-1,950,809**	**312,642**	**-1,171,207**	**-**

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant interest re-pricing category.

Interest re-pricing characteristics

December 31, 2020	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
Assets						
Banks	-	-	-	-	46,775	46,775
Current accounts with State funds and other programs	-	-	-	-	678	678
Short-term deposits						
-of which: Amortized cost	994,814	-	-	-	-	994,814
-of which: Fair value through profit or loss	302,547	-	-	-	-	302,547
Other receivables	-	-	-	-	17,370	17,370
Interest-bearing securities	17,005	40,874	273,195	40,002	-	371,076
Derivative financial instruments 1	335,177	127,092	-	-	-	462,269
Loans to the private sector						
-of which: Amortized cost	1,639,838	870,141	839,790	822,979	-	4,172,748
-of which: Fair value through profit or loss	90,581	245,655	132,994	116,486	-	585,716
Equity investments						
-of which: Fair value through OCI	-	-	-	-	115,504	115,504
-of which: Fair value through profit or loss	-	-	-	-	1,688,437	1,688,437
Investment in associates	-	-	-	-	179,955	179,955
Current tax receivables	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	29,504	29,504
Intangible assets	-	-	-	-	20,867	20,867
Deferred income tax assets	-	-	-	-	9,847	9,847
Total assets	**3,379,962**	**1,283,762**	**1,245,979**	**979,467**	**2,108,937**	**8,998,107**
Liabilities and shareholders' equity						
Short-term credits	-	-	-	-	341,199	341,199
Current accounts with State funds and other programs	-	-	-	-	214	214
Derivative financial instruments 1	117,431	11,990	171	-	-	129,592
Debentures and notes	646,230	181,774	3,073,419	1,584,526	-	5,485,949
Current tax liabilities					3,863	3,863
Wage tax liabilities	-	-	-	-	429	429
Accrued liabilities	-	-	-	-	42,203	42,203
Other liabilities	-	-	-	-	26,704	26,704
Provisions	-	-	-	-	66,190	66,190
Deferred income tax liabilities	-	-	-	-	5,063	5,063
Shareholders' equity	-	-	-	-	2,896,701	2,896,701
Total liabilities and shareholders' equity	**763,661**	**193,764**	**3,073,590**	**1,584,526**	**3,382,566**	**8,998,107**
Interest sensitivity gap 2020	**2,616,301**	**1,089,998**	**-1,827,611**	**-605,059**	**-1,273,629**	**-**

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant interest re-pricing category.

Currency risk

Definition

Currency risk is defined as the risk that changes in foreign currency exchange rates have an adverse effect on the value of FMO's financial position and future cash flows. FMO also reviews currency risk in terms of impact on the capital ratios.

Risk appetite and governance

FMO offers loans and attracts funding in a wide range of currencies. This is done to provide financing in the currency best fitting FMO's customers and to reduce currency risks on their side.

FMO has limited appetite for currency risk. Exposures are hedged through matching currency characteristics of assets with liabilities, or through derivative transactions such as cross-currency swaps and FX forwards conducted with either commercial parties or with The Currency Exchange Fund (TCX Fund N.V.). Most currency exposures are hedged to US dollars on a micro-hedge basis, whereby the US dollar position is managed on a portfolio basis accordingly. FMO does not take any active positions in any currency for purpose of making a profit. Each individual currency is managed within a strict position limit and an overall appetite level is set at 1% of shareholder's equity for the total open position across all currencies. Both the individual and overall open positions are monitored by Risk on a daily basis. Additionally, FMO maintains a deliberately unhedged foreign currency position for the purpose of structural hedge which is reported to the ALCO monthly. Please refer to the structural hedge sub-section for further details.

Developments

No material developments occurred in 2021.

Exposures

Individual and total open currency positions were within risk appetite in 2021. The table below illustrates that the currency risk sensitivity gap per December 2021 is almost completely part of FMO's equity investments and investments in associates.

Currency risk exposure (at carrying values)

December 31, 2021	EUR	USD	INR	ZAR	Other	Total
Assets						
Banks	44,570	42,261	6,537	551	1,954	95,873
Current accounts with State funds and other programs	231	417	-	-	-	648
Short-term deposits	1,144,067	196,311	-	-	2,801	1,343,179
-of which: Amortized cost	1,144,042	3,034	-	-	2,801	1,149,877
-of which: Fair value through profit or loss	25	193,277	-	-	-	193,302
Other receivables	6,300	16,003	-187	75	286	22,477
Interest-bearing securities	298,651	165,320	-	-	-	463,971
Derivative financial instruments 1	666,849	-572,609	-274,185	-31,965	447,583	235,673
Loans to the private sector	660,631	3,428,972	310,923	60,847	313,318	4,774,691
-of which: Amortized cost	544,714	2,933,882	303,307	57,492	313,318	4,152,713
-of which: Fair value through profit or loss	115,917	495,090	7,616	3,355	-	621,978
Equity investments	347,091	1,498,704	64,232	47,075	60,148	2,017,250
-of which: Fair value through OCI	10,316	130,109	-	-	-	140,425
-of which: Fair value through profit or loss	336,775	1,368,595	64,232	47,075	60,148	1,876,825
Investments in associates	4,000	294,737	-	-	-	298,737
Current tax receivables	-	-	-	-	-	-
Property, plant and equipment	27,243	-	-	-	-	27,243
Intangible assets	17,958	-	-	-	-	17,958
Deferred income tax assets	5,589	-	-	-	-	5,589
Total assets	**3,223,180**	**5,070,116**	**107,320**	**76,583**	**826,090**	**9,303,289**
Liabilities and shareholders' equity						
Short-term credits	82,596	40,763	-	-	-	123,359
Current accounts with State funds and other programs	314	703	-	-	-	1,017
Derivative financial instruments 1	-251,672	1,282,023	63,973	4,998	-907,097	192,225
Debentures and notes	1,767,379	1,946,916	-	29,230	1,683,071	5,426,596
Current tax liabilities	36,950	-21	-	-	-	36,929
Wage tax liabilities	576	-	-	-	-	576
Accrued liabilities	26,790	1,603	-	-59	-126	28,208
Other liabilities	18,757	3,606	-	8	29	22,400
Provisions	24,310	2,657	-	267	358	27,592
Deferred income tax liabilities	10,748	-	-	-	-	10,748
Shareholders' equity	3,433,639	-	-	-	-	3,433,639
Total liabilities and shareholders' equity	**5,150,387**	**3,278,250**	**63,973**	**34,444**	**776,235**	**9,303,289**

Currency gap 2021		1,791,866	43,347	42,139	49,855	
Currency gap 2021 excluding equity investments and investments in associates		-1,575	-20,885	-4,936	-10,293	

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant currency category.

Currency risk exposure (at carrying values)

December 31, 2020	EUR	USD	SEK	INR	Other	Total
Assets						
Banks	31,683	12,172	354	545	2,021	46,775
Current accounts with State funds and other programs	325	-	-	353	-	678
Short-term deposits						
-of which: Amortized cost	994,794	20	-	-	-	994,814
-of which: Fair value through profit or loss	25	302,522	-	-	-	302,547
Other receivables	12,076	4,289	51	975	-21	17,370
Interest-bearing securities	282,535	88,541	-	-	-	371,076
Derivative financial instruments[1]	724,209	-1,147,492	-105,704	-7,663	998,919	462,269
Loans to the private sector						
-of which: Amortized cost	532,444	2,972,022	302,413	43,952	321,917	4,172,748
-of which: Fair value through profit or loss	122,609	405,826	52,436	3,401	1,444	585,716
Equity investments						
-of which: Fair value through OCI	9,799	105,705	-	-	-	115,504
-of which: Fair value through profit or loss	274,968	1,191,642	111,909	58,180	51,738	1,688,437
Investments in associates	-	179,955	-	-	-	179,955
Current tax receivables	-	-	-	-	-	-
Property, plant and equipment	29,504	-	-	-	-	29,504
Intangible assets	20,867	-	-	-	-	20,867
Deferred income tax assets	9,847	-	-	-	-	9,847
Total assets	**3,045,685**	**4,115,202**	**361,459**	**99,743**	**1,376,018**	**8,998,107**
Liabilities and shareholders' equity						
Short-term credits	267,690	70,500	-	-	3,009	341,199
Current accounts with State funds and other programs	214	-	-	-	-	214
Derivative financial instruments[1]	-437,286	735,087	293,623	17,580	-479,412	129,592
Debentures and notes	1,847,102	1,808,751	-	26,917	1,803,179	5,485,949
Current tax liabilities	3,863	-	-	-	-	3,863
Wage tax liabilities	429	-	-	-	-	429
Accrued liabilities	60,170	-18,109	-79	-160	381	42,203
Other liabilities	22,119	2,010	2,178	350	47	26,704
Provisions	57,803	7,744	-	407	236	66,190
Deferred income tax liabilities	5,063	-	-	-	-	5,063
Shareholders' equity	2,896,701	-	-	-	-	2,896,701
Total liabilities and shareholders' equity	**4,723,868**	**2,605,983**	**295,722**	**45,094**	**1,327,440**	**8,998,107**
Currency gap 2020		1,509,219	65,737	54,649	48,578	
Currency gap 2020 excluding equity investments and investments in associates		31,917	-46,172	-3,531	-3,160	

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant currency category.

As described above, FMO's loan assets in local currencies, such as Indian Rupee (INR), are fully swapped to US dollar on a cash flow basis. The positions in these currencies are therefore fully hedged. For IFRS reporting, however, the loans are recorded at (amortized) cost, while the related swaps are recorded at fair value, leading to an accounting mismatch in these currencies.

Sensitivity of profit & loss account and shareholders' equity to main foreign currencies

	December 31, 2021		December 31, 2020	
Change of value relative to the euro[1)]	Sensitivity of profit & loss account	Sensitivity of shareholders' equity[2)]	Sensitivity of profit & loss account	Sensitivity of shareholders' equity[2)]
USD value increase of 10%	166,176	13,011	140,351	10,571
USD value decrease of 10%	-166,176	-13,011	-140,351	-10,571
	-	-		
INR value increase of 10%	4,335	-	6,574	-
INR value decrease of 10%	-4,335	-	-6,574	-
		-		
ZAR value increase of 10%	4,214	-	5,465	-
ZAR value decrease of 10%	-4,214	-	-5,465	-

1 The sensitivities employ simplified scenarios. The sensitivity of profit & loss account and shareholders' equity to possible changes in the main foreign currencies is based on the immediate impact on the financial assets and liabilities held at year-end, including the effect of hedging instruments.

