SIFEM
SWISS INVESTMENT FUND
FOR EMERGING MARKETS

ANNUAL REPORT 2016

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2016 FINANCIAL HIGHLIGHTS

	2016	2015
OPERATIONAL HIGHLIGHTS in USDm		
Commitments and cash flows		
Total commitments made to date	793.1	707.9
Total active commitments	687.5	605.1
Uncalled commitments	203.9	189.4
Cumulative paid–in capital to date	610.3	534.0
Cumulative reflows received to date	443.0	397.0
Cumulative net cash flow to date	–167.3	–137.0
New investment commitments	91.9	81.2
Reflows from investments	46.0	42.5
Investment Portfolio Valuation		
Residual value	335.6	293.7
Internal Rate of Return (%)	6.97 %	7.27 %
Total Value over Paid–In (%)	128 %	129 %
Private finance mobilised		
Total private investor commitments advised by Obviam	116.0	103.5
New co–investments from private investors	20.0	11.9
FINANCIAL STATEMENT HIGHLIGHTS in CHFm		
Annual Results		
Investment profit (loss)	12.4	6.3
Operating result	5.9	0.6
Total comprehensive income	12.0	3.6
Balance Sheet		
Balance sheet total	622.3	581.5
Cash and cash equivalents	248.4	253.3
Cash available for new investments	41.1	63.7
Financial assets	341.1	293.8
Long–term liabilities	364.6	361.0
Shareholder's equity	230.0	193.0
Equity ratio (%)	37.0 %	33.2 %

USD
91.9 m
NEW INVESTEMENT COMMITMENTS

CHF
5.9 m
OPERATING RESULT

Note: Operational highlights are presented in USD, the functional base currency in which SIFEM's accounts are held. The Financial Statements are translated into the presentation currency CHF for reporting purposes. Annual result and balance sheet figures per IFRS account; investment portfolio valuation based on rolled–forward data as of 30 September 2016.

FOREWORD BY
JEAN-DANIEL GERBER

Dear Reader,

Towards the end of 2016, the Swiss Parliament endorsed the new Dispatch on international cooperation for 2017–2020, which sets the priorities of the different instruments of Switzerland's development cooperation for the next four years. These instruments can be combined with, complement and mutually reinforce one another.

As the Swiss development finance institution (DFI), SIFEM is part and parcel of this set of instruments, with the objective of promoting sustainable and inclusive economic growth in developing economies and emerging markets. Its mandate is to provide access to long-term finance to local small and medium-sized enterprises (SMEs) and other fast growing companies with a view to creating more and better jobs in partner countries. This focus on the creation of new jobs and on better working conditions through local financial intermediaries is one of the comparative advantages of DFIs in general. The investments made by SIFEM complement other instruments of development cooperation, such as technical assistance programs financed by SECO in the field of private sector development.

In supporting SIFEM, the Swiss Government puts clear emphasis on the importance of having complementary yet coherent instruments at its disposal, with a view to responding to the challenges facing developing countries in an efficient manner. It is also a strong message regarding the role of the private sector in improving local economic prospects. At the end of the day, securing decent job opportunities in partner countries remains the surest pathway to end poverty and provide alternatives to migration.

In terms of SIFEM's operations, 2016 was the third year of implementation of the current four-year strategic objectives assigned to SIFEM by the Federal Council.

I am glad to confirm that SIFEM is on track to achieving all of its development and operational objectives, with the possible exception of the risk policy objectives, as explained in this report. I am also glad to report that Obviam, SIFEM's management company, has met all the annual objectives set by the Board for 2016, for instance in terms of volume of new investments or in terms of exposure to least developed countries (LDCs). At the level of financial goals, a very significant achievement is this year's positive net profit and positive operational figures. After the financial break-even of 2015, this is an encouraging milestone regarding the objective of becoming a self-sustainable development finance institution over time, despite the inherent volatility of financial returns in emerging markets. This being said, the Board remains concerned by SIFEM's low level of capitalization, which makes it one of the smallest European DFIs. Without a capital increase, SIFEM will not be in a position to maintain its commitment capacity at the same volume of investments as in the preceding years.

The Board of SIFEM is grateful to the Swiss Government for its constant support and looks forward to continuing this constructive relationship, working together to meet the challenge of growing SIFEM's capital base in line with the imperatives of portfolio diversification as well as of maximizing development impact. In this respect, the Board of SIFEM wishes to thank Obviam for the efficient and successful implementation of SIFEM's strategy and investment projects and looks forward to continuing the constructive and fruitful relationship over the coming years.

Yours faithfully,

Jean-Daniel Gerber
Chairman of the Board of SIFEM

FOREWORD BY
CLAUDE BARRAS

Dear Reader,

To say that 2016 was a year full of surprises is an understatement. A number of uncertainties have emerged at the global level, particularly in Europe and in the United States, which are likely to affect developing economies and emerging markets in the future. Meanwhile, the economic situation of most developing economies and emerging markets stabilized somewhat in 2016, but this context remains volatile amid sizable regional differences. In this increasingly complex and challenging environment, SIFEM has been able to continue to expand its investment portfolio and has generated solid financial results as well as strong development effects.

I am particularly pleased to report that SIFEM posted a net profit of CHF 7.7 million in 2016 and more importantly, for the second year in a row, a positive operational result of CHF 5.9 million. Both the equity and debt portfolios have contributed to the very good financial performance of SIFEM. This also validated the decision taken by the Board in 2014 to accelerate the diversification of the portfolio and to conduct hedging operations in order to reduce adverse exchange rate effects.

In terms of new investments carried out in 2016, SIFEM fulfilled the objective set by the Board, with commitments of a total of USD 91.9 million over nine new projects, split almost equally between debt and equity investments. These projects are located across a wide range of developing economies and emerging markets, and are well diversified across sectors, with a particular emphasis on increasing SIFEM's exposure in least developed countries (LDCs) as well as in clean and renewable energy projects. Almost 60 per cent of the volume of new investments have been committed to funds active in LDCs, particularly in Sub-Saharan Africa, while 30 per cent of the number of new projects approved in 2016 focus on the environmental sector. For example, SIFEM invested in an innovative fund providing trade finance solutions to agricultural value chains in Sub-Saharan Africa, a typical bottleneck hampering exports from African countries. Other investments in Africa include funds targeting clean and renewable energy, financial services, and growth capital for SMEs.

In Latin America, SIFEM invested in a fund providing long-term debt financing to SMEs with a focus on job creation, which remains a daunting challenge across the region. In Asia, SIFEM invested in a fund financing access to quality education services and in a microfinance bank providing financing to micro, small and medium-sized companies.

SIFEM's latest development impact report sheds further light on how SIFEM's investments generate positive and measurable development effects on the ground. One of the critical contributions of development finance institutions with respect to global development challenges is to support more and better jobs, thereby contributing to inclusive growth in developing countries. The projects supported by SIFEM have created and sustained more than 466,000 jobs in developing economies and emerging markets since 2005. In addition, nearly all investee companies supported by SIFEM's investments provide training and skills development opportunities to their employees. All SIFEM investments also require compliance with best-practice environmental and social standards such as occupational health and safety standards, which contribute to the improvement of working conditions in private sector companies. All these aspects matter for the creation of sustainable economic opportunities in the countries in which SIFEM operates. I encourage our readers to consult the various case studies on the SIFEM website (www.sifem.ch), which capture more comprehensively the development effects of SIFEM's investments.

I would like to express my gratitude to the Swiss Government, and SECO in particular, for the continuous support we receive in order to fulfil our mandate. I also warmly thank the SIFEM Board for its constructive contributions and meaningful guidance throughout the year.

Sincerely yours,

Claude Barras
CEO of Obviam, the investment manager of SIFEM

A TOTAL OF APPROX. USD 793.1M HAS BEEN **INVESTED IN 115 INVESTMENTS TO DATE.**

SIFEM HAS INVESTED DIRECTLY AND INDIRECTLY IN **488 COMPANIES IN 72 COUNTRIES.**

THE SIFEM PORTFOLIO, TOGETHER WITH ITS CO-FINANCIERS, HAS **SUPPORTED OVER 466,000 JOBS** (SINCE THE IMPLEMENTATION OF ITS DEVELOPMENT EFFECT MONITORING SYSTEM IN 2005).

1. STRATEGY

1.1 SIFEM'S MISSION AND OBJECTIVES

SIFEM is the development finance institution (DFI) of Switzerland and a key pillar of Switzerland's economic development cooperation. SIFEM promotes long-term, sustainable and broad-based growth in developing economies and emerging markets by providing financial support to commercially viable small, medium and other fast-growing enterprises. This in turn helps to create secure and permanent jobs and reduce poverty while also contributing towards their integration into the global economic system.

SIFEM's investment philosophy is guided by the belief that investing in commercially viable developing economy and emerging market SMEs can generate sustainable, long-term development effects in local communities as well as provide investors with positive financial returns over time.

SIFEM AG is a private limited company, the shares of which are 100 per cent owned by the Swiss federal government. The fund management and portfolio management functions were outsourced to the specialised investment adviser Obviam in 2011, with the consent of the Swiss Federal Council. After being subject to a WTO public tender in 2015, the contract to manage the mandate was awarded to Obviam. The rationale for outsourcing the portfolio management was to increase operational efficiency, attract and retain necessary know-how, and allow co-investments with private investors, while reducing liability and reputation risks for the Swiss Confederation. By establishing SIFEM as a government-owned DFI, the Swiss Confederation has also followed the best practice of other European countries. SIFEM has joined its peers in the Association of European Development Finance Institutions (EDFI) and works in close collaboration with other EDFI members.

SIFEM's strategic objectives are defined by the Federal Council for four-year cycles. SIFEM contributes to long-term economic growth in developing and transition countries by:

- Investing primarily in funds managed by financial intermediaries and in other financial institutions (e.g. investment funds, guarantee funds, structured credit vehicles, banks, microfinance and leasing companies), providing access to capital and know-how to local, growth-oriented businesses;
- Carrying out investments that produce a specific and verifiable development impact through the promotion of viable and dynamic SMEs and fast growing companies in the private sectors of the target countries; this entails first and foremost the creation of lasting and decent employment as well as the diversification and strengthening of local financial markets/financial intermediaries, improvement in the management of the portfolio companies and expansion of their access to external finance, compliance with environmental, social and governance standards, increased tax revenues at the investment locations, etc.; and
- Concentrating its activities on the priority countries and regions of the Swiss development cooperation.

SIFEM investments are development-oriented and therefore aim to achieve a broad set of objectives beyond financial return. In order to achieve these objectives, SIFEM observes the following broad guiding principles:

- **Leverage:** SIFEM seeks to optimise the flow of additional capital from private and other institutional investors for the target countries and beneficiary companies. To this end, and in accordance with its mandate, SIFEM bears a portion of the political or commercial risks and conversely shares the risks and the returns from the investments with the private and institutional investors.
- **Subsidiarity:** SIFEM provides financing that is either unavailable on the market at all or unavailable at reasonable terms and conditions or in sufficient amounts or maturity.
- **Complementarity/Additionality:** SIFEM carries out investments that not only fill a gap in financing but also include tangible value add, particularly in the form of know-how transfer and technical support for financial intermediaries and companies.
- **Sustainability:** SIFEM's investment activity adheres to the basic principles of financial, economic, social and environmental sustainability.

1.2 PERFORMANCE AGAINST OPERATIONALISED OBJECTIVES

SIFEM's performance and development impact are defined by an operationalised catalogue of strategic objectives, which is split into four thematic groups: 1. Programme-related objectives with a particular focus on compliance with SIFEM's investment guiding principles; 2. Company-related objectives and tasks based on SIFEM's ability to balance the financial sustainability and the development impact of its portfolio; 3. Financial objectives related to SIFEM's long-term financial sustainability; and 4. Objectives related to SIFEM's efforts to develop and sustain cooperation agreements with other DFIs.

SIFEM is on track to meet the majority of the objectives set by its shareholder, and still may meet all of them depending on its performance in the last year of the current strategic objective period. This reflects SIFEM's careful approach in balancing developmental and financial objectives, in coupling the investment selection skills of Obviam's team with a rigorous investment committee process, as well as in ensuring continued compliance with requirements and maximisation of developmental and financial outcomes through a hands-on approach.

The following table lists the operationalised objectives for the 2014–2017 period alongside the most recent performance figures linked to each objective.

PART 1: PROGRAMME-RELATED OBJECTIVES

OBJECTIVE	TARGET	PERFORMANCE
SUBSIDIARITY	a) At least 20 % of the investment commitments for the Least Developed Countries and Other Low Income Countries	**On track:** At least 42 % of SIFEM's 2014–2016 commitments are expected to result in investments in Least Developed Countries or Other Low Income Countries. [1]
	b) At least half of the number of investment commitments of SIFEM serve to reach the 1st closing of the target funds	**On track:** Since 2014, 70 % of SIFEM's fund investments served to reach the first closing of the respective funds.
SUSTAINABILITY	a) All investments are bound to specific requirements regarding environmental, social and governance standards (ESG) and their enforcement.	**On track:** All of SIFEM's 2014–2016 investments have bindingly committed to implement Obviam's Responsible Investment Policy and have a formal agreement allowing participation in governance via a seat on a supervisory body. In non-fund investments, the requirements of Obviam's Responsible Investment Policy have been contractually anchored.
	b) Obviam commits all fund managers to comply with its ESG policy and implement an ESG system no later than two years after closing. Obviam also expects the portfolio companies to take a leading role with regard to ESG	**On track:** All of SIFEM's fund managers of 2014–2016 investments have agreed to implement Obviam's Responsible Investment Policy. The first check on the implementation of an ESG system in line with international best practice two years after closing resulted in four funds having implemented the requirements of Obviam's Responsible Investment Policy. One fund is scheduled to finalize implementation by March 2017.

[1] Least Developed Countries (LDCs) and other Low Income Countries (LICs) are classified by the United Nations. The current reference point is a per capita income of less than USD 1,035.

OBJECTIVE	TARGET	PERFORMANCE
LEVERAGE EFFECT	a) One USD invested by SIFEM mobilises at least 2 USD from private investors (i.e. excluding the contribution of other DFIs)	**On track:** USD 1 invested by SIFEM mobilised around USD 10 of private investment for 2014–2016 investments.
	b) x-time-funds: Investments into fund 1, 2, 3 etc. of the identical fund manager result in increasing mobilisation of purely private capital	**On track:** All cases of subsequent fund investments (excluding special objectives and counter-cyclical investments) in 2014–2016 have resulted in increasing mobilisation of purely private capital.
COMPLEMENTARITY	a) Obviam or a specialist consultant provides active support/ technical assistance for at least 4 investments per year	**Achieved:** During the period 2014–2016, 40 such events took place.
	b) Over the period 2014–17, Obviam introduced and supports at least four investments of private investors into SIFEM investee funds or companies, resulting in an investment	**Achieved:** During 2014 and 2016, Obviam arranged additional investments from private investors for 13 fund investments of SIFEM.
GEOGRAPHIC CONCENTRATION	100 % of SIFEM direct investments and at least 60 % of the indirect investments are made in focal countries or regions for Swiss development cooperation	**On track:** During 2014–2016, 100 % of SIFEM's direct investments and 77 % of SIFEM's indirect investments were made in SIFEM priority countries, as defined in the investment guidelines of SIFEM at the time of investment.

PART 2: TASKS AND COMPANY-RELATED OBJECTIVES

OBJECTIVE	TARGET	PERFORMANCE
EMPLOYMENT EFFECTS	a) SIFEM creates or maintains at least 6,000 jobs each year (pro rata, i.e. if a fund has created 1,000 jobs and SIFEM owns 10% of the fund, the number of new jobs is shown as 100 rather than 1,000)	**On track:** SIFEM's pro rata share of new jobs created and sustained in both 2014 and 2015 amounted to a total of over 28,000 (latest data available).
	b) The number of jobs in the SIFEM portfolio companies increases by at least 6 % on a three year average	**On track:** The employment numbers in existing fund investees grew by over 7 % in average since 2014.
	c) All portfolio companies comply with the ILO core labour standards	**On track:** 100 % of SIFEM's investments have bindingly committed to ILO core labour standards. No breaches have occurred during 2014–2016.
OVERALL IMPACT ON DEVELOPMENT	At least 75 % of the investments in the portfolio must be rated ex-post as "good" or "very good" in accordance with the development monitoring system implemented by SIFEM in coordination with the existing practices of the European development finance institutions	**On track:** 87 % of SIFEM's total portfolio has received an ex-post development effects score of "good" or "very good" (latest data available).

INSTRUMENT MIX	Total commitments and number of investments by country, sector (incl. micro finance, infrastructure) as well as number of firms receiving support	**On track:** Please refer to the numbers and charts in section 3.2.
EFFECTIVENESS	Minimum of USD 45 m committed to new investments	**On track:** SIFEM has committed USD 91.9 million to new investments in 2016. The average new commitments (2014–2016) amount to approximately USD 91 million.
DEVELOPMENT	a) At least 25 % of the investment commitments to funds with specific development and social objectives (i.e. economic development funds and/or social impact funds)	**On track:** 35 % of SIFEM's 2014–2016 investment commitments are classified as "special objective investments".
	b) Of those at least one investment will be in social impact funds on a three year average	**Achieved:** During 2014–2016, SIFEM invested in three funds classified as social impact investments, with their key focus being on serving the "base of the pyramid".
RISK POLICY AND RISK MANAGEMENT	a) The proportion of the investments which are classified as high and very high risk projects is less than 40 % for funds	**Off-track:** In 2016, the proportion of fund investments that are classified as high and very high risk projects is 46 %, with an increasing trend.
	b) The proportion of the investments which are classified as high and very high risk projects is less than 15 % for debt instruments	**Off-track[2]:** In 2016, the proportion of debt investments that are classified as high and very high risk projects is 17 %.

PART 3: FINANCIAL OBJECTIVES

OBJECTIVE	TARGET	PERFORMANCE
OPERATING EFFICIENCY	Operating cost ceiling of 1.5 % of the outstanding commitments	**On track:** In 2016, the total operating cost amounted to 1.05 % of total active commitments.
FINANCING	a) The operating costs of SIFEM and the minimum volume of new commitments can be met in full over the target period out of reflows from successfully concluded investments and uncommitted cash reserves	**On track:** Reflows received to date plus uncommitted cash at the beginning of the period together amount to USD 262 million, which will in all likelihood be sufficient to cover the minimum volume of annual commitments plus operating costs over the entire period.
	Increasing reflows as proportion of average annual commitments	**On track:** For the average new commitments 2014–2016 the ratio of reflows to new commitments increased from 39 % in 2014 to 50 % in 2016.

[2] The indicator has been broadened in 2016 to include direct deals to reflect their growing importance in SIFEM's investment strategy and a recent adjustment of the internal classification system. Using the previous definition, based on which the objective was defined, the indicator would currently stand at 14 %.

OBJECTIVE	TARGET	PERFORMANCE
FINANCIAL RESULT	a) Positive operating result in accordance with IFRS	**Inconclusive:** With the positive operating result in both 2015 and 2016, the cumulative operating profit since 2014 is still negative at CHF −6.9 million. It is too early to tell whether operating profits in 2017 can make up for this shortfall.
INVESTMENTS	a) Overall portfolio – Positive Internal Rate of Return (%) – Total Value over Paid-in multiplier exceeds 1	**On track:** The IRR of the overall portfolio as of 2016 amounted to 6.97 %; the TVPI to 1.28.
	b) Growth funds – Internal Rate of Return exceeds 5% – Total Value over Paid-in multiplier exceeds 1.3	**On track:** The IRR for growth funds as of 2016 amounted to 17.76 %; the TVPI to 1.42.
	c) At the beginning of the strategy period at least 1–2 investment institutions should be selected for comparing the reporting on the performance of SIFEM with other investment institutions	**On track:** One institution was selected. The performance comparison is under way.

PART 4: COOPERATION ARRANGEMENTS

OBJECTIVE	TARGET	PERFORMANCE
NETWORKS	Existing and, if applicable, new cooperation arrangements entered into with sector organisations (in particular EDFI and its working groups), incl. qualification of the results and statements on their impact	**On track:** : Please refer to section 1.3 of the Annual Report regarding Obviam's cooperation with other development finance institutions.

1.3 SIFEM'S COOPERATION WITH OTHER DEVELOPMENT FINANCE INSTITUTIONS

On behalf of SIFEM, Obviam actively engages with other DFIs and international financial institutions (IFIs), contributing to further cooperation and fostering informal synergies on a day-to-day basis, as well as more formally by being active in associations and joint working groups.

