FMO

Entrepreneurial
Development
Bank

ACCESS TO ENERGY FUND

Annual report

2017

The **Access to Energy Fund** (AEF) provides risk-bearing funding to projects supporting sustainable access to energy in Sub-Saharan Africa.

Government of the Netherlands

FMO has a dedicated team – Public Investment Management (PIM) – for management of government and public funds, which consists of MASSIF, the Infrastructure Development Fund (IDF), the Access to Energy Fund (AEF), and FOM-OS. The total committed portfolio of these funds amounts to € 1,171.2mln as per December 31, 2017.

AEF provides risk-bearing funding to projects supporting sustainable access to energy in developing countries.

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AEF AT A GLANCE

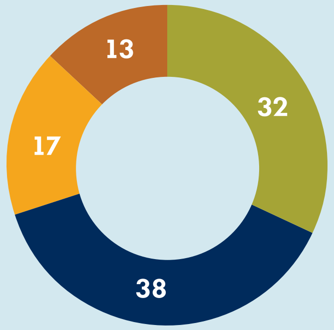
The Access to Energy Fund (AEF) was set up to actively support the creation of sustainable access to energy in developing countries by providing risk bearing funding; equity, subordinated loans, local currency loans and to a limited extent convertible grants. The goal of the fund is to provide access to energy to at least 3 mln people. To reach this goal, € 70 mln worth of funding has been made available by the Dutch Ministry of Foreign Affairs. Since December 2012, the fund has been focusing solely on Sub–Saharan Africa, specifically targeting affordable, clean and renewable energy solutions, both on-grid and off-grid.

Achievements 2006 – 2017

contribution by government

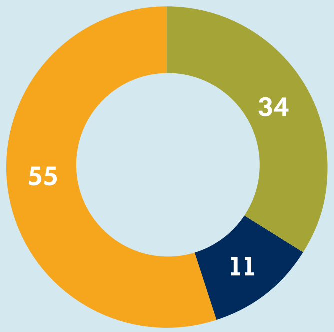
€70.9 million

Portfolio by Product
(in % as of 31 Dec 2017)



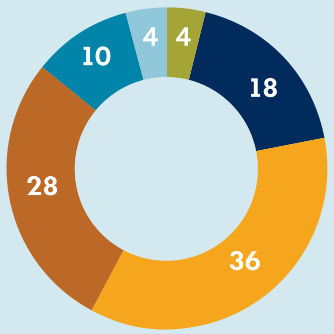
Equity direct
Equity fund
Loans
Mezzanine

Portfolio by Currency
(in % as of 31 Dec 2017)



EUR
Local
USD

Portfolio by Industry
(in % as of 31 Dec 2017)



Hydro Energy
Non Renewable Energy
Mixed Renewable
Solar Energy
Wind Energy
Financial Institutions

64
Cumulative investments since inception

€ 1.6 bln
Cumulative public finance catalyzed

€ 1.2 bln
Cumulative commercial finance catalyzed

120.1%
Revolvability

5.3 mln
Cumulative beneficiaries reached

13,955
Cumulative direct jobs supported

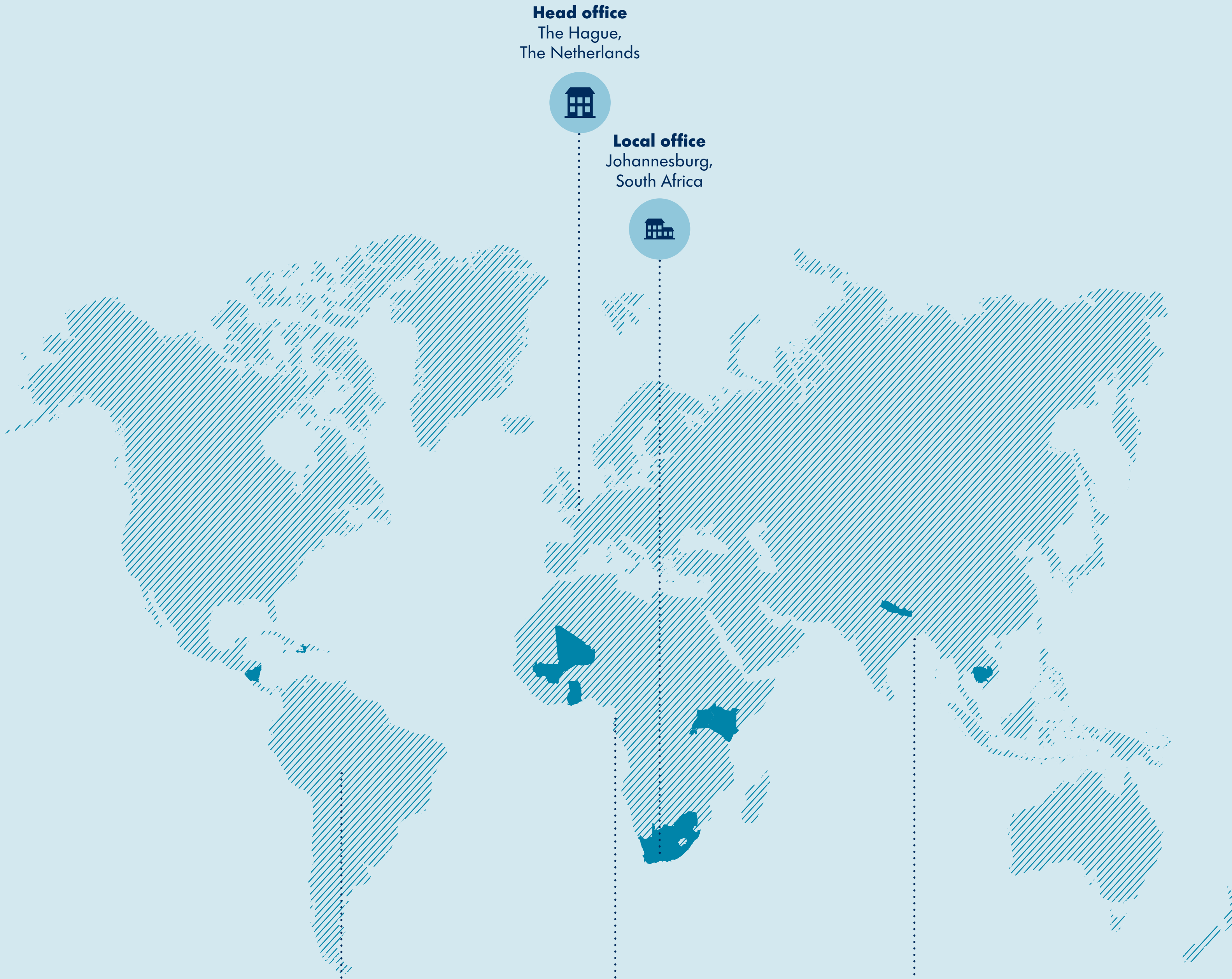
5,998
Cumulative direct jobs supported women

1,052 MW
Cumulative installed Capacity

1,012,316
Cumulative indirect jobs supported

455,995
Cumulative indirect jobs supported women

619,233
tCO_2eq/yr
GHG Avoidance



Total committed portfolio by region, per 31 December 2017

Latin America & the Caribbean	Africa	Asia
€8.2 mln	€105.1 mln	€0.2 mln

Total committed

€113.5 mln

LETTER FROM THE FUND MANAGER

The AEF Fund management team is pleased to present the results for 2017. The AEF portfolio expanded in the past year. Six new investments were added at YE 2017. The growth mostly comprises off-grid solar projects. For 2017, AEF Fund management had set an internal target to commit a further EUR 20mln to AEF projects.
The AEF pipeline for the early stage of 2018 is promising. We expect AEF to be able to further increase new commitments in 2018, which is the final year of the current investment mandate.

