FMO

Entrepreneurial
Development
Bank

MASSIF

Annual report

2019

MASSIF enhances financial inclusion for micro- and medium entrepreneurs, hereby supporting growth of responsible businesses that create jobs, provide income and improve livelihoods where it is needed most.

Government of the Netherlands

FMO manages the following funds on behalf of the Dutch government: MASSIF, Building Prospects, the Access to Energy Fund (AEF), the Dutch Fund for Climate and Development (DFCD), FOM, FOM-OS, B-CD, Partnership Development Facility (PDF) and Development Accelerator (DA). The total committed portfolio of these funds (excluding grants) amounts to € 1,207.5 mln as per December 31, 2019. The term "fund" as used in this annual report refers to a program in the form of a subsidy received from the Dutch government that is managed by FMO, unless reference is made to an investment made under a program.

MASSIF enhances financial inclusion for micro- and medium entrepreneurs, hereby supporting growth of responsible businesses that create jobs, provide income and improve livelihoods where it is needed most.

LETTER FROM THE EXCO OF THE FUND MANAGER

Dear reader,

2019 was a rough year for global development cooperation and climate action. The Madrid climate conference ended in an agreement to disagree and postpone a future consensus. Despite scientific reports that the window of opportunity for meaningful climate action is closing, nations have not been able to muster the strength to act as one community in charge of saving the global commons.

Against this backdrop of multilateral strain and rising systemic risks, the global community continued its efforts to attain the goals of the 2030-Agenda. Despite signs of progress, investments needed to overcome the USD 2.5 trillion financing gap are still lagging, particularly in fragile states, in climate adaptation and in the human development sectors such as health and education. At the time of publication of this report, these concerns are compounded by the COVID-19 pandemic in the first months of 2020. The expectation is that the world will face the worst recession since the Great Depression, due to the abrupt halt in economic activity in the last months. More than ever, there is a need for channels such as the FMO-managed state funds to play a counter-cyclical role and help address the global challenges of inequality and climate change.

Close to 1.7 billion adults worldwide are still unbanked and the number of forcibly displaced people remains worryingly high due to political conflicts and tensions, security threats and climate disasters. The Financial Inclusion sector has a role to play in solving these problems. MASSIF is the Dutch government's fund for Financial Inclusion. Its strategy, The Next Frontier, steers financial inclusion towards the unbanked population, focusing on women-, youth- and refugee entrepreneurs, rural areas and inclusive business. The fund invested in 23 new transactions in 2019; a record number for MASSIF. Through our EUR 545 million portfolio, we support 7,600,786 microloans and 112,300 (M)SME loans. Those included 61% of women-owned and 67% of rural MSMEs.

Our involvement in unbanked and fragile states grew in 2019, with new clients in Sierra Leone, Myanmar, and Palestine. At a time of political and economic unrest, MASSIF continued supporting clients by providing stable and longer-term funding in Nicaragua. Finally, MASSIF provided a risk sharing facility with capacity development to finance Syrian refugee entrepreneurs in Jordan as part of the NASIRA program.

We thank all our stakeholders for their continuous support, including our clients and investors, the Dutch Ministry of Foreign Affairs, the NGOs that help us to improve and our colleagues for giving their best every day.

The Hague, 8 May 2020

On behalf of the Executive Committee

Fatoumata Bouaré, Chief Risk & Finance Officer
Linda Broekhuizen, Chief Investment Officer
Peter van Mierlo, Chief Executive Officer

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AT A GLANCE

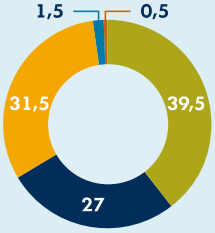
Set up in 2006 and managed on behalf of the Dutch Ministry of Foreign Affairs, MASSIF is FMO's financial inclusion fund. MASSIF enhances financial inclusion for micro-entrepreneurs and small- and medium-sized enterprises (MSMEs) that are disproportionately affected by a lack of access to financial services. The Fund supports intermediaries that reach out to MSMEs in fragile and low-income countries, MSMEs in rural areas and those dependent on agriculture, women-and-youth owned MSMEs, and intermediaries providing access to productive goods and services for underserved individuals in the poorest social-economic segments.

Achievements portfolio as per 31-12-2019

Total committed portfolio

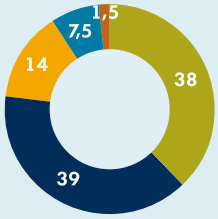
€545 mln

Portfolio by product
(in % as of 31 Dec 2019)



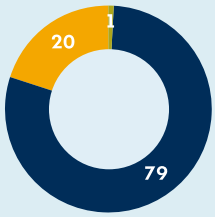
- Loans
- Direct equity
- Fund investments
- Mezzanine
- Guarantees

Portfolio by customer type
(in % as of 31 Dec 2019)



- Financial Institution
- Investment Fund
- Holding Company
- Corporate
- Other diverse sectors

Portfolio by currency
(in % as of 31 Dec 2019)



- EUR
- Local
- USD

23
Total investments

19
Capacity Development projects

€76 mln
Disbursements

137.9%
Revolvability

7,600,786*
Number of micro loans

7,233,505*
Current number of depositors

112,300*
Number of SME loans

60.6% | 39.4*
female and male

66.6% | 33.4*
rural and urban

* *These numbers represent all the clients that have provided the above mentioned data.*

Percentages of female and male depositors are based only on those clients that reported a gender breakdown for these indicators (70% - which represents total number of depositors with a breakdown/total number of depositors reported).

Percentages of volume of rural and urban micro enterprise loans are based only on those clients that reported a geographic breakdown for these indicators (33% - which represents total volume of micro enterprise loans with a breakdown/total volume of micro finance loan portfolio reported).

Total committed portfolio by region (per 31 December 2019)

Latin America & the Caribbean	Africa	Eastern Europe & Central Asia	Asia	Global
€56mln	**€206mln**	**€64mln**	**€134mln**	**€85mln**

Total committed portfolio

€545mln

Highlights

Through 23 investments, totaling EUR 64 million, MASSIF concentrated its efforts in 2019 in supporting growth and job creation for fragile livelihoods and regions. New deals were signed in unbanked countries and/or fragile states such as Sierra Leone, Democratic Republic of Congo, Palestine, Myanmar, Bangladesh and Afghanistan. While those types of investments come with higher financial challenges as well as considerable macroeconomic, environmental, social and governance risks, they are key for the creation of a positive investment track record in markets where it is needed the most.

Financial Inclusion at MASSIF also included technology and innovations, with new investments in the Fintech industry such as Accion Ventures Lab, Cathay AfricInvest Innovation Fund in Africa, Validus and Nomisma in India, Dopay in Egypt or Liwwa in Jordan.

Rural livelihoods were high on the agenda as well, with an investment in coffee smallholders' financing in Nicaragua and Maha, a microfinance institution focused on rural and agricultural lending in Myanmar and Agora, which provides on-lending to small farmers and entrepreneurs.

Several gender and youth lines were provided, such as to the Grofin fund targeting the African and Middle-East regions, the First Microfinance Company in Egypt and COFINA Senegal.

MASSIF also strengthened mobilization opportunities by providing two risk-sharing facilities: one to VisionFund in Ethiopia and one through the NASIRA program, for Tamweelcom to develop a loan portfolio serving Syrian Refugee Entrepreneurs.

Finally, MASSIF supported its clients and partners with 19 Capacity Development projects. Beside a Development Impact Bond to finance youth employment in Palestine, those mainly included development contributions. The latter targeted the inclusion of digital services, improvement of client protection practices and adaptation measures to serve high-impact market segments such as youth, rural populations, women or refugees.

Production

Production 2019	
access	**Access Bank RD Congo SA - USD 5 mln loan** Access Bank DRC is a subsidiary of long-standing client Access Bank Plc of Nigeria. Access Bank DRC strives to deliver financial services for sustainable economic growth that is profitable, environmentally responsible, and socially relevant. This loan will facilitate the finance of Access Bank's SME portfolio in DRC. The project has a strong emphasis on social and environmental safeguards, particularly on potential human rights impacts.
ACCION	**Accion Venture Lab, L.P. - USD 5 mln equity** Accion Venture Lab ("AVL") is a fintech venture capital fund, part of Accion International. AVL makes seed and early stage venture capital investments in fintech companies that employ business models to enhance financial inclusion for the underbanked and unbanked populations in emerging markets globally.
actb Savings & Loans	**ACTB Savings and Loans Ltd - LCY-equivalent USD 1.5 mln loan** ACTB Savings and Loans Limited is one of the largest regulated microfinance institutions in Sierra Leone. ACTB offers a broad range of products to the micro and SME segment. They aim to support economic growth and reduce inequalities by providing financial solutions to the people and communities in Sierra Leone that are regularly excluded. FMO is the first DFI to support ACTB.
ADVANS Growing together	**Advans S.A. SICAR - EUR 1.7 mln equity** Advans SA is a venture capital investment company. Their mission is to build a network of microfinance institutions in developing and emerging countries to cater to the financial needs of micro, small, and medium sized enterprises, which have limited or no access to formal banking services.

Agora Microfinance Zambia Limited - LCY-equivalent USD 2.5 mln loan

Agora Microfinance Zambia is a microfinance institution dedicated to serving low-income, rural households in Zambia. The funds will be used for on-lending to small farmers and small entrepreneurs, majority of whom are women.

Cathay AfricInvest Innovation Fund LLC - EUR 4.4 mln equity

AfricInvest in affiliation with Cathay Innovation launched their first pan-African Innovation Fund. This partnership capitalizes on the pan-African presence of AfricInvest teams and their in-depth knowledge of the entrepreneurial networks across Africa, as well as the experience and depth of Cathay Innovation's global platform that connects the several large technological ecosystems.