EDFI - European Development Finance Institutions
EDFI is the European Association of 15 bilateral institutions operating in developing economies and emerging markets, mandated by their governments to:

- Foster growth in sustainable businesses;
- Help reduce poverty and improve people's lives; and
- Contribute to achieving the Sustainable Development Goals

By promoting economically, environmentally and socially sustainable development through financing and investing in profitable private sector enterprises.

EDFI strives to strengthen the flow of information and the cooperation between its members and other bilateral, multilateral and regional DFIs. Obviam represents SIFEM on the EDFI Board and contributes actively to five EDFI working groups.

EDFI Board
During 2016, the EDFI Board, in which SIFEM held a seat, was busy implementing the EDFI Transformation Plan approved in 2015, which foresees two main initiatives: (i) stepping up EDFI's policy engagement and (ii) establishing an EDFI Fund Management Company.

On policy engagement, the EDFI Flagship Report, entitled 'Investing to create Jobs, Boost Growth and Fight Poverty' was published and widely distributed to policy-makers to foster dialogue. It presents the major role that the European DFIs play in the new agenda for sustainable development. The Board also approved an EDFI approach to blended finance (the use of concessional finance from donors alongside investments made by DFIs), which will be discussed with, and hopefully endorsed by, other actors active in the same field.

The EDFI Management company has been established and is fully operational. ElectriFI - the Electrification Financing Initiative - is the first blended facility funded by the European Commission and managed by the EDFI management company. Its focus is on addressing the energy needs of populations living principally in underserved rural areas and in areas affected by unreliable power supply. ElectriFI encourages the adoption of renewable energy, with an emphasis on decentralized energy solutions.

In addition, Obviam, on behalf of SIFEM, has contributed to five EDFI working groups and to one additional working group consisting of EDFI members and multilateral development banks. These working groups are as follows:

- **EDFI Working Group on Environmental and Social Matters**
  Reviewed and provided input on a new approach to identifying and monitoring Environmental & Social (E&S) risks for financial institutions and funds, the implementation of which started in 2016.

- **EDFI Working Group on Development Effectiveness**
  Develops ideas and initiatives to improve, and harmonise the measurement and the evaluation of the development impact of the institutions' investments.

- **EDFI Working Group on Communication**
  Discusses challenges and highlights of the communication work at member institutions.

- **EDFI Working Group on Technical Assistance**
  An informal platform that allows EDFI members to exchange and share their experiences in the field of technical assistance, and hence enables members to learn from each other.

- **EDFI Working Group on Corporate Governance**
  Facilitates the implementation of the corporate governance development framework, which is a common set of guidelines that EDFI members, including SIFEM, apply.

- **International Finance Institutions Working Group on Harmonization of Indicators**
  Comprises 12 EDFI members, including SIFEM, as well as 14 multilateral development banks. The group's aim is to collaboratively improve measurement, analysis and understanding of development effects and lighten the reporting burden on shared clients.

Moreover, the EDFI Board has decided to establish a new Task Force on taxation issues, which will be chaired by SIFEM in 2017.

2. CORPORATE GOVERNANCE

2.1 SIFEM'S LEGAL FRAMEWORK

SIFEM's role as the Swiss DFI is legally anchored in the following two Federal ordinances:
- Ordinance on international development co-operation and humanitarian aid of 12 December 1977.[3]
- Ordinance on co-operation with Eastern European countries of 6 May 1992.[4]

As an Aktiengesellschaft (AG) formed under the Swiss Code of Obligations (SCO), SIFEM is subject to Swiss commercial law. One exception was made with respect to taxation. Due to its public ownership and developmental mandate, SIFEM is exempt from regular communal, cantonal and federal company taxes. This was confirmed by the tax administration of the Canton of Bern in their ruling dated 16 March 2010. However, since 1 July 2012 SIFEM is subject to stamp duty, despite its developmental mandate.

2.2 CORPORATE STRUCTURE

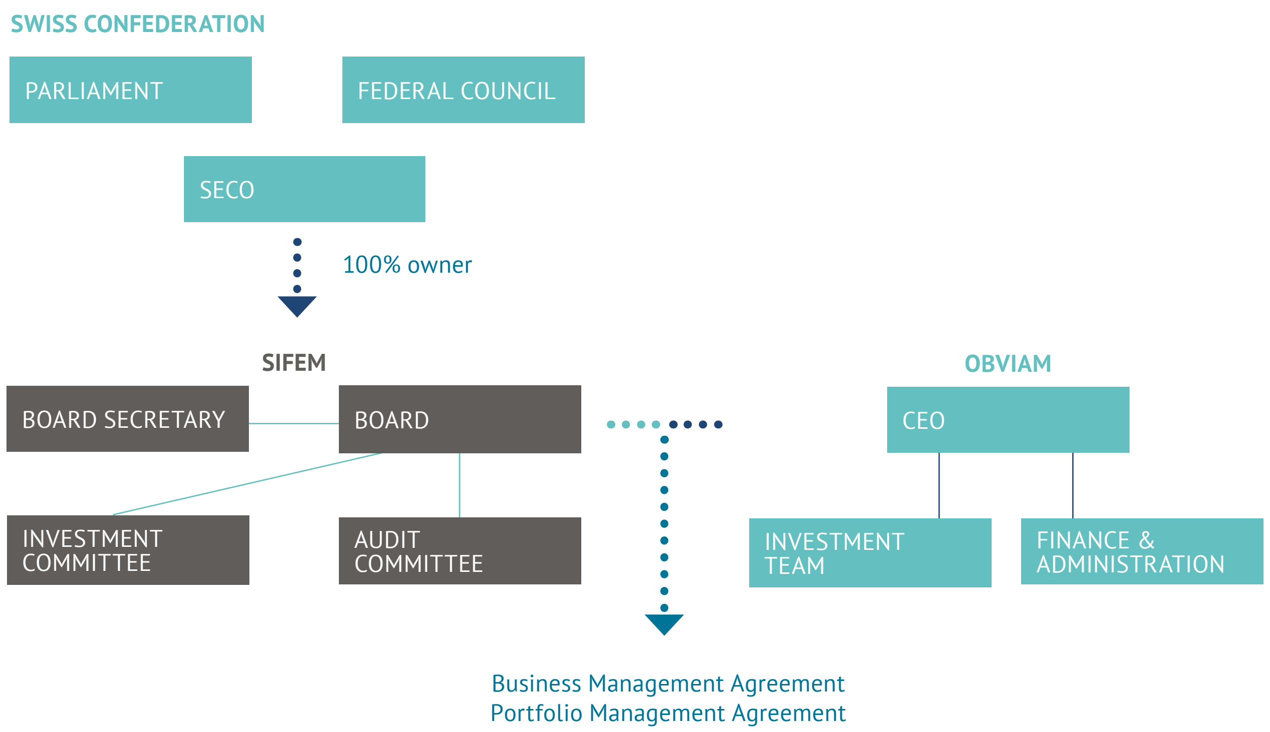
The Board of SIFEM is responsible for investment decisions and other executive management tasks. As per its Organisational Regulations, the Board formed two committees: the Investment Committee and the Audit Committee. Investment and divestment decisions are delegated to the Investment Committee. The Audit Committee validates the valuations of SIFEM's investments, reviews SIFEM's financial accounts and related matters, and liaises with the auditor. SIFEM does not have any employees beside the part-time Board secretary.

The management of SIFEM's investment portfolio and its day-to-day operations have been delegated to Obviam, an independent company established specifically for this purpose, under two contracts pertaining to the management of the portfolio and to the daily business activities. The contractual framework between SIFEM and Obviam is in line with international best practice for private equity fund managers, while assuring that the standards of the Swiss Confederation are applied.

The corporate structure of SIFEM assures consistency with the principles of the corporate governance report of the Swiss Federal Administration and is a suitable vehicle for safeguarding, complementing, and capitalizing on the know-how and quality of networks acquired over the past years in the area of risk capital for developing and transition economies.

[3] Verordnung vom 12. Dezember 1977 über die internationale Entwicklungszusammenarbeit und humanitäre Hilfe , SR 974.01
[4] Verordnung vom 6. Mai 1992 über die Zusammenarbeit mit den Staaten Osteuropas, SR 974.11

FIGURE 1: SIFEM CORPORATE STRUCTURE AND GOVERNANCE



2.3 GOVERNANCE AND POLICY ACTIONS

Board

Following the losses incurred due to foreign exchange movements in 2014, the Board has continued to carefully review and manage the performance of the portfolio against SIFEM's financial targets. In this context, the Board is glad to report a very significant improvement in financial performance at the operational level, with both a total net income of CHF 12.4 million and a positive operational result of CHF 5.9 million in 2016. This contributed to the consolidation of the positive financial results reported in 2015, which is an important achievement for a young DFI such as SIFEM. Considering that the economic environment in developing economies and emerging markets continues to be challenging, it remains to be seen whether SIFEM will be able to fully make up for past losses and thus achieve a positive result over the entire four-year period. In any case, SIFEM will continue to strengthen its exposure in current-income instruments in the coming years, which is expected to further reduce the inherent volatility of its financial results.

Notwithstanding of the above, in 2016 the Board focused mainly on working towards achieving the 2014–2017 Strategic Objectives. As reported in section 1.2 of this Annual Report, SIFEM is well under way in terms of achieving these objectives.

As mentioned in last year's Annual Report, the USD 50 million capital increase for SIFEM approved by the Federal Council in 2014 was implemented in 2015 and 2016. The first tranche of USD 25 million was subscribed in January 2015 and the second tranche of the same amount followed in May 2016. These contributions have enabled SIFEM to implement the 2014–2017 business plan.

The Board addressed an array of strategic and operational topics in the course of 2016. Three specific work streams were established by the Board focusing on key strategic developments: the first one deals with the conversion of the shareholder loan into equity; the second one deals with the capital increase from the Swiss Confederation; and the third one deals with the issue of mobilisation of private investors for development. Regarding the first work stream, the Board closely followed the interactions between the federal administration and parliament on that specific issue and is awaiting for a decision in this respect (scheduled for 2017). Regarding the second work stream, the Board understands that the approval of the Dispatch on international cooperation for the years 2017–2020 - and which includes SECO's future contributions to SIFEM in its budget envelope - paves the way for a formalisation of a capital increase proposal in 2017, which is a positive development. Indeed, considering the complementarity of the investment instruments used by SIFEM and the other policy tools of Switzerland's development cooperation, the Board is convinced that SIFEM contributes to the Sustainable Development Goals. Last but not least, regarding the third work stream, the Board reviewed various proposals aimed at mobilising additional private capital for co-investments and decided to pursue a promising and innovative bottom-up approach which will be tested by Obviam in 2017 and which could significantly scale up the platform for co-investments. The work of these work streams will continue in 2017.

The Board also reviewed and approved a new impact policy for SIFEM, the formal implementation of which will start in 2018, to coincide with the beginning of the new strategic period (2018–2020) defined by the Federal Council. As the Swiss DFI, SIFEM qualifies under the accepted definition of impact investing: indeed, all SIFEM investments are made with the specific intent to generate a measurable development impact - with specific monitoring indicators - alongside a financial return. The new impact policy's objective is to make sure that all opportunities are taken advantage of in order to generate significant impact and to maximize development impact within the framework of the existing investment guidelines.

At the operational level, SIFEM conducted a WTO tender for the procurement of the custodian and administrator mandate. The new mandate has taken effect on 1 March 2017. Two other third-party service provider contracts will become due for retender in 2017 and 2019, respectively.

Investment Committee

In 2016, the Investment Committee reviewed transactions presented by Obviam and met ten times for this purpose. Concept approval was granted for ten new transactions, allowing Obviam to conduct due diligence on these deals and submit them to the Investment Committee for final approval. Nine transactions were submitted following due diligence, received final investment approval from the Investment Committee, and closed before year-end for a total of USD 91.9 million. For further details on the transactions closed during 2016, see Section 3.1.

Audit Committee

The Audit Committee held five meetings in 2016 and examined a wide range of topics including portfolio performance, valuations, financial accounts, management accounts and budget, risk management, and performance of the accountants, auditors and custodians. The Audit Committee recommended that the Board approve SIFEM's 2016 financial accounts. As in previous years, ensuring that the portfolio is valued at fair market values was the overarching topic and absorbed much time. The Audit Committee also met with SIFEM's auditor and accountant to receive comfort on internal controls and cash management policies, as well as portfolio valuation.

2.4 SHORT BIOGRAPHIC PROFILES OF SIFEM BOARD MEMBERS

Jean-Daniel Gerber

Chairman of the Board, Chairman of the Investment Committee, since 2011

Jean-Daniel Gerber was Director of the State Secretariat for Economic Affairs (SECO) until he retired in 2011. During his career in the service of the Swiss Government, Jean-Daniel Gerber has been active in various areas of responsibility: in the trade sector as Swiss representative in the World Trade Organisation (WTO); in the field of development cooperation as Chief of Section for Developing Countries in the former Federal Office for Foreign Economic Affairs; in diplomacy as Minister and Head of the Economic, Financial and Commercial Office of the Swiss Embassy in Washington; at the World Bank as Executive Director and Dean of the Executive Directors of the World Bank Group (1996/97); and as Director of the Federal Office for Migration (1998–2004). Jean-Daniel Gerber currently also sits on the Board of Lonza Group and is President of Swiss Sustainable Finance (SSF) and the Swiss Society on Public Good.

Susanne Grossmann

Vice-Chairman of the Board, since 2014, Member of the Investment Committee, since 2011

Susanne Grossmann was a Managing Partner at BTS Investment Advisors, a private equity fund advisor for investments in non-listed Indian small- and mid-sized companies, until 2014. Besides her involvement in private equity Mrs. Grossmann also managed the social engagement of the BTS Group in India. Susanne Grossmann has been active in private sector finance in developing economies and emerging markets since 1999. Since 2014, she advises the SECO Start-Up Fund.

Julia Balandina Jaquier

Member of the Investment Committee, since 2011, Chair of the Audit Committee, since 2014

Dr. Julia Balandina Jaquier has over 20 years of investment and strategic consulting experience, acquired at AIG Global Investment Group, ABB Financial Services, and McKinsey. For the past 12 years, her work has focused on impact investing, and as the founder of an independent investment consultancy, Julia has advised major private, institutional, and sovereign investors on the design and implementation of impact investment strategies and funds. She lectures at St. Gallen University and is the author of two books.

Geoff Burns

Member of the Investment Committee, Member of the Audit Committee, since 2014

Geoff Burns has over 30 years of experience in private equity. He has his own private equity advisory business specifically to address the challenges facing Development Finance Institutions (DFIs) in this sector. He has provided advice on all aspects of investing to a number of bi-and multilateral DFIs, including the Asian Development Bank, FMO, CDC, Norfund, among others.

Kathryn Imboden

Member of the Investment Committee, since 2014

Kathryn Imboden is a Policy Advisor for the Consultative Group to Assist the Poor (CGAP), a research and policy platform on financial inclusion housed at the World Bank. Following nearly twenty years with the Swiss Agency for Development and Cooperation (SDC), she worked for Women's World Banking, the United Nations Capital Development Fund and the Aga Khan Foundation, before joining CGAP in 2007.

Michel Juvet

Member of the Board, since 2011

Michel Juvet is a partner and member of the Executive Board of Bordier & Cie, a Geneva-based private bank. He is also President of the Board of Directors of BO Funds, a Luxembourg Investment Company and a member of the board of the Institute for Studies in Finance & Banking.

Jürg Krummenacher

Member of the Board, since 2016

Jürg Krummenacher has been a Professor at the Lucerne University of Applied Sciences and Arts since 2009. From 1991 to 2008, he was Executive Director of Caritas Switzerland. Before 1991, he was Professor of Psychology and Director of the Lucerne College for Social Work. For many years, Jürg Krummenacher was a member of the Executive Committee of Caritas Internationalis, of Alliance Sud, and of the Swiss Solidarity foundation.

2.5 COMPENSATION REPORT

Board Compensation

In 2016, the fixed annual compensation for the entire Board of SIFEM amounted to CHF 238,077, gross of social security costs.

The Chairman of the Board received a total gross compensation of CHF 44,000 in 2016. This consists of a base compensation of CHF 30,000 for his role as Chairman of the Board and CHF 14,000 for his role as Chairman of the Investment Committee.

Excluding the Chairman, the other SIFEM Board members received on average CHF 32,346 gross compensation, including compensation for work in Board subcommittees (i.e. Investment Committee and Audit Committee).

Compensation of Obviam

The compensation of Obviam is determined in accordance with the Portfolio Management Agreement and the Business Management Agreement.

Under both agreements, Obviam is compensated for actual costs incurred, within a budget that is approved annually in advance by the Board.

The original wording of Clause 4 of the Portfolio Management Agreement is as follows:

a. *SIFEM will pay the Portfolio Manager an annual management fee (the "Management Fee") equal to an amount agreed before the end of the previous year by the Board and the Portfolio Manager.*

b. *The amount of the Management Fee shall be calculated using an annual budget to be approved by the Board, consisting of the expected human resource and other expenditure directly attributable to the services provided under this Portfolio Management Agreement, and a pro-rata share of the general expenses (not directly attributable to any mandate) of the Obviam Group. For the avoidance of doubt, the share of general expenses to be borne by SIFEM shall be calculated in accordance with the pro-rata share of SIFEM's active commitments against the total active commitments on all mandates of the Obviam Group […]*

j. *[…] At the end of a business year, the Management Fee paid to the Portfolio Manager according to the annual budget shall be compared with the actual costs of the Portfolio Manager. If the Management Fee paid is in excess of the total effective cost of the Portfolio Manager for the management of the Portfolio, the amount in excess shall be returned to SIFEM […]*

The original wording of Clause 9 of the Business Management Agreement is as follows:

SIFEM shall compensate the Business Manager with an allowance for its expenses, calculated ex ante on the basis of an annual budget of the business management to be prepared by the Business Manager and approved by the Board of SIFEM. The expenses comprise any and all management costs, particularly secretarial work, copies, mailing costs, IT costs, telephone, travel costs, etc. […] If the allowance paid is in excess of the actual costs of the Business Manager for the business management of SIFEM, the amount in excess shall be returned to SIFEM […]

The Board of SIFEM agreed to the annual budget proposed by Obviam for 2016 under the aforementioned agreements. For the year 2016, the total budget for Obviam under both agreements was CHF 5.88 million (including VAT and accruals for variable compensation). This represents an absolute increase of 10.6 per cent compared to 2015, which is less than the corresponding increase between 2014 and 2015. The size of the 2016 budget relative to the total active commitments as of mid-year increased from 0.91 per cent in 2015 to 0.94 per cent in 2016.[5]

It is important to note that Obviam rarely spends its full budget. In 2016, the effective expenses amounted to CHF 5.00 million, or 85 per cent of the total budget. In absolute figures, the effective expenses increased by 16 per cent compared to 2015. This corresponds to 0.80 per cent of the total active commitments of SIFEM (as per 30 June 2016), as opposed to 0.74 per cent in 2015.

The increase in both budgeted and effective management costs is a consequence of the solid growth of the investment portfolio in recent years (annual average of USD 91 million of new commitments between 2014 and 2016). As a proportion of the total active commitments, the 2016 figure was roughly the same as the value observed in 2013, that is, towards the end of the preceding strategic period.

The total effective spending on administrative costs of SIFEM amounted to CHF 6.51 million in 2016, which corresponds to 1.05 per cent of the total active commitments of SIFEM (as per 30 June 2016) and which remains below the threshold of 1.5 per cent defined by the Federal Council. The corresponding 2015 figure was 0.96 per cent. As a reminder, the total effective spending on administrative costs encompasses all operating costs, including management expenses, other administrative expense items such as administration and custodian fees and Board compensation, as well as stamp duty expenses (CHF 0.42 million).

[5] Please note, however, that such ratios are now calculated on the basis of active commitments as of 30 June so as to use a more time-weighted approach consistent with the cost-split methodology across mandates (which also uses 30 June as the relevant calculation basis).

Obviam has complied with Clause 16 of the Portfolio Management Agreement, the original wording of which is repeated below:

The Portfolio Manager [Obviam] undertakes to ensure that in the Obviam Group the proportion of the highest individual fixed salary which results from this Portfolio Management Agreement does not exceed salary class 32 of the Swiss Confederation. For the avoidance of doubt, this shall include any residence allowance and pension treatment that an employee of the Swiss Confederation earning salary class 32 would be entitled to.