The off-grid sector is growing rapidly, both in size and importance. The sector continues to be a high-risk sector to finance and commercial investments are far from the required level to meet the demand in developing countries. Recent studies have shown a strong correlation between access to electricity and a wide range of macro- and socio-economic indicators, such as gross national income, life expectancy, maternal and childhood mortality, gender equality and educational excellence.

Throughout 2017, AEF continued to show good asset quality. Performance of the investments in the AEF portfolio has improved significantly over the past few years, owing to good restructuring work by FMO's SO department. Since 2017 Polaris, a geothermal power plant in Nicaragua, and the final NPL in the AEF portfolio, has been doing well. Financial performance is strong and outlook for the coming years is positive. The impairment taken in 2015 has been released and in 2018 the client will be transferred back to FMO's Energy Department.

The revolvability[1] of AEF is 120.1% per December 2017 from 130.3% in Dec 2016. A large part of the portfolio is denominated in USD (~81%) while reported in EUR. The total asset value suffered from the USD devaluation which decreased by 12% vis-à-vis the EUR. This resulted in a negative FX result of 4.6mln.

In its Strategy 2025, FMO commits to contribute to the attainment of the Sustainable Development Goals. The AEF actively contributes to many SDGs. Most prominent among these is SDG 7, the goal of ensuring access to affordable energy, increase the share of renewable energy and expandi infrastructure and sustainable energy services. In addition, investments of AEF facilitate sustainable infrastructure development in the least developed countries, which is covered by SDG 9. Access to energy enables the poor to use their time more productively and increase their income. Therefore, AEF also contributes to the attainment of SDG 1.

The end evaluation of AEF was completed in Q1-2017. Main conclusions include (i) AEF's adequate response to the rapidly evolving opportunities around funding renewable energy in Sub-Saharan Africa (SSA) and (ii) AEF's additionality and catalytic role in tapping from other funding sources for renewable energy in SSA. The report provides a good starting point for discussions with the Ministry for Development and Trade on renewal of the investment mandate that is expiring at the end of 2018. The dialogue with the government on mandate renewal will take place against the backdrop of the currently ongoing design of the National Climate Fund, which has been announced in the coalition agreement ('Regeerakkoord').

AEF contributes to climate change mitigation. To date, AEF has mostly focused on financing power generation. To maximize the impact of the Fund, projects that aim to reduce power outages could be a great addition to the existing investment mandate. This includes transmission and distribution as well as projects that set-up a local (mini-)grid system, including those built by a private company, to provide access to energy to communities.

On 23 October 2017 Shell Foundation and FMO signed a Memorandum of Understanding (MOU) to set up a Blended Finance Facility. This cooperation aims to increase the flow of funds for impact finance in the energy sector through co-creation and co-funding of project opportunities. Various tools will be used, including capital solutions (debt and/or equity), grants, non-financial support, social investment, leadership- and joint evaluation and advisory of funding opportunities will be used. The M-KOPA transactions in Kenya and Uganda, as well as the Orb and BIX facilities, all (partially) financed by AEF, are good examples of this fruitful cooperation.

After a slow start, AEF has established itself in the RE-sector. AEF is well-positioned to continue to play a prominent role in the coming years. The positive outcome of the Fund's final evaluation reflects the intense efforts of FMO and the Ministry for Development and Trade to ensure a catalysing role of public finance in the RE-sector. There are many more opportunities to bring RE initiatives to scale We are eager to play our role and help to further close the financing gap in the RE-sector. On behalf of FMO, I would like to thank the Ministry of Foreign Affairs, who has supported AEF in the past and contributed to achieving the goals that AEF was set up for.

1. Revolvability is defined as the total net value of all AEF's assets vis-à-vis the total funding that the Ministry for Development and Trade has invested in AEF.

2. Please note that the EUR 50 mln comprises EUR 32 mln that was transferred from AEF to CIO and EUR 18 mln new funding made available by the Minister for Development Cooperation and Trade.

3. M-KOPA Solar is the world's leading pay-as-you-go energy provider to off-grid homes. Its predominantly low-income customer base is accessing lighting, phone charging, radio and TV on daily mobile money payment plans that more less than the typical cost of kerosene. Orb Energy is a business that provides solar solutions to businesses and households in India and East Africa and BIX Fund supports impact monetization for energy enterprises in rural areas.

OUR STRATEGY

AEF aims to uplift livelihoods at the base of the pyramid by increasing the access to clean energy. The Fund diversifies its investment activity among different high impact sectors, including: on and off-grid renewable energy production and clean cooking. As blended finance constitutes a powerful instrument to refine the bankability of high-risk projects, hence AEF aims at mobilizing public and private funds to achieve its impact goals.

Investment themes

On-Grid Renewable Energy

AEF's investment strategy will further focus on the financing of renewable energy (e.g. wind, solar, geothermal) production plants and delivery channels. AEF aims at increasing the production of renewable energy in Sub Saharan Africa and enlarging the outreach of utilities producers to meet the energy supply needs of the low-income population.

Off-Grid Renewables

Off-grid / distributed energy, is becoming a critical part of the energy supply in several countries and serves the areas that are unlikely to be covered by the grid. AEF currently sees most opportunities in East Africa and is also aiming to support this sector in West Africa. This sub-sector of the energy space is receiving a lot of interest, with many suppliers and many interested financiers. The result is very tough competition (not all players will survive) and high pricing from an equity perspective.

For customers to gain access to an off-grid home system, they need to invest in that system. Off-grid companies have developed leasing structures to finance this investment for the customers. Debt financing and local currency debt financing to pre-finance the end user pay plan are extremely scarce. FMO's can play an additional and catalytic role through the State Funds. We are currently working on providing a risk participation to a local bank for debt financing. FMOs catalytic role could give a big impulse to the off-grid market.

Clean Cooking

In African countries low-income households rely on on highly polluting and unhealthy cooking methods. Clean cooking methods help create more sustainable livelihoods for these households. Therefore, AEF's investment strategy will further focus on providing flexible financing to companies that are developing innovative clean cooking solutions.