2 Shareholders' equity is sensitive to equity investments valued at fair value through other comprehensive income.

Structural Hedge

FMO maintains a deliberately unhedged foreign currency position in private equity investments for purpose of managing the volatility of the capital ratio. These foreign currency positions act as a hedge against an adverse effect of the exchange rate on the regulatory capital ratios. A depreciation of FMO's reporting currency (Euro) can significantly affect the capital ratio since FMO's assets - and hence also the risk weighted assets - are mainly denominated in foreign currencies. The long open position in the equity portfolio thereby functions as a partial hedge for FMO's regulatory capital ratios. In addition, the uncertainty in the size and the timing of the cash flows for equity investments makes micro- hedging less effective, hence these positions are better fit for use as a capital ratio hedge.

Environmental, Social and Governance risks

Definition
Environmental & Social (E&S) risk refers to risk posed by (potential) adverse impacts of the FMO investments on the environment, their employees and workers, communities, and other stakeholders. In turn such risk may pose business risk to our customers and/or to FMO. Corporate Governance (G) risks refers primarily to risk to customers' business and - as a result - to FMO.

Risk Appetite and Governance
FMO has a cautious appetite for ESG risk in investments. FMO strives to ensure that investments are brought in line with our ESG risk mitigation requirements in a credible and reasonable time frame. It is understood and accepted that customers/investees need knowledge and resources to implement ESG improvements, so full adherence cannot generally be expected at inception of the relationship. Consequently, the appetite for ESG risk is open during the initial phases of an investment and reduces over time. The appetite for unmitigated ESG risk is minimal for repeat investments. At the portfolio level, FMO also has a cautious appetite for ESG risk. In view of FMO's own available capacity to support and monitor customers/investees in improving their ESG risk mitigation, FMO seeks a manageable mix of customers/investees with (partially) unmitigated ESG risk and customers/investees with adequate risk mitigation in place. FMO accepts a limited gap in successful ESG risk management to our standards. This gap acknowledges residual risk posed by contextual and implementation challenges in our markets.

As part of its investment process, FMO screens all customers on ESG risk and categorizes them according to the ESG risk that their activities represent. FMO assesses in detail customers with a high ESG risk category to identify ESG impact and risks and to assess the quality of existing risk management and mitigation measures. Due diligence also includes an analysis of contextual and human rights risk. In case of gaps in ESG risk management, FMO works with customers to develop and implement an Action Plan to avoid adverse ESG impacts and/or to improve ESG risk management over time. Key ESG risk items are tracked during the tenor of the engagement. FMO's ESG risk management support to customers is an important part of its development impact ambitions.

In addition, for customers with a high ESG risk category, FMO monitors and rates gross risk and customer performance on key ESG risk themes using FMO's proprietary Sustainability Information System (SIS). SIS ratings are revised throughout the lifetime of the investment as part of the annual review cycle of each customer, enabling FMO to have an up-to-date portfolio-wide view of the ESG risks in its portfolio.

At portfolio level, FMO measures its alignment with its own ESG risk appetite through its ESG steering metric, an indicator of to what extent FMO is delivering on its ESG commitments and operations. The ESG steering metric is targeted at >90% - in other words, FMO's ESG risk appetite translates to less than 10% of ESG risks in its high-ESG risk portfolio not yet being adequately managed by its customers/investees.

Developments
Similarly, to the 2020 ESG target, the 2021 ESG target group covers all E&S Category A and B+ customers and customers that have a CG Officer in the deal, irrespective of the year of contracting and whether FMO is leading or not (n=268). We continue measuring the ESG risk and performance of the entire FMO's high ESG risk portfolio in FMO's proprietary Sustainability Information System (SIS) and reporting against the ESG target.

FMO has initiated an internal project to embed climate risk in its investments and investee companies. As an Equator Principles Finance Institution, climate risk assessments are already being undertaken for EP-triggered transactions.

ESG regulatory requirements and voluntary standards have continued to proliferate across the globe, increasing the complexity in managing ESG risks and opportunities. These include, as an example, the introduction of EU-wide regulatory requirements on mandatory human rights due diligence and human rights reporting. The allegations of forced labour and other human right abuses in the global solar module supply chain linked to Xinjiang have triggered an international response including US sanctions or an announcement that the European Commission would propose a ban on products in the EU market that had been made by forced labour. FMO has endeavored to align its response to such allegations with other DFIs and seeks to continue strengthening its approach towards the mitigation of ESG risks in the supply chains of its customers/investees.

On COP26, FMO committed to the Statement on International Public Support for the Clean Energy Transition, initiated by the UK government. The Statement is in line with FMO's Position Statement on Fossil Fuels in Direct Investments, which was published and effective in June 2021. This Position Statement sets out FMO's firm commitment to end the financing of fossil fuels in direct investments except in exceptional circumstances with clear criteria consistent with the goals of the Paris Agreement.

Also, at COP26, the newest version of the Joint Impact Model (JIM), which is based on the standard of the Partnership for Carbon Accounting Financials (PCAF), was presented by FMO to the Dutch Climate Envoy Jaime de Bourbon de Parme.

Regulatory Risk

Definition

FMO defines two types of regulatory risks. Regulatory compliance risk is defined as the risk that FMO does not operate in accordance with applicable regulations, and regulatory risk is the risk that a future change in regulations will impact the viability of the business strategy of FMO.

Risk Appetite and Governance

FMO is subject to banking laws and government regulation in the Netherlands. DNB has broad administrative power over many aspects of the banking business including liquidity, capital adequacy, permitted investments, ethical issues, and anti-money laundering. Changes in banking regulation may adversely affect FMO's operations or profitability. To ensure that FMO adheres to existing financial and prudential regulation and to assess the impact on the business strategy, FMO has in place a regulatory risk policy and committees or working groups such as the Regulatory Monitoring Group (RMG) and the Financial Regulation Committee (FRC) to keep oversight of regulatory requirements and identify changes in regulations. FMO is closely monitoring the process of translating Basel standards into European legislation, providing feedbacks to EC and EBA consultations and incorporates the latest available information in terms of capital planning.

Developments

On 27 October 2021, The European Commission published proposals for reforms to the Capital Requirements Regulations (CRR-3) and Capital Requirements Directive (CRD6). These draft regulations focus on three main parts: 1) the implementation of the finalized Basel III reforms into European legislation, 2) new rules requiring banks to systematically identify, disclose and manage sustainability risks (ESG risks) as part of their risk management, and 3) stronger enforcement tools for supervisors overseeing EU banks. The first two parts are of relevance to FMO and are discussed in more detail below.

With regards to the European translation of the Basel III standard, updates were included on the use of internal models, recalibrations to the standardized approach for credit risk, operational risk, CVA and market risk (incorporating the Fundamental Review of the Trading Book). When comparing the draft CRR-3 with the Basel standard, the implementation date was postponed from 1 January 2023 to 1 January 2025. An important element for FMO in the revised Basel III agreement (published in 2017) included a change in the treatment of private equity exposures under the standardized approach for credit risk, no longer receiving a 150% risk weight but instead falling under one of the three categories: speculative equity (400% risk weight), equity holdings under national legislated programs (100% risk weight) and all other equity exposures (250% risk weight). Under the current draft CRR-3 however, the foreseen risk weight will be 250% rather than 400% if the intended holding period is greater than 3 years. Another important element is that FMO shall apply the alternative standardized approach for market risk capital requirements as of 2025, due to FMO's open foreign exchange position in the banking book. As of September 2021, FMO has already started reporting on this standard purely for reporting purposes under the sensitivity-based approach, which has resulted in an 68% increase in capital requirements due to the change in methodology.

The CRR-3 and CRD-6 proposals included several amendments in relation to ESG risk. Most notably, according to the draft FMO is required to start disclosing ESG risks as part of its Pillar 3 disclosures on a semi-annual basis starting in 2025. The proposal also adds ESG risks into the scope of the Supervisory Review and Evaluation Process, which is the annual assessment of banks conducted by banking supervisors. Furthermore, the proposals introduce amendments regarding the possible capitalization for ESG risks, and adjusted risk weights for assets with high levels of climate risk. FMO will continue to closely monitor the regulatory developments while these new regulations are being drafted and discussed at a European level.

Business model and strategy execution risk

Definition

Business model risk

Business model risk is defined as the risk of a non-viable business model or strategy. Long-term viability is achieved when a bank can cover all its costs and provide an appropriate return on equity, considering its risk profile.

Strategy execution risk
Strategy Execution risk is defined as the risk of failed execution of strategic initiatives and decisions. FMO is open to project risk and will take strongly justified risks. Some uncertainty and variation are expected. We prefer options that are most likely to result in successful delivery while also providing an acceptable level of reward. These potential rewards contribute to our objectives.

Risk Appetite and Governance
Business model risk
Business model risk is monitored by comparing if and how several key performance indicators deviate from targets or initial projections (total investment volumes of FMO and the State Funds, FMO portfolio growth, proportions of Green and Reducing Inequalities as part of total production; and operating income). The results of this monitoring exercise are evaluated yearly in the rolling four-year strategic cycle and in sector evaluations. The strategic process is used to adjust the current strategy with the goal of optimizing our business model.

Strategy execution risk
The Project & Process Management (PPM) team monitors the project portfolio using several metrics such as external budget utilized, internal budget utilized, realization of deliverables, open risk status. Potential identified risks related to projects are amongst others: lack of experience within FMO, unavailability of (internal) resources, interdependencies between projects (mainly resources and systems), complexity of project execution and/or implementation, time sensitivity of deliverables, dependency on and/or by external parties.