As per Clause 4 of the Portfolio Management Agreement, the original wording of which is repeated below, the incentive system for Obviam is designed as follows:

e. *The Board will allocate a performance bonus (the "Performance Bonus") equal to an amount up to 20% of the annual fixed salary costs indicated in the annual budget prepared in accordance with Clause 4 (b) of this Portfolio Management Agreement for the year in question. The objectives to be attained by the Portfolio Manager [Obviam] shall be specified yearly by the Board and agreed with the Portfolio Manager in the framework of the yearly budget process.*
f. *One third of such Performance Bonus shall be disbursed annually to the Portfolio Manager at the beginning of the year following the year in question (the "Immediate Bonus") depending on the progress made in a given year in attaining objectives specified annually in advance by the Board according to the operational objectives set out in the Supervision and Controlling Concept agreed between SIFEM and the Swiss Confederation.*
g. *Two thirds of such Performance Bonus shall be disbursed to a blocked account at the beginning of the year following the year in question (the "Retained Bonus"). Such Retained Bonus payments shall be retained on the blocked account, with the total amount on the blocked account to be disbursed to the Portfolio Manager at the beginning of the year following the expiry of the strategic objectives, depending on the progress made in attaining the objectives specified in advance by the Board in line with the strategic objectives. For the avoidance of doubt, any undisbursed amount remaining on the blocked account after such period due to non- or partial fulfilment of the agreed objectives shall be returned to SIFEM. Due to the fact that the current strategic objectives are valid until end-2012, the first disbursement of the Retained Bonus shall occur in early 2013. After the first disbursement, the Retained Bonus shall be paid out every four years, in line with the four-year duration of the strategic objectives.*

In accordance with the above, the retained bonus for 2016 was retained on a blocked account. Based on a detailed review of Obviam's performance against the annual objectives, the Board approved the disbursement of the immediate Bonus to Obviam's CEO as follows:

- One part of the annual bonus for 2016 was based on the performance against quantitative targets for the year. According to the mechanism established by the Board, Obviam CEO was entitled to 87.5 per cent of this immediate bonus component for 2016 which amounts to 5.83 per cent of the annual fixed salary. The immediate bonuses of individual Obviam staff members are determined by the CEO, subject to a cap of 6.67% of individual annual salaries.

3. PERFORMANCE OF THE INVESTMENT PORTFOLIO[6]

3.1 NEW INVESTMENTS

In 2016, a total of USD 91.9 million of new investment commitments were made. The 2016 investments consist of five private equity funds (Apis I, REAF II, Adenia IV, Evolution II and Kaizen II), one debt fund (Darby III), one loan (Xac Bank) and two capital increases in a debt and mezzanine finance facility (ICCF) and in a structured commodity finance fund (CVCSI). The regional breakdown of 2016 investments accounts for one investment in Latin America (Darby III), two investments in Sub-Saharan Africa (Adenia IV and Evolution II), three investments in East and South East Asia (REAF II, Kaizen II and Xac Bank) and three global projects (ICCF, CVCSI and Apis I).

[6] Note: All numbers related to the investment portfolio are declared in SIFEM's functional currency USD

The new portfolio positions are as follows:

Adenia Capital IV (EUR 10 million committed)
Adenia Capital IV is a EUR 200 million sector-agnostic Private Equity fund that will make equity investments of EUR 10–15 million in 10–15 SMEs in francophone (Côte d,Ivoire) and anglophone (Ghana) West Africa and in the Indian Ocean region (Madagascar and Mauritius). The fund has a distinct and focused strategy of transformative majority investments in well-established SMEs that can benefit from interventions of a hands-on value-add investor. The fund will invest predominantly in agribusiness, consumer goods, information technology and communications, financial services, business services, hospitality, healthcare and education sectors.
The fund's main objectives are to foster economic growth, support sustainable job creation and promote the integration of target countries into the world economy. By providing long-term investment capital and value add services to its investees, the fund will contribute to the expansion of the private sector in francophone and anglophone West Africa and the Indian Ocean region.

Apis Growth Fund I (USD 10 million committed)
Apis Growth Fund I is a USD 250 million fund with a focus on innovation in financial services in low and lower-middle income economies in Africa and South Asia (Nigeria, Ghana, Kenya, Ethiopia, South Africa, Tanzania, Morocco, India, Indonesia, Pakistan and Sri Lanka).
Access to financial services are the backbone of the economic growth in most emerging countries. In particular in Sub-Saharan Africa and Asia, new financial technologies and deeper penetration of mobile devices provide leapfrogging opportunities that are revolutionizing the financial services industry. Apis Growth Fund I aims at building a more efficient and affordable financial infrastructure and at fostering financial inclusion of underserved micro, small and medium-sized enterprises (MSMEs) or financially excluded low-income populations.

Darby Latin America Private Debt Fund III (USD 10 million committed)
Darby Private Debt Fund III (DPDF III) is a fund with a target size of USD 250 million. The main objectives of this fund are to foster economic growth by supporting sustainable job creation and filling the gap for long-term debt finance in Latin America.
Slower economic growth and widening inequalities in Latin America have resulted in insufficient job opportunities to keep up with a growing labour force. According to the International Labour Organization (ILO) in 2015 unemployment in the region increased for the first time in five years, causing at least 1.7 million people to become unemployed. By investing in fast-growing companies that increase their labour force, DPDF III will help address this job challenge, which is a key priority for SIFEM. Private companies continue to face considerable barriers to access finance, especially for long-term debt finance, which dampens their ability to grow. DPDF III aims to address this problem by providing companies with long-term senior loans.

Evolution II Fund (USD 10 million committed)
Evolution Fund II is a USD 250 million clean energy fund with a twin-focus on i) power generation and ii) resource efficiency. The Fund will build a portfolio of 10–15 companies/projects, with 60–75 per cent of the Fund's corpus to be invested in renewable energy power generation (primarily wind, solar, small hydro, and geothermal) and 25–40 per cent in resource efficiency (mostly operating companies in the field of energy efficiency, water and water treatment, waste management and agricultural efficiency).
The fund will deploy up to 50 per cent of commitments in South Africa, Botswana and Namibia. The other 50 per cent are to be invested in other Sub-Saharan African countries with the primary targets being Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Tanzania, Uganda and Zambia.
Energy is scarce across Sub-Saharan Africa, and energy that is produced sustainably is even scarcer. While some populations suffer power interruptions, others are worse off, with a large share of the population being deprived from access to energy altogether. According to the International Energy Agency, Sub-Saharan Africa accounts for more than 50 per cent of the world's population that lives without access to electricity. Indeed, Sub-Saharan Africa has the lowest electrification rate in the world, with only a 32 per cent (percentage of population) access to electricity. The energy dearth is particularly pronounced in rural Sub-Saharan Africa, where only 17 per cent of the population have access to electricity.

Interact Climate Change Facility (EUR 8 million committed)

The goal of the ICCF (Interact Climate Change Facility) is to provide a common financing platform for EDFI members to promote clean energy and renewable energy projects in OECD DAC countries with a particular focus on CO_2 offsetting projects. Given the nature of clean energy projects, there is a real need for long-term financing. ICCF provides long-term senior and subordinated loans and guarantees to climate-friendly projects and/or companies in the private sector.

Commodity Value Chain Sustainable Investment Fund (USD 15 million committed)

The Commodity Value Chain Sustainable Investment Fund (CVCSI) is a USD 20 million fund that provides structured commodity finance to participants in agricultural value chains in the CIS and Sub-Saharan Africa regions. Target investees include primary producers, processors, transporters and wholesalers of agricultural commodities. The fund is structured as a sub-fund for SIFEM only, permitting the fund's geographic scope to be limited to SIFEM's target countries. In 2014, SIFEM invested USD 5 million in CVCSI for the CIS region and in 2016, cognizant of sustainable commodity trade finance's development impacts, it proceeded with a second larger investment of USD 15 million to support the agricultural sector in Sub-Saharan Africa.
CVCSI brings smart liquidity to a highly important sector of Sub-Saharan Africa's economies that is often neglected by local banks. CVSCI effectively takes on a role of arranger of trade, thus connecting producers, importers/exporters and consumers of soft commodities. The fund has strong development effects. CVCSI finances mostly small, medium and mid-market companies involved in agriculture and food production, which are noted for being risky, but also highly employment-generating, as well as contributing to food security and commodity pricing stability.

Kaizen II (USD 10 million committed)

Kaizen Private Equity II is a USD 125 million (target) fund focused on the education sector, primarily in India and select countries in South East Asia (especially Philippines and Sri Lanka). Ticket sizes are expected to be in the range of USD 8–15 million. The fund will likely invest in roughly 15 companies across two broad subsets of the education space: (i) education delivery (education businesses such as primary and secondary schools, preschools, higher educational institutes, vocational training and tutoring companies, expected to be predominantly in the growth/late stage) and (ii) education enablement (companies that enable the delivery of education and learning through the use of new technologies or services). They will strive to provide solutions that enable greater access to education and improve quality and delivery. Examples include online test preparation companies, e-learning/mobile learning companies, school management solutions, and learning management solutions. These companies are expected to be predominantly earlier stage.

Renewable Energy Asia Fund II (USD 10 million committed)

The Renewable Energy Asia Fund II (REAF II) is a USD 250 million private equity fund focused on investing in renewable energy projects in South and Southeast Asia. REAF II is expected to make a significant contribution to the economic development of its target countries in South and Southeast Asia, by increasing the domestic power supply while reducing risk of dependence on fossil fuel imports. Moreover, with its in-house project development and management team, REAF II will directly contribute to the professionalization of its portfolio projects, and thereby support the diffusion of best practices in the renewable energy sector in developing countries.

XacBank (USD 8 million senior loan)

XacBank is seen as one of the most solid financial institutions in Mongolia. It plays an important role in promoting access to finance in the country, including in rural areas, which face broad income inequality and scarce sources of funding. Still, the bank lacks broad access to long-term debt to grow sustainably. SIFEM contributed to an IFC and FMO syndicated senior loan. By providing this scarce type of financing to XacBank, SIFEM will strengthen financial sector development in Mongolia, given XacBank's importance in the local banking sector and its willingness to continue disseminating best practices in the country. The loan will create more favourable conditions for the Bank to extend long-term loans to MSME clients, a type of funding that is most needed in the country.

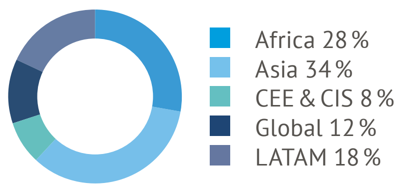
3.2 PORTFOLIO CONSTRUCTION

SIFEM's portfolio was developed over a period of two decades, with the first investments dating back to 1997.[7] Since inception, SIFEM has committed USD 793.1 million into 115 investments across more than 80 countries in Africa, Asia, Eastern Europe and Latin America. Asia remains the largest region, while the portfolio allocation in terms of geographical distribution is very similar to that of the last two years.

SIFEM CAPITAL COMMITMENTS BY GEOGRAPHY AND FOCUS AS OF 31 DECEMBER 2016

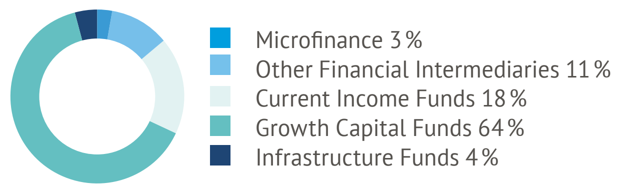
GEOGRAPHY

Figure 2



INSTRUMENTS

Figure 3



The portfolio consists primarily of private equity funds investing in SMEs and growth companies (64 per cent), infrastructure (4 per cent) and current income funds (18 per cent). Investments in microfinance comprise 3 per cent and other financial intermediaries 11 per cent of the portfolio.

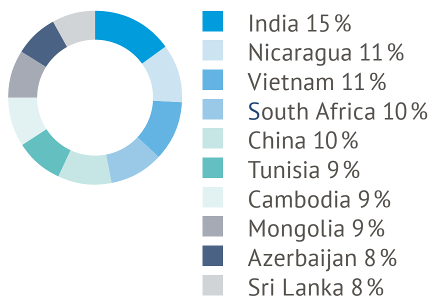
Across these focus areas, 29.5 per cent of the total portfolio consists of current income earning assets, with the remaining 70.5 per cent consisting of equity and quasi-equity instruments.

SIFEM UNDERLYING PORTFOLIO ALLOCATION AS OF 30 JUNE 2016

As of June 30, 2016 SIFEM had directly and indirectly invested in 488 companies in 72 countries.
The ten countries with the largest financial exposures account for 47 per cent of the total invested capital.

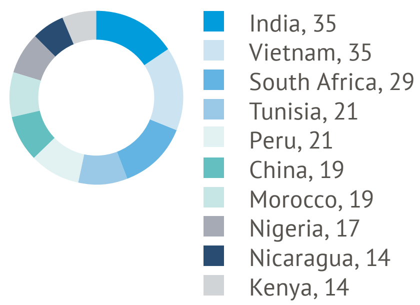
LARGEST COUNTRY EXPOSURES BY INVESTED CAPITAL

Figure 4



LARGEST COUNTRY EXPOSURES BY NUMBER OF COMPANIES

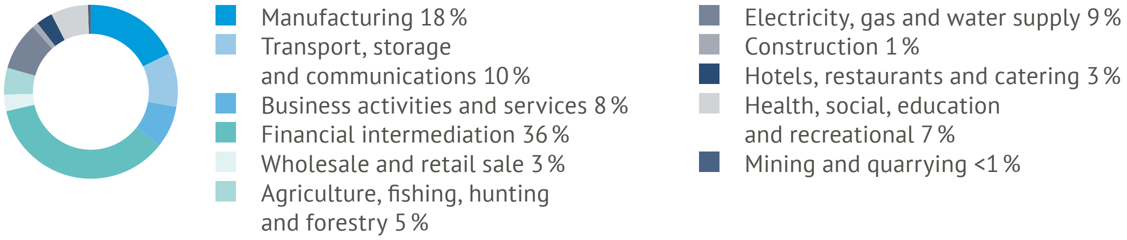
Figure 5



[7] Investments made between 1997 and 2005 were transferred from SECO to SIFEM when it was established in its current form in 2005.

INVESTED CAPITAL EXPOSURE PER SECTOR

Figure 6



SIFEM LARGEST EXPOSURE PER SECTOR BY NUMBER OF COMPANIES

Figure 7

Out of the 147 entities in the financial sector, more than 90 companies are active in the microfinance sector, representing five per cent of the total invested capital.

3.3 VALUATION

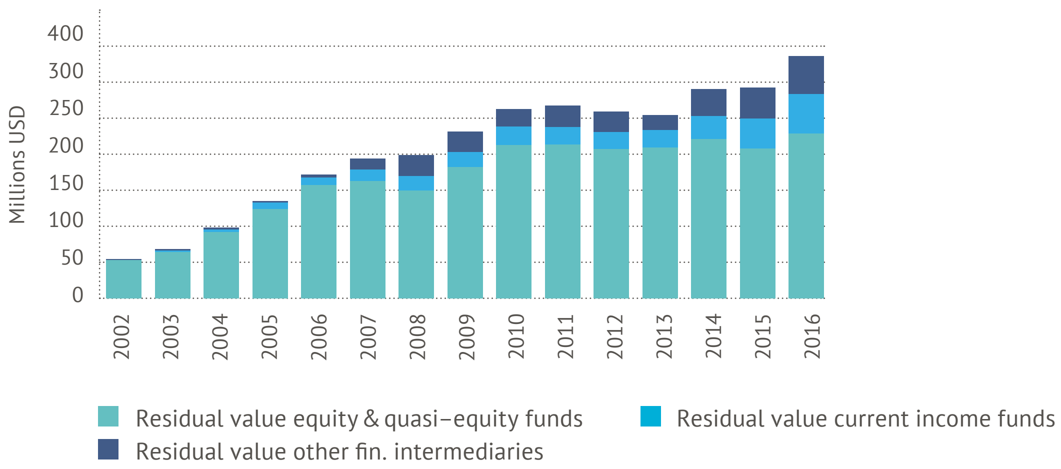
SIFEM's financial statements 2016 were independently audited by early March 2017, in accordance with the requirements of the shareholder, so that they could be consolidated in the Swiss Confederation's accounts. However, this did not leave sufficient time to obtain and integrate the audited accounts of all portfolio companies. Hence, SIFEM has used the latest available valuations (as of September 2016) and rolled them forward to the year-end. This methodology was accepted by the auditors and any differences are unlikely to be material.

3.4 EVOLUTION OF KEY PERFORMANCE BENCHMARKS

As of 31 December 2016, SIFEM's total active commitments stood at USD 687.5 million. The residual value of SIFEM's investment portfolio amounted to USD 335.6 million, an increase of USD 42.0 million or 14.3 per cent compared to 31 December 2015. Changes in the portfolio value are driven by fluctuations in the value of the underlying investments on the one hand and by the inflows and outflows of cash generated by new investments on the other hand, as well as by realisations of investments.

FIGURE 8: SIFEM PORTFOLIO RESIDUAL VALUE SINCE INCEPTION

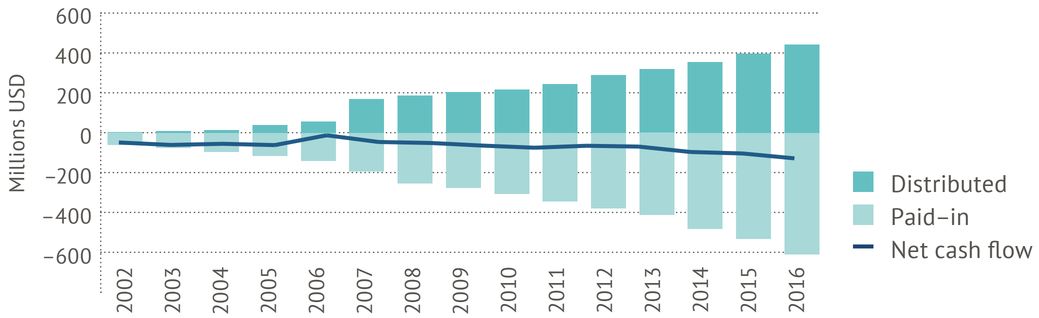
RESIDUAL VALUE



Since inception, USD 610.3 million has been paid into the SIFEM investment portfolio, and the portfolio generated total reflows of USD 443.0 million. SIFEM continued to be cash flow negative through 2016, posting USD –167.3 million in cumulative net cash flow since inception - this is explained by a combination of an expanding portfolio, the long-term patient capital nature of its investments, and the continued slow exit environment in the aftermath of the global financial crisis.

FIGURE 9: SIFEM CUMULATIVE CASH FLOWS AND UNCALLED COMMITMENTS (IN USDm) SINCE INCEPTION

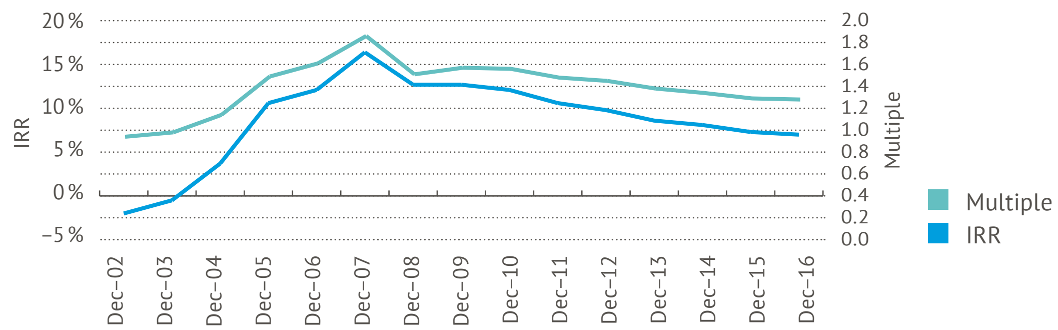
CUMULATIVE CASH FLOWS IN USDm



As of 31 December 2016, SIFEM's portfolio Internal Rate of Return (IRR) was 7.0 per cent. The IRR tracks the performance of the portfolio since inception. It has to be noted in this context that the SIFEM portfolio is a vehicle with no fixed-life investment pool; it is 'evergreen' as reflows from past investments are reinvested.