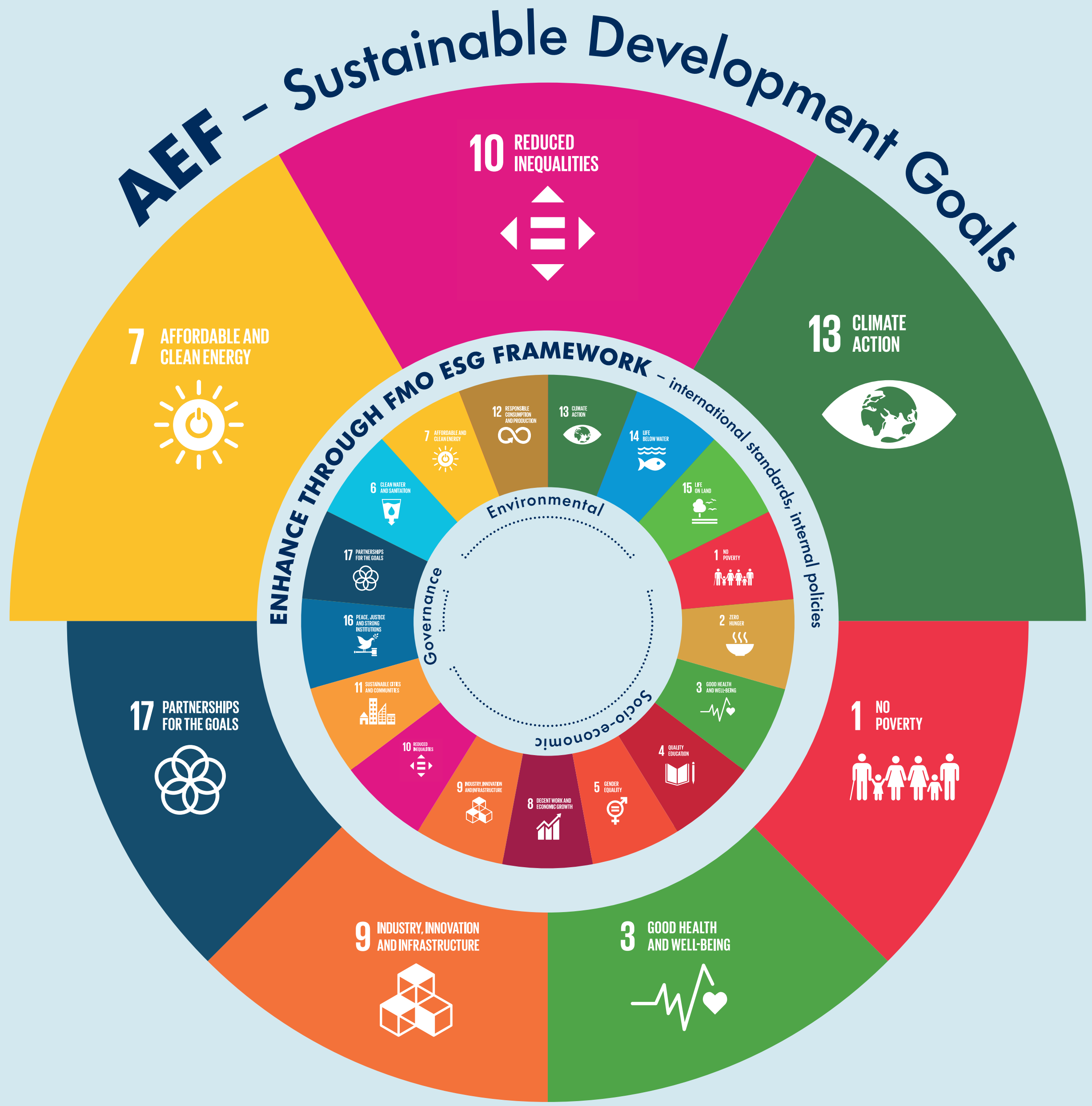
AEF AND THE SUSTAINABLE DEVELOPMENT GOALS

On January 1, 2016, the 17 United Nations Sustainable Development Goals officially came into force. SDG's call for action by all countries and parties – government, civil society and the private sector – e.g. to end extreme poverty, reduce inequality and tackle climate change by 2030.

In many developing countries, the demand for electricity continues to rise, unmet by stable and reliable energetic sources. The depletion of natural resources and the realities of climate change intensify the necessity of energy solutions that are affordable and produced in ways that can be sustained by the global economy and our planet.

Through investments in access to energy, AEF actively contributes to SDG 7, ensuring access to affordable energy, increasing the share of renewable energy and expanding infrastructure and sustainable energy services (SDG 7). In addition, investments of AEF facilitate sustainable infrastructure development in the least developed countries (SDG 9), giving the poor access to the basic services they need and enabling them to leave behind extreme poverty as they spend their time differently. By investing in renewable energy AEF also contributes to SDG 13; investing in the improvement of capacity on climate change mitigation.

Investments in clean cooking substantially reduce the number of deaths from polluted air, which happens to people without result from a lack of access to clean cooking (SDG 3). Through investments in access to energy in SSA, the area where the access to energy is most lagging behind AEF also contributes to reducing the inequalities between countries (SDG 10). Through the collaboration with the Dutch government and the catalyzing role of AEF, AEF is a great example of how the partnerships for the goals should work (SDG 17).



OUR BUSINESS MODEL

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

Our strategic priorities

Our strategic priorities are developed and adjusted in response to our key stakeholders. Naturally, we align our priorities to broader worldwide developments and priorities. The SDGs are of overarching importance, as they provide a joint public and corporate agenda that supports us to steer its priority areas on impact.

Our key inputs

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

Our networks, including networks of clients or financial partners as well as knowledge partners, are also crucial to our business model. Our financial partners are other development finance institutions, commercial investors and banks as well as governments. They leverage our own capital, allowing us to increase our impact beyond our own financial means. Our knowledge partners help us transfer best practices to our clients.

Social & relational capital

Network of clients, financial partners, governments, and civil society.

Intellectual & human capital

Cutting edge knowledge of ESG and finance.

STRATEGY

- **Higher impact portfolio**
- **Deepen relationships**
- **Operational excellence**

EXTERNAL ENVIRONMENT

Sustainable Development Goals

OUR STAKEHOLDERS

Clients (local, NL), Dutch state, shareholders

Employees, NGOs, investors, local communities

HOW WE CREATE VALUE

Financial, social & relational capital	Human, social & relational capital	Natural, social & relational capital	Intellectual, social & relational capital
Financially sustainable clients with high rates of satisfaction.	Access to Energy Fund (AEF) provides risk-bearing funding to projects supporting sustainable access to energy in developing countries.	Support sustainable development with attention for climate change, equal opportunities and human rights through our investments.	Contribute to changing the way local sectors invest and run their business through ESG sector initiatives.

OUR INVESTMENT PROCESS

1. SOURCING

Within our mandated strategy we identify potential opportunities by means of deep-rooted networks in developing countries.

In our initial selection we check the country, exclusion list, the impact of our financing, our additionality, and the viability of the investment plan and the business itself. Only opportunities that make a meaningful contribution to our strategic SDGs are further analyzed.

2. SCREENING

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

Since we work in challenging business environments, we further research our potential client and the local situation by conducting a Know-Your-Customer assessment to ensure that the client complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations. This includes checks such as verifying the ultimate beneficial owners of the clients, identifying politically exposed persons and screening against international sanctions lists. These integrity checks are also performed during the relationship with the clients. During this stage we also make an initial risk categorization based on the potential effects on environmental, social and human rights conditions, as well as governance structures benchmarked against the IFC Performance Standards.

3. DUE DILIGENCE

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

We visit the client and local stakeholders to discuss the impact of FMO's financing, their business, and environmental, social and human rights risks in detail. We continue analyzing the business, its financials, the business plan, legal aspects, ESG, the client's tax practices and policies, with our tax department providing expert advice where needed. If we identify gaps in meeting international standards or policies, we develop action plans to mitigate and manage the identified risks and promote positive development in these areas.

4. ENGAGEMENT

As the long-term viability of a project often depends on its social license to operate, we engage key stakeholders to better understand the local context.

We consult local key stakeholders early in the project to better understand the local context and assess the impacts of our involvement. Moreover, we give stakeholders the opportunity to provide input for our decision-making on new transactions with a high environmental or social risk profile. As of 2018, we publish all our proposed investments on our website.