FMO’s project performance is measured against the YTD realization of the deliverables of the total project portfolio. Currently, the target is set at >85%, which reflects FMO’s risk appetite in strategy execution risk. In 2019, FMO changed its project (portfolio) governance by increasing the Management Board’s (MB) involvement and Directors’ accountability for project delivery. The MB is accountable for managing FMO’s project portfolio in alignment with FMO’s strategic objectives, sector business plans and ICT strategy. The MB selects projects (ICT and non-ICT related) and manages the integral project portfolio (start project, postpone, put on hold, budget release, closure). The PPM team supports the MB in its role of managing FMO’s project portfolio. The PPM team is responsible for the monitoring and reporting on the projects and the project portfolio. The PPM team acts as knowledge center for projects, project owners and project managers. The project owner is a director who is the single person overall accountable for the project. The Director is primarily concerned with ensuring that the project delivers the agreed business benefits and acts as the organization's representative. The project owner maintains oversight of the project and decides - within boundaries set by the MB - on scope, deliverables, planning, budget, resources, and progress of the project. The Architecture Board is responsible for ensuring that changes in respect to product, process, data architecture, systems and technology adhere to the guidelines and principles agreed upon.

Developments
Business model risk
After years of strong growth, FMO’s investment portfolio has declined from a peak of US$ 15.1bn in December 2019 to US$ 14.1bn in November 2021. This decline started in 2020, when customers demand for financing dwindled on the back of Covid-19 lockdowns and supply chain disruptions, and as deleveraging by customers led to increasing prepayments.

In 2021, FMO had to divert significant resources for KYC remediation, hampering our ability to source new customers and transactions. Ongoing travel restrictions further complicated business development. As a result, FMO was unable to significantly recover its portfolio over 2021.

FMO is now focusing efforts in 2022 and 2021Q4 on building back business. Limited travel is also again taking place. Still, the ongoing pandemic is expected to continue to have some impact on our production. Travel restrictions to some markets may keep on challenging business development, while excess liquidity from government and central bank intervention in some markets may dampen demand for FMO funding.

Strategy execution risk
Enabled by the change in 2019 in project (portfolio) governance and in 2021 in initiative (portfolio) governance, increasing MB’s involvement and Directors’ accountability for project and initiative delivery, we have seen a strengthening of our portfolio monitoring and control. For 2021 we will further invest in our ability in managing interdependencies, internal resources as well as benefits.

Operational risk /non-financial risk

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks, excluding strategic risks. This is the 'Basel' definition of operational risk.

This definition of operational risk above is very broad and covers a wide range of non-financial risks and potential risk events, causes and impacts. FMO adopted the ORX (Operational Risk data eXchange Association) risk taxonomy in to structure all non-financial risk types, such as people, data, model, technology, third party, information & cyber security, business continuity, statutory reporting, transaction execution, et cetera.

Risk appetite and governance

Operational risks are not actively sought and have no direct material upside in terms of return/income generation, yet operational risk events are inherent in operating a business. Operational risk events can result in non-compliance with applicable (internal and external) standards, losses, misstatements in the financial reports, and reputational damage.

Overall, FMO is cautious with operational risks. Safe options, with low inherent risk are preferred, despite consequence of limited rewards or higher costs. There is no appetite for high residual risk. Risk metrics are reported on a quarterly basis. These metrics cover operational risks in general, such as the amount of loss per quarter and timely follow-up of management actions and metrics for all non-financial risk types.

Management of the first line of defense is primarily responsible for managing risks in the day-to-day business processes. The first line acts within the risk management framework and supporting guidelines defined by specialized risk functions that make up the second line of defense. Internal Audit in its role of the third line of defense provides independent assurance on the effectiveness of the first and second lines.

Departmental risk control self-assessments are conducted annually to identify and assess risks and related controls. The strategy and business objectives are also reviewed annually by the Directors in a risk perspective. Based on among others these Risk and Control Self Assessments, the Directors sign a departmental In Control Statement at the year-end, which provides the underpinning for the management declaration in the Annual Report. Despite all preventive measures, operational risk events will occur.

New policies have been introduced and are under development. A company-wide project is initiated to increase the maturity of the control environment, the processes for risk-management and internal control and the central GRC tooling. The structure of the framework is improving, through alignment of risk-types, policies, and responsibilities, in line with the principle of three lines of defense.

Developments

After finishing the KYC remediation project end of 2021, FMO focuses on remaining compliant with Wwft and Sanctions law and regulations by keeping abreast of relevant developments in the regulatory environment and timely implementation within the KYC processes where necessary.

Compliance risk

Definition

Compliance Risk is the risk of failure to comply with laws, regulations, rules, related self-regulatory organization, standards, and codes of conduct applicable to FMO's services and activities.

Risk appetite & governance

FMO's standards and policies and good business practices foster acting with integrity. FMO is committed to its employees, customers, and counterparties, adhering to high ethical standards. FMO has a Compliance framework which entails identifying risks, designing policies, monitoring, training, and providing advice. FMO has policies on topics such as financial economic crime (including KYC, sanctions, anti-bribery, and corruption) conflicts of interest, anti-fraud, private investments, protection of personal data and speak-up. FMO also regularly trains its employees to raise awareness by means of e.g., virtual classroom trainings and mandatory compliance related e-learnings. Employees are also encouraged to speak up in case of suspected integrity violations conducted by a FMO employee.

Management is periodically informed via the Compliance Committee or when required on an ad-hoc basis, on integrity related matters at customer or employee level. In case of signals of violations, e.g., money laundering, fraud or corruption, management will take appropriate actions. For example, initiating a dialogue with the customer, if possible and appropriate given the circumstances, to understand the background to be able to assess and investigate the severity. When FMO is of the opinion that there is a breach of law that cannot be remedied or that no improvement by the customer will be achieved (e.g. awareness, implementing controls) or that the risk to FMO's reputation is unacceptably high, FMO may be able to exercise certain remedies under the contract such as the right to cancel a loan or suspend upcoming disbursements and will report to regulatory authorities if deemed necessary.

The governance of compliance also entails the following key risks:

Financial Economic Crime, incl. sanctions

FMO's financial economic crime procedures include, amongst others, screening of customers on compliance with applicable anti-money laundering, counter financing of terrorism and international sanctions laws and regulations. Due diligence is performed on customers, which includes checks such as verifying the ultimate beneficial owners of the customer we finance, identifying politically exposed persons and screening against mandatory international sanction lists. These checks are also performed regularly during the relationship with existing customers.

In 2021, FMO continued the FEC Enhancement program initiated in 2019 and met the agreed deadline with DNB to finalize the remediation project on December 31, 2021. All active KYC-files are remediated – using a new KYC tool - and meet the standards of the renewed CDD-AML Policy and CDD-AML Manual. In the second half of 2021, the renewed KYC-organization was implemented in the front-office (first line) and business as usual processes were restarted, amongst others periodic reviews of KYC-files. Independent external validation confirmed that the remediated efforts and KYC files are demonstrably compliant with the relevant requirements, after which the Management Board provided a compliance statement to DNB end of 2021. The validation identified several recommendations that FMO will follow up on in 2022.

There is always a risk that a customer is involved or alleged to be involved in illicit acts (e.g. money laundering, fraud, or corruption). If such an event occurs, FMO will initiate a dialogue with the customer, if possible and appropriate given the circumstances, to understand the background to be able to assess and investigate the severity. When FMO is of the opinion that there is a breach of law that cannot be remedied or that no improvement by the customer will be achieved (e.g. awareness, implementing controls) or that the risk to FMO's reputation is unacceptably high, FMO may be able to exercise certain remedies under the contract such as the right to cancel a loan or suspend upcoming disbursements and will report to regulatory authorities if deemed necessary.

General Data Protection Act (GDPR)

In 2021, FMO started a project to further develop and enhance privacy data protection capabilities including engaging a dedicated privacy officer and privacy champions within various departments. Specific trainings will be deployed to stimulate awareness. The project aims to finish in 2022. The privacy officer monitors FMO's privacy compliance periodically. The privacy officer is involved in i.e., change management activities and new projects to advise on privacy risks and risk mitigation.

Corruption

Corruption and Bribery is a global issue and challenge, requiring a global response. FMO is guided by the OECD Convention on Combating Bribery and the UN Convention against Corruption and is dedicated to fighting bribery and corruption not only to adhere to the law, but also because such acts undermine sustainable development and the achievement of higher levels of economic and social welfare. Good governance, fair business practices and public trust in the private sector is necessary to unlock the full potential of an economy and its citizens. Corruption can be best prevented collaboratively and FMO actively supports the Transparency International's Netherlands branch and the International Chamber of Commerce to share best practices and stimulate the dialogue between Dutch corporates on best practices in doing business internationally. In 2021, all staff were obliged to complete an on-line training course explaining the key concepts of anti-bribery & corruption and providing examples of high-risk activities and ways to prevent bribery & corruption. These awareness activities will continue in 2022 amongst others through in-depth training sessions with targeted stakeholders and departments.

Company annual accounts

Accounting policies

Activities

The activities of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereafter referred to as FMO) consist of financing activities in developing countries to stimulate private-sector development. Furthermore, FMO provides services in relation to government funds and programs. Further reference is made to the consolidated annual accounts.

Significant accounting policies

Principles of valuation and determination of results

The annual accounts are prepared in accordance with the financial reporting requirements as included in Part 9 of Book 2 of the Dutch Civil Code with the allowed application of the accounting policies (EU-IFRS) as set forth in the consolidated annual accounts. The principles of valuation and determination of results stated in the consolidated balance sheet and profit and loss account are also applicable to the company balance sheet and profit and loss account. Investments in group companies are initially recognized at cost and subsequently accounted for by the equity method.

Intercompany accounts with subsidiaries consist of current accounts. These current accounts are freely disposal. Low credit risk exemption is applied due to limited credit risk and expected credit loss is not calculated.

Reference to the consolidated annual accounts

As mentioned above, the accounting policies applied in the annual accounts correspond with the consolidated annual accounts. Furthermore, the consolidated annual accounts have a limited consolidation scope and accordingly the notes to the balance sheet and profit and loss account are almost similar in both the company annual accounts and the consolidated annual accounts. In these cases reference is made to the disclosure notes and information provided in the consolidated annual accounts. For the mandatory disclosure notes and those notes with larger discrepancies, the information is included in the notes to the company's annual accounts.