Compagnie Financiere Africaine ("COFINA") Senegal - EUR 5 mln loan

COFINA Senegal is a young microfinance institution providing financial products and services customized for MSMEs whose needs are too large for smaller MFIs and whose structure is too informal or risky for commercial banks, thereby targeting the "missing-middle".

Dawn Myanmar Microfinance Pte - EUR 1.1 mln equity

Dawn Microfinance Company is one of Myanmar's leading microfinance institutions serving female entrepreneurs. MASSIF has been an equity investor in Early Dawn since 2014 and also provided a first-time loan to the entity in 2016.

Dopay International Holdings Ltd - EUR 1 mln loan

Dopay International Holdings Ltd. offers Egyptian SMEs a digital payroll platform that helps removing cash from their operations and improves payroll payment efficiency. FMO aims to support Dopay in growing its Egyptian activities and replicating the business in other MENA markets as well as further business development.

Financiera FAMA S.A. - LCY-equivalent EUR 4.5 mln loan

Financiera FAMA is the second largest microfinance institution (MFI) in Nicaragua. FAMA was founded by ten entrepreneurs with the aim of establishing and/or improving access to finance for micro-entrepreneurs in Nicaragua's urban areas.

Financiera FDL S.A. - USD 3 mln loan

Financiera FDL is the largest microfinance institution (MFI) in Nicaragua. FDL was founded with the aim of establishing and/or improving access to finance for micro-entrepreneurs in Nicaragua's rural areas. This loan will be used to continue funding clients in underserved areas of Nicaragua.

First Microfinance Company - LCY-equivalent USD 0.7 mln loan

First Microfinance Company Egypt (FMF-E) is a non-profit MFI in Egypt. Established in 2005 as an NGO by Aga Khan Association for Microfinance (AKAM), the MFI transformed from an NGO to a company at the end of 2018. FMF-E focuses on rural clients in Egypt, particularly youth and women (app. 60% of loan portfolio).

Grofin SGB Fund Limited Partnerships - USD 5 mln loan

GroFin is a private development finance institution specialized in financing and supporting small and growing businesses across Africa and the Middle East by combining medium-term loan capital and value-added business support. The funding will be fully used to finance women owned SMEs.

Jordan Micro Finance Company Ltd - JOD 0.9 mln risk sharing facility

Tamweelcom is the 2nd largest MFI in Jordan. Its mission is to improve the economic productivity in Jordan, by providing a variety of responsible financial solutions to licensed, semi-licensed, and non-licensed micro and small businesses, which represent a large majority of economic activities. One of its target groups are youth and women entrepreneurs, which they expanded to Syrian migrant entrepreneurs.

Liwwa Inc - USD 2.1 mln equity

Liwwa is a technology enabled SME-lending company with proprietary marketplace, operational in Jordan. Liwwa fulfils the working capital need of un(der)served SMEs by funding the purchase of trade goods and fixed assets based on bank statement, discounting of invoices and working capital based on proven sales.

Maha Agriculture Public Co, Ltd - LCY-equivalent USD 3 mln loan

Maha Agriculture Microfinance is a young microfinance institution, focused on agriculture in rural Myanmar. The USD 3mln in local currency equivalent will support Maha in reaching out to its farmers and small business owners in rural Myanmar. With this funding Maha can realize its growth ambitions in a challenging market where funding is scarce.

Mercapital de Nicaragua S.A. - USD 5 mln loan

Mercapital de Nicaragua S.A. (Mercapital) is the financial arm of Mercon Coffee Group (MCG) in Nicaragua. The funds will be utilized to build a portfolio with long- and short-term loans to Arabica and Robusta coffee farmers for purposes such as farm renovation & new plantings, to cover labour costs and farm inputs and will strengthen the capital position of Mercapital.

MF Banka a.d. Banja Luka - USD 0.5 mln equity

MF Banka is a specialized SME bank in Bosnia and Herzegovina operating just above the MFI-segment. Compared to MFIs, they can offer the whole range of banking services including deposits. This is a pro rata capital increase.

Nomisma Mobile Solutions Pvt. Ltd. - INR 70 mln equity

Nomisma Mobile Solutions Private Limited ("FtCash") is a fintech company based in Mumbai. FtCash offers micro, small and medium sized (MSME) merchants payment solutions and access to financial services by underwriting loans based on digital payments data and collecting them from card payments.

Sajida Foundation - USD 7.5 mln loan

Sajida aims to improve the quality of life in the communities through sustainable and effective intervention in Bangladesh. Apart from microfinance programs, Sajida also offers a vast array of social development programs. FMO's long term financing will enhance the balance sheet of the institution through diversified and stable funding.

The First Microfinancebank Afghanistan - LCY-equivalent EUR 3.5 mln loan

FMFB-A is the largest MFI and among the top 3 commercial banks in Afghanistan. FMFB-A contributes to poverty alleviation and economic development through the provision of sustainable financial services to micro and small business and househoulds. In 2016, FMFB-A introduced the first female branch in Afghanistan providing financial services to women.

Thitsar Ooyin Company Limited - LCY-equivalent USD 1 mln loan

Thitsar Ooyin is a socially-driven microfinance institution in Myanmar. It is currently active in some of the most isolated regions of Myanmar, providing microloans primarily to women, with a particular focus on rural areas. The MFI uses group-lending methodology, but it also provides individual loans to previously succesful group borrowers. Its model makes it possible to build a strong client base in difficult circumstances, thereby creating a significant impact on rural people's livelihoods. This loan will support the institution in its future loan growth plans.

Validus Investment Holdings Pte. Ltd. - USD 5 mln equity

Validus Holdings Pte. Ltd. operates as a Peer-to-Peer lending platform that connects SME borrowers looking to fund their short-term working capital requirements with accredited and institutional investors wanting to invest in higher yielding loan portfolio. The main funding objective is to support the growth of Validus in Indonesia which will allow it to take its SME Finance product in Southeast Asia.

Sales and exits

No full exit was performed in 2019.

Production capacity development

Contracts CD 2019

Accion International - EUR 783,038 – CD project

This is a framework that is set up with Accion International, a non-profit organisation committed to creating a financially inclusive world. This framework agreement will enable Accion to provide support to FMO clients across the globe, strengthening their capacities to empower entrepreneurs and contributing to building a better world. In 2019, it is expected to support clients such as DAWN and PGMF in Myanmar, and to multiple clients worldwide through the Africa Board Fellowship and the Fintech CEO Forum and Financial Inclusion Summit.. The framework agreement aims to build value among FMO clients by improving their strategic, technical, and operational leadership, either through traditional consultancy projects or through networking and convening activities.

Acumen Fund Inc. - EUR 500,000 – Technical Assistance Facility

The purpose of the facility is to support ARAF's investment strategy of building profitable, scaling, and socially responsible climate adaptive businesses that serve the underserved, support greater gender integration through targeted technical assistance (TA) interventions and provide a financial return to ARAF and its investors. It shall provide funding to the following types of TA projects: (1) Funding for Climate Adaptation Interventions, including gender specific initiatives, (2) BDS and Management/Employee Training projects, (3) Lean Data projects, and (4) TAF Support projects.

Advans International - EUR 89,415 – CD project

This is a project with Advans International. The overall objective of this project is to improve Advans CI's portfolio quality, its operational efficiency and its Client Protection Principles. The project focuses on three core components to achieve this objective: 1) strengthening operational efficiency through a/o a restructuring of the branches, 2) risk management capacity building for staff and 3) integration of the Client Protection Principles throughout the operations.

Apollo Agriculture: EUR 16,721 - CD project

Apollo Agriculture is an agri-technology start-up company, providing fertiliser and seed on credit, as well as insurance and farming advice to smallholders growing maize in Kenya. FMO's contribution aims at increasing the dialogue between Smart Campaign and Apollo, supporting the adaptation of Smart Campaign's standards for digital credit to Apollo's smallholder finance business model, and in the future, to similar digital credit providers in the region.

Changemaker SAL - EUR 100,000 - CD project

This project is with ChangeMaker SAL., the managing partner for several initiatives promoting social entrepreneurship for youth in the MENA region. The project supports youth entrepreneurs in Jordan, Egypt and Lebanon in starting and scaling their social enterprise.

Dolma Fund Management - EUR 51,000 - CD project

This project is with Dolma Impact Fund (DIF). It is the first commercial impact fund in Nepal providing growth capital to SMEs, including a focus (25%) on the hydropower and solar sector. DIF is continuously facing challenges linked to E&S with its investee companies, especially as they apply international standards. Therefore, DIF requires expert support to ensure that both the funds' and its investees meet these standards.

Frankfurt School of Finance - EUR 20,110 - CD project

The Capacity Development (CD) project is a continuation of the current framework agreement between the FS and FMO. The objective is to assist FI clients (initially in Africa, now globally) with risk management issues and business development.

Global Banking Alliance for Women - EUR 200,000 - CD project

The Global Banking Alliance for Women (GBA) is a global consortium of financial institutions dedicated to supporting banks by capturing the opportunity of the women's market. GBA members work in more than 135 countries to build innovative and comprehensive programs that deliver women the tools that they need to succeed, including access to capital, information, education and markets. Indirectly, this project will benefit FMO's client banks, primarily in Africa and Asia, but also other regions.
The aim of this third project with GBA is to support two critical areas necessary to grow the Alliance and integrate more women into the economy. Firstly, peer learning activities and secondly, building gender data capacity for GBA and its members and select stakeholders.

Grofin Managers - EUR 80,000 - CD project

The project is with GroFin SGB Fund Business Support Facility Trust. The beneficiaries of this project are GroFin and its WSME clients in Africa. To support GroFin's SGB Fund to grow its WSME portfolio and to better serve this segment by offering financial and non-financial services.

Making Cents International - EUR 85,000 - CD project

The project is with Making Cents International, a US based development consultancy company. The direct beneficiaries of the project are the Jordanian MFI Tamweelcom and Tamweelcom's Syrian refugee borrowers living in Jordan. The objectives of this project are to 1) integrate Tamweelcom on the platform, 2) onboard its (new) refugee clients and 3) support Tamweelcom with capacity building to serve the new target market.