FIGURE 10: SIFEM TOTAL PORTFOLIO IRR & MULTIPLE SINCE INCEPTION

TOTAL PORTFOLIO IRR & MULTIPLE



In 2016, the IRR slightly decreased from 7.3 per cent (in 2015) to 7.0 per cent. This trend is not a concern, as the impact on the IRR of successful exits performed in the past is diluted in an expanding portfolio. Furthermore, the addition of new private equity funds in the portfolio exacerbates the J-curve effect, as typically funds show positive valuations after four to five years of operations, when portfolio companies reach maturity that then translates into higher valuations, exceeding the cost of managing the fund. Write-downs due to poor performance of some individual portfolio companies have been largely offset by gains in other positions.

3.5 CURRENCY EFFECTS

Fluctuations in foreign currency continue to affect the performance of the SIFEM portfolio in two ways: first, the investee companies of the private equity funds are operating in local currency environments that affect their performance, since the funds themselves are mostly denominated in US Dollar and to a certain degree in Euro, South African Rand or Chinese Yuan; and second, the non-USD fund denomination currencies - namely Euro, Rand and Yuan - affect the portfolio performance once they are translated into USD, SIFEM's operational currency. Exchange rate effects of these fund investments are not reported separately in SIFEM's financial statements, since they are incurred directly at the level of the investee funds' valuation.

In order to reduce this impact, the SIFEM Board decided in 2014 to optimise currency management by reducing cash holdings in the main fund denomination currencies other than USD (i.e. Euro, Rand, Yuan) and, at the same time, hedging SIFEM's exposure to the Euro by entering into currency forward contracts to the amount of SIFEM's total Euro exposure (consisting of Euro debt investments, treasury cash holdings and estimated cash holdings in the underlying Euro denominated private equity funds). In addition, a potential foreign exchange effect resulting from the capital increase during the year was avoided by entering into an appropriate currency forward contract covering the critical period. In 2016, the net gain from these derivative instruments amounted to CHF 0.03 million.

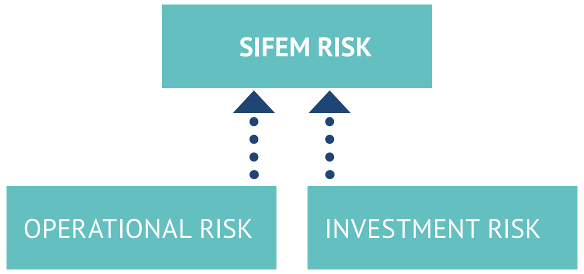
4. RISK MANAGEMENT

Identifying, mitigating, monitoring and managing risks is one of SIFEM's core duties, as these risks could potentially affect SIFEM's financial health and sustainability, its ability to generate development impact and its reputation. Reputation risk is of particular importance for SIFEM for two main reasons: (a) due to its public ownership, SIFEM is under close scrutiny by its shareholder as well as stakeholders and is being held to the highest due diligence and monitoring standards; and (b) SIFEM operates in a developing economy and emerging market environment where corporate governance tends to be weak and the risk of incidents is comparatively high.

SIFEM relies on a comprehensive Manual of Procedures which was approved by its Board and contains all the relevant policies, procedures and guidelines for operations. The Manual details the ways in which Obviam implements the Portfolio Management Agreement, and in particular how risks are identified, mitigated, monitored and managed.

Obviam applies a comprehensive portfolio-wide internal risk-rating system for all SIFEM investments, which is a useful tool for detecting, monitoring and managing the numerous risks inherent in SIFEM's investment activities. The potential risks can be divided in two main areas: first, the SIFEM operational risk and second, the investment or portfolio risk for SIFEM.

FIGURE 11: SIFEM MAIN RISK COMPONENTS



The monitoring of risk on each level follows specific procedures and processes applied throughout SIFEM's operations, and which ensure that risk is mitigated to the highest desirable degree and that the regulatory requirements are fulfilled. At each stage, the objective is to reduce the risks for SIFEM to the minimum possible under the given investment guidelines. The risks addressed are monitored on a continuous basis. Any significant risk events are duly reported to the Board, together with proposals on how the risks can be mitigated.

4.1 OPERATIONAL RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

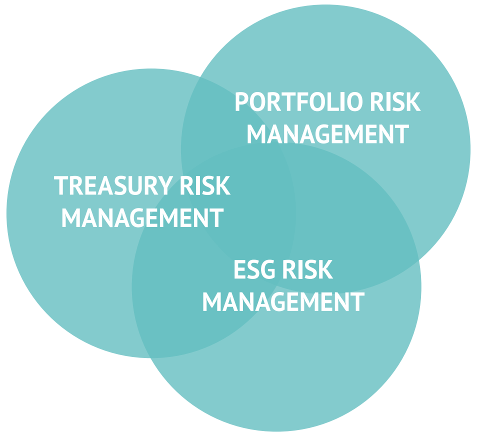
SIFEM submits itself annually to a full audit according to the Swiss Code of Obligations. Since the 2008 revision of the Swiss Code of Obligations, companies undergoing such a full audit are required to demonstrate the existence and quality of an Internal Control System (ICS). The Board of Directors and the executive management in a company are required to grant due attention to the quality and documentation of their ICS.

The Procedure Manual serves as SIFEM's Internal Control System. It covers all of the operational processes and controls in depth. The accounting and financial reporting processes have been outsourced to the bank acting as custodian and administrator, and to an external bookkeeping agent.

4.2 INVESTMENT RISK MANAGEMENT

SIFEM's portfolio is a clear reflection of the institution's developmental mandate, as it primarily consists of investments in countries and projects with a structurally high risk. Therefore, it is essential to have an adequate risk management system that takes account of risk capacity in order to control these risks and by doing so, ensure that the financial performance safeguards SIFEM's ability to maintain and expand its investment capabilities.

Investment risk management is based on three elements:



Portfolio Risk Management
Obviam is responsible for the identification, evaluation and selection of investment opportunities for SIFEM, as well as the monitoring of SIFEM's investments. At each stage of the investment process, Obviam applies specific tools and follows pre-defined procedures.

Furthermore, Obviam actively monitors the portfolio, focusing in particular on the change in risk ratings, valuations, reporting, performance of the investees and compliance with the various applicable policies and guidelines. Any violation of applicable policies or guidelines is reported to the Board, together with proposed actions to rectify the situation.

Obviam uses its in-house risk rating tool which has been validated by SIFEM's auditor. Each investment is rated on an annual basis. A comprehensive description of the tool is provided in section 4.3 and a portfolio risk analysis in section 4.4.

Treasury Management

Obviam is responsible for ensuring compliance with liquidity risk limits. The calculation of the liquidity ratio and review of compliance with the limits are carried out by the custodian bank under the supervision of Obviam. Periodical cash flow forecasts are generated to ensure liquidity. Safe keeping of cash reserves that are not needed at short term for investment operations is done with the Federal Finance Administration and the Swiss National Bank, adding an important layer of security. Unfunded commitments are backed by cash reserves in matching currencies in order to avoid currency risks.

ESG Risk Management

As a responsible investor, SIFEM is committed to investing in accordance with international, best-practice environmental, social and governance (ESG) standards, in order to minimize its ESG-related and reputation risks, and contribute to sustainable development in its target markets.

SIFEM benefits from Obviam's Approach to Responsible Investment. This comprehensive policy document clearly articulates Obviam's commitments to responsible investing and the ESG requirements that it places on its investments. The document also describes Obviam's ESG management across the investment lifecycle.

ESG risk ratings are assigned to all prospective investments prior to investment decisions. Assessment are also made of these investments' quality of ESG management. All investments are subject to annual ESG reviews, including reviews ESG risk ratings. Investments that are not in compliance and those that have had serious incidents (e.g. financial crime, loss of life, material environmental damage, etc.) are subject to more frequent review. In these cases, Obviam, often in collaboration with other DFI investors, drafts Environmental and Social Action Plans (ESAPs) and Corporate Governance Action Plans (CGAPs) with the investments. These Plans govern the remediation of non-compliance within acceptable timeframes. Investments can seek technical assistance from SECO to support remediation efforts and improvements above and beyond compliance, and Obviam can also provide direct assistance, if needed.

ESG risk ratings and other key information (including compliance status and serious incidents) are maintained in a Management Information System. Watch lists are periodically generated to track and monitor risks. The ESG risk profile of SIFEM's entire portfolio is generated annually.

4.3 PORTFOLIO RISK RATING TOOL

In 2012 Obviam developed and implemented a comprehensive in-house risk rating system for the SIFEM portfolio, which was also validated by SIFEM's auditor. The system includes different rating metrics for Private Equity Funds, FIs and debt funds in microfinance or other asset classes. It primarily measures financial risk, but also considers other dimensions such as environmental, social and reputation risks. The system comprises over 30 risk indicators that capture operational, market, infrastructure and ESG risks, as well as fund, debt instrument and FI-specific risks.

RISK WEIGHTING IN SIFEM'S RISK RATING TOOL FOR PRIVATE EQUITY FUNDS AND DEBT FUNDS

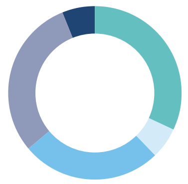
Figure 12

- Operational 30 %
- Market 8 %
- Infrastructure 26 %
- Fund specific 24 %
- ESG 12 %

These indicators are aggregated and weighted into a risk score for every investment. The scores are then adjusted by quantitative factors derived from their historical financial performance. In cases of microfinance or other debt funds with limited upside, further adjustments are made to cater for the different risk profiles of SIFEM's investment instruments. To determine the risk score of direct investments in financial institutions, an alternative set of qualitative criteria is taken into consideration, which gives more weight to endogenous factors.

RISK WEIGHTING IN SIFEM'S RISK RATING TOOL FOR DIRECT DEBT INVESTMENTS

Figure 13



- Operational 32 %
- Market 6 %
- Infrastructure 26 %
- Financial 30 %
- ESG 6 %

The risk rating system is used throughout Obviam's investment process, with first risk assessments performed ex-ante during due diligence of potential investments. Post-investment, each project is re-rated on a regular basis to capture and monitor the evolution of risks.

The individual rating of each investment is rescaled into a risk score ranging from 1 (very high risk) to 5 (very low risk). Risk scores of 4 or 5 classify an investment as low risk or even very low risk, respectively, while a risk score of 3 indicates a moderate risk. A risk score of 2 however puts an investment on the watch-list, which necessitates increased supervision. Finally, a risk score of 1 means that an investment is a work-out case for which a clear action plan needs to be drawn and implemented.

4.4 SIFEM PORTFOLIO RISK RATINGS OVERVIEW 2016

As per December 2016, the break-down of the SIFEM portfolio in terms of investments per risk category looks as follows:

FIGURE 14: NUMBER OF SIFEM INVESTMENTS PER RISK CATEGORY AS OF DECEMBER 2016

Projects per risk category	2015		2016	
Very low risk	6	7 %	11	13 %
Low risk	15	19 %	13	15 %
Moderate risk	22	27 %	26	30 %
High risk	18	22 %	16	18 %
Very high risk	20	25 %	21	24 %

The largest concentration of investments remains in the moderate risk category. These are mainly investments which perform according to expectations or are still too recent to exhibit a significant deviation from their initial risk score (which is typically “moderate risk”).

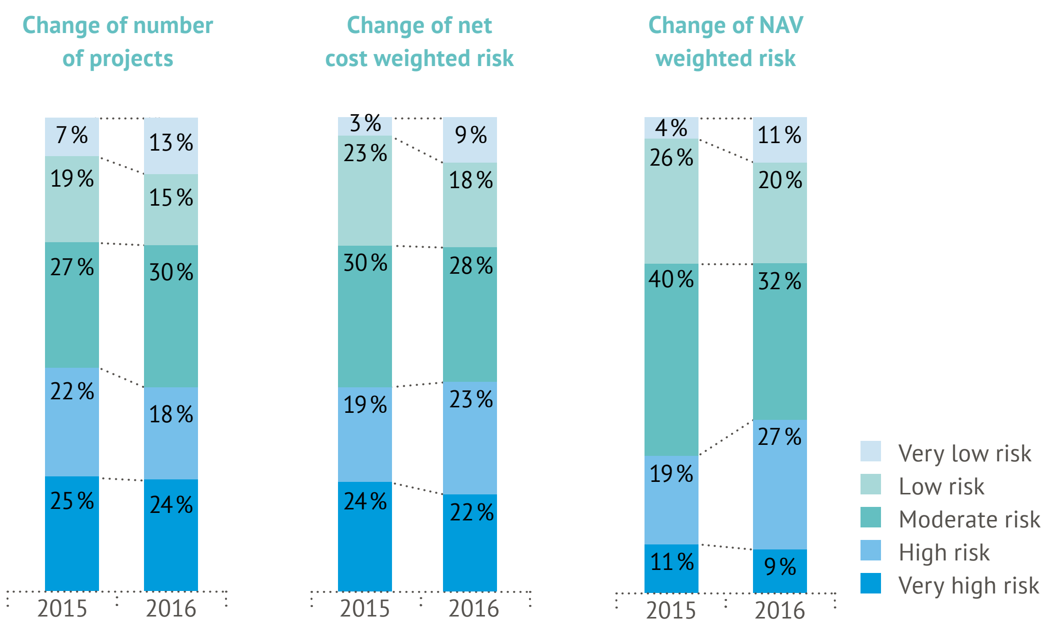
For the most part, projects in the high or very high risk categories either do not meet the expected performance or their risk score is affected by a higher macroeconomic and market risk. The continuously high number of riskier investments results from SIFEM's developmental mandate. It should be noted, however, that the proportion of high risk investments has slightly decreased over the past year.

Investments in the low or very low risk categories are mainly projects which exceed their expected performance. Over the last year, the number of projects with low risk has slightly decreased. This was more than offset by the investments in the very low risk category however, hence it's an overall positive trend that can be observed in the lower risk categories.

When measuring the exposure to each risk category by weighing each investment by its net asset value (NAV), the largest concentration still falls within the moderate risk category. It needs to be noted however that the cumulative share of high risk and very high risk projects increased from 2015 to 2016 when applying a NAV weighted approach. The overall risk of the portfolio also increased in the same period when using a cost weighted approach, however less so than when applying a NAV weighting.

In short, the picture is mixed for 2016: If measured by number of projects, the average risk in the SIFEM portfolio decreased, but when applying either a cost based or a NAV based approach, risk has overall risen.

FIGURE 15: CHANGE IN NUMBER OF PROJECTS, COST OF INVESTMENTS AND NAV OF SIFEM PORTFOLIO PER RISK CATEGORY AND INVESTMENT TYPE AS OF DECEMBER 2016



When differentiating between the asset classes SIFEM is investing in, it becomes clear that ongoing balancing the portfolio between debt and equity instruments contributes to a reduction in the total portfolio risk. As shown in Figure 16, debt instruments have a lower risk profile which partially offsets the higher risk born by equity investments:

FIGURE 16: NUMBER OF SIFEM INVESTMENTS PER RISK CATEGORY AND INSTRUMENT AS OF DECEMBER 2016

Projects per risk category	Private Equity Funds		Pooled Debt Vehicles		Direct Debt Investments	
Very low risk	9	14 %	2	13 %		
Low risk	4	6 %	7	44 %	2	29 %
Moderate risk	19	30 %	4	25 %	3	43 %
High risk	12	19 %	2	13 %	2	29 %
Very high risk	20	31 %	1	6 %		

An even more granular view on the risk allocation within the portfolio can be attained by again applying the different weightings approaches (cost vs. NAV). Figure 17 on the next page shows that the private equity funds exhibit a concentration in the very high risk category when measured by investment cost. However, when measured by residual value, the largest share of SIFEM's private equity portfolio falls into the high risk and moderate risk category.

The debt instruments such as debt funds and other pooled debt vehicles show a very different picture: Here, most investments can be considered as being of lower risk. This is not surprising since the underlying assets of such vehicles consist of debt or sub-ordinated debt which is senior to equity investments. Also, the pooled vehicles offer certain diversification which typically makes them less risky than direct debt transactions. Weighting the pooled debt investments and the direct debt investments by residual value is less meaningful since most of these debt assets are held at the face value of the debt which equals cost. Only if a debt investment is provisioned, does a change in risk category allocation occur. For fully provisioned debt investments, the exposure to the risk category (typically the highest for such underperforming assets) disappears if weighted by NAV, since a residual value of zero is allocated for that investment. This underlines the forward looking nature of the NAV-approach: Such an investment was a loss for SIFEM, but since its value in the current portfolio is zero, no value is at risk for future losses with respect to that particular investment.

FIGURE 17: PROJECTS, NET COST AND RESIDUAL VALUE OF THE SIFEM PORTFOLIO AS A PERCENTAGE PER RISK CATEGORY AS OF DECEMBER 2016

Private Equity Funds	PROJECTS	COST	RESIDUAL VALUE
Very low risk	14 %	12 %	13 %
Low risk	6 %	10 %	15 %
Moderate risk	30 %	22 %	27 %
High risk	19 %	25 %	32 %
Very high risk	31 %	31 %	14 %
Pooled Debt Vehicles			
Very low risk	13 %	8 %	10 %
Low risk	44 %	47 %	43 %
Moderate risk	25 %	30 %	33 %
High risk	13 %	14 %	14 %
Very high risk	6 %	1 %	0 %
Direct Debt			
Very low risk			
Low risk	29 %	21 %	22 %
Moderate risk	43 %	55 %	57 %
High risk	29 %	25 %	21 %
Very high risk			

Not surprisingly, the average risk rating of SIFEM's direct debt transactions lies between the risk rating of the private equity funds and the risk rating of pooled debt instruments with a concentration in the average risk category. Overall, the lower risk of debt instruments contributes to decrease SIFEM's average portfolio risk, regardless of the applied weighting approach. Since SIFEM intends to continue growing the relative share of debt investments, a further decrease in total portfolio risk can be expected.

It needs to be noted that with an allocation of 46 per cent of the private equity funds in the high and very high NAV weighted risk categories SIFEM is currently off-track regarding the operationalized objective of a maximum of 40 per cent of PE funds in these categories. This is also true for debt investments (pooled debt vehicles and direct debt investments) where the allocation of 17 per cent to high and very high NAV weighted risk categories exceeds the set target of 15 per cent. A significant part of this increase from 5 per cent in 2015 to 17 per cent in 2016 is explained by a redefinition of asset classes used for risk benchmarking (see also footnote 2 on page 12. This is due mainly to the provisioning for one debt exposure and to the deterioration of the economic conditions in some target markets.

Typically, the movements between risk categories are marginal, as most investments move by only one category up or down at a time. As shown in the risk matrix below (Figure 18), there were 20 projects which changed their risk category in 2016, out of which 11 displayed a deterioration and nine an improvement. In fact, three projects dropped from the high-risk to the very high-risk category in 2016, while five projects that previously were classified as moderate risk are now in the high-risk category. At the same time, four projects moved from the moderate-risk to the low-risk category and three projects climbed up into the very low-risk group.