Estimates and assumptions

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

Company balance sheet

For the year ended December 31, 2021

Before profit appropriation	Notes	2021	2020
Assets			
Banks	(A)	90,672	41,748
Current accounts with State funds and other programs	(2)	648	678
Short-term deposits	(3)		
-of which: Amortized cost		1,149,877	994,814
-of which: Fair value through profit or loss		193,302	302,547
Other receivables	(B)	28,227	23,462
Interest-bearing securities	(5)		
-of which: Amortized cost		463,971	371,076
Derivative financial instruments	(6)	235,673	462,269
Loans to the private sector	(7)		
-of which: Amortized cost		4,152,713	4,172,748
-of which: Fair value through profit or loss		621,978	585,716
Equity investments	(C)		
-of which: Fair value through OCI		140,425	115,504
-of which: Fair value through profit or loss		1,862,403	1,675,235
Subsidiaries	(D)	13,876	12,341
Investments in associates	(10)	298,737	179,955
Intangible assets	(12)	17,958	20,867
Property, plant and equipment	(11)	27,243	29,504
Deferred income tax assets	(30)	5,589	9,847
Total assets		**9,303,292**	**8,998,311**
Liabilities			
Short-term credits	(13)	123,359	341,199
Current accounts with State funds and other programs	(14)	1,017	214
Derivative financial instruments	(6)	192,225	129,592
Debentures and notes	(15)	5,426,596	5,485,949
Current tax liabilities	(30)	36,929	3,863
Wage tax liabilities		576	429
Accrued liabilities	(16)	28,200	42,084
Other liabilities	(17)	22,435	27,096
Provisions - Pensions, other provisions	(18)	27,592	66,190
Provisions - Deferred income tax liabilities	(30)	10,748	5,063
Total liabilities		**5,869,677**	**6,101,679**
Shareholders' equity			
Share capital		9,076	9,076
Share premium reserve		29,272	29,272
Development fund		657,981	657,981
Total contractual reserve			
-of which: Other Contractual reserve		1,917,977	1,644,122
-of which: Other Revaluation reserve		740,055	536,049
Fair value reserve		30,910	26,200
Translation reserve		-392	-17,727
Other reserves		35,905	15,006
Undistributed result		12,831	-3,347
Total shareholders' equity		**3,433,615**	**2,896,632**
Total liabilities and shareholders' equity	**(E)**	**9,303,292**	**8,998,311**

Contingent liabilities:			
- Encumbered funds (single resolution fund)	(31)	1,453	832
- Effective guarantees issued	(31)	69,341	66,009
Effective guarantees received	(31)	-334,221	-233,679
Irrevocable facilities	(31)	1,465,144	1,549,869

Company profit and loss account

For the year ended December 31, 2021

	Notes	2021	2020
Income			
Interest income from financial instruments measured at AC		275,476	321,862
Interest income from financial instruments measured at FVPL[1]		-8,913	1,771
Interest expenses from financial instruments measured at AC		-106,758	-120,825
Interest expenses from financial instruments measured at FVPL		71,085	38,350
Interest expenses on leases		-158	-168
Net interest income	**(20)**	**230,732**	**240,990**
Dividend Income	(21)	22,066	32,908
Results from Equity Investments	(22)	294,315	-200,152
Share in the result of subsidiaries	(D)	1,879	-10,238
Share in the result of associates	(10)	63,902	-66,416
Total results from Equity Investments, subsidiaries and associates		**382,162**	**-243,898**
Fee and commission income		11,568	7,393
Fee and commission expense		-5,871	-3,794
Net fee and commission income	**(23)**	**5,697**	**3,599**
Results from financial transactions	(24)	-26,419	-10,806
Remuneration for services rendered	(25)	29,851	27,733
Gains and losses due to recognition	(26)	5,135	2,000
Other operating income	(27)	116	293
Total other income		**8,683**	**19,220**
Total income		**627,274**	**19,911**
Operating expenses			
Staff costs	(28)	-71,639	-99,734
Administrative expenses	(29)	-28,722	-29,858
Depreciation and impairment of fixed assets	(11), (12)	-11,934	-12,665
Other operating expenses		-293	-253
Total operating expenses		**-112,588**	**-142,510**
Impairments on			
Interest-bearing instruments	(5)	59	-36
Loans	(7),(8)	3,257	-76,406
Loan commitments	(31)	1,841	877
Banks		-8	-
Guarantees issued	(31)	3,917	-2,817
Total impairments		**9,066**	**-78,382**
Profit/(loss) before taxation		523,752	-200,981
Income tax	(30)	-33,062	-4,251
Net profit/(loss)		**490,690**	**-205,232**

1 Amount is related to interest from those derivative financial instruments that are associated with the 'loans to the private sector' and is therefore considered as 'interest income'.

Notes to the company annual accounts

Notes to the company balance sheet

The company annual accounts of FMO should be read in conjunction with the consolidated annual accounts including the risk management, segment information and the notes to the consolidated accounts. The FMO company annual accounts is, due to the limited investments activities of our consolidated subsidiaries almost the same as the consolidated annual accounts. Therefore, for notes of specific items of the balance sheet and the profit & loss accounts, we refer to the consolidated annual accounts to the extent these are not specifically disclosed hereafter.

For information related to the maturity of the assets and liabilities recorded in the balance sheet of the company annual accounts, we refer to the table with the categorization of principal cash flow per maturity bucket in the section Liquidity risk of the Risk Management Chapter.

A. Banks

	2021	2020
Banks	90,672	41,748
Balance at December 31	**90,672**	**41,748**

The cash on bank accounts can be freely disposed of.

B. Other Receivables

	2021	2020
Receivables related to equity disposals	1,935	1,504
Taxes and social premiums	264	703
To be declared on State guaranteed loans	2,449	2,428
Transaction fee receivables and prepayments	17,071	12,223
Intercompany receivables from subsidiaries	6,508	6,604
Balance at December 31	**28,227**	**23,462**

C. Equity investments

	Equity measured at FVOCI	Equity measured at FVPL	Total
Balance at January 1, 2021	115,504	1,675,234	1,790,738
Purchases and contributions	31,064	228,245	259,309
Reclassification from loans	-31,909	-	-31,909
Reclassification Associate/FVPL	-	-	-
Sales	-	-322,005	-322,005
Changes in fair value	25,766	280,929	306,695
Balance at December 31, 2021	**140,425**	**1,862,403**	**2,002,828**

	Equity measured at FVOCI	Equity measured at FVPL	Total
Balance at January 1, 2020	122,921	1,732,334	1,855,255
Purchases and contributions	40	230,401	230,441
Reclassification from loans	-	-	-
Reclassification Associate/FVPL	-	17,066	17,066
Sales	-	-112,630	-112,630
Changes in fair value	-7,457	-191,937	-199,394
Balance at December 31, 2020	**115,504**	**1,675,234**	**1,790,738**

D. Subsidiaries

	2021	2020
Balance at January 1	12,341	22,604
Purchases and contributions	-	-
Share in other comprehensive income	-	-
Share in net results	1,872	-10,263
Return of Capital	-337	-
Balance at December 31	**13,876**	**12,341**

The investments in subsidiaries consist of the following interests in the share capital of:

1. Asia Participations B.V.: 100%;
2. FMO Investment Management B.V.: 100%;
3. FMO Medu II Investment trust Ltd.: Liquidated January 27, 2021;
4. Nuevo Banco Comercial Holding B.V.: Liquidated August 3, 2021;
5. Equis DFI Feeder L.P.: 63%;
6. NedLinx B.V.: 100%.

The following table summarizes the carrying amount of the subsidiaries.

	2021	2020
Asia Participations B.V.	8,334	6,998
FMO Investment Management B.V.	5,467	4,850
FMO Medu II Investment Trust Ltd.	-	6
Nuevo Banco Comercial Holding B.V.	-	337
Equis DFI Feeder L.P.	75	150
Balance at December 31	**13,876**	**12,341**

E. Shareholders' equity

Share capital

The authorized capital amounts to €45,380k, consisting of A shares of €22.69 each, which are held by the Dutch Government, and B shares of €22.69 each as well, which are for held by commercial banks and private investors. The Dutch Government holds 51% of the total shares of FMO, while commercial banks and private investors hold the remaining 49%. The voting rights for A shares and B shares are equal.

Authorized share capital	2021	2020
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
Balance at December 31	**45,380**	**45,380**

In addition, the shareholders' equity of the company comprises of three reserves, which result from the Agreement State-FMO of November 16, 1998. These are the share premium reserve, the development fund and the contractual reserve. As long as the company continues its activities, these reserves are not available to the shareholders. Upon liquidation of FMO these reserves fall to the Dutch Government, after settlement of the contractual return to the shareholders.

Issued and paid-up share capital	2021	2020
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
Balance at December 31	**9,076**	**9,076**

Share premium reserve

Share premium reserve is sole contributed by Shareholders of A shares on the transfer to the company of investments administrated on behalf of the State at the time of the financial restructuring and amounts to €29,272k (2020: €29,272k).

	2021	2020
Share premium reserve shareholder A, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	8,061	8,061
Share premium reserve shareholder B, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	21,211	21,211
Balance at December 31	**29,272**	**29,272**

Statutory reserves

Development fund

This special purpose reserve contains the annual budgetary allocations made by the Dutch Government to finance the portfolio of loans and equity investments.

Other contractual reserve

The addition relates to that part of the net result, which FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998 (see section 'Additional information').

Legal reserves

Legal reserves include the fair value-, other revaluation, and translation reserves.

	2021	2020
Fair value reserve	30,910	26,200
Other revaluation reserve	740,055	536,049
Translation reserve	-392	-17,727
Total legal reserves	**770,573**	**544,522**

Fair value reserve

The fair value reserve is the part of the revaluation reserve and includes gains and losses of equity investment measured at FVOCI. Gains and losses on such equity investments are never reclassified to profit or loss. Cumulative gains and losses recognized in this reserve are transferred to other reserves on disposal of the investment.

Other revaluation reserve

The Other revaluation reserve (as a part of the total contractual reserve) include unrealized gains related to financial assets measured at FVPL. The revaluation reserve in the Company annual accounts follows from differences in presentation requirements between IFRS and Part 9 of the Dutch Civil Code. This revaluation reserve has been created against the other reserves. At the same time, a same amount is added to the Other reserves and compensated by the contractual reserve.