Making Cents International - EUR 18,000 - CD project

The objective is to establish a partnership between Al Majmoua and one or more MFIs based in the Philippines, aiming at a productive cooperation that will benefit Al Majmoua's migrant worker clients. The project focuses on Filipino migrants enabling them to set up a business when they return home.

Nitlapan UCA - EUR 134,000 - CD project

The objective of the funding is to support the entrepreneurial microfinance program for ASOCHIVIDA members managed by Nitlapan on its path to sustainability. The program provides loans and technical assistance to promote livelihood opportunities for families, whose main income earner has fallen ill to CKD. CKD is an epidemic affecting manual workers in Central America.

People's Pension Holding - EUR 178,556 - CD project

Funding for this project will be dedicated to People's Pension Trust Ghana (PPT), a subsidiary of PPH. PPT provides pension schemes to workers in the informal sector in Ghana. The project aims to enable PPH to continue developing micro-pension funds for the informal sector in Africa, starting with Ghana's People's Pension Trust.

PT Bina Artha Ventura - EUR 23,000 - CD project

The aim of this project is to develop a data warehouse and improved business intelligence in order to improve company performance, but also to improve BAV's client service and product offerings. As part of its regular business process, CAA-Indonesia collects a wealth of information about clients as well as transaction-level details for each process. To obtain a deeper understanding of patterns and trends in business performance and relate them to client segments, geographical areas and other associated data points, BAV considers it key to create a unified data warehouse along with a reporting platform.

Seed for Progress Foundation - EUR 217,323 - CD project

The objective is to support Mercon Coffee Group's Seeds for Progress Foundation with the establishment and replication of two so-called Escuela y Café ("School and Coffee") Colombian pilot projects in two different coffee communities in Nicaragua, to incentivize rural youth to remain in the coffee industry to ensure the continued supply of coffee.

A AND B Tech LLC - EUR 37,404.62 - CD project

Vitas Group ("Vitas") is a Global Communities enterprise established in 2006 to own and operate Global Communities' commercially oriented microfinance institutions. Vitas is the largest commercial network of MSME lending companies in the Middle East and is the first investment vehicle of its kind in the region. Contracting is with AandB Tech LLC (Finconecta), Digital Strategy Consultants and Fintech. The aim of this project is to provide strategic guidance to senior management to local teams in order to build the technology management capacity of subsidiaries and its IT support unit in Serbia.

Liwwa - EUR 23,974,79 - CD project

Liwwa is a crowdfunding platform based in Jordan that supports MSMEs. Liwwa Inc. is a FinTech start-up that operates a crowdfunding platform to provide trade finance to un(der)served small businesses. Liwwa started operations in March 2015 and targets MSMEs in Jordan. These MSMEs benefit from an online loan application process and marketplace function, while retail investors can crowdfund 'campaigns' based on the credit assessment, loan structuring and pricing determined by Liwwa.

Mercapital De Nicaragua SA - EUR 16,940.12 - CD project

The objective of this project is to get an in-depth diagnostic of the client protection practices and policies of this lending process, as well as a set of recommendations and an action plan for Mercapital, while using the official Smart Campaign methodology.

Finance for Jobs Consultancy Services- Eur 418,393 - convertible grant

The objective is to co-invest in the first World Bank sponsored Development Impact Bond ("DIB") to support youth employment in Palestine. The DIB is seeking to work with approximately 1,500 young unemployed Palestinians aged 18-29 in the West Bank and Gaza and aims to support over 400 participants in their transition to employment. At least 203 are expected to sustain their employment for at least 6 months.

Mercapital de Nicaragua S.A.

Who is our client

Mercapital de Nicaragua S.A. (Mercapital) is the financial arm of Mercon Coffee Group (MCG) in Nicaragua. MCG is one of the world's leading coffee merchants. It has sourcing operations in Central America, Brazil and Vietnam and a significant share in sustainable, certified and/or quality coffees. Mercon is involved in all aspects of the coffee supply chain from primary production, production and distribution of seedlings, sourcing and processing of coffee from third parties to the delivery and export of green coffee.

Funding objective

FMO will provide a subordinated debt facility up to USD 5 million. The funds will be utilized to build a portfolio with long- and short-term loans to Arabica and Robusta coffee farmers for purposes such as farm renovation & new plantings, to cover labour costs and farm inputs and will strengthen the capital position of Mercapital.

Why we fund this project

Mercapital supports MCG's coffee operations in Nicaragua hand by hand with Comercial Internacional Exportadora S.A. (CISA), the group's main operating company in the country. Mercapital provides long and short-term financing to over 3,000 coffee producers. Support from CISA and Mercapital enables producers to achieve their long-term farm objectives of increased production & yields, improved climate resilience and stabilized earnings from the farms in impoverished regions of Nicaragua. The environmental and social rationale will focus on the implementation of the Client Protection Principles.

MASSIF investment | USD 5 million

Instrument | Subordinated debt

Grofin SGB Fund Limited Partnerships

Who is our client

GroFin is a private development finance institution specialized in financing and supporting small and growing businesses across Africa and the Middle East by combining medium term loan capital and value-added business support. By generating employment, strengthening value chains and building markets, their investments bring about inclusive economic growth and improved living conditions in the low- and middle-income countries where they operate.

Funding objective

The funding will be fully used to finance women-owned SMEs.

Why we fund this project

Our financing meets the United Nations Sustainable Development Goals supporting women entrepreneurs with access to finance. Furthermore, this loan provides GroFin with stable long term funding, which indirectly contributes to economic development in Africa. The activities of GroFin are deemed to have limited adverse environmental and social risks and/or impacts. GroFin has developed an environmental and social management system ("ESMS") to mitigate any potential negative impact. As part of this transaction, E&S laws and regulations of the different host countries where GroFin is active will apply.

MASSIF investment | USD 5 million

Instrument | Commercial loan

Agora Microfinance Zambia Limited

Who is our client

Agora Microfinance Zambia is a microfinance institution dedicated to serving low-income, rural households in Zambia. Its mission is to contribute to the economic well-being of the poor through effective provision of appropriate financial services.

Funding objective

The funds will be used for on-lending to small farmers and small entrepreneurs, majority of whom are women, at the bottom of the pyramid.

Why we fund this project

The financing fits very well into FMOs impact objectives through providing inclusive financing of MSMEs in rural areas where access to financial services is limited, and by supporting FMOs strategic goal of stimulating economic growth, prioritizing LICs and supporting institutions that are operating in difficult economic environments. The lending activities of Agora to people in rural areas are not expected to trigger exposure to high-risk E&S sectors.

MASSIF investment | USD 2.5 million

Instrument | Commercial loan

Tamweelcom

The world is mobile, why isn't our data?

The world is on the move. Over 164 million migrant workers make a living in a foreign country and they are joined by almost 26 million refugees who have been forced to flee due to conflict. While some would prefer to remain abroad, most want to return home at one point and restart their lives with additional skills or savings.

Unfortunately, while people are on the move, their data is not. Creating digital economic identities for refugees and migrant workers present a potential solution to this challenge. Educational certificates, employer references, and credit transactions, verified by the issuer and stored in a personal "digital locker" on the blockchain, can provide people with the performance history they need to improve their livelihoods, restart their lives when they return home, and potentially facilitate access to finance.

Together with Making Cents International and SANAD, FMO is testing this concept in Lebanon and Jordan with its MFI clients Al Majmoua in Lebanon and Tamweelcom in Jordan. 1500 Filipino migrant workers in Lebanon and Syrian refugees in Jordan have been enrolled in the digital identity system called Hawiyati ("My Identity" in Arabic). Through 2020, it will be tested whether the identity system will facilitate access to finance for migrant workers and refugees both because it provides future financial institutions with their credit history, but also because it mitigates flight risk, since identity holders will not want to bring a bad credit history record back with them to their home country.

MASSIF investment | JOD 0.9 million

Instrument | Risk-sharing facility and capacity development

Finance for Jobs Consultancy Service

Supporting innovation by youth in Palestine

Who is our client

FMO's client is a private limited liability company domiciled in the West Bank, a newly formed SPV set up to serve as the prime contracting entity within the Development Impact Bond and will enter into contract, among others, with the outcomes payer, the service providers, and the DIB manager team.

Funding objective

The objective is to co-invest in the first World Bank sponsored Development Impact Bond ("DIB") to support youth employment in Palestine. The DIB is seeking to work with approximately 1,500 young unemployed Palestinians aged 18-29 in the West Bank and Gaza and aims to support over 400 participants in their transition to employment. At least 203 are expected to sustain their employment for at least 6 months.

Why we fund this project

We are funding the DIB, because it represents a new approach to tackling considerable social challenges such as youth unemployment in Palestine while also learning from an innovative DIB structure. The opportunity of this specific pilot will create a precedent transaction for future pipeline opportunities and inform FMO's next steps in this area of innovative financing, both in youth employment and other potential issue areas such as refugee finance or climate-smart agriculture.

MASSIF investment | EUR 0.42 million

Instrument | Development Impact Bond (DIB)

INTERNATIONAL PRINCIPLES

Equator Principles — Signatory

We have been implementing the Equator Principles (EP) since 2006. This risk management framework provides financial institutions with a minimum standard for due diligence and monitoring to determine, assess and manage environmental and social risks in projects. Our annual EP report is available online.

IFC Performance Standards — Adopter

Our E&S approach is guided by the IFC Performance Standards of Environmental & Social Sustainability. This framework helps us understand, avoid and mitigate E&S risks and impacts, for example through stakeholder engagement and disclosure obligations of the client in relation to project-level activities.

OECD Guidelines — Adopter

We follow OECD Guidelines on responsible business conduct, notably human rights, labor rights and the environment.