FIGURE 18: RISK MIGRATION MATRIX (MIGRATING PROJECTS IN BOLD FIGURES)

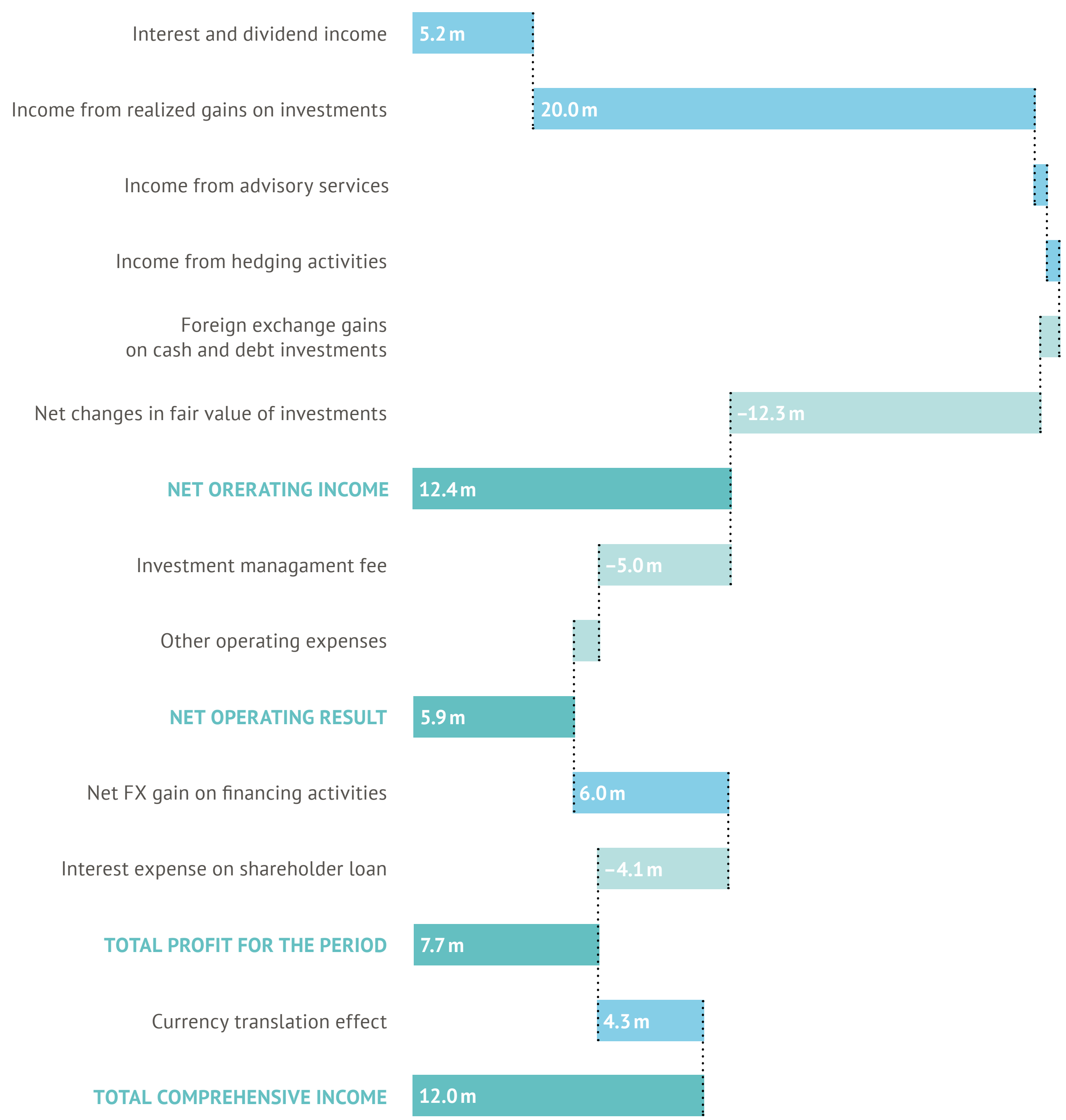
2016 \ 2015								
Number of Projects	New Projects	1 Very high risk	2 High risk	3 Moderate risk	4 Low risk	5 Very low risk	Total	Total %
1 Very high risk	0	18	**3**	0	0	0	21	24,1 %
2 High risk	0	1	9	**5**	**1**	**0**	16	18,4 %
3 Moderate risk	7	0	5	12	**2**	0	26	29,9 %
4 Low risk	0	0	0	**4**	9	0	13	14,9 %
5 Very low risk	0	0	**1**	**1**	**3**	6	11	12,6 %

5. FINANCIAL RESULTS

5.1 SIFEM RESULT FOR 2016

SIFEM ended the year 2016 with positive results. In accordance with accounting under IFRS standards, SIFEM realised a net operating profit of CHF 5.9 million. A gain on investment activities of CHF 12.4 million more than offset the operating expenses of CHF 6.5 million, leaving SIFEM with an operating profit margin of close to 50 per cent.

FIGURE 19: BREAK-DOWN OF TOTAL COMPREHENSIVE PROFIT AND LOSS 2016 ON KEY CONTRIBUTING FACTORS



The largest contribution to the positive operating performance is the income from realised gains on investments, which indicates that SIFEM exited profitably from a number of investments in the underlying fund portfolios. At CHF 20 million, this income line significantly exceeds the previous year's figure of CHF 5.7 million, reflecting successful exists and improved financial markets conditions, particularly in Asia.

SIFEM's investments in debt instruments yielded an interest income of CHF 5.2 million, again exceeding the previous year's amount of CHF 3.3 million.

The significant net change in fair value of the residual portfolio of CHF –12.3 million is explained primarily by the large cash outflows resulting from the successful exits mentioned above and the valuation changes of the remaining portfolio.

Together with the foreign exchange gains on the shareholder loan denominated in CHF and the implied interest expense paid on this loan, this positive operating result adds to a total profit for the year of CHF 7.7 million versus CHF 0.8 million in 2015.

Finally, the exchange rate effects from the translation of SIFEM's operating currency (USD) to the reporting currency (CHF) add another CHF 4.3 million to the profit. The operating profit, the net financial income and, the positive effect of the translation into CHF result in a total comprehensive income of CHF 12 million in 2016 vs. CHF 3.6 million in the previous year. These earnings will be retained and added to the capital reserves in full, since SIFEM does not plan to pay out dividends in 2017.

5.2 NOTES ON SIFEM RESULTS UNDER IFRS ACCOUNTING

Since more than 75 per cent of SIFEM investments are denominated in USD, the US Dollar plays a prominent role in measuring SIFEM's investment performance and in preparing its accounts. In compliance with the requirements of IFRS, the US Dollar was therefore determined to be SIFEM's functional currency for both its accounting and performance measurement. All CHF figures provided in this report and in the accounts are translated from the underlying US Dollar accounts.

IFRS dictates the use of fair market valuation of the investment portfolio. Thereby, IFRS more transparently mirrors the movements in the unrealised value of SIFEM's portfolio investments, and the operating result reflects well the performance of SIFEM's investment activities.

However, IFRS is less well suited to reflecting the liabilities side of SIFEM's balance sheet. SIFEM is entirely financed by the Swiss Confederation at zero cost of capital. Nonetheless, IFRS requires that SIFEM account for implied interest charges on the shareholder loans, which amounted to CHF 3.6 million in 2016. In addition, since the shareholder loans are denominated in CHF, a net foreign exchange gain of CHF 6.0 million resulted for the year. These effects, as reflected in SIFEM's financial result under IFRS, add up to a net financial gain of CHF 1.9 million for the year.

5.3 NOTES ON SIFEM RESULTS UNDER SCO ACCOUNTING

Although SIFEM has adopted IFRS, reporting under SCO accounting standards continues in parallel, primarily for compliance and statutory purposes. Under SCO accounting rules, SIFEM recorded earnings before tax and currency effects of CHF 11.5 million in 2016.

While the liabilities side of SIFEM's balance sheet is accurately reflected in the SCO accounts, the SCO accounting standards require SIFEM to hold the investment portfolio at values considerably below fair market valuations, which is more conservative but also less accurate. The appreciation of investments is typically only recognised at the time of realisation.

5.4 FINAL REMARKS

The business environment in SIFEM's target countries improved slightly over the past year, however with some regional differences . This lead to overall higher valuations and to a series of profitable exits. The increase in the allocations to debt investments and the continuation of the currency hedging strategy as implemented in 2015 helped to stabilise the overall income from investing activities. These factors contributed to a significantly increased operating result in 2016 as compared to 2015, which is encouraging for the operational sustainability of SIFEM as a DFI over time.

Over the same period, SIFEM was also profitable after taking the financial results into account. The profit or loss from financing activities is, however, less relevant when assessing the performance of SIFEM, since it is mainly driven by USD exchange rate movements. Since the Board decided not to hedge the USD exposure of the SIFEM balance sheet, such exchange rate movements will continue to drive the overall result of SIFEM. Should the US Dollar start to weaken, the hedging of the USD balance sheet exposure may need to be reconsidered.

2016 FINANCIAL STATEMENTS – IFRS

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REPORT OF THE STATUTORY AUDITOR
To the Board of Directors of

SIFEM AG, Bern

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of SIFEM AG, which comprise the statement of financial position, statement of comprehensive income, cash flow statement, statement of changes in equity and notes for the year ended 31 December 2016.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss Auditing Standards and International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS).

Zurich, 7 March 2017

BDO Ltd

Franco A. Straub
Licensed Audit Expert

Tobias Schüle
Auditor in Charge
Licensed Audit Expert

STATEMENT OF FINANCIAL POSITION

in '000 CHF	NOTE	31.12.2016	31.12.2015
ASSETS			
Cash and cash equivalents	6	248,380	253,266
Derivative financial assets held for risk management	7	26,313	26,589
Other receivables, prepayments and accrued income	8	6,462	7,848
Total current assets		**281,155**	**287,703**
Equity instruments	9	262,955	228,752
Debt instruments	9	78,185	65,007
Total non–current assets		**341,140**	**293,759**
Total assets		**622,295**	**581,462**
LIABILITIES AND EQUITY			
Trade payables		0	31
Derivative financial liabilities held for risk management	7	26,315	26,470
Other liabilites and accrued expenses		1,439	1,033
Total current liabilities		**27,754**	**27,534**
Loans and borrowings	10	364,585	360,976
Total non–current liabilities		**364,585**	**360,976**
Total liabilities		**392,339**	**388,510**
Share capital		150,000	125,000
Capital reserve (additionally paid in capital)		89,680	89,680
Legal reserve		355	355
Translation reserve		32,063	27,793
Retained earnings		–42,142	–49,876
Total equity	**11**	**229,956**	**192,952**
Total liabilities and equity		**622,295**	**581,462**

STATEMENT OF PROFIT OR LOSS

for the year in '000 CHF	NOTE	2016	2015
Interest income	12	5,236	3,308
Dividend income		198	470
Income from realized gains on Investments		19,995	5,724
Revenue from advisory services		42	42
Net income from derivative financial instruments held for risk management	15	30	2,578
Net foreign exchange gains on cash and cash equivalents and on direct debt investments	16	−845	311
Net changes in fair value of investments at fair value through profit or loss	17	−12,291	−6,177
Total net income/−loss		**12,365**	**6,256**
Investment management fee	13	−5,002	−4,329
Administration and custodian fees	14	−375	−307
Personnel expenses		−309	−291
Administration expenses		−342	−333
Advertising expenses		−68	−54
Other operating result		−417	−332
Operating result		**5,852**	**610**
Financial income	18	5,980	7,758
Financial expense	18	−4,098	−7,534
Total profit/−loss for the period		**7,734**	**834**
Currency translation effect from translation to presentation currency		*4,270*	*2,752*
Total comprehensive income		*12,004*	*3,586*

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015

in '000 CHF	SHARE CAPITAL	ADDITIONAL PAID IN CAPITAL	LEGAL RESERVES	TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL
Equity at 1 January 2015	100,000	75,218	20	25,041	−50,375	149,904
Total comprehensive income for the year						
Profit for the year					834	834
Foreign currency translation differences from translation to presentation currency				2,752		2,752
Transfer to legal reserves			335		−335	
Total comprehensive income for the year	**0**	**0**	**335**	**2,752**	**499**	**3,586**
Transactions with owners of the Company, recognised directly in equity						
Issue of ordinary shares	25,000					25,000
Other capital contributions (Note 10)		14,462				14,462
Total transactions with owners of the Company	**25,000**	**14,462**	**0**	**0**	**0**	**39,462**
Equity at 31 December 2015	125,000	89,680	355	27,793	−49,876	192,952
Total comprehensive income for the year						
Profit for the year					7,734	7,734
Foreign currency translation differences from translation to presentation currency				4,270		4,270
Total comprehensive income for the year	**0**	**0**	**0**	**4,270**	**7,734**	**12,004**
Transactions with owners of the Company, recognised directly in equity						
Issue of ordinary shares	25,000					25,000
Other capital contributions						
Total transactions with owners of the Company	**25,000**	**0**	**0**	**0**	**0**	**25,000**
Equity at 31 December 2016	150,000	89,680	355	32,063	−42,142	229,956

STATEMENT OF CASH FLOWS

for the year in '000 CHF	NOTE	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / – loss for the year		7,734	834
Adjustments for:			
Interest income	12	–5,236	–3,308
Dividend		–198	–470
Income from realized gains on Investments		–19,995	–5,724
Interest expense	18	3,609	3,820
Net foreign exchange gain / loss		–5,157	–4,355
Net income from derivative financial instruments held for risk management		–30	–2,578
Changes in fair value of investments at fair value through profit or loss	17	12,291	6,177
Changes in:			
Derivative financial instruments held for risk management		120	255
Other receivables, prepayments & accrued income		1,471	–2,563
Trade payables		–30	30
Other liabilities and accrued expenses		380	419
Purchase of investments		–75,944	–57,981
Proceeds from sale of investments		21,812	40,341
Interest received		5,320	3,440
Dividend / other investment income received		198	470
Income from realized gains on Investments received		19,995	5,724
Proceeds from sale of derivative financial instruments		–54	2,446
Net cash flow from operating activities		**–33,714**	**–13,023**
Net cash flow from investing activities		**0**	**0**
Proceeds from issue of share capital		25,000	25,000
Net cash from financing activities		**25,000**	**25,000**
Net increase / – decrease in cash and cash equivalents		**–8,714**	**11,977**
Cash and cash equivalents at 1 January	6	253,266	236,614
Effect of exchange rate fluctuations on cash and cash equivalents		3,828	4,675
Cash and cash equivalents at year – end	**6**	**248,380**	**253,266**

NOTES TO THE IFRS FINANCIAL STATEMENTS

1. REPORTING ENTITY

SIFEM AG - Swiss Investment Fund for Emerging Markets ("SIFEM" or the "Company") is a company domiciled in Switzerland. The address of the entity's registered office is c/o Obviam DFI AG, Bubenbergplatz 11, 3011 Bern. The Company's shares are fully owned by the Swiss Government.

SIFEM is the Development Finance Institution (DFI) of Switzerland. It primarily provides capital to specialized investment funds which finance small- and medium-sized enterprises (SMEs). These are predominantly private equity or mezzanine funds. The portfolio also includes direct debt investments in financial intermediaries and loans to pooled investment vehicles. On a selective basis, SIFEM also invests in microfinance institutions/funds. SIFEM's investment philosophy is guided by the belief that investing in commercially viable emerging market SMEs can provide investors with risk adjusted return, and generate sustainable, long term development effects in local communities.

Both the investment activities and the day-to-day business administration of the Company are delegated to Obviam DFI AG (acting as Portfolio Manager and Business Manager).

2. BASIS OF PREPARATION

(a) Statement of compliance
The financial statements of the Company as at and for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) in addition to the statutory financial statements which are prepared in accordance with the Swiss Code of Obligation (CO).

The financial statements were authorised for issue by the Board of Directors on 3rd of March 2017.

(b) Basis of measurement
The financial statements have been prepared on the historical cost basis except for derivative financial instruments held for risk management purposes and financial instruments (portfolio investments) at fair value through profit or loss, which are measured at fair value.

(c) Functional and presentation currency
These financial statements are presented in Swiss francs. The functional currency of the entity is US Dollar. All financial information presented in Swiss francs were rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency
Transactions in foreign currencies are translated into USD at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into USD at the exchange rate at that date.

Non-monetary assets and liabilities in foreign currencies that are measured at fair value are translated into USD at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on translation are recognised in profit or loss as net foreign exchange gain / loss, except for those arising on financial instruments at fair value through profit or loss, which are recognised as a component of net gain from financial instruments at fair value through profit or loss.

For the translation to the presentation currency all assets and liabilities are translated at the exchange rate at the balance sheet date. All equity items other than the profit or loss for the period are translated to the presentation currency at the historical exchange rate. Income, expenses and cash flows are translated using the average exchange rate of the reporting period. The exchange differences on translating balance sheets and income statements are debited or credited as a translation adjustment in the Statement of profit or loss. Exchange differences on translating cash, cash equivalents and related cash flows are separately disclosed in the cash flow statement as exchange effect on cash and cash equivalents.

The following exchange rates were applied:

	2016		2015	
	Balance sheet rate	Average rate	Balance sheet rate	Average rate
USD/CHF	0.983913	1.006992	0.999001	1.030918
USD/EUR	1.054750		1.086300	
USD/ZAR	0.073126		0.064535	
USD/CNY	0.143895		0.153998	
CHF/USD	1.016350	0.993056	1.001000	0.970009

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in the fair value, and are used by the Company in the management of its short-term commitments.

(c) Derivative financial instruments held for risk management

Derivative financial instruments held for risk management purposes comprise foreign exchange forward contracts and interest rate swaps. Derivatives are initially recognised at fair value, with any directly attributable transaction costs recognised directly in profit or loss. Subsequent to initial recognition, derivative financial instruments held for risk management purposes are measured at fair value, with changes in fair value generally recognised in profit or loss.

SIFEM uses derivative financial instruments to economically hedge its exposure to foreign exchange and interest rate risks arising from operating activities. SIFEM does not hold or issue derivative financial instruments for trading purposes.

(d) Financial assets

Financial assets are classified either as “at fair value through profit or loss” or “loans and receivables”. The classification depends on the purpose for which the financial asset was acquired. The Portfolio Manager determines the classification of financial assets at the time of acquisition. Trade date accounting is applied for routine purchases and sales of financial assets. Financial assets at fair value through profit or loss are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition. The Company and its subsidiary meet the criteria for an investment entity in accordance with IFRS 10 Consolidated Financial Statements. As per 1 January 2013, the Company therefore applied the exception to consolidation for investment entities included in IFRS 10, as amended, and continues measuring its investments at fair value through profit or loss.

Financial assets not at fair value through profit or loss are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition. Financial assets are partially or fully derecognised if SIFEM's contractual rights to the cash flows from the financial assets have either expired or were transferred and SIFEM is neither exposed to any risks arising from these assets nor has any entitlement to income from them.

Debt instruments

This position includes loans and debt notes granted to funds and other pooled investment vehicles, banks and financial intermediaries. Debt instruments are accounted for at amortised cost. Necessary impairments are accounted for as such through profit or loss.

Equity instruments

This position consists of investments in funds and other pooled investment vehicles as well as direct investments in banks and other financial intermediaries to finance small- and medium-sized enterprises (SMEs). These investments refer to indirect exposures to final beneficiaries through such funds, pooled investment vehicles or any other structured financial instruments and are accounted for as at fair value through profit or loss.

Subsequent measurement - financial assets at fair value through profit or loss

Subsequent to initial measurement, all financial assets at fair value through profit or loss are measured at fair value. All changes in fair value, other than interest and dividend income and expense, are recognised in profit or loss as part of net change in fair value of investments at fair value through profit or loss.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which SIFEM has access at that date. The fair value of a liability reflects its non-performance risk. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only observable inputs. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any differences between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss.

When available, SIFEM measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If the market for a financial instrument is not active, then SIFEM establishes fair value using a valuation technique appropriate for the circumstances. Valuation techniques include comparison to similar instruments for which observable prices exist and other valuation models in accordance with International Private Equity Valuation (IPEV) Guidelines. The chosen valuation technique makes maximum use of relevant observable inputs, relies as little as possible on unobservable inputs and estimates specific to SIFEM, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. SIFEM calibrates valuation techniques and tests them for validating using prices from observable current market transactions in the same instrument or based on other available observable market data.

Subsequent measurement - loans and receivables

Subsequent to initial measurement, loans and receivables are measured at amortised cost. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment.

Impairment

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s), and that loss event(s) had an impact in the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes significant difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of amounts due or terms that SIFEM would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, or adverse changes in the payments status of the borrower.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest in the impaired assets continues to be recognised. For debt instruments, when an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(e) Investments in associates and jointly controlled entities
Investments in associates and jointly controlled entities are accounted for as venture capital investments and carried at fair value through profit or loss.

(f) Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

(g) Loans and borrowings
Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the Statement of profit or loss over the period of the loans and borrowings using the effective interest method.

(h) Provisions
A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

(i) Net income from derivative financial instruments held for risk management
Net income from derivative financial instruments held for risk management relates to non-trading derivatives held for risk management purposes. It includes all realized and unrealized fair value changes, interest, and foreign exchange differences.

(j) Interest income, dividend income and Income from realized gains on Investments
Interest income is recognised in profit or loss, using the effective interest method. It includes interest income from cash and cash equivalents and from debt securities included in debt instruments.

Income from realized gains on investments is the cumulative income resulting mainly from exits in funds at a price higher than the paid in price. Realized gains occur when exits are disbursed at a level that exceed its cost of book value or other gains are paid out by the fund to the investors.

Dividend income is recognised in profit or loss on the date that the right to receive payment is established.

(k) Fees and commission expense
Fees and commission expenses are recognised in profit or loss as the related services are received.

(l) Income tax
As an incorporated company formed under the Swiss Code of Obligations, SIFEM is subject to Swiss commercial law. One exception was made in respect to taxation. Due to its public ownership and developmental mandate, SIFEM is exempt from regular communal, cantonal and federal income taxes as well as capital tax.