The Other revaluation reserve includes the unrealized fair value gains of our equity investments, loans to private sector at FVPL and derivatives for which the valuations are not determined based on quoted market prices.

	2021	2020
Equity investment FVPL	638,874	338,383
Loans to private sector FVPL	4,172	6,431
Derivatives other than hedge accounting instruments	97,009	191,235
Total other revaluation reserve	**740,055**	**536,049**

Translation reserve

The assets, liabilities, income and expenses of foreign subsidiaries and associates are translated using the closing and weighted average exchange rates. Differences resulting from the translation are recognized in the translation reserve.

At December 31, 2021 the translation reserve (as a part of the legal reserve) has a negative balance of €392k (2020: - €17 million).

Other reserves

Pursuant to Dutch reporting requirements in Part 9 of Book 2 the Dutch Civil Code, the table reflects the other reserves included in the total Shareholders' equity. According to the Support Agreement with the Dutch Government, FMO allocates the net results after dividend pay - out to the contractual reserve. The contractual reserve is a statutory reserve, against which no legal reserves can be created. The Other revaluation reserve is recorded through Other reserves. At the same time Other reserves are compensated via the contractual reserve.

	2021	**2020**
Actuarial gain/loss on defined benefit plans	-7,433	-17,156
Retained earnings	43,338	32,162
Total other reserves	**35,905**	**15,006**

Changes in Shareholders' equity

The table below presents changes in Shareholders' equity for line items which are only relevant for Company - only. Remaining line items are reflected in the FMO's consolidated annual accounts.

	Legal reserve - Other revaluation reserve	**Other reserves**
Balance at January 1, 2020	493,272	18,188
Actuarial gains/(loss) on defined benefit plans net of tax[1]	-	-3,182
Addition/(release) to other revaluation reserve	42,777	-42,777
Addition/(release) from contractual reserve	-	42,777
Balance at December 31, 2020	**536,049**	**15,006**
Actuarial (gain)/(loss) on defined benefit plans net of tax	-	9,723
Addition/(release) to other reserves	-	11,176
Addition/(release) to other revaluation reserve	204,006	-172,437
Addition/(release) from contractual reserve	-	172,437
Balance at December 31, 2021	**740,055**	**35,905**

1 This item refers to line item Actuarial result pension in the consolidated statement of changes in Shareholders' equity

Proposal for appropriation of the net result

A company net profit of €490,690k was recorded in 2021. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €477,859k to the contractual reserve. Therefore the 2021 profit is not completely distributable. The distributable element of the net profit amounts to €12,831k (2020: €0). The Management Board and the Supervisory Board propose distributing a sum of €12,831k as cash dividend equaling €32.08 per A and B share. This proposal for dividend distribution can be withdrawn if FMO's economical and financial conditions deteriorate significantly in the period up to the moment of distribution of the dividend. This reservation is the result of the recommendation of the European Central Bank and adopted by the Dutch Central Bank.

Subsequent events

On February 24, 2022 the Russian Federation started to invade Ukraine. The move followed shortly after Russian President Putin recognized two Eastern-Ukrainian provinces as independent states and invaded those areas for a “peacekeeping” mission. FMO has been mostly active in Ukraine for decades. FMO’s exposure to Ukraine is around €200 million with fourteen customers. This exposure is includes loans to private sector (~56%), equity investments (~37%) and guarantees (~7%) with fourteen customers. Moreover, FMO has an exposure via debt funds for €14 million.

In addition, exposure to Belarus is around €20 million, largely related to equity investments. In an adverse scenario, FMO would have to write - off the full exposure resulting in maximum exposure loss and capital ratio will be impacted, however would remain sufficiently above regulatory requirements. Impact on FMO's liquidity position is expected to be limited. Refer to Risk Management Chapter under Concentration Risk section for more details.

There have been no other significant subsequent events between the balance sheet date and the date of approval of these accounts which would be reported by FMO.

COMBINED INDEPENDENT AUDITOR'S AND ASSURANCE REPORT

For the combined auditor's and assurance report we refer to the PDF version on this website.

Combined independent auditor’s report on the 2021 financial statements and sustainability information

To: the shareholders and supervisory board of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

We have summarized the main conclusions and main features of our audit and review of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO or the Company) below. The full text of the independent auditor’s report, which includes the assurance report on sustainability information, has been included in the following pages.

Summary

Financial statements

Unqualified opinion on financial statements

Materiality

- Materiality of € 34 million
- 1% of shareholders’ equity

Key audit matters

- Impairment of loans to the private sector
- Valuation of equity investments at fair value
- Reliability and continuity of the information technology and systems

Sustainability information

Unqualified opinion on green-labelled new investment volume, materiality assessment and diversity KPIs

Unqualified conclusion on sustainability information

Materiality

- Professional judgment for qualitative information
- Specific materiality levels for each relevant part of the sustainability information in scope

Key assurance matter

- Joint impact model

Our conclusions

We have audited the financial statements 2021 of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO or the Company) based in The Hague, the Netherlands.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of FMO as at 31 December 2021 and of its result and its cash flows for 2021 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of FMO as at 31 December 2021 and of its result for 2021 in accordance with Part 9 of Book 2 of the Dutch Civil Code

We have reviewed the sustainability information in the annual report for the year 2021 of FMO. A review is aimed at obtaining a limited level of assurance. The scope of our engagements is described in the section Our Scope.

Based on our review nothing has come to our attention that causes us to believe that the sustainability information does not present, in all material respects, a reliable and adequate view of:

- The policy and business operations with regard to corporate social responsibility,
- The thereto related events and achievements for the year 2021,

in accordance with the reporting criteria as included in the section Reporting criteria in this report.

Furthermore, we have audited the green-labelled new investment volume, the materiality assessment 2021 and the diversity KPIs as included in the sustainability information in the annual report. An audit is aimed at obtaining a reasonable level of assurance.

In our opinion, the green-labelled new investment volume, the materiality assessment 2021 and the diversity KPIs have been prepared, in all material respects, in accordance with the reporting criteria as included in the section Reporting criteria in this report.

Basis for our conclusions

We conducted our assurance engagements in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3810N, “Assurance-opdrachten inzake maatschappelijke verslagen” (Assurance engagements relating to sustainability reports), which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000 (Revised), “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”. Our responsibilities under those standards are further described in the section Our responsibilities in this report.
We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Building a better working world

Our independence

We are independent of FMO in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagements. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

Our scope

Our engagements scope

The annual report consists of the financial statements and other information, including Reports by the management board and supervisory board, that provide altogether an overview of the policy, activities, events and performances related to both the financial position and the sustainable development of FMO during reporting year 2021. The following information in the annual report has been in scope for our assurance engagements:

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2021
- The following statements for 2021: the consolidated profit and loss account, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2021
- The company profit and loss account for 2021
- The notes comprising a summary of the accounting policies and other explanatory information

The sustainability information comprises:

- Reasonable assurance – green-labelled investment volume as disclosed on page 7, the materiality assessment as presented on page 98 and the diversity KPIs as disclosed on page 65 of the annual report – hereafter: the selected sustainability information;
- Limited assurance - The other sustainability information in 'About this report', 'At a glance', 'External environment' (excluding EU taxonomy), 'Our strategy', 'Our value creation model', 'Our investment process', 'Performance against our strategy', 'Stakeholder engagement and materiality assessment' and 'How we report' – hereafter: the other sustainability information.

Limitations to the scope of our assurance engagement on the sustainability information

The sustainability information includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

Calculations to determine the indirect jobs supported and the financed absolute GHG emissions (hereafter: the impact data) as included in the annual report are mostly based on external sources and prepared using several assumptions. The assumptions and external sources used are explained in the document 'JIM application by FMO March 2022' (hereafter: the methodology of the impact model) as available on the website of FMO. We have not conducted procedures on the content of these assumptions and external sources, other than evaluating the suitability and plausibility of these assumptions and external sources used.

The references to external sources or websites in the sustainability information, except for the GRI Disclosures which are available on the website of FMO, are not part of the sustainability information as assured by us. We therefore do not provide assurance on this information.

Our conclusions are not modified in respect of these matters.

Reporting criteria

The financial statements and sustainability information need to be read and understood together with the reporting criteria. FMO is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The absence of an established practice on which to draw, to evaluate and measure sustainability information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

The reporting criteria used for the preparation of the financial statements and the sustainability information are presented below.

Consolidated financial statements	International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code
Company financial statements	Part 9 of Book 2 of the Dutch Civil Code
Sustainability information	Sustainability Reporting Standards (core option) of the Global Reporting Initiative (hereafter: GRI Standards) and the applied supplemental reporting criteria as disclosed in the chapter 'How we report' of the annual report

Information in support of our opinion on the financial statements

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Our understanding of the business

FMO is the Dutch entrepreneurial development bank that invests with the aim of enhancing local prosperity in emerging markets. FMO is at the head of a group of entities and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the Company and our risk assessment.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

In order to obtain sufficient and appropriate audit evidence to provide an opinion about the consolidated financial statements, we have performed a full-scope audit on the consolidated financial information of FMO as a whole (no components) and by one audit team.

In 2021, we were forced to perform our procedures to a large extent remotely due to the Covid-19 measures. This limits our observation and increases the risk of missing certain signals. In order to compensate for the limitations related to physical contact and direct observation, we performed alternative procedures to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€ 34 million (2019: € 29 million)
Benchmark used	1% of shareholders' equity (2020: 1% of shareholders' equity)
Additional explanation	FMO's shareholders' equity and solvency, and the ability to invest in and provide financing to companies in developing countries, are key indicators for the users of its financial statements. We applied, consistent with 2020, 1% of shareholders' equity for the audit of the 2021 financial statements.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 750,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Teaming and use of specialists

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a client in the banking industry. We included specialists in the areas of IT audit, forensics and income tax and have made use of our own experts in the areas of valuation of expected credit losses, direct equity investments, fair value loans, derivatives, hedge accounting and pensions.

Our focus on climate risks and the energy transition

Climate change and the energy transition are emerging topics and lead to significant change for many businesses and society. We evaluated the extent to which climate-related risks and the possible effects of the energy transition are taken into account in estimates and significant assumptions as well as in the design of relevant internal control measures by FMO. Furthermore, we read the management board report and considered whether there is any material inconsistency between the sustainability information in chapters 'External environment', 'Our strategy', 'Our value creation model', 'Our investment process', 'Performance against our strategy' and the risk management chapter in the consolidated annual accounts.