UN Guiding Principles on Business and Human Rights — Adopter

We integrate the set of guidelines defined by the UN for states and companies to prevent, address and remedy human rights abuses in business operations.

ILO Standards — Adopter

We follow the set of ILO legal instruments that set out basic principles and rights at work.

Dutch Banking Agreement (IMVO Covenant) — Signatory

We signed the Dutch Banking Sector Agreement on International Responsible Business Conduct Regarding Human Rights to analyze value chains of specific sectors and share practices on human rights.

Global Impact Investing Network — Member

We support the GIIN because it is dedicated to increasing the scale and effectiveness of impact investing through knowledge sharing, best practice exchanges, and tools / resources production.

Sustainable Development Goals Charter — Signatory

We joined the SDG Charter Network to foster cooperation between business, civil society and local governments in the Netherlands, in order to achieve the SDGs at home and abroad.

Impact Management Project — Member

We joined and support the IMP, a forum for building global consensus on how to measure, manage and report impact and for sharing best practices.

Natural Capital Finance Alliance — Signatory

We closely follow the developments of the NCFA initiative to integrate natural capital considerations into loans, public and private equity, and fixed income and insurance products.

UNEP FI / EBF Working Group on Banking and Taxonomy — Member

We are part of the UNEP Finance Initiative / European Banking Federation Working Group that assesses how the EU Taxonomy on Sustainable Activities can be implemented by banks and applied to selected banking products.

Dutch Climate Accord — Signatory

We signed the financial sector commitment to fight climate change and support the Dutch Climate Accord to achieve a 49% CO_2 reduction by 2030 in the Netherlands.

Mainstreaming climate action in financial institutions — Signatory

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

Platform for Carbon Accounting Financials — Signatory

We are one of the early adopters of PCAF, an industry-led global partnership to develop and implement a harmonized approach to assess and disclose GHG emissions of loans/investments. This facilitates transparency and accountability of the financial sector to the Paris Agreement.

NpM Platform for Inclusive Finance — Member

As a member of the NpM platform for Dutch inclusive finance investors, we are expanding access to affordable financial services worldwide and increasing the effectiveness of our investments and activities.

Consultative Group to Assist the Poor — Member

We are part of the CGAP global partnership to test, learn and share knowledge intended to help build inclusive and responsible financial systems.

European Microfinance Platform — Member

We are part of the e-MFP network to foster activities that increase global access to affordable, quality, sustainable and inclusive financial services for the un(der)banked through knowledge-sharing, partnership development and innovation.

Emerging Market Private Equity Association — Member

We are a member of the global EMPEA association. This aims to catalyze the development of private equity and venture capital industries in emerging markets through research, conferences, networking, and advocacy.

Corporate Governance Development Framework — Adopter

We adopted the Corporate Governance Development Framework as a common approach to corporate governance risks and opportunities in DFI investment operations.

Financial Action Task Force — Adopter

We use the FATF framework to combat money laundering and terrorism financing, as well as the proliferation of weapons of mass destruction.

For our own operations, we maintain the following standards: — Signatory

- MVO Prestatieladder

- The Gold Standard

LIST OF ABBREVIATIONS

AC	Amortized Cost
AEF	Access to Energy Fund
AFS	Available For Sale
ALCO	Asset and Liability Committee
CD	Capacity Development
CPP(s)	Client Protection Principles
DFI	Development finance institution
DGIS	Directorate-General for International Cooperation
EAD	Exposure at Default
ECL	Expected Credit Loss
ESG	Environmental, social and governance
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden
FMO-OS	Fonds Opkomende Markten - Ontwikkelingssamenwerking
FV	Fair Value
FVOCI	Fair Value Through Other Comprehensive Income
FVPL	Fair Value Through Profit or Loss
GHG	Green House Gas
IASB	International Accounting and Standards Board
IDF	Infrastructure Development Fund
IFRS	International Financial Reporting Standards
IRC	Investment Review Committee
LCY	Local currency
LGD	Loss Given Default
LIC	Low income country
MB	Management Board
MSME	Micro, small and medium-sized enterprises
NPL	Non-Performing Loans - loans in default
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PD	Probability of Default
PE	Private Equity
PIM	Public Investment Management team within FMO
SDGs	Sustainable Development Goals
SPPI	Solely Payments of Principal and Interest
WMSME	Women-owned micro, small and medium-sized enterprises

Read more about	
FMO	www.fmo.nl/
ODA	www.rijksbegroting.nl/system/files/10/odaenoesodac-criteria.pdf
OECD	www.oecd.org/
SDGs	sustainabledevelopment.un.org

Statement of financial position

At December 31, 2019

	Notes	2019	2018
Assets			
Banks	(1)	30,969	14,363
Current account with FMO	(2)	110	-
Short-term deposits	(3)	14,285	37,969
Loan portfolio	(4)	183,460	186,661
Equity investments	(5)	256,042	252,854
Investments in associates	(6)	6,746	5,681
Other receivables	(7)	6,834	1,609
Total assets		**498,446**	**499,137**
Liabilities			
Current account with FMO	(8)	-	264
Other liabilities	(9)	440	-
Accrued liabilities	(10)	2,789	6
Provisions	(11)	389	274
Total liabilities		**3,618**	**544**
Fund capital	**(12)**		
Contribution DGIS previous years		350,990	335,961
Contribution DGIS current year		-	15,029
Total contribution DGIS		**350,990**	**350,990**
Initial contribution FMO		7,778	7,778
Total contribution FMO		**7,778**	**7,778**
Translation reserve		734	621
Other reserves		68,697	68,697
Undistributed results previous years		70,507	43,390
Net profit / (loss)		-3,878	27,117
Total fund capital		**494,828**	**498,593**
Total liabilities and fund capital		**498,446**	**499,137**
Effective guarantees issued	(19)	1,479	2,270
Irrevocable facilities	(19)	81,800	92,120
Total subsidy allocated to MASSIF (including HMA Skopje)		345,096	345,096
Total subsidy withdrawn from DGIS for MASSIF		343,246	343,246
"Total subsidy available MASSIF"		**1,850**	**1,850**
Subsidy receieved by G-20 SME Finance Challenge		7,744	7,744

Statement of comprehensive income

At December 31, 2019

	Notes	2019	2018
Income			
Interest income from financial instruments measured at AC		13,254	14,049
Interest income from financial instruments measured at FVPL		2,913	1,544
Net interest income	**(13)**	**16,167**	**15,593**
Fee and commission income	(14)	243	361
Results from equity investments	(16)	-7,663	25,560
Results from associates	('6)	-	74
Dividend income	(15)	3,458	1,276
Results from financial transactions	(17)	2,667	3,661
Remuneration for services rendered		14	13
Total income		**14,886**	**46,538**
Expenses			**-**
Remuneration FMO	(18)	-10,896	-10,895
Capacity development expenses		-4,960	-2,300
Other operating expenses		-6	-
Evaluation expenses		-218	-859
Total expenses		**-16,080**	**-14,054**
Impairments on			
Loans	(4)	-3,500	-5,674
Guarantees issued		11	-49
Total impairments		**-3,489**	**-5,723**
Share in result of associates	(6)	805	356
Net profit / (loss)		**-3,878**	**27,117**
Other comprehensive income			
Translation reserve		113	259
Other comprehensive income		**113**	**259**
Total comprehensive income / (loss)		**-3,765**	**27,376**

Statement of changes in fund capital

At December 31, 2019

	Contributed Fund capital	Contribution FMO	Translation reserve	Other reserves	Undistributed results previous years	Net profit / (loss)	Total fund capital
Balance at January 1, 2018	**335,961**	**7,778**	**362**	**68,697**	**43,390**	**-**	**456,188**
Contribution DGIS	15,029	-	-	-	-	-	15,029
Contribution FMO	-	-	-	-	-	-	-
Translation reserve	-	-	259	-	-	-	259
Results current year	-	-	-	-	-	27,117	27,117
Net balance at December 31,2018	**350,990**	**7,778**	**621**	**68,697**	**43,390**	**27,117**	**498,593**
Balance at January 1, 2019	**350,990**	**7,778**	**621**	**68,697**	**70,507**	**-**	**498,593**
Contribution DGIS	-	-	-	-	-	-	-
Contribution FMO	-	-	-	-	-	-	-
Translation reserve	-	-	113	-	-	-	113
Results current year	-	-	-	-	-	-3,878	-3,878
Evaluation costs incurred	-	-	-	-	-		-
Net balance at December 31,2019	**350,990**	**7,778**	**734**	**68,697**	**70,507**	**-3,878**	**494,828**

Statement of cash flows

At December 31, 2019

	Notes	2019	2018
Cash from operating activities			
Inflows			
Interest received on loans	(13)	15,608	15,507
Repayments on loans	(4)	45,771	43,062
Sales of loans to FMO	(4)	-	2,500
Sale of equity instruments to other parties than FMO	(5)	21,239	32,339
Dividends and fees received	(16)	3,732	1,723
Other received amounts		686	1,316
Outflows			
Disbursements on loans	(4)	-42,721	-63,920
Investments in equity instruments and associates	(5),(6)	-31,750	-24,379
Disbursements on grants		-2,217	-2,301
Other paid amounts		-6,156	-2,343
Net cash from operating activities		**4,192**	**3,504**
Cash flow financing activities			
Inflows			
Contribution DGIS current year	(12)	-	15,029
Outflows			
Management fees FMO	(18)	-10,896	-10,895
Net cash from financing activities		**-10,896**	**4,134**
Net change in cash & cash equivalent		**-6,704**	**7,638**
Position of cash at January 1 [1)]		52,068	44,430
Position of cash at end of period [1)]		45,364	52,068

1 Cash includes current account with FMO.

Summary of accounting policies

General information

MASSIF ("the Fund") was established in 2006 by the Dutch Ministry of Foreign Affairs to provide risk capital and local currency financing to financial intermediaries in developing countries who in turn serve micro- and small scale entrepreneurs and lower income households. FMO executes the Fund at the risk and expense of the Dutch State. The total subsidy received to date amounts to €345 million. The anticipated end date of the Fund is December 2026.