5. CONTRACTING

After internal approval, we sign an agreement with our clients to ensure that our requirements and conditions are legally binding.

For each investment, we assess the ESG risks, identify where improvements can be made and establish action plans for further development. We disclose our investments on our website after contracting.

6. MONITORING & VALUE CREATION

Throughout the lifetime of the investment we monitor performance and progress and look for opportunities to add value.

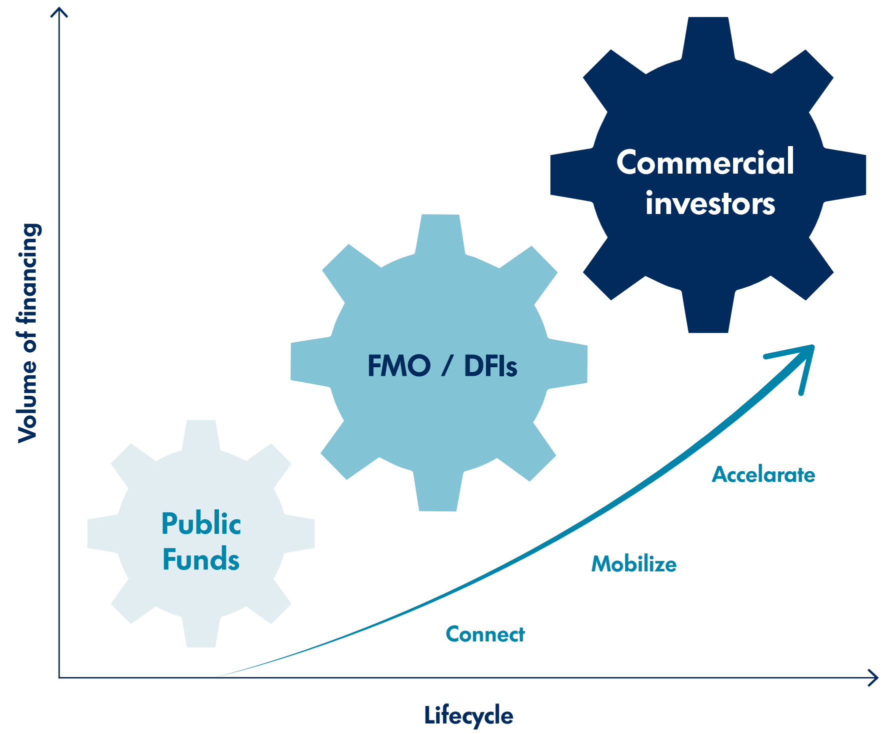
We receive annual or more frequent financial reports, conduct assessments (including ESG reviews) with the help of local consultants and pay regular visits. If necessary, we support our clients with capacity development and technical assistance to improve their business and identify new opportunities.

AEF & PRIVATE SECTOR DEVELOPMENT: OUR BLENDING APPROACH

The SDG development agenda requires significant levels of investment and partnerships between governments, donors, investors and the private sector. If investments continue at current levels, they will be insufficient to achieve the goals: the existing investment gap for developing countries is estimated to be USD 2.5 trillion a year (UNCTAD[3]). As such, there is a large need to mobilize and channel capital from the private sector. The investment gap requires significant additional finance from parties that are currently not investing in projects and markets that are crucial to achieving the SDGs.

To achieve the SDGs, it is of utmost importance that investment capital is flowing to those countries that are least developed, and where the SDG development agenda can create the largest impact. But while having sound business models and projected returns, many investments in developing markets are perceived to have a higher risk profile – often associated with immature financial markets, information asymmetries, market failures, or more general economic and political instability. Blended finance, which has the objective to mobilize finance for the SDGs through the blending of public and private funding, can play an important role by de-risking high-risk markets that otherwise would not be served. Public funds can therefore be highly additional to markets as they contribute to the development and growth of local economies in emerging markets where stable public and private funding sources are scarce, and the risk appetite of local commercial investors is limited.

The funds that FMO manages on behalf of the Dutch government have a longstanding record of catalyzing other investors, for example by providing a junior tranche, a longer tenor, or a local currency product. In addition, the funds' financing and technical assistance grows and strengthens organizations to eventually graduate them out of the funds' portfolios to FMO, other development finance institutions, or commercial investors. By improving the immediate risk profile of an investment (e.g. by taking a junior tranche) or the long-term risk profile of an organization (e.g. by enabling early stage businesses to grow into organizations that are bankable for commercial parties), more commercial funding can be attracted. Through the blended finance approach, whereby MASSIF, IDF and AEF de-risk transactions and crowd-in FMO and other development finance institutions (DFIs) as well as other market parties, the government funds operate as a lever that catalyzes additional capital into higher risk markets.



3. UNCTAD (2014), Investment, Infrastructure and Financing the Sustainable Development Goals, retrieved from: http://unctad.org/Sections/dite_dir/docs/diae_stat_2015-02-16_WTO-aid-for-Trade_en.pdf

INTERVIEW WITH OUR INVESTOR

Sustainable access to energy vital to achieving SDGs

It is with great pleasure that I welcome the 2017 annual report of the Access to Energy Fund (AEF). Supporting the creation of sustainable access to energy for people in sub-Sahara Africa through risk bearing funding plays a vital role in sustainable development and lifting people out of poverty while reducing and avoiding CO2-emissions. I would therefore wish to express my appreciation to FMO for conducting such valuable work that is crucial for achieving the goal of the Dutch government to provide 50 million people in developing countries with access to renewable energy by 2030. Simultaneously, AEF directly contributes to progress on Sustainable Development Goal 7 (SDG7): to "ensure access to affordable, reliable, sustainable and modern energy for all".

Despite the progress made thus far, we are however still far from achieving the audacious goal. Today, around 1 billion people still have no access to electricity and close to 3 billion people lack clean cooking facilities. SDG7 is an essential development enabler and plays a central role in achieving the other SDGs, including poverty eradication, gender equality, food security, health, education, clean water and sanitation, jobs, and innovation. Obviously, investment in sustainable energy can considerably increase access to clean water, education and healthcare. It also contributes to creating jobs and supporting local businesses. Nowadays off-grid, micro-grid and mini-grid solutions allow for inclusive development by providing access to energy to those people who tend to be left out and by supporting the creation of industrial and/or agricultural jobs in underserved, often rural, areas. For example, the two investments AEF made in M-KOPA in 2017, in Kenya and Uganda, combine solar energy with mobile technology using a PAYGO model to reach low-income customers. In doing so, M-KOPA provides high-quality solar solutions and makes the transition to clean and green energy possible.

To successfully complete that transition, global capital needs to be increasingly directed toward investments in renewables. The first close and official start in 2017 of Climate Investor One, to which the Dutch government contributed EUR 50 million through AEF, highlights and re-affirms a broad public and private sector commitment to innovative climate change solutions and key overseas development and investment initiatives. With funds such as AEF and CIO, FMO has shown strong leadership in innovations that support climate finance. Delivering on the Paris agreement and achieving the SDGs, making sure to "leave no one behind", require such leadership and I look forward to our continued co-operation in that regard.

Carola van Rijnsoever
Netherlands Ambassador for Sustainable Development

SDGs
Providing access to energy to the base of the pyramid helps them to step out of extreme poverty.

Mali is one of the countries with the lowest access to energy rate, therefore investing in off-grid solutions contributes to achieve sustainable access to energy for all.

Since Mali is a least developed country with rural areas with a connectivity rate of 9% this investment increases the connectivity rates and reduces the inequality between Mali and the rest of the world.