However, some dividend and interest income received by SIFEM are subject to withholding tax imposed in certain countries of origin. Income that is subject to such tax is recognised gross of the taxes and the corresponding withholding tax is recognised as other operating expenses.

m) New and revised standards and interpretations not adopted
The following new, revised and amended standards and interpretations have been issued until the date of approval of the 2016 financial statements, but are not yet effective and are not applied early in these financial statements. Their impact on the financial statements of SIFEM has not yet been systematically analysed. The expected effects as disclosed below the table reflect only a tentative first assessment.

	Expected Effect	Effective date	Planned application by SIFEM
New Standards or Interpretations			
IFRS 9 Financial Instruments	***	1 January 2018	2018
IFRS 15 Revenue from Contracts with Customers	*	1 January 2017	2017
IFRS 16 Leases	*	1 January 2019	2019
Revisions and amendments of Standards and Interpretations			
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	***	Date to be determined by the IASB	n/a

* No, or no significant, impact is expected on the financial statements of SIFEM.
** Mainly additional disclosures or changes in presentation are expected in the financial statements of SIFEM.
*** The impacts on the financial statements of SIFEM cannot yet be determined with sufficient reliability

4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are reviewed and in any future periods affected.

The following estimates used and assumptions made in applying the accounting policies could result in a material adjustment in the financial statements:

(a) Determination of fair values
The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risk affecting the specific instrument. Refer also to notes 3 (d) and 9.

(b) Determination of functional currency
Functional currency is the currency of the primary economic environment in which SIFEM operates. When indicators or the primary economic environments are mixed, management uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. Management has determined that the functional currency of SIFEM is the US Dollar.

Since globally active private equity funds-of-funds like SIFEM tend to be highly diversified, this factor does not give a clear indicator of SIFEMs functional currency. However, the US Dollar is the single most important currency affecting the pricing of transactions, not only for SIFEM but for the entire emerging markets private equity industry. Furthermore, SIFEM reports its investment performance to its investor in US Dollar only.

5. FINANCIAL RISK MANAGEMENT

SIFEM has exposure to the following risks from financial instruments:

- Credit risk,
- Liquidity risk,
- Market risk, and
- Operational risk.

Risk management framework

Identifying, mitigating, monitoring and managing risks is one of SIFEM's core duties, as it affects its financial health and sustainability and its ability to generate development impact. For this purpose, SIFEM relies on a comprehensive Manual of Procedures which describes how the business is conducted. It has been approved by SIFEM's Board of Directors, as a document detailing how its investment manager implements the Portfolio Management Agreement, and in particular how risks are identified, mitigated, monitored and managed. All the relevant policies, procedure descriptions, and guidelines are an integral part of this manual. The framework also encompasses a comprehensive portfolio-wide internal risk rating system for all SIFEM investments, which serves as a tailor-made tool to the Investment Manager for detecting, monitoring and managing the numerous risks inherent in SIFEM's investment activities.

The monitoring of risk on each level follows specific procedures and processes applied throughout the operations, which ensure that the regulatory requirements are fulfilled. At each stage, the objective consists of reducing the risks for SIFEM to the minimum possible under the given investment guidelines. The risks addressed are monitored on a continuous basis. Any significant risk events such as violations of prudential limits or investment guidelines, or non-compliance with policies, events of fraud, or significant deviations from set targets or changes in risk assessments or definitions are duly reported to the Board of Directors.

SIFEM's portfolio is a clear reflection of the institution's developmental mandate, as it primarily consists of investments in countries and projects with high structural risks. Therefore, it is essential to have an adequate risk management system that takes special account of risk capacity in order to control these risks and by doing so, ensure that the business outcome safeguards SIFEM's ability to maintain and expand its development capabilities.

The portfolio risk management is based on four pillars:

- Investment Risk Management
- Environmental, social and Governance matters (ESG) Risk Management
- Treasury
- Investment management support through financial expertise

Investment Risk Management

Obviam is responsible for the identification, evaluation and selection of investment opportunities for SIFEM, as well as the monitoring of SIFEM's investments. At each stage of the investment process, Obviam applies specific tools and follows pre-defined procedures. Furthermore, Obviam actively monitors the portfolio, focusing in particular on the change in risk rating, valuations, reporting, performance of the investees and compliance with the various applicable policies and guidelines. Any violation of applicable policies or guidelines is reported to the Board, together with proposed actions to rectify the situation. The approach to portfolio risk management is determined by an annual rating for each investment in the internal risk rating system.

Classification of financial instruments

The table below provides a reconciliation of the line items in SIFEM's statement of financial position to the categories of financial instruments.

At fair value through profit or loss	Trading	Designated at fair value	Loans and receiva-bles	Other liabilities at amortised costs	Total Carrying amount
in '000 CHF					
31 December 2016					
Cash and cash equivalents			248,380		248,380
Derivative financial assets held for risk management	26,313				26,313
Other receivables, prepayments and accrued income			5,610		5,610
Debt investments					78,185
– Banks and other financial intermediaries			45,221		
– Funds and other pooled investment vehicles			32,964		
Equity investments					262,955
– Banks and other financial intermediaries		2,431			
– Funds and other pooled investment vehicles		260,524			
Total	**26,313**	**262,955**	**332,175**	**0**	**621,443**
Derivative financial liabilities held for risk management	26,315				26,315
Other liabilites and accrued expenses				1,406	1,406
Loans and borrowings				364,585	364,585
Total	**26,315**	**0**	**0**	**365,991**	**392,306**
31 December 2015					
Cash and cash equivalents			253,266		253,266
Derivative financial assets held for risk management	26,589				26,589
Other receivables and accrued income			5,493		5,493
Debt investments					65,007
– Banks and other financial intermediaries			34,454		
– Funds and other pooled investment vehicles			30,553		
Equity investments					228,752
– Banks and other financial intermediaries		2,762			
– Funds and other pooled investment vehicles		225,990			
Total	**26,589**	**228,752**	**323,765**	**0**	**579,107**
Trade payables				31	31
Derivative financial liabilities held for risk management	26,470				26,470
Other liabilites and accrued expenses				1,043	1,043
Loans and borrowings				360,976	360,976
Total	**26,470**	**0**	**0**	**362,050**	**388,520**

The table above only includes financial instruments. Other receivables, prepayments and accrued income do therefore not include tax receivables and prepaid costs (TCHF 852). The position other liabilities and accrued expenses do not include tax payables and advances received (TCHF 33).

Credit risk
Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with SIFEM, resulting in a financial loss to SIFEM. It arises principally from debt securities held, other receivables, prepayments and accrued income and cash and cash equivalents and results in earnings volatility due to losses.

Management of credit risk
The approach to credit risk management is determined by its annual updated risk rating tool for financial institutions. Furthermore, Obviam regularly monitors the ability and willingness of an issuer to service its financial obligations in full and on a timely basis. The risk rating tool for financial institutions is capable to incorporate the following risk factors with the respective weightings:

- Financial Institutions operating risks, 32 % (31 December 2015: 32 %)
- Financial Institutions financial risks, 30 % (31 December 2015: 30 %)
- Market risks, 6 % (31 December 2015: 6 %)
- Infrastructure risks in target region/country, 26 % (31 December 2015: 26 %)
- ESG risks, 6 % (31 December 2015: 6 %)

Each of these risk factors is divided in several sub-categories. A significant shift in the risk rating will be reported to the Board of Directors and a yearly risk report will be issued to the shareholders.

In case of a major event the risk rating will be adjusted to reflect to the current inherent risk of the given investment. SIFEM's investment positions are monitored on a quarterly basis by the Finance and Risk Manager and the Investment Team.

SIFEM's maximum credit exposure at the reporting date is represented by the respective carrying amounts of the relevant derivative financial assets held for risk management and financial assets in the statement of financial position and amounts to TCHF 359,341 as of 31 December 2016 (31 December 2015: TCHF 350,355).

Offsetting financial assets and financial liabilities
The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

SIFEM AG granted a collateral in the form of cash in respect of derivative transactions.

The tables below provide a reconciliation of financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

FINANCIAL ASSETS Related amounts not offset in the statement of financial position	Gross amounts of recognised financial assets	Gross amounts of recognised financial assets off-set in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instru-ments (including non-cash collateral)	Collateral pledged used for netting	Net amount
in '000 CHF						
31 December 2016						
Derivative financial assets held for risk management	26,313	0	26,313	26,313	0	0
Total	**26,313**	**0**	**26,313**	**26,313**	**0**	**0**
31 December 2015						
Derivative financial assets held for risk management	26,589	0	26,589	26,470	119	0
Total	**26,589**	**0**	**26,589**	**26,470**	**119**	**0**

FINANCIAL LIABILITIES Related amounts not offset in the statement of financial position	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instru-ments (including non-cash collateral)	Collateral pledged used for netting	Net amount
in '000 CHF						
31 December 2016						
Derivative financial liabilities held for risk management	26,315	0	26,315	26,313	2	0
Total	**26,315**	**0**	**26,315**	**26,313**	**2**	**0**
31 December 2015						
Derivative financial liabilities held for risk management	26,470	0	26,470	26,470	0	0
Total	**26,470**	**0**	**26,470**	**26,470**	**0**	**0**

Concentration of credit risk
Obviam's investment team reviews credit concentration of debt instruments held based on geographical and counterparty allocations. With 6.9 % being the largest single exposure, SIFEM has very limited concentration in this portfolio of credit risk to any individual issuer or group of issuers at 31 December 2016.

SIFEM's cash and cash equivalents are held with a Swiss bank, which is rated as an A based on the rating of Standard and Poor's , as well as with the Swiss National Bank.

Liquidity risk

Liquidity risk is the risk that SIFEM will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

SIFEM's policy and Obviam's approach managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damages to SIFEM's reputation.

SIFEM's liquidity risk is managed on a quarterly basis by Obviam's finance department and the custodian bank in accordance with policies and procedures in place. A detailed Cash Management Policy is part of Obviam's Procedure Manual.

At 31 December 2016, for derivative financial instruments that are classified as derivative financial assets / liabilities held for risk management, SIFEM had posted cash with its contractual counterparty of the derivative financial instruments as collateral. Cash under collateral amounts to TCHF 5,092 (gross amount on margin accounts) and is classified under other receivables, prepayments and accrued income.

The Cash Management result is monitored by the Audit Committee every six months.

MATURITY ANALYSIS FOR FINANCIAL LIABILITIES	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 year	1 to 5 years	later
in '000 CHF					
31 December 2016					
Derivative financial liabilities held for risk management	26,315	(26,315)	(16,152)	(10,163)	–
Other liabilities and accrued expenses	1,406	(1,406)	(1,406)	–	–
Loans and borrowings	364,585	(364,585)	–	(364,585)	–
Total	**392,306**	**(392,305)**	**(17,558)**	**(374,748)**	**–**
31 December 2015					
Trade payables	31	(31)	(31)	–	–
Derivative financial liabilities held for risk management	26,470	(26,470)	(16,460)	–	(10,010)
Other liabilities and accrued expenses	1,043	(1,043)	(1,043)	–	–
Loans and borrowings	360,976	(360,976)	–	(360,976)	–
Total	**388,520**	**(388,520)**	**(17,534)**	**(360,976)**	**(10,010)**

The table above shows the undiscounted cash flows of SIFEM's financial liabilities on the basis of their earliest possible contractual maturity. The gross amount includes interest payable when appropriate. The existing loan agreements with the Swiss Confederation were granted in 2011 with a lending period of 4 years. No notice of termination was served and therefore the loans were automatically extended until 2019 as per loan agreements.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's credit standing) will affect SIFEM's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Management of market risk

SIFEM's strategy for the management of market risk is driven by its investment objective. SIFEM is a key pillar of the Swiss Confederation's efforts to promote sustainable private sector-led growth in developing and transition economies with a view towards reducing poverty and contributing to increased living standards in these countries.

SIFEM invests in a commercial way in companies that are most likely to be commercially viable and hence sustainable. Furthermore, SIFEM's investments are development-oriented, aiming to achieve a specific set of objectives beyond the financial rate of return. SIFEM aims to develop a comprehensive portfolio of equity participations in private equity funds targeting small and medium enterprises (SMEs). SIFEM may also act as co-investor in the underlying portfolio companies of its private equity funds. SIFEM also allocates a growing share into debt instruments.

In order to manage the market risk SIFEM's investment management team constantly monitors the financial markets globally and in the relevant target markets, although its investments are private and rather illiquid, and verifies if actual movements in the financial markets would influence the risk of the underlying investments consequently shifting the overall risk of the portfolio.

As part of the market risk management approach a yearly risk assessment is performed using the risk rating tool for fund investments, mostly exposed to market risk, which is capable to incorporate the following risk factors with the respective weightings:

- Fund operations risks, 30% (31 December 2015: 30 %)
- Market risks, 8 % (31 December 2015: 8 %)
- Infrastructure risks in target region/country, 26 % (31 December 2015: 26 %)
- Fund specific risks, 24 % (31 December 2015: 24 %)
- ESG risks, 12 % (31 December 2015: 12 %)

Each of these risk factors is divided in several sub-categories. A significant shift in the risk rating will be reported to the Board of Directors and a yearly risk report will be issued to the shareholders.

In case of a major event the risk rating will be adjusted to reflect the current inherent risk of the given investment. SIFEM's investment positions are monitored on a quarterly basis by Obviam's finance department and investment team based on the quarterly financial reporting provided by the underlying investments. Moreover, in order to reduce the market risk by increasing transparency and quality of financial data, the finance department supports the investment team regarding technical issues of reporting or requests further information for reporting in case available information is insufficient. A performance report is sent to the Board of Directors three times a year (second, third and fourth quarter).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

SIFEM's exposure to interest rate risk is limited as SIFEM holds interest rate bearing instruments which are fixed-rate instruments or hedged variable rate instruments.

As of the balance sheet date, SIFEM's interest rate profile was as follows (interest-bearing financial instruments):

in '000 CHF	31.12.2016	31.12.2015
Debt instruments	21,852	24,541
Effect of interest rate swaps	10,163	10,010
Fixed-rate instruments (assets)	**32,015**	**34,551**
Cash and cash equivalents	248,380	253,266
Debt instruments	56,334	40,466
Variable rate instruments (assets)	**304,714**	**293,732**
Fixed rate loans and borrowings	(364,585)	(360,976)
Fixed-rate instruments (liabilities)	**(364,585)**	**(360,976)**
Derivative financial liabilities held for risk management	(10,163)	(10,010)
Variable rate instruments (liabilities)	**(10,163)**	**(10,010)**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by TCHF 2,946 (31 December 2015: TCHF 2,837). This analysis considers only floating-rate instruments and assumes that all other variables, in particular the foreign exchange rates, remain constant.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

SIFEM invests in financial instruments and enters into transactions that are denominated in currencies other than its functional currency, primarily in Euro (EUR), Swiss Franc (CHF), Chinese Yuan (CNY) and South African Rand (ZAR). Consequently, SIFEM is exposed to the risk that the exchange rate of its currency relative to other foreign currency may change in a manner that has an adverse effect on the fair value or future cash flows of that portion of SIFEM's financial assets or liabilities denominated in currencies other than the US Dollar.

SIFEM's currency position and exposures are monitored on a quarterly basis by Obviam's finance department and SIFEM's Board of Directors. At the reporting date the carrying amount of SIFEM's net financial assets and liabilities in individual foreign currencies expressed in CHF were as follows:

in '000 CHF	31.12.2016	31.12.2015
EUR	−189	2,089
CHF	−360,685	−358,702
Total net exposure	**−360,874**	**−356,613**

The following sensitivity analysis shows the impact on the income statement should the CHF/USD or the EUR/USD exchange rates change by 5 % in the applicable exchange rate at 31 December 2015 and 31 December 2014, with all other variables held constant:

INCOME IMPACT ON BALANCE SHEET ITEMS

in '000 CHF	31.12.2016	31.12.2015
EUR (sensitivity to USD changes)	+/− 9	+/− 104
CHF (sensitivity to USD changes)	+/−18,034	+/− 17,935

A strengthening of the US Dollar against the above currencies would have resulted in an equal, but opposite effect to the amounts above.

Other market price risk

At the reporting date the carrying amount of SIFEM's Equity Instruments in CHF were as follows:

in '000 CHF	31.12.2016	31.12.2015
Equity instruments to banks and other financial intermediaries	2,431	2,762
Equity instruments to funds and other pooled investments	260,524	225,990
Total exposure in Equity Instruments	**262,955**	**228,752**

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk and currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

Price risk is managed by the investment manager by diversifying the portfolio.

Apart from the detailed information in the quarterly report concerning the investments and their performances, the distribution of the portfolio with respect to continents, currencies, types of funds and main industrial sectors covered by the direct primary investments in each fund is provided in the quarterly reports. Investments with a very high or high risk rating are subject to a constant monitoring.

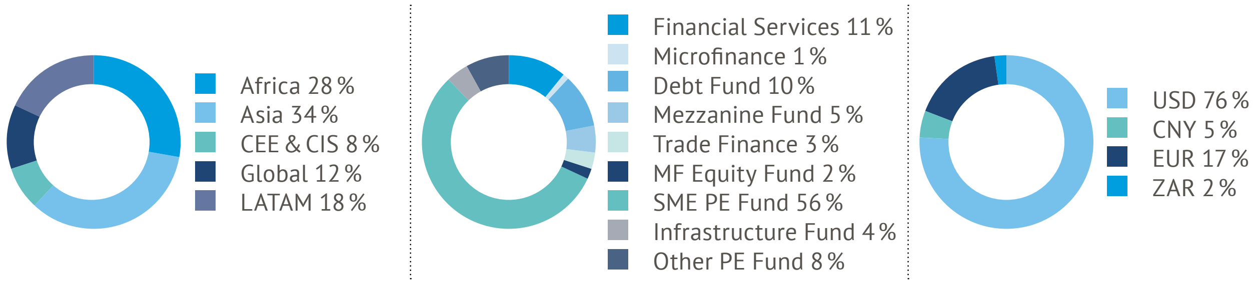
The internal procedures require the investment manager to manage price risk continuously but at least on a quarterly basis based on the financial statements as well as valuations provided by underlying investments. In case of subsequent events action is taken immediately. SIFEM's procedures require price risk to be monitored on a quarterly basis by its Board of Directors.

Where the price risk is not in accordance with the investment policy or guidelines, the investment manager is required to rebalance the portfolio upon request of the Board of Directors within a given period of time.

The following charts sets out concentration (per active commitment, debt and equity investments) of the investment assets

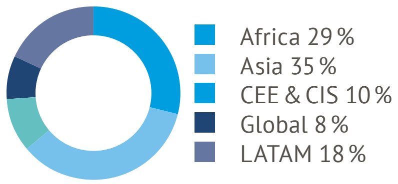
AT 31 DECEMBER 2016

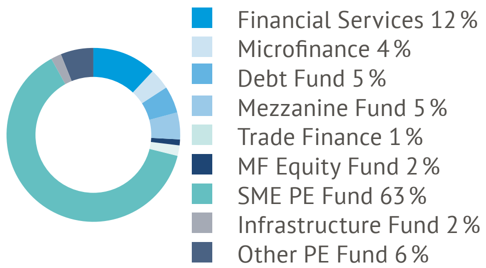
GEOGRAPHY **FOCUS** **CURRENCY**

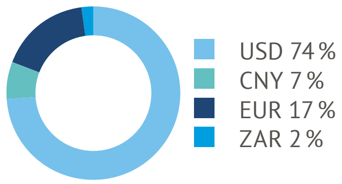


AT 31 DECEMBER 2015

GEOGRAPHY	FOCUS	CURRENCY







For limiting the overall risk, the SIFEM portfolio is well diversified across the eligible geographic regions and sectors and to some degree across currencies. Most of the investees are in a development stage. The ability of some to continue as a going concern may depend on additional funding. These investments offer the opportunity of significant capital gains, but involve a high degree of business and financial risks that can result in substantial losses, including the risk of a total un-recoverability of an investment. The financial risk management objectives and policy of SIFEM are to minimize dilution by structuring the initial investment accordingly. Other protective measures such as liquidation preferences are also part of the Company's policy. However, the operational risk remains. For not publicly listed investments a quantitative sensitivity analysis for the price risk is not meaningful as the performance is linked to fundamental data (technology, management, milestones, etc.) and therefore such an analysis is not presented.