Based on the audit procedures performed, we do not deem climate-related risks to have a material impact on the financial reporting judgements, accounting estimates or significant assumptions per 31 December 2021.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Our audit response related to fraud risks

We identify and assess the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the Company and its environment and the components of the system of internal control, including the risk assessment process and the management board's process for responding to the risks of fraud and monitoring the system of internal control and how the supervisory board exercises oversight, as well as the outcomes. We refer to the Financial Economic Crime, incl. sanctions section in the annual report for management's fraud risk assessment.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic and legal specialists. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

As in all of our audits, we addressed the risks related to management override of controls. We performed procedures among others to evaluate key accounting estimates for management bias that may represent a risk of material misstatement due to fraud, in particular relating to important judgment areas and significant accounting estimates as disclosed in as disclosed in Notes 6, 7, 8, 9, 10 and 18 to the financial statements. We have also used data analysis to identify and address high-risk journal entries. As described in our key audit matter related to impairment of loans to the private sector, we specifically considered whether the judgments and assumptions in the determination of this allowance indicate a management bias that may represent a risk of material misstatement due to fraud.

We considered available information and made enquiries of relevant executives (including internal audit, legal, security affairs, compliance, risk management and human resources), and the supervisory board.

The fraud risks we identified, enquiries and other available information did not lead to specific indications of fraud or suspected fraud potentially materially impacting the view of the financial statements.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risk of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, inspection of the integrity risk analysis (SIRA), reading minutes, inspection of internal audit and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. We paid specific attention to the following. In 2018, the Dutch Central Bank performed an on-site inspection and identified shortcomings in compliance with the Dutch

Act on the prevention of money laundering and financing of terrorism and Sanctions Law. In 2021, FMO completed a remediation plan to address the shortcomings identified to be compliant with these laws. As part of our audit we paid specific attention to FMO's remediation activities and the results of the external validation performed.

Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Our audit response related to going concern

As disclosed in 'The In Control Statement' and the 'Basis of preparation' in the financial statements, the management board made a specific assessment of the Company's ability to continue as a going concern and to continue its operations for at least the next 12 months. We discussed and evaluated the specific assessment with the management board exercising professional judgment and maintaining professional skepticism.

We considered whether the management board's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all events or conditions that may cast significant doubt on the Company's ability to continue as a going concern and whether the company will continue to comply with prudential requirements. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Based on our procedures performed, we did not identify serious doubts on the Company's ability to continue as a going concern for the next 12 months. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit procedures on the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

Impairment of loans to the private sector	
Risk	At 31 December 2021, FMO reported loans to the private sector measured at amortized cost of €4.2 billion including an allowance of € 202 million for expected credit losses. The timing and measurement of expected credit losses require significant estimates and management's judgment in setting assumptions and criteria in respect of: • Allocation of loans to stages 1, 2 or 3 • Accounting policies and modelling assumptions used to build the model to calculate the expected credit loss (ECL) • Completeness and accuracy of data used to calculate the ECL • Reversal of the management overlay for stages 1 and 2 • Estimating the impact of multiple macro-economic scenarios to calculate the ECL for stages 1 and 2 • Measurement of individually assessed provisions for stage 3, including the assessment of recovery scenarios.

Impairment of loans to the private sector	
	Due to the significance of the loans to the private sector and the related estimation uncertainty of expected credit losses, we consider the measurement of the allowance for expected credit losses a key audit matter. Reference is made to the 'Significant estimates, assumptions and judgements' section, note 7 'Loans to the private sector', note 8 'ECL allowances – assessment' and 'Credit risk' section under Risk Management Chapter to the financial statements.
Our audit approach	Our audit procedures included, amongst others, evaluating the appropriateness of FMO's accounting policies related to expected credit losses according to IFRS 9 'Financial Instruments' and whether these have been applied consistently. We also obtained an understanding of the impairment allowance process, evaluated the design and where applicable tested operating effectiveness of internal controls relevant to FMO's ECL calculation. This included the allocation of loans into stages, model governance, data accuracy and completeness, credit risk monitoring, multiple economic scenarios, individual provisions, journal entries and disclosures. We performed an overall assessment of the ECL provision levels by stage to determine if they are reasonable considering FMO's portfolio, risk profile, credit risk management practices and macro-economic environment. We considered trends in the economy and industries to which FMO is exposed to. We challenged the criteria used to allocate loans to stage 1, 2 or 3 in accordance with EU-IFRS and FMO's policy. We tested loans in stage 1, 2 and 3 and verified whether they were allocated to the appropriate stage. With the support of our modelling specialists, we tested assumptions, inputs and formulas used in the ECL model. This included the appropriateness of model design, recalculating the Probability of Default, Loss Given Default, Exposure at Default in this model including back-testing of assumptions applied. Further, we assessed the selected macro-economic scenarios and variables used. We examined a selection of loans to assess the expected credit loss provision for stage 3 loans. We applied professional judgment in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that are potentially more sensitive to developing economic and political trends. For selected loan exposures we recalculated individually assessed provisions and challenged the recovery scenarios and probability weightings assigned. We evaluated the completeness and accuracy of the disclosures for compliance with EU-IFRS.
Key observations	Based on our procedures performed we consider the expected credit loss provisions to be reasonable and in compliance with IFRS 9 and we concur with the related disclosures in the financial statements.

Valuation of equity investments at fair value	
Risk	Equity investments amounted to €2.0 billion as at 31 December 2021. These equity investments are measured at fair value with the corresponding fair value change recognized through profit and loss, except for 3 strategic equity investments, for which fair value changes are recognized through other comprehensive income. The valuation of the equity investments is inherently subjective, most predominantly for level 3 equity investments since these are valued using inputs other than quoted prices in an active market. Key inputs used in the valuation of individual level 3 equity investments are, amongst others, net asset values for the fund investments, comparable recent transaction prices, comparable book and earnings multiples, and discounted cash flows for the direct investments. Certain aspects of the valuation of the equity investments require significant judgment, such as the assessment of the reliability of recent available information, determining the appropriate peer group for establishing multipliers, and determining the input data for the income based models as the data cannot be verified with external market data. Due to the significance of equity investments at fair value and the related estimation uncertainty, we consider the valuation of these equity investments a key audit matter. Reference is made to section 'Equity investments' in the Significant accounting policies, note 9 'Equity investments' and related disclosures of 'Equity risk' within section Financial risk management and 'Fair value of financial assets and liabilities' in the notes to the financial statements.
Our audit approach	Our audit procedures included, amongst others, evaluating the appropriateness of FMO's accounting policies related to fair value measurements according to IFRS 13 'Fair Value Measurement' and whether valuation techniques for measuring fair value and inputs used to value funds and direct investments are appropriate and have been applied consistently. We evaluated the design and tested operating effectiveness of internal controls where applicable in FMO's valuation processes for equity investments and performed substantive audit procedures. We involved our own valuation specialists to assess market related information for the valuation of a sample of direct investments (level 3), and to assess whether the valuations were within a reasonable range. We assessed the accuracy of key inputs and assumptions driving the valuation. This included the assessment of the appropriateness of comparable market multiples, adjusted for comparability differences such as size and liquidity, and the assessment of the reasonability of the expected cashflows and discount rates used. We examined a selection of the fund investments to assess the appropriate application of net asset value statements received from the fund managers and evaluated whether this statement was the best reflection of fair value. We verified the clerical accuracy of the fair value calculations.

Valuation of equity investments at fair value	
	We performed back-testing procedures on fund investments and on the direct investment exits during 2021 to verify the appropriateness and reasonableness of the previous recorded valuations. We assessed whether all new relevant information available between balance sheet date and the date of the financial statements relevant for the year end fair value was properly included in the valuations. We evaluated the completeness and accuracy of the disclosures for compliance with EU-IFRS.
Key observations	We are satisfied that the fair value of the equity investments is within a reasonable range and concur with the related disclosures in the financial statements.

Reliability and continuity of the information technology and systems	
Risk	The activities and financial reporting of FMO are highly dependent on the reliability and continuity of the IT environment due to the volume of transactions that is processed daily and the reliance on IT applications to support initiation through reporting of those transactions. Effective IT general controls with respect to change management, logical access, infrastructure and operations, support the integrity and continuity of the IT environment as well as the operating effectiveness of the automated controls. Further, the increasingly detailed financial and regulatory reporting requirements require high quality data. Based on the above, we identified the reliability and continuity of the IT environment to be a key audit matter.
Our audit approach	IT audit professionals are an integral part of the engagement team and assessed the reliability and continuity of the IT environment to the extent necessary for the scope of our audit of the financial statements. Our audit was not primarily designed to express an opinion on the continuity and reliability of the automated data processing (or parts thereof) and we have not been instructed so by the management board. As part of our audit procedures, we assessed the impact of changes to the IT environment during the year, both from ongoing internal improvement initiatives and to meet external reporting requirements. Furthermore, we performed the following procedures: • We evaluated the design of the IT general control processes and tested the operating effectiveness of IT general controls for the main IT processes: Manage Change, Manage Access and Manage IT operations. This was done for the IT Applications in scope of our audit as well as for the underlying Operating System and Database Management and tooling supporting the IT processes (such as Deployment tools). • We designed and executed IT substantive procedures when IT controls where lacking or not operating effectively. • We reviewed relevant SOC (ISAE) reports of vendors when one or more of the main IT processes were outsourced, including critical cloud computing outsourcing and SaaS solutions. • We tested key application controls over data processing, data feeds and interfaces where relevant for the financial reporting. Our audit was not aimed at making a statement about the cybersecurity of FMO and we did not receive any instructions with this respect from the management board. However we did obtain an understanding of the cyber security procedures, controls and reporting as performed by FMO.
Key observations	Our testing of the general IT controls and IT substantive procedures performed, provided sufficient evidence to enable us to rely on the adequate and continued operation of the IT systems relevant for our audit of the financial statements.