Basis of preparation

The annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These annual accounts are based on the 'going concern' principle.

These accounts have been prepared under the historical cost convention, except for:

- Equity investments and short-term deposits are mandatorily measured at fair value;
- A part of the loan portfolio which is measured mandatory at fair value;

Reclassification

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Adoption of IFRS

The annual accounts of the Fund has been prepared in accordance with International Financial Reporting Standards (IFRS"), as adopted by the European Union, as at 31 December 2019. The additional disclosure notes have been presented in these financial statements for the year ended 31 December 2019 and 2018. The impact for financial statement items have been very limited as accounts had been prepared under IFRS conventions in comparative periods.

Adoption of new standards, interpretations and amendments

Standards and amendments to existing standards effective from 1 January 2019

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

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower. In October 2017 the IASB amended the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at AC (or, depending on the business model, at FVOCI) even in the case of negative compensation payments in case of early repayment of loans. This amendment is effective for annual reporting periods beginning on or after January 1, 2019 and does not have impact for the Fund.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9 is applicable to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. Furthermore, the paragraph regarding interests in associates or joint ventures that do not constitute part of the net investment has been deleted. The amendment is expected to be effective starting from January 1, 2019. These amendments have no impact on the Fund.

Annual Improvements to IFRS Standards 2015–2017 Cycle did not have any impact on the annual accounts.

Issued but not yet adopted standards

Amendments to IAS 1 and IAS 8

The IASB has issued amendments of IAS 1 and IAS 8 to clarify the definition of material, specifically explaining obscuring, reasonable influence and primary users. The effective date for these amendments is for annual reporting periods beginning on January 1, 2020. the Fund has adopted IFRS 9 Financial instruments in 2018 and has used various material estimates for that matter based on the current definition of material. The amendment is not expected to have impact on the Fund.

Amendments to References to the Conceptual Framework in IFRS Standards

On March 28, 2018 IASB presented the revised Conceptual Framework for Financial Reporting. The Conceptual Framework is not a standard itself but can be used as general guidance for transactions / events where specific IFRS standards are not available. Main improvements in the revised Conceptual Framework contains the introduction of concepts for measurement and presentation & disclosures, guidance for derecognition of assets and liabilities. In addition definitions of an asset & liability and criteria for recognition have been updated. These amendments will have minor impact on the Fund.

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

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 Financial Instruments: Disclosures, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The effective date of the amendments to the standards is for annual periods beginning on or after 1 January 2020, with early application permitted. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The Board completed discussions and made tentative decisions related to the phase 2 of the reform in February 2020 (Phase 2 amendments) and expects to publish an exposure draft in April 2020. Tentative decisions are made regarding modification of a financial instrument made in the context of IBOR reform and provision of temporary relief for hedging relationships amended to reflect modifications that are required as a direct consequence of IBOR reform. The Board tentatively decided that the effective date of the application of Phase 2 amendments is beginning on or after 1 January 2021, with earlier application permitted.

In January 2019, the Fund started the BMR and IBOR ending project, a phased project with an expected end date of December 2021. Impact is expected on valuations of the loan portfolio of the Fund. No hedge accounting is applied for the financial assets and liabilities of the Fund, hence the Fund is not impacted by the related amendments. No early adoption related to IBOR reform has been implemented by the Fund.

Significant estimates, assumptions and judgements

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

- The determination of the fair value of financial instruments based on generally accepted modeled valuation techniques;
- The determination of the ECL allowance.

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

- Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payments of principal and interest
- The inputs and calibration of the ECL model which include the various formulas and the choice of inputs, aging criteria and forward-looking information;

Foreign currency translation

The Fund uses the euro as the unit for presenting its annual accounts. All amounts are denominated in thousands of euros unless stated otherwise. In accordance with IAS 21, foreign currency transactions are translated to euro at the exchange rate prevailing on the date of the transaction. At the balance sheet date, monetary assets and liabilities are reported using the closing exchange rate. Non-monetary assets that are not measured at cost denominated in foreign currencies are reported using the exchange rate that existed when fair values were determined. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the profit and loss account under 'results from financial transactions'. When preparing the annual accounts, share in associates is translated at the exchange rates at the balance sheet date, while income and expense items are translated at weighted average rates for the period. Differences resulting from the use of closing and weighted average exchange rates, and from revaluation of a entity's opening net asset value at closing rate, are recognized directly in the translation reserve within shareholders' equity. These translation differences are maintained in the translation reserves until disposal of the associate.

Offsetting of financial instruments

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

Fair value of financial instruments

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

Amortized cost and gross carrying amount

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

The *gross carrying amount* of a financial asset is the AC of a financial asset before adjusting for any expected credit loss allowance.

Assets

Financial assets – Classification

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

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

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

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

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

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

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

A financial asset is initially measured at fair value plus, for an item not at FVPL, transaction costs that are directly attributable to its acquisition.

Business model assessment

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

- How the performance of the portfolio is evaluated and reported to management of the Fund;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund stated objective for managing the financial assets is achieved and how cash flows are realized.

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

Contractual cash flow assessment

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

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

Reclassification

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

Financial assets – Impairment

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

- Banks;
- Loans;
- Loan commitments and financial guarantee contracts issued.

No impairment loss is recognized on equity investments.

Impairment stages loans, banks and guarantees

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

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

ECL measurement

The Fund's ECL model is primarily an expert based model and this model is benchmarked with other external sources if possible.

ECL measurement Stage 1 and Stage 2

IFRS 9 ECL allowance reflects unbiased, probability-weighted estimates based on loss expectations resulting from default events over either a maximum 12-month period from the reporting date or the remaining life of a financial instrument. The method used to calculate the ECL allowances for Stage 1 and Stage 2 assets are based on the following parameters:

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

Macro economic scenarios in PD estimates

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

The three scenarios applied are:

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

ECL measurement Stage 3

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

- Calculate probability weighted expected loss based on multiple scenarios including return to performing (and projected cash flows), restructuring, and write-off or sale;
- Apply the impairment matrix (based on LGD, past due amounts and client rating);
- Take expected cash flows from collateral and "firm offers" into account. The cashflows from collateral and "firm offers" serve as a cap for the provision (or a floor for the value of the loan).

Staging criteria and triggers

Financial instruments classified as low credit risk

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

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

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

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

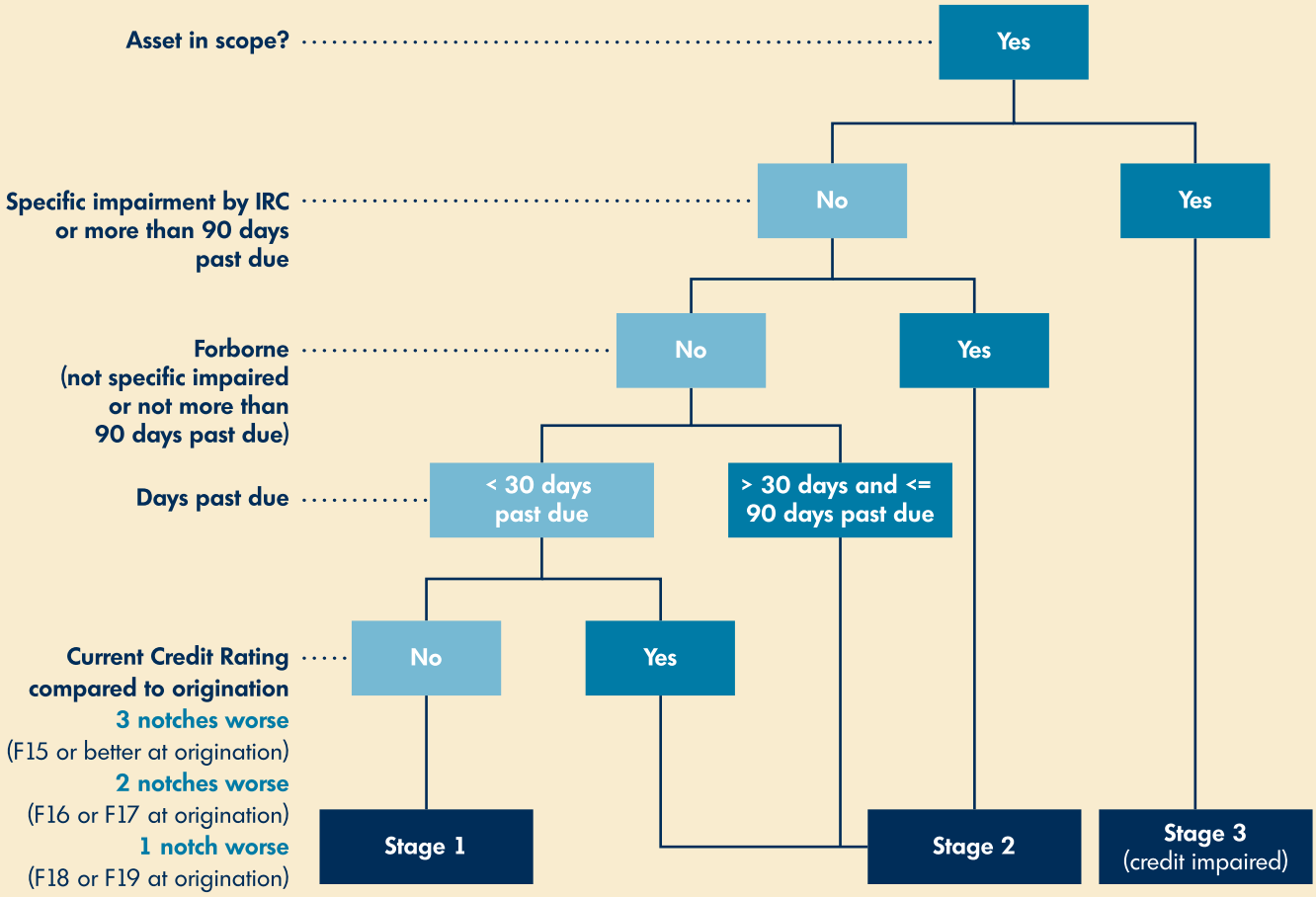
- The change in internal credit risk grade with a certain number of notches compared to the internal rating at origination;
- The fact that the financial asset is 30 days past due;
- The application of forbearance.