Operational Risk Management

SIFEM bears operational risks which are inherent in the type of operations in which it is involved. A systematic review of operational risks and mitigates is presented in the Manual of Procedures. It identifies the type of risks SIFEM is exposed to and the actions to be taken to mitigate and manage them. Among the most pertinent risks are the general portfolio risk due to the inherently high risks of private equity investments in emerging and frontier markets, the ESG risks (environmental, social and corporate governance risks) and thereto linked the reputational risks which are typically high in those markets.

Capital management

In 2011, 2012, 2015 SIFEM has received capital contribution (share capital and shareholder loans) per year from SECO. No capital contributions have occurred in the years 2013 and 2014. A share capital increase in the amount of CHF 25 million (from SECO) occurred in Q2 2016. Therefore, any assumptions for portfolio growth and the business plan for new investments are based the capital contribution foreseen and on the availability of existing reserves and reflows from maturing investments. The volatility and relatively high unpredictability of reflows from historic investments require a frequent adjustment of the business plan for new investments.

Reflows are forecasted but subject to changes due to their volatility. It is difficult to attach probabilities to the different scenarios until SIFEM's older investments reach their final stages in the coming few years. SIFEM aims to maintain enough uncommitted capital to meet the business plan targets.

The private equity funds in which SIFEM is investing are typically not drawing down the total amount of committed capital and in particular not all of these funds are likely to call the maximum of committed capital at the same time. This leads to a situation of permanently high cash holdings at SIFEM. As of 31 December, 2016, TCHF 207,273 of the cash balance is reserved for undrawn commitments.

The SIFEM Board of Directors has approved in principle to over-commit up to 15 %. Any specific over commitment ratio for a given year has to be approved by the SIFEM Board of Directors. In 2016, SIFEM did not use its capacity to overcommit.

6. CASH AND CASH EQUIVALENTS

in '000 CHF	31.12.2016	31.12.2015
Cash at Bank	248,380	253,266
Total cash and cash equivalent	**248,380**	**253,266**

Cash and cash equivalents are denominated in CHF (0.3 %), in USD (98.6 %), in EUR (1.1%) as of December 31, 2016. (31 December 2015: CHF (0.3 %), in USD (98.5 %) and in EUR (1.2 %)). TCHF 212,041 (31 December 2015: TCHF 223,071) of Cash at Bank is placed at the Swiss National Bank.

7. DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR RISK MANAGEMENT

in '000 CHF	31.12.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange	16,149	16,151	16,579	16,460
Interest rate	10,164	10,164	10,010	10,010
Total derivative financial instruments	**26,313**	**26,315**	**26,589**	**26,470**

SIFEM uses a mixture of forward foreign exchange contracts and interest rate swaps to hedge the foreign currency- and interest risk on future foreign exchange currency cash flows and variable interest investments.

8. OTHER RECEIVABLES AND ACCRUED INCOME

At 31 December 2016, other receivables, prepayments and accrued income mainly include collaterals (TCHF 5,092), management fee reimbursement (TCHF 830) and accrued interest receivables (TCHF 519). At 31 December 2015, other receivables, prepayments and accrued income mainly included collaterals (TCHF 5,015), management fee prepayment (TCHF 1,237), management fee reimbursement (TCHF 965) and accrued interest receivables (TCHF 477).

9. FINANCIAL INVESTMENTS

in '000 CHF	31.12.2016	31.12.2015
Equity instruments to Banks and other financial intermediaries	2,431	2,762
Equity instruments to funds and other pooled investment vehicles	260,524	225,990
Equity investments	**262,955**	**228,752**
Debt instruments to Banks and other financial intermediaries	45,221	34,454
Debt instruments to funds and other pooled investment vehicles	32,964	30,553
Debt investments	**78,185**	**65,007**
Total Financial Investments	**341,140**	**293,759**

Valuation of financial instruments
SIFEM's accounting policy on fair value measurement is disclosed in the accounting policies (note 4).

SIFEM measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1: Quoted price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation technique based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

The financial investments of SIFEM are typically not traded in active markets and therefore their fair value assessment cannot be based on quoted prices or dealer price quotes. For determining the fair value of financial instruments SIFEM applies valuation techniques following the best practices as described by the IPEV guidelines. These valuation techniques are based on comparison to similar instruments for which observable prices exist and other valuation models. Typically, discounts for lack of liquidity are applied. The objective of these valuation techniques is to arrive at a fair value determination which reflects the price of the financial instruments at the reporting date that would have been determined by market participants acting at arm's length.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and selection of appropriate discount rates.

SIFEM has an established control framework with respect to the measurement of fair values. This framework is based on the critical analysis (by SIFEM's representatives on the advisory committees or similar governing bodies of the portfolio investment vehicles) of the fair value determination, verification of observable pricing inputs and performance of model valuations; a review and approval process for new models and changes to such models, calibration and back testing of models against observable market transactions, analysis and investigation of significant valuation movements, review of unobservable inputs and valuation adjustments, and reporting of significant valuation issues to the Board of Directors. The Audit Committee of the Board of Directors, who has the overall responsibility for significant fair value determination, finally challenges these valuations over time on an independent basis and eventually proposes them to the Board of Directors for approval.

The table below analyses financial instrument measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

in '000 CHF	Level 1	Level 2	Level 3	Total
31 December 2016				
Derivative financial assets for risk management	0	26,313	0	26,313
Derivative financial liabilities for risk management	0	–26,315	0	–26,315
Equity instruments to Banks and other financial intermediaries	0	0	2,431	2,431
Equity instruments to Funds and other pooled investment vehicles	0	0	260,524	260,524
	0	**–2**	**262,955**	**262,953**
31 December 2015				
Derivative financial assets for risk management	0	26,589	0	26,589
Derivative financial liabilities for risk management	0	–26,470	0	–26,470
Equity instruments to Banks and other financial intermediaries	0	0	2,762	2,762
Equity instruments to Funds and other pooled investment vehicles	0	0	225,990	225,990
	0	**119**	**228,752**	**228,871**

The following tables show a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

in '000 CHF	Equity Investments to Banks and other financial intermediaries	Equity Investments to funds	Total
Balance as at 1 January 2016	**2,762**	**225,990**	**228,752**
Total gains/losses recognised in profit or loss	–1,260	–9,385	–10,645
Purchases	899	54,004	54,903
Sales	–5	–14,262	–14,267
Foreign currency exchange differences	34	4,177	4,212
Balance as at 31 December 2016	**2,431**	**260,524**	**262,955**
Total gains or losses for the period included in profit or loss relating to assets and liabilities held at the end of the reporting period	–1,259	–9,385	–10,645
Balance as at 1 January 2015	**2,942**	**225,387**	**228,329**
Total gains/losses recognised in profit or loss	–202	–3,312	–3,514
Purchases	0	35,703	35,703
Sales	–5	–34,368	–34,373
Foreign currency exchange differences	27	2,580	2,607
Balance as at 31 December 2015	**2,762**	**225,990**	**228,752**
Total gains or losses for the period included in profit or loss relating to assets and liabilities held at the end of the reporting period	–202	–3,312	–3,514

Although SIFEM believes that its estimates of the fair values are appropriate, the use of different methodologies or assumptions could have led to different measurements of fair value. We refer to note 5 Financial risk management, where we performed a quantitative sensitivity analysis.

Valuation technique used to Level 3 fair values

Obviam undertakes a detailed process of multiple reviews before any fund value is accepted by the Board.

All investments held by SIFEM's underlying funds report fair value using guidelines in compliance with the International Private Equity Valuation Guidelines (IPEV). These guidelines have been developed by the global Private Equity Associations and are the standard by which all Institutional Private Funds are valued.

These guidelines provide the underlying Fund Managers the framework upon which they exercise judgment in selecting the appropriate valuation methodology for each investment. This Framework covers the valuations for:

(i) Quoted Equity Investments: In respect of actively publicly-traded investments, the fair value is determined by the bid price on the reporting date of such investment as is readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency.

(ii) Unquoted Equity Investments: In respect of unquoted investments, the fair value is determined using the most appropriate of the following methodologies or combination thereof: (a) Price of Recent Investment (b) Earnings Multiple, (c) Net Assets, and (d) Discounted Cash Flow.

The valuation is generally based on the latest available net asset value (NAV) of the fund reported by the corresponding Fund Manager provided that the NAV has been appropriately determined by using proper fair value principles in accordance with IFRS 13. The Fund Advisory Board which is comprised of Investor representatives, including SIFEM's Investment Advisor Obviam reviews and approves the NAV provided by the Investment Manager.

In general, NAV is adjusted by capital calls and distributions falling between the date of the latest NAV of the fund and the reporting date. In addition, the valuations of listed underlying investee companies which are valued at mark-to-market by the fund manager are adjusted to reflect the current share price on their primary stock exchange as of the reporting date. The adjusted net asset method is the single technique used across all fund investment types (Buyout, Venture, Special Situations). Other reasons for adjustments include but are not limited to the following:

- Obviam becoming aware of subsequent changes in the fair values of underlying investee companies;
- Features of the fund agreement that might affect distributions;
- Inappropriate recognition of potential carried interest;
- Market changes or economic conditions changing to impact the value of the fund's portfolio;
- Materially different valuations by fund managers for common companies and identical securities;
- NAV reported by the fund has not been appropriately determined by using proper fair value principles in accordance with IFRS 13.

In addition, SIFEM has the following control procedures in place to ensure that the NAV of the underlying fund investments is calculated in a manner consistent with IFRS 13:

- Thorough initial due diligence process and ongoing monitoring procedures;
- Comparison of historical realizations to last reported fair values;
- Qualifications, if any, in the auditor's report or whether there is a history of significant adjustments to NAV reported by the fund manager as a result of its annual audit or otherwise.

Once the Fund Advisory Board approved the valuations, they are included into the fund accounts and presented to the Fund Auditors for Audit.

Before any of these Fund valuations are entered into SIFEM's accounts, the Obviam CFO will review the valuation presented by the Fund. This includes review of the valuation material as well as discussions with Obviam investment managers where needed. The CFO then presents the combined valuations to Obviam's CEO for a last review, before they are presented to the Audit Committee of the SIFEM Board which is comprised of experienced investment professionals who review and challenge Obviam on the valuations. Based on this review, the valuations could be adjusted if needed. Once approved, the valuations are presented to the SIFEM Board for approval. The final, Board approved, valuations are included in SIFEM's accounts.

Sensitivity Analysis Level 3 fair values

SIFEM utilizes a methodology that uses as key input NAV ("adjusted net asset method"). Thus, the key "unobservable input" would be NAV itself. No reasonably possible change in the inputs used in determining the fair value would cause the fair value of Level 3 financial instruments to significantly change.

10. LOANS AND BORROWING

in '000 CHF	31.12.2016	31.12.2015
Loan A	185,917	184,077
Loan B	120,926	119,729
Loan C	28,871	28,585
Loan D	28,871	28,585
Total non-current liabilities	**364,585**	**360,976**

The Swiss Confederation granted SIFEM four interest-free loans which are measured at amortised cost. IFRS requires the initial recognition of financial assets and liabilities at their fair value, whereas the fair value of an interest free loan is the present value of all future cash flows under the loan agreement, discounted using a market interest rate. A discount rate of 1% was applied to determine the present value of all loans. The discount rate to be used is the prevailing market rate for a similar loan, i.e. the rate that a third party would charge the borrower for a loan with otherwise similar terms (currency, maturity, collateral, etc.). The application of the effective interest method resulted in an interest expense of TCHF 3,609 (2015: TCHF 3,820).

The loans with a minimum term until 17 August 2015 (loans granted in 2011) and 19 December 2015 (loans granted in 2012) have not been terminated and hence were automatically extended for an additional period of four years (i.e. until 17 August 2019 and 19 December 2019, respectively). The term of the loans is extended for an additional four years on an ongoing basis unless either party terminates a loan one year in advance. A total amount of TCHF 14,462 was capitalized as equity in 2015 to cover amortizations over the entire period of the loans.

For more information, please refer to notes 5 - Financial risk management and 19 - Related party transactions.

11. EQUITY

Share capital:

On 31 December, 2016, the number of outstanding shares amounted to 15,000,000 shares with a nominal value of CHF 10 each (31 December 2015: 12,500,000 with a nominal value of CHF 10 each). As per 31 December 2016 SIFEM did not hold any treasury shares (31 December 2015: 0). All shares issued by the Company were fully paid in.

Dividends:

The amount available for dividend distribution is based on the available distributable retained earnings of SIFEM AG, determined in accordance with the legal provisions of the Swiss Code of Obligations (CO). The Company did not distribute a dividend in 2016 and it is not expected that SIFEM will do so in the near future.

Capital reserve:

The capital reserve relates to capital contributions which arose from granting and the extension of interest free shareholder loans and from the sale of the investment portfolio from the shareholder to the Company below fair value.

Translation reserve:

The translation reserve comprises all foreign currency translation differences arising from the translation of the Company's financial statements from its functional currency (USD) into the presentation currency (CHF).

12. INTEREST INCOME

for the year in '000 CHF	2016	2015
Interest income from cash and cash equivalents	777	176
Interest income from investments	4,459	3,132
Total interest income	**5,236**	**3,308**

At 31 December 2016, an amount of TCHF 519 (2015: TCHF 477) has not been received yet in cash and is included in other receivables, prepayments and accrued income.

13. INVESTMENT MANAGEMENT FEE

The Investment Management Fees contains fees invoiced by Obviam DFI AG for Portfolio Management and Business Management. SIFEM has delegated these functions to Obviam.

14. ADMINISTRATION AND CUSTODIAN FEES

On 2 December 2011, the Board of Directors accepted and signed a Custodian Agreement with Credit Suisse AG, as well as a new Administration Agreement with Credit Suisse Funds AG. Credit Suisse receives a fee in arrears at an annual rate of 7 basis points for the first TCHF 200 of NAV, 6 basis points for the second TCHF 200, and 5 basis points thereafter. Under the Custodian Agreement, Credit Suisse receives a fee of 3 basis points for the first TCHF 200 of NAV, and 2 basis points thereafter. A transaction and settlement fee arises per incident on the custodian mandate. The administration fee for the financial year 2016 amounted to TCHF 236 (2015: TCHF 193) and the custodian fee for the financial year 2016 amounted to TCHF 139 (2015: TCHF 114). The administration and custodian fees for the second semester 2016 were not paid at the balance sheet date and are included in other liabilities and accrued expenses.

The Custodian and Administration Agreement was terminated by SIFEM since the mandate for the administrator and custodian had to be re-tendered according to Federal procurement law. The most competitive bid was received from Credit Suisse. On 13 December 2016, the Board of Directors accepted and signed a new Administration- and Custodian Agreement with Credit Suisse Funds AG. The terms and conditions will remain the same but there is going to be a decrease in the fees basis points and the termination notice period is 90 days.

15. NET INCOME / (EXPENSE) FROM DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR RISK MANAGEMENT

for the year in '000 CHF	2016	2015
Net interest income from derivative financial instruments	84	132
Realized gain from derivative financial instruments	1,262	4,243
Realized loss from derivative financial instruments	–1,313	–1,542
Increase / -decrease in fair value from derivative financial instruments	–3	–255
Net income from derivative financial instruments	**30**	**2,578**

16. NET FOREIGN EXCHANGE GAINS / (LOSSES)

for the year in '000 CHF	2016	2015
Net foreign exchange gain / (loss) from cash and cash equivalents	–387	1,756
Net foreign exchange gain / (loss) from debt instruments	–458	–1,445
Total net foreign exchange gains/ (losses)	**–845**	**311**

17. NET CHANGES IN FAIR VALUE OF INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

for the year in '000 CHF	2016	2015
Increase in fair value of equity instruments	15,623	12,876
Increase in fair value of debt instruments	132	1,335
Decrease in fair value of equity instruments	–26,269	–20,388
Decrease in fair value of debt instruments	–1,777	–0
Net changes in fair value of financial assets at fair value through profit or loss	**–12,291**	**–6,177**

18. FINANCIAL INCOME/EXPENSE

for the year in '000 CHF	2016	2015
Foreign exchange gain	5,980	7,758
Financial income	**5,980**	**7,758**
Interest expense	–3,609	–3,820
Foreign exchange loss	–489	–3,715
Financial expense	**–4,098**	**–7,535**

Foreign exchange gain arises from the shareholder loans granted in Swiss francs.

Interest expense arises from the application of the effective interest rate method on the shareholder loans (refer note 10).

Foreign exchange loss arises from the application of the effective interest rate method (refer to note 10).

19. RELATED PARTY TRANSACTIONS

Shareholder
SIFEM is fully owned by the Swiss Confederation. The Swiss Confederation comprises the various departments and administrative bodies, governmental agencies and other companies controlled by the Confederation.

The Swiss Confederation granted SIFEM interest free loans in the total amount of TCHF 364,585 (refer note 10) (31 December 2015: TCHF 360,976).

SIFEM on the other hand holds a deposit account with the Swiss National Bank (refer note 6). The interest rate is at arm's length. All other transactions with the government, governmental agencies and companies controlled by the Swiss Confederation are conducted on the basis of normal relationships with customers and suppliers and on conditions applicable to unrelated third parties, in particular the interest payment on the deposit account SIFEM holds with the Swiss Federal Finance Administration.

Portfolio and business manager
SIFEM appointed Obviam DFI AG, a specialised emerging market investment management company incorporated in Switzerland, as its portfolio and business manager. The compensation of Obviam is determined in accordance with the Portfolio Management Agreement and the Business Management Agreement.

Under both agreements, Obviam is compensated for the actual cost incurred, within a budget that is approved annually in advance by the Board of Directors. The fee approved for 2016 amounts to 0.94% (2015 0.91%) of SIFEM's total active commitments as of 30 June of the same year. The budgeted combined portfolio and business management fee amounted to TCHF 5,880 (2015: TCHF 5,318). The combined portfolio and business management fee paid for the financial year 2016 amounted to TCHF 5,002 (2015: TCHF 4,329). The Management Agreement with Obviam can be terminated at any time subject to the terms in the Management Agreement.

Total administrative expenses (investment management fee, administration and custodian fees, personnel expenses, administration expenses and advertising expenses) in 2016 amount to 0.98% (2015: 0.91%) of SIFEM's total active commitments as of 30 June of the same year. The threshold for total administrative expenses set by the Federal Council is 1.5% of SIFEM's total active commitments, whereby a certain degree of flexibility is applied until the current uncommitted cash reserves are committed to new investments.

Key management personnel compensation
The Chairman of the Board received total compensation of CHF 44,000 in 2016 (2015: CHF 44,000). This consists of a base compensation of CHF 30,000 (2015: 30,000) for his role as Chairman of the Board and CHF 14,000 (2015: 14,000) for his role as Chairman of the Investment Committee.

The Vice-Chairman and Board members received a base compensation of CHF 22,100 (2015: CHF 22,100). Members of the Investment Committee received an additional compensation of CHF 11,900 (2015: CHF 11,900) and Members of the Audit Committee received an additional compensation of CHF 8,500 (2015: CHF 8,500).

20. CAPITAL COMMITMENTS

As of 31 December 2016 the Company had capital commitments with debt- and equity instruments which were not yet called by the relevant investment manager for TCHF 206,809 (31 December 2015: TCHF 190,100).

21. SUBSEQUENT EVENT

No events occurred between 31 December 2016 and 3rd of March 2017 that would require adjustments to the amounts recognised in these financial statements or would need to be disclosed under this heading.