Akuo Energy

The Kita solar farm is Akuo Energy's first project to begin construction in Africa. With an installed capacity of 50MW it is the biggest solar farm in West Africa. The Kita project will also generate numerous social benefits, creating many local and sustainable jobs.

Current Situation
In Mali, one of the poorest countries in the world, there is currently no independent power producer active. The country is in urgent need of energy supply with a shortage of 150-200MW. The electrification rate stands at approx. 26% and even 9% in rural areas.

Challenge
Operating in frontier markets and being the first independent power producer in one of the most fragile states represents a huge challenge. The ongoing conflict in the northern part of Mali is another risk factor for the project.

Opportunity
AEF is being highly additional with this investment, since such long term financing is not available from commercial sources. Furthermore it is a 100% green investment, avoiding 567tCO_2eq/year GHG emissions.

Sector
Energy

AEF investment
EUR 6.8 mlm (2017)

Instrument
Loan

Mali: perspective on the future in the father land

Mali is part of the Sahel region and is one of the poorest countries in the world. In 2015 the peace treaty has been signed after which more than 500.000 homeless and about 60.000 refugees have returned home to Mali. Mali's population is expected to double from 18 million to around 36 million people by 2035. To create sustainable stability in the region, the Netherlands aims to apply an integral approach consisting of both military and diplomatic tools as well as development cooperation aid. For the ever-growing group of youngsters in Mali it is important to offer them a perspective on a future in their father land. To enable the youngsters to be able to support themselves, the Netherlands supports programs focusing on higher education and job creation. But aid alone will not accomplish all the goals. Private investments are crucial and pivotal to achieve the necessary scale and acceleration for sustainable inclusive economic growth. It is fantastic that FMO showed commitment last year to create jobs and deliver wider impact in some of the most challenging countries in the world to do business in. Fewer than 5 million people have access to electricity in Mali.

As the population grows and becomes more urban, lifting the rate of electrification will be essential to social cohesion, stimulating economic activity, alleviating poverty and helping secure political stability. I am pleased to see that due to the Access to Energy Fund FMO invests in the Akuo Kita Solar project and therefore Dutch development cooperation helps to close the energy gap in Mali. The Akuo Kita solar plant will generate an extra 50MW electricity (100% green) towards the grid. Extra capacity that is much needed to increase the reliability and sustainability of the energy supply that makes a real difference in people's lives in the South west of Mali and will lead ultimately to sustainable economic development. The funding from AEF has been highly additional as it contributed to the bankability of the project and help to fill a risk capital funding gap. Where the risks of a project seems higher than returns, investments like Akuo Kita underline the importance of a development finance institution such as FMO.

Jolke Oppewal
Netherlands Ambassador in MALI

PERFORMANCE ON OUR STRATEGY

Highlights

AEF's 2017 performance has been well above target. It promised to be a productive year from the start. With the addition of the 2017 production, AEF's portfolio now comprises of 21 investments with 19 different clients. 4 of the new commitments concern co-investments with MASSIF. Total Fund commitments as per YE 2017 amount to EUR 113.5mln (EUR 83.5mln YE 2016).

During 2017 the significant depreciation of the US dollar against the euro has caused forex losses of EUR 4.6 mln. Of the seven new 2017 commitments five are USD-denominated and two EUR-denominated.

The microfinance loans to Amret and Prasac, both located in Cambodia, were repaid in full according to schedule in April 2017 and September 2017 respectively.

Production

The Kita solar farm is Akuo Energy's first project to begin construction in Africa. With installed capacity of 50.2MW it is the biggest solar farm in West Africa and the first IPP in the country. The project is being developed by Akuo, a large French group specialized in energy production. The total project costs are EUR 81m and FMO is providing a EUR 17.2m senior loan parallel with EAIF, which has been leading the transaction. Other senior lenders are BOAD and BNDA, while EAIF also provides a mezzanine tranche. The FMO-loan consists of an FMO-A tranche of EUR 10.3m and an AEF-tranche of EUR 6.8m. The AEF-tranche will have a longer tenor (15 versus 17 years) and is subordinated to FMO-A.

M-KOPA, founded in 2012, is one of the first mover and largest solar home system businesses in Africa. Its core product is providing access to energy services on a rent-to-own basis (known as pay-as-you-go or PAYGO) to households not connected to the electricity grid. AEF provides two separate loans, one to M-KOPA Kenya and one to M-KOPA Uganda.
FMO signed a LCY receivables finance transaction for M-KOPA Uganda (eq. USD 2 mln total) and one for M-KOPA Kenya (eq. USD 11 mln). FMO's total commitment of USD 13 mln eq. is part of a USD 55 mln eq. Receivables Financing Package financed by Stanbic, CDC, Norfund and FMO. It is the biggest LCY transaction for the off-grid sector so far and as such a novelty. M-KOPA is a leading off grid energy company operating in East Africa. The transaction was funded by MASSIF and AEF on a 50/50 basis (plus a CD grant). FMO played an important role in ensuring that M-KOPA's business model and practices adhere to relevant consumer protection principles. A CPP study was done with help of CD grant funding. Through this study a blueprint for CPP analysis in the off-grid sector was established together with Frankfurt School.

SIMA Off-grid Solar & Financial Access Fund is a debt fund that focuses on (1) solar energy access, such as financing inventory and working capital for off-grid companies, including portable solar lights and solar home systems, and their distributors, and (2) financial access by investing in micro-finance institutions, which provide access for financing to end consumers for the purchase or lease of energy products.

EAV is the first focused venture firm that invests in SMEs active in off-grid electricity generation and distribution, and electricity related services in Sub-Saharan Africa. The focus is on innovative companies that are taking on this challenge and focus on off-grid rural electrification, in particular solar home systems, micro-grid infrastructure and other small/micro-scale renewable energy and hybrid technologies. FMO committed EUR 10m to the Fund of which EUR 7.5m from AEF and EUR 2.5m from MASSIF. The Fund invests in venture stage innovative disruptive business models. Existing portfolio companies are not only active in distributed solar to households and SMEs (such as Off Grid Electric and D-Light) but also in agricultural solar appliances. The Fund is inclusive and 100% green.

SunFunder, a Tanzania based social enterprise, is a solar energy debt finance business with a mission to unlock capital for solar energy projects in emerging economies. With the capital provided BTGSF provides inventory, construction and structured asset finance loan for solar lighting, phone charging, micro-grids and commercial solar projects. BTGSF's investment strategy is to provide loans to local and international solar companies in emerging markets in Africa and Asia, that operate in the off grid and grid-deficit space. EAF funding will only be allocated to the Fund's SSA activities. Borrowers of BTGSF will include solar product distributors and manufacturers, PAYGO solar companies and solar project developers in the Commercial and Industrial ("C&I") sector. The entire AEF funding will be allocated to the fund's SSA activities.

Grants

Board Member fees
FMO revoked its nomination of a board member in Rabai Power Holdings Ltd at the end of 2016. As a result, only one grant in respect of nominee directors has been paid out of AEF funding during the year 2017: the EUR 8,000 remuneration of FMO's nominee director in Orb Energy Pvt Ltd.

A well-functioning board is beneficial to AEF's investee companies in articulating company strategy, policy formulation, oversight and control and accountability, to secure sustainability of said investees.

FMO's Corporate Governance Unit is the focal point for nominating board members with the AEF investee companies and therefore manages the relevant remuneration fees and costs.