Definition of default (Stage 3)
A financial asset is considered as default when any of the following occurs:

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

As per 2019, the Fund adjusted the Stage 3 definition and aligned this to the currently effective Basel definition of Default. This alignment is in line with market practices implemented after the implementation of IFRS 9. Comparatives for 2018 have not been restated as there is no impact on profit and loss as no loans were more than 90 days past due and not specifically impaired.

The following diagram provides a high level overview of the IFRS 9 impairment approach at the Fund.



The table here below provides an overview how internal ratings are equivalent to external ratings.

Internal rating	Indicative external rating
F9	BBB and higher ratings
F10	BBB-
F11	BB+
F12	BB
F13	BB-
F14	B+
F15	B
F16	B-
F17 and lower	CCC+ and lower ratings

Reversed staging

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

- Loans which are in stage 3 will revert to stage 2 when the specific impairment is released by the IRC and there are no obligations past due for more than 90 days;
- Loans which are in stage 2 will only revert to stage 1 when internal ratings have improved to the level lower than the minimum notch downgrade from origination that led to transition to stage 2, the forbearance probation period of minimum two years has passed and no material amounts are past due for more than 30 days.

Written-off financial assets

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

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

Modification of financial assets

In 2019, the Fund enhanced the policy with criteria applied to determine derecognition and the events leading to recording of modification gain or loss in order to align the criteria more closely with the type of restructuring being carried out by the Fund. The revised criteria make use of specific events-based triggers in order to determine whether a specific change in contractual terms gives rise to derecognition or modification instead of relying only on a quantitative threshold related to differences in net present value (NPV). Application of the revised criteria to the comparative figures for 2018 did not demonstrate any impact and as such the comparatives were not restated.

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

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

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

Modification of contractual terms versus forbearance

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

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

Cash and cash equivalents

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

Loans

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

Loans on the balance sheet of the Fund include:

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

Equity investments

Equity investments on the balance sheet of the Fund include:

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

Investment in associates

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

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

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

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

Provisions

Provisions are recognized when:

- The Fund has a present legal or constructive obligation as a result of past events; and
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

Provisions are recognised for loan commitments and guarantees.

Guarantees

Issued financial guarantee contracts are measured at the higher of:

- The IFRS 9 ECL allowance or the amount of the provision under the contract; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies as set out in sections ‘Interest income’ and ‘Fee and commission income’. These fees are recognized as revenue on an accrual basis over the period committed.

Provisions resulting from guarantees are included in ‘Provisions’.

The Fund applies the same methodology as loans for measurement of ECL allowance of guarantees. Refer to policies above.

Contributed Fund Capital

The contributed capital contains the subsidies provided by the State to finance the portfolio of loans and equity investments.

The Fund Capital is revolvable (100% revolvability) when the current value of assets is equivalent or the sum of the capital put into the Fund by the funding party.

Translation reserve

The assets, liabilities, income and expenses of foreign operations and associates are translated using the closing and weighted average exchange rates. Differences resulting from the translation are recognized in the translation reserve.

Other reserves

Other reserves includes the reserve adjustments that arose out of the transition to IFRS 9 from IAS 39 in the financial year beginning 1 January 2018. This includes the transfer of previous available-for-sale reserves as well differences in measurement arising on transition.

Undistributed results previous years

The undistributed results consist of the part of the annual results that the Fund is accumulating to maintain the recoverability of the Fund.

Profit and Loss

Net interest income: interest income and expense

Interest income and interest expenses from financial instruments measured at AC are recognized in the profit and loss account for all interest-bearing financial instruments on an accrual basis using the 'effective interest' method based on the fair value at inception. Interest income and interest expenses also include amortized discounts and premiums on financial instruments.

When a financial asset measured at AC is credit-impaired and regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net AC of the financial asset. If the financial asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

Interest income from loans measured at FVPL are recognized under 'Interest income from financial instruments measured at FVPL.

Fee and commission income and expense

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

1. *Fees that are an integral part of the effective interest rate of a financial instrument (IFRS 9)*
   These fees (such as front-end fees) are generally treated as an adjustment to the effective interest rate. When the facility is not used and the commitment period expires, the fee is recognized at the moment of expiration. However, when the financial instrument is to be measured at fair value subsequent to its initial recognition, the fees are recognized as interest-income;
2. *Fees earned when services are provided (IFRS 15)*
   Fees charged by the Fund for servicing a loan (such as administration fees and agency fees) are recognized as revenue when the services are provided. Portfolio and other management advisory and service fees are recognized in line with the periods and the agreed services of the applicable service contracts;
3. *Fees that are earned on the execution of a significant act (IFRS 15)*
   These fees (such as arrangement fees) are recognized as revenue when the significant act has been completed.

Dividend income

Dividends are recognized in dividend income when a dividend is declared. The dividend receivable is recorded at declaration date.

Results from equity investments

Gains and losses in valuation of the equity investment portfolio are recognized under 'Results from equity investments'. These gains and losses include foreign exchange results of equity investments which are measured at fair value.

Results from financial transactions

Results from financial transactions include foreign exchange results (excluding foreign exchange results related to equity investments measured at fair value) driven by changes in the market. Furthermore, the valuation gains and losses related to loans measured at fair value are recognized in the profit and loss immediately under 'Results from financial transactions.

Capacity development expenses and contributions

Grants disbursed to recipients are recognised as an expense in the profit and loss account when the Fund incurs an irrevocable obligation to disburse the amount. Development contributions which contain repayment rights which meet the recognition criteria of an asset are treated in accordance with the policy on financial assets described above. Development contributions which do not contain a right to payment that meets the asset recognition criteria are recognised as an expense in the profit and loss account when the Fund incurs an irrevocable obligation to disburse the amount.

Statement of cash flows

The statement of cash flows is presented using the direct method.

Taxation

The MASSIF programme contributes to the overall income of the Ministry of Foreign Affairs and this income is considered business income subject to corporate income tax. No separate tax calculation is performed for MASSIF in the preparation of the annual financial statements. The results of the Fund are included in the Ministry's overall calculation of tax payable. The Ministry's overall calculation of tax payable is not allocated back to the Fund as an expense.

Notes to the annual accounts

1. Banks

	2019	2018
Banks	30,969	14,363
Balance at December 31	**30,969**	**14,363**

The cash on bank accounts can be freely disposed of.

2. Current accounts (assets)

	2019	2018
Current account with FMO	110	-
Balance at December 31	**110**	**-**

Current account assets relate to amounts receivable from FMO and can be freely disposed of.

3. Short-term deposits

Short-term deposits are liquid accounts and are subject to an insignificant risk of changes in fair value. The Fund has on demand full access to the carrying amounts.

	2019	2018
Money market funds	14,285	37,969
Balance at December 31	**14,285**	**37,969**

Short term deposits consist of MMF, which are measured at FVPL. Short term deposits generally have a maturity of less than three months.

4. Loans portfolio

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

	Loans measured at AC	Loans measured at FVPL	Total 2019
Balance at January 1	172,789	30,522	203,311
Disbursements	28,809	13,911	42,720
Reclassification Loans versus Equity	-	-450	-450
Repayments	-41,994	-3,777	-45,771
Write-offs	-408	-	-408
Derecognized and/or restructured loans	-	-	-
Changes in amortizable fees	54	-24	30
Changes in fair value	-	-566	-566
Changes in accrued income	-28	525	497
Exchange rate differences	3,151	1,008	4,159
Balance at December 31	**162,373**	**41,149**	**203,522**
Impairment	-20,062	-	-20,062
Net balance at December 31	**142,311**	**41,149**	**183,460**

	Loans measured at AC	Loans measured at FVPL	Total 2018
Balance at January 1	155,861	27,482	183,343
Disbursements	57,904	6,014	63,918
Reclassification Loans versus Equity	-	-	-
Repayments	-41,466	-4,096	-45,562
Write-offs	-1,754	-	-1,754
Derecognized and/or restructured loans	254	-	254
Changes in amortizable fees	99	-	99
Changes in fair value	-	368	368
Changes in accrued income	-740	413	-327
Exchange rate differences	2,631	341	2,972
Balance at December 31	**172,789**	**30,522**	**203,311**
Impairment	-16,650	-	-16,650
Net balance at December 31	**156,139**	**30,522**	**186,661**

The contractual amount of assets that were written off during the period are still subject to enforcement activity. Recoveries from written off loans amount to €0.1 mln (2018: €0.0 mln).

The following table summarizes the loans segmented by sector:

	2019					
Loans segmented by sector	**Stage 1**	**Stage 2**	**Stage 3**	**Fair value**	**Total 2019**	**2018**
Financial Institutions	105,100	13,123	17,059	30,749	166,031	174,905
Energy	4,133	-	268	3,001	7,402	5,643
Agribusiness	2,628	-	-	539	3,167	3,803
Multi-Sector Fund Investments	-	-	-	6,860	6,860	2,310
Infrastructure, Manufacturing and Services	-	-	-	-	-	-
Net balance at December 31	**111,861**	**13,123**	**17,327**	**41,149**	**183,460**	**186,661**

	2019					
Loans segmented by geographical area	**Stage 1**	**Stage 2**	**Stage 3**	**Fair value**	**Total 2019**	**2018**
Africa	35,239	10,245	17,327	8,315	71,126	62,150
Asia	34,979	2,878	-	13,802	51,659	54,295
Latin America & the Carribbean	27,077	-	-	1,770	28,847	27,492
Europe & Central Asia	6,818	-	-	17,012	23,830	27,542
Non - region specific	7,748	-	-	250	7,998	15,182
Net balance at December 31	**111,861**	**13,123**	**17,327**	**41,149**	**183,460**	**186,661**

	2019	2018
Gross amount of loans to companies in which the Fund has equity investments	12,170	9,925
Gross amount of subordinated loans	1,999	1,947
Gross amount of non-performing loans	34,936	28,853

For definition and more details on non-performing loans, we refer to section 'Credit Risk' within the Risk Management paragraph.