2016
SWISS CODE OF OBLIGATIONS: FINANCIAL STATEMENTS

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8031 Zurich

REPORT OF THE STATUTORY AUDITOR
To the General Meeting of

SIFEM AG, Bern

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of SIFEM AG, which comprise the balance sheet, statement of income and notes to the financial statements for the year ended 31 December 2016.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO)) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Zurich, 7 March 2017

BDO Ltd

Franco A. Straub
Licensed Audit Expert

Tobias Schüle
Auditor in Charge
Licensed Audit Expert

BALANCE SHEET

in CHF	NOTE	31.12.2016		31.12.2015	
ASSETS					
Current Assets					
Cash and cash equivalents	1	248,380,550	45.5 %	253,265,894	50.0 %
Other current receivables	2	5,099,873	0.9 %	5,016,695	1.0 %
Accrued income and prepaid expenses	3	1,362,374	0.2 %	2,830,662	0.6 %
Total current assets		**254,842,797**	**46.6 %**	**261,113,251**	**51.6 %**
Non-Current Assets					
Financial assets	4	244,782,069	44.8 %	196,783,998	38.9 %
Shareholdings	5	46,829,092	8.6 %	48,350,247	9.6 %
Total non-current assets		**291,611,161**	**53.4 %**	**245,134,245**	**48.4 %**
Total assets		**546,453,958**	**100.0 %**	**506,247,496**	**100.0 %**
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Short-term liabilities					
Other current liabilities	6	10,616	0.0 %	33,442	0.0 %
Deferred income and accrued expenses	7	411,073	0.1 %	1,030,920	0.2 %
Total short-term liabilities		**421,689**	**0.1 %**	**1,064,362**	**0.2 %**
Long-term liabilities					
Long-term liabilities due to shareholder	8	374,444,018	68.5 %	374,444,018	74.0 %
Provisions and similar items required by law		1,019,866	0.2 %	0	0.0 %
Total long-term liabilities		**375,463,884**	**68.7 %**	**374,444,018**	**74.0**
Total Liabilities		**375,885,573**	**68.8 %**	**375,508,380**	**74.2 %**
Shareholders' Equity					
Share capital	9	150,000,000	27.4 %	125,000,000	24.7 %
General legal retained earnings		354,967	0.1 %	354,967	0.1 %
Voluntary retained earnings / – Accumulated losses		20,213,419	3.7 %	5,384,149	1.1 %
Total shareholders' equity		**170,568,386**	**31.2 %**	**130,739,116**	**25.8 %**
Total Liabilities and Shareholders' Equity		**546,453,958**	**100.0 %**	**506,247,496**	**100.0 %**

INCOME STATEMENT

for the year in CHF	NOTE	2016	2015
Net proceeds from sales of services	**10**	**41,976**	**42,052**
Costs for third party services		–5,001,696	–4,329,328
Staff costs	11	–308,112	–291,988
Other operational costs	12	–662,366	–633,392
Earnings before interests and taxes		**–5,930,198**	**–5,212,656**
Financial result general	13	5,618,461	5,877,478
Financial result from financial assets and shareholdings	14	11,673,391	–6,099,292
Financial result from derivative financial instruments	15	148,110	2,832,717
Earnings before currency translation and taxes		**11,509,765**	**–2,601,753**
Result from currency translation from functional currency (USD) to reporting currency		3,402,798	1,673,550
Profit before taxes		**14,912,563**	**–928,202**
Taxes (stamp duties)		–83,293	–52,014
Profit/loss for the year		**14,829,270**	**–980,216**

NOTES TO THE SCO FINANCIAL STATEMENTS

BASIS OF PREPARATION

General

These statutory financial statements have been prepared in accordance with the Swiss Code of Obligations (32th title). The significant accounting policies, that are not required by law, are described below.
It was considered and applied in these statutory financial statements that the law provides the possibility to build and dissolve hidden reserves.

INFORMATION TO ITEMS OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

in CHF	31.12.2016	31.12.2015
1 Cash and cash equivalents		
Cash at Banks	248,380,550	253,265,894
Total	**248,380,550**	**253,265,894**
2 Other current receivables		
Withholding tax receivables	8,322	2,042
Collaterals	5,091,551	5,014,653
Total	**5,099,873**	**5,016,695**
3 Accrued income and prepaid expenses		
Prepaid expenses	843,783	2,353,215
Accrued income	518,591	477,447
Total	**1,362,374**	**2,830,662**
4 Financial assets		
Equity instruments	168,559,729	133,831,990
Debt instruments	76,222,340	62,952,007
Total	**244,782,069**	**196,783,998**

5 Shareholdings

Company/Domicile	Share capital in local currency 31.12.2016		Share capital in local currency 31.12.2015		Holding of capital and votings in % 31.12.2016	Holding of capital and votings in % 31.12.2015	Book value in CHF 31.12.2016	Book value in CHF 31.12.2015
Sino Swiss Partnership Fund/Beijing, China	CNY	197,302,502	CNY	197,302,502	70.19 %	70.19 %	13,578,349	14,312,224
Swiss Technology Venture Capital Fund Ltd./Mauritius	USD	14,026	USD	14,026	99.99 %	99.99 %	629,212	1,228,952
SEAF Central and Eastern Europe Growth Fund LLC/Delaware, USA	USD	5,301,364	USD	5,886,413	20.81 %	20.81 %	740,641	1,326,695
SEAF Central Asian Small Enterprise Fund	USD	9,617,524	USD	9,617,524	41.98 %	41.98 %	–	245,518
Fidelity Fund I	USD	1,358,089	USD	1,540,089	47.06 %	47.06 %	–	–
SEAF South Balkan Fund	EUR	6,927,430	EUR	6,927,430	30.52 %	30.52 %	1,580,045	1,602,730
SEAF Blue Waters Growth Fund	USD	17,963,815	USD	17,963,815	28.00 %	28.00 %	721,260	1,547,832
Aureos Latin America Fund II L.P.	USD	36,795,441	USD	36,795,441	28.29 %	28.29 %	7,260,296	10,011,603
Altra Private Equity Fund I L.P.	USD	14,339,525	USD	14,339,525	43.11 %	43.11 %	5,963,360	6,188,111
SEAF Trans Andean Fund	USD	12,442,481	USD	12,442,481	39.62 %	39.62 %	752,228	659,224
SEAF LATAM Growth Fund	USD	14,170,612	USD	14,250,612	41.18 %	41.18 %	1,846,015	722,666
Kaizen Private Equity Fund	USD	32,048,098	USD	21,337,620	22.81 %	22.81 %	7,375,461	4,576,978
Medu III International Partnership L.P.		–	USD	8,922,240	–	19.72 %	–	922,715
Commodity Value Chain Sustainable Investment Sub-Fund	USD	5,000,000	USD	5,000,000	100.00 %	100.00 %	5,081,750	5,005,000
Venture East Proactive Fund II	USD	6,000,000		–	22.22 %	–	1,300,475	–
TOTAL							46,829,092	48,350,247

Due to the decrease in the holding of capital and votings under 20 % of Medu III International Partnership L.P. in 2015 this investment has been reclassified and is now shown as financial asset.

in CHF	31.12.2016	31.12.2015
6 Other current liabilities		
Other current liabilities	2,561	27,620
Social insurances liabilities	1,884	2,000
Liabilities due to pension scheme	1,135	1,039
Liabilities due to authorities	2,444	2,783
Provision for foreign exchange forward contracts	2,592	–
Total	**10,616**	**33,442**
7 Deferred income and accrued expenses		
Accrued expenses	411,073	1,030,920
Total	**411,073**	**1,030,920**
8 Long-term liabilities due to shareholder		
Loans due to shareholder	374,444,018	374,444,018
Total	**374,444,018**	**374,444,018**
Maturity structure		
Up to five years	374,444,018	374,444,018
Total	**374,444,018**	**374,444,018**

9 Share capital

The share capital consists of 15,000,000 shares with a nominal value of CHF 10 each (31.12.2015 12,500,000 shares with a nominal value of CHF 10 each).

for the year in CHF	2016	2015
10 Net proceeds from sales services		
Income from fund retrocessions	41,976	42,052
Total	**41,976**	**42,052**
11 Staff costs		
Salaries and wages	–21,253	–20,260
Board compensation	–238,667	–241,050
Social security costs	–21,105	–18,052
Other personnel costs	–27,088	–12,626
Total	**–308,112**	**–291,988**
12 Other operational costs		
Insurance premiums	–52,001	–75,348
Accounting and payroll expenses	–167,099	–137,003
Audit expenses	–78,074	–71,767
Other administration expenses	–297,201	–295,436
Sponsorship and membership contributions	–67,991	–53,838
Total	**–662,366**	**–633,392**

for the year in CHF	2016	2015
13 Financial result general		
Interest income	794,505	179,698
Interest expenses	–16,912	–3,520
Bank charges	–382,761	–309,066
Foreign exchange gains	5,610,705	13,087,221
Foreign exchange losses	–387,075	–7,076,855
Total	**5,618,461**	**5,877,478**
14 Financial result from financial assets and shareholdings		
Interest income from financial assets	4,458,631	3,132,025
Distributions and dividends	20,192,881	6,194,864
Expenses	–74,131	–31,588
Capital gains	169,911	300,554
Capital losses	–11,260,282	–8,965,900
Foreign exchange gains	476,804	–
Foreign exchange losses	–2,290,423	–6,729,247
Total	**11,673,391**	**6,099,292**
15 Financial result from derivative financial instruments		
Interest income	174,778	154,704
Interest expenses	–90,769	–22,438
Capital gains	1,389,956	4,243,290
Capital losses	–1,325,855	–1,542,839
Total	**148,110**	**2,832,717**

FURTHER INFORMATION

16 Fulltime employees

The annual average number of fulltime employees during the reporting year was less than 10.

17 Disclosure of derivative financial instruments

Foreign exchange forward contracts (long)	16,149,294	16,521,052
Foreign exchange forward contracts (short)	–16,151,885	–16,521,052
Interest rate SWAPS (long)	10,163,500	10,010,000
Interest rate SWAPS (short)	–10,163,500	–10,010,000
Total (included in other current liabilities - s. Note 6)	**–2,592**	**–**

18 Collateral

Assets pledged to secure own losses on derivative financial instruments amount to CHF 5,091,551.

19 Significant events after the balance sheet date

There are no significant events after the balance sheet date which could impact the book value of the assets or liabilities or which should be disclosed here.

20 Outstanding capital commitments

		31.12.2016		31.12.2015
Debt investments				
European Financing Partners SA / Loan (EFP II)				
European Financing Partners SA / Loan (EFP III)	EUR	5,336,678	EUR	5,455,311
European Financing Partners SA / Loan (EFP IV)				
Interact Climate Change Facility / Loan	EUR	16,708,002	EUR	10,615,805
ACLEDA Bank Plc. / Loan		–	USD	10,000,000
E + Co. / Loan	USD	2,300,000	USD	2,300,000
CAMIF II LP Subordinated Loan Series B	USD	2,344,000	USD	3,484,000
Agrif Cooperatief U.A. / Senior Notes	USD	–170,000	USD	–
Equity investments				
Africa Credit Opportunities Fund I	USD	–	USD	8,640,000
CAMIF II LP Equity	USD	2,342,151	USD	3,347,244
HEFF / Equity	USD	–	USD	1,359,460
Locfund II (Equity)	USD	–	USD	14,332
Ashmore Andean Fund II	USD	12,393,974	USD	15,000,000
Business Partners International East Africa LLC	USD	3,094,274	USD	4,000,000
7L Capital Partners Emerging Europe L.P.	EUR	25,059	EUR	25,059
AfricInvest Fund II	EUR	336,000	EUR	410,000
AfricInvest Fund III	EUR	3,988,978	EUR	4,593,259
Balkan Financial Sector Equity Fund	EUR	304,991	EUR	200,936
Capital North Africa Venture Fund	EUR	767,545	EUR	767,545
Capital North Africa Venture Fund II	EUR	3,452,760	EUR	3,576,621
Maghreb Private Equity Fund II	EUR	15,248	EUR	–7,086
Maghreb Private Equity Fund III	EUR	1,095,153	EUR	2,716,110
Abraaj North Africa II, L.P.	USD	2,423,719	USD	3,210,533
African Infrastructure Fund	USD	–	USD	604,496
Armstrong South East Asia Clean Energy Fund	USD	1,098,312	USD	2,866,189
Aureos East Africa Fund	USD	62,751	USD	62,751
BTS India Private Equity Fund	USD	1,881,635	USD	1,918,370
BVCF III L.P.	USD	614,656	USD	614,656
Cambodia–Laos Development Fund S.C.A., SICAV–SIF	USD	256,115	USD	456,634
Cambodia–Laos–Myanmar Development Fund II, L.P.	USD	3,969,479	USD	4,200,000
Catalyst Fund I	USD	459,726	USD	1,918,723
Central American Small Enterprise Investment Fund II	USD	529,495	USD	529,495
IFHA–II COÖPERATIEF U.A	USD	7,636,264	USD	8,364,432
Central American Small Enterprise Investment Fund III	USD	3,111,196	USD	4,009,515
CoreCo Central America	USD	2,021,153	USD	2,442,726
Europe Virgin Fund	USD	897,086	USD	970,770
Euroventures Ukraine II	USD	106,347	USD	128,813
EV Amadeus Asian Clean Energy Fund L.P.	USD	5,399,476	USD	5,399,476
Evolution One	USD	1,846,088	USD	1,954,639
Falcon House Partners	USD	1,421,190	USD	3,796,748
Fidelity Equity Fund II	USD	883,820	USD	883,820
GEF Africa Sustainable Forestry Fund	USD	171,239	USD	1,476,680
JS Private Equity Fund I	USD	5,325,417	USD	5,325,417
Kendall Court Mezzanine (Asia) Bristol Merit Fund	USD	284,062	USD	326,980

		31.12.2016		31.12.2015
Equity investments continued				
Latin Renewables Infrastructure Fund	USD	2,391,793	USD	3,355,599
Mongolia Opportunities Fund I	USD	1,152,208	USD	1,236,323
NAMF II	USD	8,803,630	USD	8,803,630
Progression Eastern African Microfinance Equity Fund	USD	1,681,906	USD	2,596,528
rABOP	USD	510,917	USD	599,023
Sphinx Turnaround Fund	USD	150,000	USD	150,000
Synergy Private Equity Fund Ltd	USD	751,434	USD	5,213,237
Vantage Mezzanine Fund III (Pan African Sub–Fund)	USD	4,790,903	USD	5,865,401
VenturEast Proactive Fund LLC	USD	–5,562	USD	96,607
VenturEast Proactive Fund II	USD	8,666,667	USD	10,000,000
VI (Vietnam Investments) Fund II	USD	1,386,254	USD	2,062,500
Aureos Latin America Fund II L.P.	USD	9,500	USD	9,500
Agrif Feeder B.V. / Shares	USD	1,290,000	USD	1,900,000
Horizon Equity III	ZAR	5,432,096	ZAR	16,382,943
Vantage Mezzanine Fund III (Southern African Sub–Fund)	ZAR	37,302,199	ZAR	60,492,728
Vantage Mezzanine Fund	ZAR	3,497,234	ZAR	3,497,234
Adenia Capital (IV) L.P.	USD	9,830,369	USD	–
APIS Growth Fund I L.P.	USD	5,445,024	USD	–
Renewable Energy Asia Fund II L.P.	USD	5,477,744	USD	–
Darby Latin American Private Debt Fund III	USD	10,000,000	USD	–
Evolution II	USD	10,000,000	USD	–
Kaizen Private Equity Fund II	USD	10,000,000	USD	–
Shareholdings				
SEAF South Balkan Fund	EUR	563,574	EUR	563,574
SEAF Central and Eastern European Growth Fund	USD	–	USD	–
SEAF Central Asia Small Enterprise Fund	USD	389,954	USD	389,954
Fidelity Equity Fund I	USD	500	USD	500
ASEAN China Investment Fund	USD	–	USD	–
SEAF Blue Waters Growth Fund	USD	570,132	USD	1,970,132
Aureos Latin America Fund	USD	–	USD	–
Altra Private Equity Fund I L.P.	USD	1	USD	1
SEAF LATAM Growth Fund	USD	1,164,984	USD	1,132,040
SEAF Trans Andean Fund	USD	70,329	USD	70,329
Kaizen Private Equity	USD	436,785	USD	3,021,294
Medu III Interenational Partnership L.P.	USD	3,309,217	USD	5,230,714
Commodity Value Chain Sustainable Investment Sub-Fund B	USD	15,000,000	USD	–

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

in CHF	31.12.2016	31.12.2015
Retained earnings / –loss brought forward	5,384,149	6,364,365
Net profit or –loss for the year	14,829,270	–980,216
Available earnings	**20,213,419**	**5,384,149**

The Board of Directors proposes to the General Meeting of Shareholders the following appropriation of available earnings:

Transfer to the general legal retained earnings	741,464	0
To be carried forward	19,471,955	5,384,149
Total	**20,213,419**	**5,384,149**

LIST OF ABBREVIATIONS

AG	Swiss public limited company (Aktiengesellschaft)
Art.	Article
CEE	Central and Eastern Europe
CHF	Swiss Franc
CNY	Chinese Yuan Renminbi
CDC	Development Financial Institution of the UK Government
CIS	Commonwealth of Independent States
CVCSI	Commodity Value Chain Sustainable Investment Fund
DAC	Development Assistance Committee
DE	Development Effectiveness/Effects
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH (German DFI)
DFI	Development Finance Institution
DPDF	Darby Latin America Private Debt Fund
EC	European Commission
EDFI	European Development Finance Institutions
ElectriFI	Electrification Financing Initiative
E&S	Environmental & Social
ESG	Environmental, social and governance
EU	European Union
EUR	Euro
FI	Financial Institution
FMO	Netherlands Development Finance Company
GDP	Gross Domestic Product
GPR	Corporate-Policy Project Rating Tool (developed by DEG)
ICCF	Interact Climate Change Facility
ICS	Internal Control System
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IPEV	International Private Equity Valuation Guidelines
IRR	Internal Rate of Return
m	million
LATAM	Latin America
LDC	Least Developed Countries
MENA	Middle East and North Africa
MFI	Microfinance Institution
MSME	Micro Small and Medium-sized Enterprise
NAV	Net Asset Value
No.	Number
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
PEF	Private Equity Fund
REAF	Renewable Energy Asia Fund
SCO	Swiss Code of Obligations
SDGs	Sustainable Development Goals
SECO	Swiss State Secretariat for Economic Affairs
SIFEM	Swiss Investment Fund for Emerging Markets
SME	Small and Medium-sized Enterprise
SNB	Swiss National Bank
SR	Classified Compilation of Swiss Federal Legislation
SSA	Sub-Saharan Africa
TA	Technical Assistance
TVPI	Total Value over Paid-In
USD	United States Dollar
WTO	World Trade Organisation
ZAR	South African Rand

GLOSSAR

Custodian
A regulated, specialised financial institution responsible for safeguarding SIFEM's financial assets such stocks, bonds and currencies.

Private Equity Fund
A close ended, collective investment platform which aggregates capital from multiple investors to then invest in private equity securities.

Development Finance Institution (DFI)
A term used to refer to the range of bilateral and multilateral institutions that provide risk capital to the private sector developing countries.

Reflows
Any type of payments received in return from SIFEM's investment portfolio, including capital repayments, realised capital gains, dividends, interest.

European Development Finance Institutions (EDFI)
The association of 15 European based, bilateral Development finance institutions whereby SIFEM is a member.

Legacy Position
The portfolio of investments that were made on behalf of the Swiss Confederation prior to the establishment of SIFEM in 2011

Internal Rate of Return (IRR)
The annualised effective compounded rate of return for an investment and is commonly used to evaluate the desirability of investment projects. It is the standard measure of financial return used in the Private Equity Industry.

Mezzanine Fund
A close ended, collective investment platform which aggregates capital from multiple sources to then invest in debt and quasi debt securities of primarily private companies.

International Financial Reporting Standards (IFRS)
A set of accounting standards developed by the Intentional Accounting Standards Board (IASB) for the preparation of public company financial statements.

Net Asset Value (NAV)
The amount attributable to the investors of a portfolio on the basis of the fair value of its assets less its liabilities. The aggregate amount of all net asset values attributable to an investor also corresponds to the residual value of its investment portfolio.

International Private Equity and Valuation Guidelines (IPEV)
A set of internationally recognised guidelines that set out the best practice where private equity investments are reported at fair value and have been adopted by the leading global Private Equity associations.

Net income
In SIFEM's IFRS financial statements IFRS, net income refers to the result from investment activities. It combines interest income, dividend income, investment-related services income, foreign exchange gains/losses on investments, changes in NAV of investments, and impairment losses on debt investments.

Obviam
A Bern-based investment management company formed by the former management of SIFEM to act as Investment Advisor to the newly created SIFEM. The company is fully owned by its employees and does not hold SIFEM or the Swiss Confederation as a shareholder.

Operating Result
In SIFEM's IFRS financial statements, the operating result is calculated by subtracting administrative and operating costs from the net income.

Private Equity
Medium to long-term finance provided in return for an equity stake in growing companies, which are usually not listed on a public exchange.

Total Comprehensive Income
In SIFEM's IFRS financial statements, total comprehensive income is calculated by adding the financial result and currency translation effects to the operating result.

This Annual Report is complemented by a separate Report on Operations (mission, how we work, new investments & case studies, performance). Both reports can be downloaded at www.sifem.ch

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