Information in support of our conclusions on the sustainability information

We designed our assurance procedures in the context of our assurance on the sustainability information as a whole and in forming our conclusions thereon.
The following information in support of our conclusions and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Our understanding of the business

As a starting point of assurance engagement we update our analysis of the external environment and our understanding of relevant social themes and issues, and the characteristics of the company. FMO is the Dutch entrepreneurial development bank that invests with the aim of enhancing local prosperity in emerging markets. Furthermore we evaluate the appropriateness of the reporting criteria used, their consistent application and related disclosures in the non-financial information. This includes the evaluation of the results of the stakeholders' dialogue. We paid specific attention in our assurance engagement to a number of areas driven by the activities of the company and its operating environment.

After determining materiality and identifying and assessing the risks of material misstatement of the sustainability information, whether due to fraud, non-compliance with laws and regulations or error in order to design assurance procedures responsive to those risks and to obtain assurance evidence that is sufficient and appropriate to provide a basis for our conclusions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Materiality

Based on our professional judgement we determined materiality levels for each relevant part of the sustainability information, as well as for the sustainability information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the company.

We agreed with the supervisory board that misstatements which are identified during the review and the audit and which in our view must be reported on quantitative or qualitative grounds, would be reported to them.

Our key assurance matters

Key assurance matters are those matters that, in our professional judgment, were of most significance in our assurance procedures on the sustainability information. We have communicated the key assurance matter to the supervisory board. The key assurance matter is not a comprehensive reflection of all matters discussed.

Joint Impact Model (JIM) (Key Assurance Matter)	
Risk	Indirect jobs supported and financed absolute Greenhouse gas (hereafter: GHG) emissions are reported using the Joint Impact Model (JIM). FMO, together with other Development Finance Institutions, developed this model to calculate the indirect impact of investments. The year 2021 is the second year that FMO used this model to report on its indirect jobs supported and financed absolute GHG emissions. This model includes key judgments and assumptions in respect of the measurement of the indirect jobs supported and financed absolute GHG emissions. Compared to 2020, the methodology was updated to align with PCAF (Partnership for Carbon Accounting Financials), and the attribution and turnover ratio were updated. The prior year figures have been

Joint Impact Model (JIM) (Key Assurance Matter)	
	amended based on the updated methodology. The impact of this adjustment is described in 'How we report' chapter of FMO's annual report. The suitability of the criteria, the implementation and consistent application of the model and transparent disclosure of the results and reporting criteria in the annual report are a key area of focus of our assurance procedures. Reference is made to the chapters 'Performance against our strategy' and 'How we report' in the annual report.
Our review approach	Our approach included assessing the suitability of the methodology of the impact model including underlying assumptions and the consistent application of these in 2021. Specific attention was paid to the update of the methodology and the impact of this change. We verified the correct implementation and consistent application in reporting on the results. We conducted an analysis of the underlying drivers for the 2021 data reported and determined that the most material assumptions and limitations have been properly disclosed in the chapter 'How we report' in the annual report. We assessed the transparent disclosure of the methodology in the annual report, including the assumptions used.
Key observations	Nothing has come to our attention that causes us to believe that the indirect jobs supported, financed absolute GHG emissions, including the reporting criteria, the methodology of the impact model and the disclosed restatement, are not prepared in accordance with the reporting criteria as disclosed in 'How we report'.

Report on other information included in the annual report

The annual report contains other information in addition to the financial statements and our auditor's report thereon.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code for the management report and the other information as required by Part 9 of Book 2 of the Dutch Civil Code and as required by Sections 2:135b and 2:145 sub-section 2 of the Dutch Civil Code for the remuneration report.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 and Section 2:135b sub-Section 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code. The management board and the supervisory board are responsible for ensuring that the remuneration report is drawn up and published in accordance with Sections 2:135b and 2:145 sub-section 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements and ESEF

Engagement

We were engaged as auditor by the Annual General Meeting of Shareholders of FMO on 4 December 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

European Single Electronic Reporting Format (ESEF)

FMO has prepared the annual report in ESEF. The requirements for this are set out in the Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: the RTS on ESEF).

In our opinion, the annual report, prepared in the XHTML format, including the partially marked-up consolidated financial statements, as included in the reporting package by FMO, complies in all material respects with the RTS on ESEF.

The management board is responsible for preparing the annual report, including the financial statements, in accordance with the RTS on ESEF, whereby the management board combines the various components into a single reporting package.

Our responsibility is to obtain reasonable assurance for our opinion whether the annual report in this reporting package complies with the RTS on ESEF.

Our procedures, taking into account Alert 43 of the NBA (the Netherlands Institute of Chartered Accountants), included amongst others:

- obtaining an understanding of the FMO's financial reporting process, including the preparation of the reporting package
- obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance document and the XBRL extension taxonomy files, has been prepared in accordance with the technical specifications as included in the RTS on ESEF
- examining the information related to the consolidated financial statements in the reporting package to determine whether all required mark-ups have been applied and whether these are in accordance with the RTS on ESEF

Description of responsibilities for the financial statements and the sustainability information

Responsibilities of the management board and the supervisory board

The management board (hereafter: management) is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code.

Management is also responsible for the preparation of reliable and adequate sustainability information in accordance with the GRI Standards and the applied supplemental reporting criteria, including the identification of the stakeholders and the determination of material issues. The choices made by management with respect to the scope of the sustainability information are included in chapter 'How we report' of the annual report.

Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements and the sustainability information that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the reporting process of FMO.

Our responsibilities

Our responsibility is to plan and perform the assurance engagements in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusions.

Our audit of the financial statements and our audit of the selected sustainability information have been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audits. Our review of the other sustainability information is aimed at obtaining a limited level of assurance. The procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in a review is therefore substantially less than the assurance obtained in an audit.

Misstatements may arise due to fraud or errors. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the (economic) decisions of users taken on the basis of the financial statements and the sustainability information. The materiality affects the nature, timing and extent of our assurance procedures and the evaluation of the effect of identified misstatements on our conclusions.

We apply the "Nadere voorschriften kwaliteitssystemen" (NVKS, Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

An informative summary of the work performed as the basis of our conclusions is included in the annex to the combined independent auditor's report.

Amsterdam, 16 March 2022

Ernst & Young Accountants LLP

J.G. Kolsters

Annex to the combined independent auditor's report

Work performed
We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagements, in accordance with the Dutch Standards on Auditing and the Dutch assurance standards, ethical requirements and independence requirements. The 'Information in support of our opinion on the financial statements' section and the 'Information in support of our conclusions on the sustainability information' section in the combined independent auditor's report includes an informative summary of our responsibilities and the work performed and should be read in conjunction with the information in this annex as the basis for our conclusions.

Our audit to obtain reasonable assurance about the financial statements further included amongst others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Obtaining an understanding of internal control relevant to the audit 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 company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our review to obtain limited assurance about the sustainability information further included amongst others:

- Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review
- Evaluating the reasonableness of estimates by management
- Obtaining an understanding of the procedures performed by the internal audit department of FMO
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatements, whether due to fraud or error. Designing and performing further procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These further review procedures consisted amongst others of:
  - Interviewing management and relevant staff responsible for the sustainability strategy, policies and results
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information
  - Obtaining assurance information that the sustainability information reconciles with underlying records of the company
  - Reviewing, on a limited test basis, relevant internal and external documentation
  - Evaluating whether the assumptions used in the calculation of the impact data as included in the chapter 'Performance on our strategy' are plausible, which are included in the methodology of the impact model.
  - Evaluating the suitability and plausibility of the external sources used in the calculations on which the impact data as included in the chapter 'Performance on our strategy' is based, which are included in the methodology of the impact model
  - Performing an analytical review of the data and trends
- Reconciling the relevant financial information to the financial statements

Work performed

- Evaluating the consistency of the sustainability information with the information in the annual report which is not included in the scope of our review
- Evaluating the overall presentation, structure and content of the sustainability information
- Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used

In addition to the procedures mentioned above, for the audit to obtain reasonable assurance about the selected sustainability information, we identified and assessed the risks that the selected sustainability information is misleading or unbalanced, or contains material misstatements, whether due to fraud or errors. We designed and performed further audit procedures responsive to the risks identified, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. These further audit procedures included the following procedures:

- Obtaining a more detailed understanding of systems and reporting processes, including obtaining an understanding of internal control relevant to our assurance engagement but not for the purpose of expressing an opinion on the effectiveness of FMO's internal control
- Evaluating the design and implementation of the relevant internal controls during the reporting year.
- Conducting more in-depth analytical procedures and substantive testing procedures on the relevant data
- Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the selected sustainability information
- Evaluating the suitability and plausibility of the external sources used in the calculations on which the reported green-labelled new investment volume as included in the chapter 'Performance on our Strategy' is based, which are included in the 'Green Methodology 2021' (hereafter: the Green Methodology) as available on the website of FMO
- Evaluating whether the assumptions used in the calculations of the reported green-labelled new investment volume as included in the chapter as included in the chapter 'Performance on our strategy' is reasonable, which are included in the Green Methodology

Communication

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the assurance procedures and significant findings, including any significant findings in internal control that we identify during our assurance engagements. In this respect we also submit an additional report to the audit committee of the supervisory board in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements and the assurance engagement of the sustainability information of the current period and are therefore the key audit and review matters. We describe these matters in our combined independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Provision in the Articles of Association concerning the appropriation of the net result

The provision and the appropriation of the net profit is based upon the Articles of Association and the Agreement State-FMO of November 16, 1998.

The General Meeting will determine which portion of the result of a financial year is reserved or in which way a loss will be incorporated. The Supervisory Board and the Management Board can make a non-binding proposal in accordance with the provision and dividend policy adopted by the General Meeting, taking into account the relevant provisions in the Agreement State-FMO of November 16, 1998.

Proposal for appropriation of the net result

A company net profit of €490,690k was recorded in 2021. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €477,859k to the contractual reserve. Therefore the 2021 profit is not completely distributable. The distributable element of the net profit amounts to €12,831k (2020: €0). The Management Board and the Supervisory Board propose distributing a sum of €12,831k as cash dividend equaling €32.08 per A and B share. This proposal for dividend distribution can be withdrawn if FMO's economical and financial conditions deteriorate significantly in the period up to the moment of distribution of the dividend.