Events and external network
AEF is a member of the SPARK clean cooking networking community.

Event	Topic	Role FMO
UNDP Social Good Summit 2017	Scaling Impact Globally	Participant
Private Equity International Responsible Investment Forum Europe	Forum to discuss ESG issues and market trends, take part in workshops, roundtables and listen to talks on current responsible investment topics in private equity. Areas that will be covered include climate change risk, global developments in ESG integration and the evolution of data usage.	Participant
Luncheon lecture by IGG and ESA	renewable energy in 2050 - realistic or utopian dream?	Participant
Visit to University of Amsterdam Business School to speak on a panel of business, government and NGO representatives in relation to the	Sustainable development goals, in particular SDG 7 Access to Energy	Speaker and Panel Member
Guatemala Innovation Forum 2017	Forum on Innovation in Guatemala, both in the public, private as well as academic sectors.	Participant

SDGs

Providing access to energy to the base of the pyramid helps them to leave behind of extreme poverty and reduces inequalities in Uganda, Tanzania and Kenya.

Rural areas face the lowest access to energy rates, therefore investing in off-grid solutions contributes to achieve sustainable access to energy for all.

Offering off-grid solutions to rural areas reduces GHG emissions, as people in rural areas tend to use diesel or kerosene for lightning.

M-KOPA Solar

M-KOPA, founded in 2012, is one of the first movers and largest solar home system businesses in Africa. Its core product is providing access to energy services on a rent-to-own basis (known as pay-as-you-go or PAYGO) to households not connected to the electricity grid. AEF provides two separate loans, one to M-KOPA Kenya and one to M-KOPA Uganda.

Current situation

Lack of access to energy and access to finance at the base of the pyramid continues to hold back social and economic development in Sub-Saharan Africa. This lack of access and finance is also a driver for the growing prepaid off-grid energy market in Sub-Saharan Africa.

Challenge

The lack of LT local currency debt financing represents a bottleneck for growth of the energy sector. A majority of the customers live in rural areas where the grid has not yet been extended and the people lack access to finance to acquire these products directly.

Opportunity

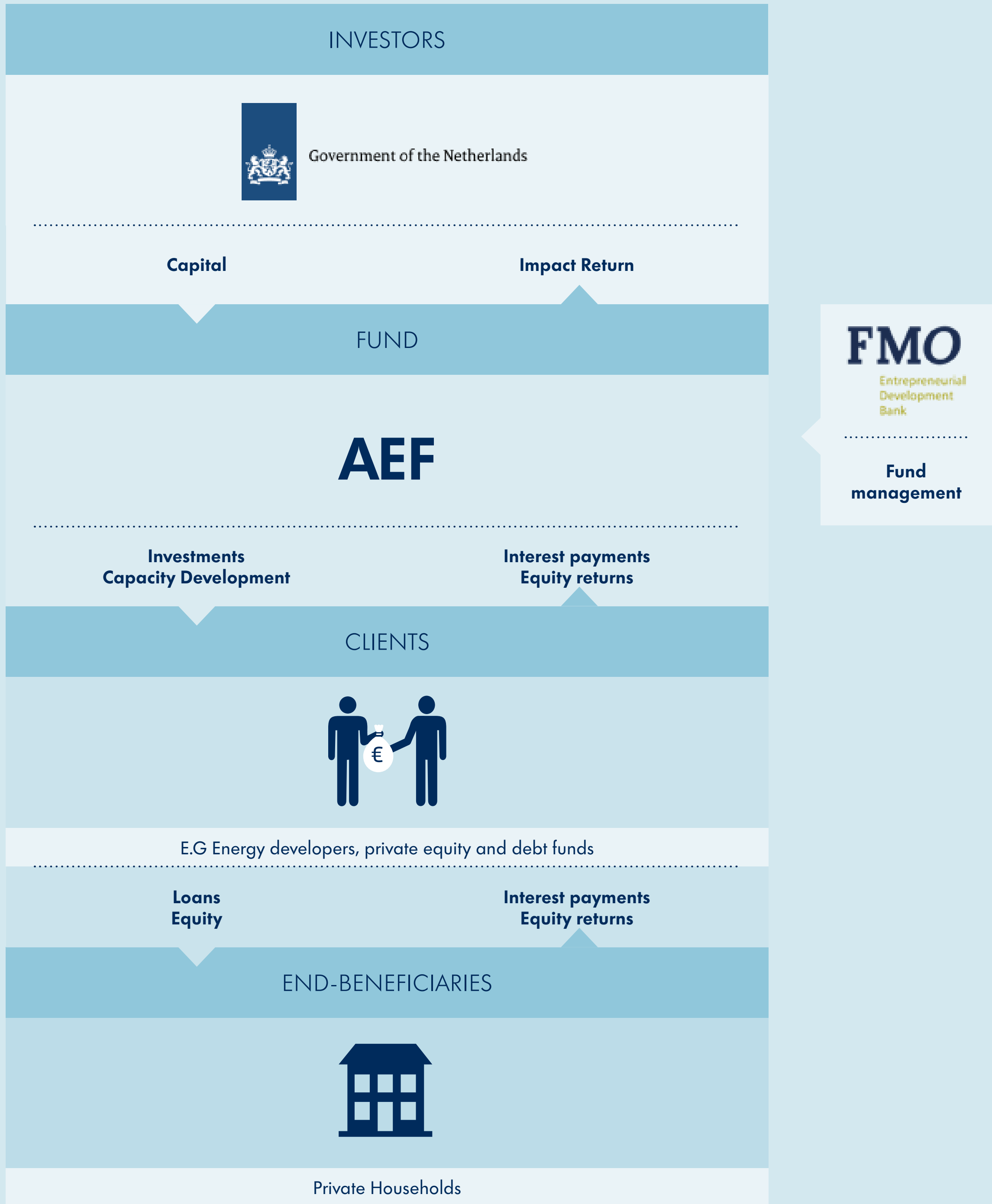
The increased energy access contributes to productivity of households and ultimately to economic growth, since proper lightning and charging facilities allow work and study activity after sundown. The solar home systems (SHS) are off grid PV solar solutions and therefore qualify as 100% green.

Sector
Energy

AEF investment
USD 6.5 mln (2017)

Instrument
Loan

FUND STRUCTURE



FUND MANAGEMENT

With 50 years of experience in high impact investment in emerging markets, and over EUR 1 billion in assets under management for the Dutch Ministry of Foreign Affairs, FMO has a proven track record as fund manager. AEF is managed by FMO's Public Investment Management (PIM) team, part of the Funds, Syndications and Value Creation (FSV) department. The PIM team utilizes FMO's strong infrastructure of dedicated sector departments, product expertise and competence centers (e.g. for local currency).

Rosemarijn van der Meij
Fund Manager

Ramon Sewberath Misser
Portfolio Analyst

Rosemarijn van der Meij started as AEF Fund Manager in April 2017. Before assuming the role of Fund Manager of the AEF team, Rosemarijn worked for the IDF and MASSIF teams as well. She joined FMO in 2014 in the Financial Institutions department. Rosemarijn has 20+ years of experience in Commercial Banking and Enterprise Risk Management both in the private and the public sector. Rosemarijn has an MA in European Studies with a major in Economics and International Relations from the University of Amsterdam.

Ramon started as an interim Portfolio Analyst for AEF and IDF in June 2017. Since February 2018 fully dedicated to AEF. He joined FMO in 2011, working at the Midoffice, specialized in Syndicated deals. Ramon has 17+ years of experience in Asset Management in the commercial sector. Ramon has a Bachelor in Business Administration.