The movements in the gross carrying amounts and ECL allowances for the loans at AC are as follows:

Changes in loans to the private sector at AC in 2019	Stage 1		Stage 2		Stage 3		Total	
	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance
At December 31, 2018	133,576	-1,939	10,360	-249	28,853	-14,462	172,789	-16,650
Additions	21,715	-626	6,934	-250	160	-3	28,809	-879
Exposures derecognised or matured / lapsed (excluding write-offs and modifications)	-35,719	66	-3,885	17	-2,390	786	-41,994	869
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-7,462	103	-	-	7,462	-103	-	-
Modifications of financial assets (including derecognition)	-	-	-	-	-	-	-	-
Changes in risk profile not related to transfers		544		-83	-	-3,761	-	-3,300
Amounts written off	-	-	-	-	-408	408	-408	408
Changes in amortizable fees	-24	-	41	-	37	-	54	-
Changes in accrued income	-141	-	7	-	106	-	-28	-
Foreign exchange adjustments	1,797	-29	238	-7	1,116	-474	3,151	-510
At December 31, 2019	**113,742**	**-1,881**	**13,695**	**-572**	**34,936**	**-17,609**	**162,373**	**-20,062**

Changes in loans to the private sector at AC in 2018		Stage 1		Stage 2		Stage 3		Total
	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance
At January 1, 2018	109,122	-1,140	16,765	-452	29,973	-10,426	155,861	-12,017
Additions	54,869	-103	3,036	-6	-	-	57,904	-109
Exposures derecognised or matured / lapsed (excluding write-offs and modifications)	-34,982	568	-6,255	1,461	-229	1,336	-41,466	3,365
Transfers to Stage 1	4,192	-280	-4,192	280	-	-	-	-
Transfers to Stage 2	-698	53	698	-53	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Modifications of financial assets (including derecognition)	252	-	-	-	-	-	252	-
Changes in risk profile not related to transfers		-1,005		-1,490	-	-6,626	-	-9,121
Amounts written off	-	-	-	-	-1,754	1,754	-1,754	1,754
Changes in amortizable fees	36	-	30	-	33	-	99	-
Changes in accrued income	-323	-	-51	-	-364	-	-738	-
Foreign exchange adjustments	1,108	-33	329	11	1,194	-500	2,631	-522
At December 31, 2018	**133,576**	**-1,940**	**10,360**	**-249**	**28,853**	**-14,462**	**172,789**	**-16,650**

The impairments related to guarantees are included in provisions (see Note 11).

Total impairments on loans in the profit and loss account

	2019	2018
Additions and reversals loans Massif portfolio	-3,629	-5,674
Recoveries (writen - off loans)[1]	129	-
Balance at December 31	**-3,500**	**-5,674**

1 Recoveries from written-off loans have been reclassified from 'Other operating income'.

The table below show the values of the IMF GDP forecasts used in each of the economic scenarios for the ECL calculations for 2019 and 2020. The upside and downside scenario calculations are derived from the base case scenario, adjusted based on an indicator of public debt to GDP in emerging markets.

IMF GDP % Growth Forecasts	2019	2020
India	6.1%	7.0%
Myanmar	6.2%	6.3%
Zimbabwe	-7.1%	2.7%
Uzbekistan	5.5%	6.0%
Kenya	5.6%	6.0%
Nicaragua	-5.0%	-0.8%
Afghanistan	3.0%	3.5%
Philippines (The)	5.7%	6.2%
Pakistan	3.3%	2.4%
Georgia	4.6%	4.8%

The following tables outline the impact of multiple scenarios on the ECL allowance as at December 31, 2018 and December 31, 2019:

December 31, 2019	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector	Guarantees	Total
ECL Scenario:					
Upside	19,355	5%	966	2	968
Base case	20,451	50%	10,207	18	10,225
Downside	22,433	45%	10,077	18	10,095
Total			**21,250**	**38**	**21,288**

December 31, 2018	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector	Guarantees	Total
ECL Scenario:					
Upside	15,988	5%	797	2	799
Base case	16,924	50%	8,438	24	8,462
Downside	18,477	45%	8,293	22	8,315
Total			**17,528**	**48**	**17,576**

In order to demonstrate the sensitivity, the tables below present the distribution of stage 2 impairments by the criteria that triggered the migration to stage 2 versus stage 2 impairments triggered by the 30 day past due backstop.

December 31, 2019

ECL allowance - Stage 2 trigger assessment	Loans to private sector	Loan commitments	Total
More than 30 days past due	-3	-7	-10
Forbearance	-	-	-
Deterioration in credit risk rating	-569	-56	-625
Total	**-572**	**-63**	**-635**

December 31, 2018

ECL allowance - Stage 2 trigger assessment	Loans to private sector	Loan commitments	Total
More than 30 days past due	-	-	-
Forbearance	-	-	-
Deterioration in credit risk rating	-249	-99	-348
Total	**-249**	**-99**	**-348**

5. Equity investments

The equity investments in developing countries are for the Fund's account and risk. The movements in fair value of the equity investments are summarized in the following table. Equity investments are measured at FVPL.

	Equity measured at FVPL
Net balance at January 1, 2019	252,854
Purchases and contributions	31,604
Reclassification from loans	486
Return of Capital	-15,845
Changes in fair value	-13,057
Net balance at December 31, 2019	**256,042**

	Equity measured at FVPL
Net balance at January 1, 2018	235,179
Purchases and contributions	24,379
Reclassification from loans	-
Return of Capital	-19,479
Changes in fair value	12,775
Net balance at December 31, 2018	**252,854**

The following table summarizes the equity investments segmented by sector:

	2019	2018
Financial Institutions	93,852	77,731
Energy	1,149	1,587
Agribusiness	9,752	11,991
Multi-Sector Fund Investments	65,419	71,036
Infrastructure, Manufacturing and Services	85,870	90,509
Net balance at December 31	**256,042**	**252,854**

6. Investments in associates

The movements in net book value of the associates are summarized in the following table:

	2019	2018
Net balance at January 1	5,681	5,066
Purchases and contributions	146	-
Reclassification to/ from loans	-	-
Sales	-	-
Share in net results	805	356
Exchange rate differences	114	259
Net balance at December 31	**6,746**	**5,681**

Investments in associates are valued based on the equity accounting method.

The following table summarizes the associates segmented by sector.

	2019	2018
Financial Institutions	6,746	5,681
Energy	-	-
Infrastructure, Manufacturing and Services	-	-
Multi-Sector Fund Investments	-	-
Net balance at December 31	**6,746**	**5,681**

The following table summarizes the share in the total assets, liabilities, total income and total net profit/loss of the associates

	Total
Total assets	14,228
Total liabilities	7,048
Total income	1,139
Total profit/loss	**899**

7. Other receivables

	2019	2018
Receivables related to equity disposals and dividends	6,645	1,398
Fee receivables	189	211
Balance at December 31	**6,834**	**1,609**

Debtors primarily relate to sales proceeds from the private equity portfolio.

8. Current accounts (liabilities)

	2019	2018
Current account FMO	-	264
Balance at December 31	**-**	**264**

Current account liabilities relate to amounts owing to FMO.

9. Other liabilities

	2019	2018
Amortized costs related to guarantees	17	-
Other liabilities	423	-
Balance at December 31	**440**	**-**

10. Accrued liabilities

	2019	2018
Other accrued liabilities	2,789	6
Balance at December 31	**2,789**	**6**

Accrued liabilities relate to capacity development costs that are contracted but not yet disbursed.

11. Provisions

The amounts recognized in the balance sheet are as follow:

	2019	2018
Allowance for loan commitments	352	225
Liabilities for guarantees	37	49
Balance at December 31	**389**	**274**

12. Contributed fund capital and reserves

	2019	2018
Contributed Fund Capital	350,990	335,961
Initial contribution FMO	7,778	7,778
Contribution DGIS current year	-	15,029
Balance at December 31	**358,768**	**358,768**

The fund capital is revolvable (100% revolvability) when the current value of assets is equivalent or above the sum of the capital put into the fund by shareholders.

Other reserves	2019	2018
Other reserves	68,697	68,697
Balance at December 31	**68,697**	**68,697**

Undistributed results	2019	2018
Balance at January 1	70,507	43,390
Additions	-	27,117
Balance at December 31	**70,507**	**70,507**

13. Net interest income

	2019	2018
Interest on loans measured at AC	13,374	14,097
Interest on banks	-120	-48
Total interest income from financial instruments measured at AC	**13,254**	**14,049**
Interest on loans measured at FVPL	2,779	1,294
Interest on short-term deposits	134	250
Total interest income from financial instruments measured at FVPL	**2,913**	**1,544**
Total net interest income	**16,167**	**15,593**

14. Net fee and commission income

	2019	2018
Prepayment fees	14	-
Front-end fees for FVPL loans	31	56
Administration fees	168	266
Other fees (arrangement, cancellation and waiver fees)	30	39
Net fee and commission income	**243**	**361**

15. Dividend income

	2019	2018
Dividend income direct investments	2,050	494
Dividend income fund investments	1,408	782
Total dividend income	**3,458**	**1,276**

16. Results from equity investments

	2019	2018
Results from equity investments:		
Unrealized results from capital results	-8,845	19,208
Unrealized results from FX conversions - capital results	-1,375	-514
Unrealized results from FX conversions - cost price	5,149	9,009
Net unrealized results	**-5,071**	**27,703**
Results from sales & distributions:		
-Realized results	5,462	10,914
-Release unrealized results	-8,054	-13,057
Net results from sales & distributions	**-2,592**	**-2,143**
Total results from equity investments	**-7,663**	**25,560**

17. Results from financial transactions

	2019	2018
Results on sales and valuations of FVPL loans	566	447
Foreign exchange results	2,101	3,214
Total results from financial transactions	**2,667**	**3,661**

18. Expenses

	2019	2018
Remuneration FMO	-10,896	-10,895
Capacity development expenses	-4,960	-2,300
Other operating expenses	-6	-
Evaluation expenses	-218	-859
Total operating expenses	**-16,080**	**-14,054**

Remuneration FMO relates to management fees paid to FMO.