Guarantee provisions in the Agreement State-FMO of November 16, 1998

Article 7: Maintenance obligations in the event of depletion of General Risks Reserve (GRR) fund and inadequate cover for exceptional operating risks

7.1 To determine whether FMO has grounds for invoking the maintenance obligation (the ‘State’s Maintenance Obligation’) as referred to in Article 7.2.1, the losses incurred by FMO as referred to in Article 7.2.2, as shown by the annual accounts drawn up for the relevant year in accordance with generally accepted accounting principles and in conformity with Part 9 of Book 2 of the Netherlands Civil Code and duly adopted by the competent corporate body, shall first be charged to the GRR fund.

7.2.1 The State undertakes vis-à-vis FMO to defray losses on its operations pursuant to Article 3.1 and 3.2 of this Agreement, as determined in Article 7.2.2, to the extent that such risks have not been covered by specific value adjustments and/or compensation and/or insurance benefits received or yet to be received, provided that:

a) the amount of such losses exceeds the size of the GRR fund as at December 31 of the year in which these losses were incurred; and

b) the inadequacy of the cover for general value adjustments under the GRR fund is due to abnormal operating risks, such as unforeseen political difficulties in, or transfer problems with, particular countries or the collapse of the world economy or a regional economy.

7.2.2 The parties shall consult together to determine the magnitude of such losses. Should they fail to agree, FMO’s auditors and an auditor designated by the State shall make a reasonable and equitable calculation of the losses in accordance with generally accepted accounting principles.

7.3 If the circumstances arise as described in Article 7.2.1, under a) and b) and FMO requests the State to fulfill its obligations as referred to in Article 7.2, this shall give rise to a claim against the State, which shall be duly acknowledged by the State, on the first business day of the first financial year following the date of the request. Such request shall be in writing.

Article 8: Other financial security obligations

8.1 Without prejudice to the other provisions in this Agreement, the State shall prevent situations arising in which FMO is unable to meet the following (comprehensive enumerated) commitments on time: FMO's commitments in respect of:

(i) loans raised in the capital market;

(ii) short-term funds raised on the money market with maturities of two years or less;

(iii) swap agreements involving the exchange of principal and payment of interest;

(iv) swap agreements not involving the exchange of principal but with interest payment;

(v) foreign exchange forward contracts and forward rate agreements (FRAs);

(vi) option and futures contracts;

(vii) combinations of the products referred to in (i) to (vi);

(viii) guarantees provided by FMO to third parties in respect of the financing of private companies in developing countries;

(ix) commitments relating to the maintenance of an adequate organization.

Notes to the guarantee provision

The GRR fund referred to in Article 7 of the Agreement State-FMO of November 16, 1998 consists of share premium reserve of €21,211k and the contractual reserve. On December 31, 2021 the fund amounted to €2,679,242k (2020: €2,417,698k).

List of abbreviations

AC	Amortized cost	IC	Investment Committee
AEF	Access to Energy Fund	ICM	Independent Complaints Mechanism
AFW	Agribusiness, food & water	IEP	Independent Expert Panel
AGM	Annual General Meeting	IFC	International Finance Corporation
ALCO	Asset and Liability Committee	IFI	International Finance institution
AML	Anti Money Laundering	IFRS	International Financial Reporting Standards
APC	Accounting Policy Committee	IMF	International Monetary Fund
ARC	Audit and Risk Committee	IMS	Infrastructure, Manufacturing and Services
BMR	Benchmark Regulations	INR	Indian Rupee
BOP	Base of the Pyramid	IPCC	Intergovernmental Panel on Climate Change
BPV	Basis point value	IRC	Investment Review Committee
CC	Compliance Committee	JIM	Joint Impact Model
CD	Capacity Development	KPI	Key performance indicator
CEO	Chief Executive Officer	KYC	Know your customer
CET1	Common Equity Tier 1	LCR	Liquidity Coverage Ratio
CFI	Center for Financial Inclusion	LDC	Least developed country
CG	Corporate governance	LIBOR	London Interbank Offered Rate
CIO	Chief Investment Officer	LIC	Low-income country
CiP	Clearance in Principle	MB	Management Board
CP	Commercial Paper	MDB	Multilateral Development Bank
CRD	Capital Requirements Directive	MFF	Mobilising Finance for Forests
CRFO	Chief Risk and Finance Officer	MFI	Microfinance institution
CRR	Capital Requirements Regulation	MSME	Micro, small and medium enterprise
CSA	Credit Support Annex	NFRD	Non-Financial Reporting Directive
CVA	Credit valuation adjustment	NGO	Non-governmental organization
D&I	Diversity and inclusion	NPE	Non performing exposures
DA	Development Accelerator	NPL	Non-performing loans
DCF	Discounted cashflow	NPS	Net Promotor Score
DD	Due diligence	NPV	Net present value
DFCD	Dutch Fund for Climate and Development	NSFR	Net Stable Funding Ratio
DFI	Development Finance Institution	NVB	Nederlandse Vereniging van Banken
DNB	Dutch Central Bank	OCI	Other comprehensive income
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization	OFAC	The Office of Foreign Assets Control
EC	European Commission	OHS	Occupational health and safety
ECB	European Central Bank	OIS	Overnight - index - swap
ECL	Expected Credit Loss	ORC	Operational Risk Committee
EDFI	European Development Financial Institution	ORX	Operational Risk data eXchange Association
EM	Emerging market	P2G	Pillar 2 Guidance
EMIR	European Markets Infrastructure Regulation	PCAF	Partnership for Carbon Accounting Financials
EONIA	Euro OverNight Index Average	PD	Probability of default
ESAP	Environmental and social action plan	PDF	Partnership Development Fund
ESG	Environmental, social and governance	PE	Private equity
EU	European Union	PP&E	Property, plant and equipment
EURIBOR	Euro Interbank Offered Rate	PRB	Principles for Responsible Banking
FEC	Financial economic crime	RAF	Risk Appetite Framework
FI	Financial institution	RI	Reducing Inequalities
FMO	Financierings-Maatschappij voor Ontwikkelingslanden N.V.	RVO	Rijksdienst voor Ondernemend Nederland
FMO IM	FMO Investment Management B.V.	S&P	Standard and Poor's
FOM	Faciliteit Opkomende Markten	SB	Supervisory Board
FOM - OS	Fund Emerging Markets for Developing Countries	SDG	Sustainable Development Goal
FPIC	Free prior and informed consent	SFDR	Sustainable Finance Disclosure Regulation
FRC	Financial Regulation Committee	SICR	Significant increase in credit risk
FTE	Full time employee	SIS	Sustainability Information System
FVOCI	Fair value through other comprehensive income	SOFR	Secured overnight financing rate
FVPL	Fair value through profit or loss	SPPI	Solely payments of principal and interest
FX	Foreign exchange	SRB	Single Resolution Board
GAAP	Generally Accepted Accounting Principles	SREP	Supervisory Review and Evaluation Process
GCF	Green Climate Fund	SRF	Single Resolution Fund
GDP	Gross Domestic Product	TA	Technical assistance
GDPR	General Data Protection Regulation	TCFD	Task Force for Climate-related Financial Disclosure
GHG	Greenhouse gas	tCO_2e	1 tonne of CO_2 equivalent
GRC	Governance Risk and Compliance	TFG	Trade Finance Guarantee
GRI	Global Reporting Initiative	UBO	Ultimate beneficial owner
GRR	General Risk Reserves	UNEP	United Nations Environment Programme
GTAP	Global Trade Analysis Project	URP	Unfunded Risk Participation
GWh	Gigawatt-hours	USD	US dollar
IAS	International Accounting Standards	VSC	Verified Carbon Standard
IASB	International Accounting and Standards Board	Wft	Dutch Financial Supervision Act
IBOR	Interbank Offered Rate	Wwft	Dutch Anti-Money Laundering and Anti-Terrorist Financing Act

Colophon

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Reporting scope
This integrated annual report covers activities that took place or had an effect on the reporting year.

FMO publishes its integrated annual report on 16 March 2022. The annual shareholders' meeting is in April. The report is audited by an external auditor. Please read EY's auditor's report for detailed information on the scope of their work. Previous reports are available on www.fmo.nl/reports

Disclaimer

Presentation of information

This annual report (Annual Report) of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-Eu) and with Title 9 of Book 2 of the Netherlands Civil Code.

The reports made in this document are for information purposes only and are in particular not intended to confer any legal rights to anyone reading the Annual Report. Information provided in the Annual Report is not an offer, investment advice or financial service. The information in this Annual Report is not intended to encourage any person to buy or sell any product or service from FMO, or to be used as a basis for an investment decision.

Cautionary statement regarding forward-looking statements

Certain of the statements in this Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that relate to, among other things, FMO's business, result of operation, financial condition, plans, objectives, goals, strategies, future events, future revenues and/or performance, capital expenditures, financing needs, plans or intentions, as well as assumptions thereof. Such statements are subject to risks and uncertainties. These statements represent only FMO's beliefs at the date of publication of this document regarding future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Words such as 'anticipate', 'believe', 'could', 'endeavor', 'estimate', 'expect', 'forecast', 'intend', 'predict', 'project', 'may', 'objectives', 'outlook', 'plan', 'strive', 'target', 'will', and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Actual results, performance or events may differ materially from those anticipated by the forward-looking statements due to, without limitation: (i) changes in general economic conditions, in particular in FMO's core and niche markets, (ii) changes in the availability of, and costs associated with, sources of liquidity, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (iii) changes in performance of financial markets, including emerging and developing markets, (iv) changes in interest rate levels, (v) changes in credit spread levels, (vi) changes in currency exchange rates, (vii) changes in general competitive factors, (viii) general changes in the valuation of assets, (ix) conclusions with regard to accounting assumptions and methodologies, (x) changes in law and regulations, including regulatory law and fiscal law, (xi) changes in policies of governments and/or regulatory authorities, (xii) changes in credit and financial strength ratings, (xiii) other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by FMO, (xiv) risks and uncertainties as addressed in this Annual Report, and (xv) FMO's success in managing the risks involved in the foregoing.

The forward-looking statements are only applicable as from the date of publication of this Annual Report. FMO does not intend to publicly update or revise forward-looking statements contained in this Annual Report to reflect events or circumstances after the date of this report, and FMO does not assume any responsibility to do so.