INTERNATIONAL PRINCIPLES

FMO follows a number of guidelines and principles, which helps us to improve the quality of our work and standardize our reporting.

IFC Performance Standards

OECD Guidelines

UN Guiding Principles on Business and Human Rights

International Labour Organization

Global Reporting Initiative

Principles for Responsible Investment

Equator Principles

Natural Capital Declaration

UNEP FI

UN Principles for Investors in Inclusive Finance

International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation – the FATF Recommendations

International Aid Transparency Initiative (IATI)

For our own operations, we maintain the following standards: MVO Prestatieladder The Gold Standard Corporate Governance Development Framework

LIST OF ABBREVIATIONS

AEF	Access to Energy Fund
BIPV	Building-Integrated Photovoltaics
BTGSF	Beyond The Grid Solar Fund
CD	Capacity Development
CIO	Climate Investor One
CPP	Client Protection Principles
CPV	Cost Per View
CSP	Concentrated Solar Power
DFI	Development Finance Institutions
ESG	Environmental, Social and Governance
FIT	Feed-in Tariff
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden
FOM-OS	Fonds Opkomende Markten – Ontwikkelingssamenwerking
FTE	Full Time Equivalent
GHG	Green House Gas
IDF	Infrastructure Development Fund
LCY	Local Currency
LIC	Low Income Countries
NPL	Non-Performing Loans – loans in default
ODA	Official Development Assistance
OECD	Organisation for Economic Coorperation and Development
PIM	Public Investment Management
PPA	Power Purchase Agreement
PSD	Private Sector Development
PV	Photovoltaic
RE	Renewable Energy
SDGs	Sustainable Developments Goals
SO	Special Operations
SSA	Sub-Saharan Africa
UMIC	Upper Middle-Income Countries
YE	Year End

Read more about

CIO	www.climatefundmanagers.com/nl
FMO	www.fmo.nl
ODA	www.rijksbegroting.nl/system/files/10/odaenoesodac-criteria.pdf
OECD	www.oecd.org
SDGs	sustainabledevelopment.un.org

ACCOUNTING POLICIES

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

ESTIMATES AND ASSUMPTIONS

In preparing the annual accounts management is required to make estimates and assumptions affecting reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. The use of available information and application of judgment are inherent to the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from such estimates and the differences may be material to the annual accounts.

The most relevant estimates and assumptions relate to the determination of the fair value of financial instruments based on generally accepted modeled valuation techniques and the determination of the counterparty-specific value adjustments.

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

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

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

Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For non-monetary financial assets, which are classified as available for sale, unrealized exchange differences are recorded directly in shareholders' equity until the asset is sold.

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

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

Fee and commission income
The Fund earns fees from a diverse range of services. The revenue recognition for financial service fees depends on the purpose for which the fees are charged and the basis of accounting for 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 amortized cost can be divided into three categories:

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

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

Cash and cash equivalents
Cash and cash equivalents consist of banks (assets and liabilities) and short-term placements. Short-term deposits are designated at fair value. Unrealized gains or losses of these short-term deposits (including foreign exchange results) are reported in the results from financial transactions.

Loans to the private sector
Loans originated by the Fund include loans to the private sector in developing countries for the account and risk of the Fund;

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

Value adjustments on loans
At each reporting date FMO assesses the necessity for value adjustments on loans. Value adjustments are recorded if there is objective evidence that FMO will be unable to collect all amounts due according to the original contractual terms or the equivalent value. The value adjustments are evaluated at a counterparty-specific level based on the following principles: Individual credit exposures are evaluated based on the borrower's characteristics, overall financial condition, resources and payment record, original contractual term, exit possibilities and, where applicable, the realizable value of the underlying collateral. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. In case of a loan restructuring, the estimated recoverable amount as well as the value adjustments are measured by using the original effective interest rates before the modification of the terms. Value adjustments for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.

A value adjustment is reported as a reduction of the asset's carrying value on the balance sheet. All loans are reviewed and analyzed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared to prior estimates will result in a change in the value adjustments and will be charged or credited to the profit and loss account. A value adjustment is reversed only when the credit quality has improved to the extent that reasonable assurance of timely collection of principal and interest is in accordance with the original or revised contractual terms.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously recorded value adjustments. If no value adjustment is recorded, the write-off is included directly in the profit and loss account under the line item 'value adjustments'.

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

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

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

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

Adoption of new accounting standard IFRS 9
IFRS 9 "Financial Instruments" is a new accounting standard, which will become effective as of January 1, 2018. IFRS 9 is replacing IAS 39 "Financial Instruments: Recognition and Measurement". The standard introduces new requirements for the classification and measurement of financial assets and liabilities and the impairment of financial assets. The standard will be applied retrospectively, leading to an adjustment of the opening balances of the affected components of fund capital at January 1, 2018. The implementation of IFRS 9 will have an impact on Total Assets, Fund Capital, Net Profit and/or Other Comprehensive Income. The final impact of IFRS 9 is yet to be determined in the first months of 2018.

BALANCE SHEET

At December 31, 2017

	31/12/2017	31/12/2016
Assets		
Banks	8,918	12,669
Loans	32,444	29,323
Equity investments & Investments in associates	42,612	30,542
Accrued income & Other receivables	1,189	598
Total assets	**85,163**	**73,132**
Liabilities		
Current account with FMO	39	407
Accrued liabilities & Other liabilities	26	513
Total liabilities	**65**	**920**
Fund capital		
Contribution DGIS previous years	53,319	45,819
Contribution DGIS current year	17,561	7,500
Total contribution DGIS	**70,880**	**53,319**
Available for sale reserve	8,142	9,686
Undistributed results previous years	14,165	5,807
Result current year	-2,316	8,783
Grants	-4,787	-4,720
Evaluation costs	-986	-663
Total fund capital	**85,098**	**72,212**
Total liabilities and shareholders' equity	**85,163**	**73,132**
Irrevocable facilities	**39,986**	**24,756**
Total subsidy amount AEF according to "Beschikking"	70,880	70,000
Total subsidy received from DGIS for fund	-70,880	-53,319
"Beschikkingsruimte"	**-**	**16,681**

STATEMENT OF COMPREHENSIVE INCOME

At December 31, 2017

	31/12/2017	31/12/2016
Income		
Interest income	2,834	2,780
Results from equity investments and associates	-6	-
Dividend, Fee and Commission income	551	252
FX loans	-3,649	956
FX other	992	188
Total income	**-1,262**	**4,176**
Expenses		
Remuneration FMO	-1,836	-1,966
Total expenses	**-1,836**	**-1,966**
Value adjustments, impairments and grants		
Value adjustments on loans	1,325	6,573
Impairments on equity investments	-528	-
Results on grants	-15	-
Total value adjustments, impairments and grants	**782**	**6,573**
Net profit	**-2,316**	**8,783**
Other comprehensive income		
Available for sale equity investments	1,544	3,482
Other comprehensive income	**1,544**	**3,482**
Total comprehensive income	**-3,860**	**12,265**

STATEMENT OF CASH FLOWS

At December 31, 2017

	31/12/2017	31/12/2016
Cash flow from operating activities		
Inflows		
Interest received on loans	2,848	2,523
Repayments on loans	3,190	4,099
Repayment on grants	132	301
Sales of equity instruments (book value)	110	15
Results from equity investments	-6	-
Results from grants	-15	-
Dividends and fees received	473	165
Other received amounts	64	381
Outflows		
Disbursements on loans	-8,712	-2,597
Investments in equity instruments	-7,350	-6,283
Disbursements on grants	-182	-1,647
Conversion of grant from AEF II	-17	-
Undistributed profit from AEF II	-425	-
Conversion of investment from AEF II	-6,903	-
Other paid amounts	-1,822	-163
Net cash from operating activities	**-18,615**	**-3,206**
Cash flow from financing activities		
Inflows		
Contribution of DGIS current year	17,561	7,500
Outflows		
Management fees FMO	-2,328	-1,966
Net cash from financing activities	**15,233**	**5,534**
Net change in cash & cash equivalents	**-3,382**	**2,328**
Position of cash at January 1	12,261	9,933
Position of cash at end of period	**8,879**	**12,261**

all amounts in € × 1,000

RISK MANAGEMENT

ORGANIZATION OF RISK MANAGEMENT

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

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

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

RISK PROFILE & APPETITE

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

Capital Management

The Fund aims to optimize development impact. This can only be achieved with a sound financial framework in place, combining a healthy long-term revolvability of ≥75% and sound capital adequacy. Therefore, FMO seeks to maintain a strong capital position for the Fund. The Fund's structure is based on a 100% contribution from the Dutch government. Total contribution to AEF from the Dutch government is € 70.9 mln at 31 December 2017 (31 December 2016: € 53.3 mln). Total fund capital – which is the sum of the contribution by the government, the available for sale reserve, undistributed results from previous years, results from the current year, grants, and evaluations costs – increased to € 85.1 mln in 2017 (2016: € 72.2 mln).

REPUTATIONAL RISK

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

Environmental, social and governance risk

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

CREDIT RISK

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

Management of credit risk is FMO's core business, both in the context of project selection and project monitoring of Funds investments. In this process, a set of investment criteria per sector is used that reflects benchmarks for the required financial strength of the Fund's clients. This is further supported by internal scorecards that are used for risk classification and the determination of capital use per transaction. As to project monitoring, the Fund's clients are subject to periodic reviews. Credit policies and guidelines have been formulated covering treasury operations; these are reviewed regularly and approved by the ALCO.

Credit risk in the emerging markets loan portfolio

The Fund offers loans in emerging market countries. Strong diversification within the Fund's emerging market portfolio is ensured through stringent limits on individual counterparties (single client limit of 10% of the Fund's capital), countries (single country limit of 40% of the Fund's capital), continents (as per 2012 100% of the Fund's capital has to be invested in Sub Sahara Africa), sectors (as per 2012 100% of the Fund's capital has to be invested in renewable energy), maximum tenor 20 years.

Internal credit approval process

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

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

Gross exposure AEF portfolio distributed by internal ratings [1)]

Indicative counterparty credit rating	Gross Exposure	AEF%	FMO-A%
F1-F10 (BBB- and higher)	-	0.0	3.7
F11 – F13 (BB-, BB, BB+)	6.305	18.4	38.7
F14 – F16 (B-, B, B+)	20.203	61.5	45.9
F17 and lower (CCC+ and lower ratings)	6.614	20.1	11.7
Total	**32,852**	**-**	**-**

1) Please note that this does not include the entire portfolio. Equity investments are not rated. In addition, there are some other cases in which it may not be possible to make a rating for a client.

The bulk of AEF's exposure (61.5%) is in the F14 to F16 ratings. Of the seven new commitments, three new loan clients are rated within the category F11-F13 which explains the increase in this category (2016: 1.1%) and the decrease in category F14-F16 (2016: 83.9%).

Loans past due and value adjustments

Non-Performing Loans (NPL) are defined as loans with a counterparty-specific value adjustment and/or loans with interest and/or principal payments that are past due 90 days or more. AEF's NPL ratio decreased from 18.0% 2016 to 0% as per 2017 because of decreased provisioned loans. At the end of 2017, the counterparty-specific value adjustments as a percentage of the gross loan portfolio was 0%.

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

In 2017, like in 2016, there were no (partial) write-offs in the AEF portfolio.

Loans due and value adjustments 2017

Quality loan portfolio at December 31, 2017	Loans not value adjusted	Loans value adjusted	Gross exposure	Counterparty specific value adjustment	Total
Loans not past due	32,852		32,852		32,852
Loans past due:					
· Past due up to 30 days	-		-		-
· Past due 30-60 days	-		-		-
· Past due 60-90 days	-		-		-
· Past due more than 90 days	-		-		-
Subtotal	**32,852**		**32,852**		**32,852**
Less: amortizable fees	**-408**		**-408**		**-408**
Carrying value	**32,444**		**32,444**		**32,444**

Number of non-performing loans	-
Value adjustments / loans	0.0%
NPL percentage	0.0%

Country risk

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

The level of the country limits depends on the sovereign rating. FMO recognizes that the impact of country risk differs across the financial products it offers.

Overview country ratings

Indicative external rating equivalent	2017 (%)	FMO-A %
F9 and higher (BBB and higher ratings)	0.0	6.5
F10 (BBB-)	0.0	7.9
F11 (BB+)	0.0	0.0
F12 (BB)	0.0	12.2
F13 (BB-)	0.0	15.1
F14 (B+)	20.3	21.6
F15 (B)	73.3	14.6
F16 (B-)	0.0	11.2
F17 and lower (CCC+ and lower ratings)	6.4	10.9
Total	**100.0**	**100.0**

Treasury counterparty credit risk
Credit risk in the treasury portfolio stems from bank account holdings and placements in money market instruments to manage the liquidity in the Fund. The Risk Management department approves each obligor to which the Fund is exposed through its treasury activities and sets a maximum limit for the credit exposure of that obligor. Depending on the obligor's short and long-term rating, limits are set for the total and long-term exposure. FMO pursues a conservative investment policy.

EQUITY RISK

Regarding equity risk that results from equity investments, a distinction can be made between:

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

The Fund has a long-term view on its equity portfolio, usually selling its equity stake within a period of five to ten years. The Fund can accommodate an increase in the average holding period of its equity investments and so wait for markets to improve again to realize exits. We have no deadlines regarding the exit date of our equity investments. Equity investments are assessed by the Investment Committee in terms of specific obligor as well as country risk. The Investment Review Committee assesses the valuation of the majority of equity investments quarterly. The performance of the equity investments in the portfolio is periodically analyzed during the fair value process. Based on this performance and the market circumstances, exits are pursued in close cooperation with our co-investing partners. The total outstanding equity portfolio at December 31, 2017, amounts to € 43.1 mln (2016: € 36.9 mln) of which € 7.6 mln is invested (outstanding portfolio) in investment funds (2016: € 3.7 mln).

CURRENCY RISK

Currency risk is defined as the risk that changes in foreign currency exchange rates have an adverse effect on the value of the Fund's financial position and future cash flows.

The Fund takes offers financing in emerging market currencies. We aim to match the currency needs of our clients, thereby reducing their currency risk. On December 31, 2017 13.3% (2016: 9.0%) of the net equity exposure to the private sector was in emerging market currencies, related to one client and investment. In 2017 two new loans were contracted in local currency, for a total of 7% of the net outstanding loan portfolio.

Interest rate risk
Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Given the balance sheet and capital structure of the Fund interest rate risks are considered limited.

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

OPERATIONAL RISK

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

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

COLOPHON

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