Capacity development expenses relate to grants or contributions paid to beneficiaries in terms of the fund's objectives. Evaluation costs relate to expenses made during frequent investigations and controls of existing investments and costs related to due diligence of new projects.

As per 2019, presentation of CD expenses and evaluation expenses has changed from 'Fund Capital' to 'Comprehensive income'. Comparatives for 2018 have been adjusted accordingly.

19. Off-Balance Sheet information

To meet the financial needs of borrowers, the Fund enters into various irrevocable commitments (loan commitments, equity commitments and guarantee commitments) and contingent liabilities. These contingent liabilities consist of financial guarantees, which commit the Fund to make payments on behalf of the borrowers in case the borrower fails to fulfill payment obligations. Though these obligations are not recognized on the balance sheet, they do obtain Credit Risk similar to loans to private sector. Therefore, provisions are calculated for financial guarantees and loan commitments according to IFRS 9 ECL measurement methodology.

The outstanding amount for financial guarantees issued by the Fund and amount of guarantees received by the Fund are as follows:

	2019	2018
Contingent liabilities		
Effective guarantees issued	1,479	2,270
Less: provisions, amortized costs and obligations for guarantees (presented under other liabilities/provisions)	-54	-49
Total guarantees issued	**1,425**	**2,221**
Effective guarantees received	-	-
Total guarantees received	**-**	**-**

As agreed with the Dutch Ministry of Foreign Affairs, the fund shall maintain 1 euro for each euro of guarantee issued. The total amount of cash as per 31 December 2019 is adequately covering the total guarantees issued and hence meets the requirement set out by the Dutch Ministry of Foreign Affairs.

Nominal amounts for irrevocable facilities are as follows:

	2019	2018
Irrevocable facilities		
Contractual commitments for disbursements of:		
- Loans	23,968	22,697
- Grants	1,499	3,560
- Equity investments and associates	55,113	65,863
Contractual commitments for financial guarantees given	1,220	-
Total irrevocable facilities	**81,800**	**92,120**

The movement in exposure for the financial guarantees issued (including contractual commitments) and ECL allowance is as follows:

Movement financial guarantees in 2019	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	Oustanding exposure/ Nominal amount	**ECL allowance**	**Oustanding exposure/ Nominal amount**	**ECL allowance**	**Oustanding exposure/ Nominal amount**	**ECL allowance**	**Oustanding exposure/ Nominal amount**	**ECL allowance**
At January 1, 2019	2,270	-49	-	-	-	-	2,270	-49
Additions	-	-4	-	-	-	-	-	-4
Exposures matured (excluding write-offs)	-838	-	-	-	-	-	-838	-
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	17	-	-	-	-	-	17
Foreign exchange adjustments	47	-1	-	-	-	-	47	-1
At December 31, 2019	**1,479**	**-37**	**-**	**-**	**-**	**-**	**1,479**	**-37**

Movement financial guarantees in 2018	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	Oustanding exposure/ Nominal amount	**ECL allowance**	**Oustanding exposure/ Nominal amount**	**ECL allowance**	**Oustanding exposure/ Nominal amount**	**ECL allowance**	**Oustanding exposure/ Nominal amount**	**ECL allowance**
At January 1, 2018	-	-	-	-	-	-	-	-
Additions	2,303	-49	-	-	-	-	2,303	-49
Exposures matured (excluding write-offs)	-	-	-	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-33	-	-	-	-	-	-33	-
At December 31, 2018	**2,270**	**-49**	**-**	**-**	**-**	**-**	**2,270**	**-49**

The movement in exposure for the loan commitments is as follows:

Movement of loans commitments in 2019	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
At January 1, 2019	10,848	-127	3,076	-99	-	-	13,924	-226
Additions	19,105	-202	-	-	-	-	19,105	-202
Exposures derecognised or matured (excluding write-offs)	-5,657	19	-7,323	111	-	-	-12,980	130
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-5,756	31	5,756	-31	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-8	-	-44	-	-	-	-52
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-2	-	-	-	-	-	-2
At December 31, 2019	**18,541**	**-289**	**1,508**	**-63**	**-**	**-**	**20,049**	**-352**

Movement of loans commitments in 2018	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
ECLs as at January 1, 2018	25,400	-214	7,052	-202	-	-	32,452	-416
Additions	10,011	-94	-	-	-	-	10,011	-94
Exposures derecognised or matured (excluding write-offs)	-18,696	151	-9,843	202	-	-	-28,539	353
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-5,866	-	5,866	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	100	-	-94	-	-	-	6
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-70	-	-5	-	-	-	-75
At December 31, 2018	**10,848**	**-127**	**3,076**	**-99**	**-**	**-**	**13,924**	**-226**

20. Analysis of financial assets and liabilities by measurement basis

The significant accounting policies summary describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following table gives a breakdown of the carrying amounts of the financial assets and financial liabilities by category as defined in under IFRS 9 and by balance sheet heading.

December 31, 2019	FVPL - mandatory	FVPL- designated	Fair value hedging instruments	FVOCI- equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
Financial assets measured at fair value							
Short-term deposits	14,285	-	-	-	-	-	14,285
Loans to the private sector	41,149	-	-	-	-	-	41,149
Equity investments	256,042	-	-	-	-	-	256,042
Total	**311,476**	**-**	**-**	**-**	**-**	**-**	**311,476**
Financial assets not measured at fair value							
Banks	-	-	-	-	30,969	-	30,969
Short-term deposits	-	-	-	-	-	-	-
Interest-bearing securities	-	-	-	-	-	-	-
Loans to the private sector	-	-	-	-	142,311	-	142,311
Current accounts	-	-	-	-	110	-	110
Other receivables		-	-	-	6,834	-	6,834
Total	**-**	**-**	**-**	**-**	**180,224**	**-**	**180,224**
Financial liabilities not measured at fair value							
Current accounts	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	440	-	440
Accrued liabilities	-	-	-	-	2,789	-	2,789
Total	**-**	**-**	**-**	**-**	**3,229**	**-**	**3,229**

December 31, 2018	FVPL - mandatory	FVPL- designated	Fair value hedging instruments	FVOCI- equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
Financial assets measured at fair value							
Short-term deposits	37,969	-	-	-	-	-	37,969
Loans to the private sector	30,522	-	-	-	-	-	30,522
Equity investments	252,854	-	-	-	-	-	252,854
Total	**321,345**	**-**	**-**	**-**	**-**	**-**	**321,345**
Financial assets not measured at fair value							
Banks		-	-	-	14,363	-	14,363
Short-term deposits	-	-	-	-	-	-	-
Interest-bearing securities	-	-	-	-	-	-	-
Loans to the private sector	-	-	-	-	156,139	-	156,139
Current accounts	-	-	-	-	-	-	-
Other receivables		-	-	-	1,609	-	1,609
Total	**-**	**-**	**-**	**-**	**172,111**	**-**	**172,111**
Financial liabilities not measured at fair value							
Current accounts	-	-	-	-	264	-	264
Other liabilities	-	-	-	-	-	-	-
Accrued liabilities	-	-	-	-	6	-	6
Total	**-**	**-**	**-**	**-**	**270**	**-**	**270**

Fair value hierarchy

All financial instruments for which fair value is recognized or disclosed are categorized within the fair value hierarchy, based on lowest level input that is significant to the fair value measurement as a whole, as follows:
Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
Level 3 – Valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable.

Valuation process

For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the Fund has a valuation process in place to decide its valuation policies and procedures and analyze changes in fair value measurement from period to period.

The Fund's fair value methodology and governance over its methods includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. The responsibility of ongoing measurement resides with the relevant departments. Once submitted, fair value estimates are also reviewed and challenged by the Investment Review Committee (IRC). The IRC approves the fair values measured including the valuation techniques and other significant input parameters used.

Valuation technique

When available, the fair value of an instrument is measured by using the quoted price in an active market for that instrument (level 1). A market is regarded as active if transactions of the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, valuation techniques are used that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Valuation techniques include:

- Recent broker / price quotations
- Discounted cash flow model
- Option-pricing models

The techniques incorporate current market and contractual prices, time to expiry, yield curves and volatility of the underlying instrument. Inputs used in pricing models are market observable (level 2) or are not market observable (level 3). A substantial part of fair value (level 3) is based on net asset values.

Equity investments are measured at fair value when a quoted market price in an active market is available or when fair value can be estimated reliably by using a valuation technique. The main part of the fair value measurement related to equity investments (level 3) is based on net asset values of investment funds as reported by the fund manager and are based on advanced valuation methods and practices. When available, these fund managers value the underlying investments based on quoted prices, if not, multiples are applied as input for the valuation. For the valuation process of the equity investments we further refer to the accounting policies within these Annual Accounts as well as section 'Equity Risk', part of the Risk Management chapter. The determination of the timing of transfers is embedded in the quarterly valuation process, and therefore recorded at the end of each reporting period.

The table below presents the carrying value and estimated fair value of value financial assets and liabilities not measured at fair value.

The carrying values in the financial asset and liability categories are measured at AC except for the funding in connection with hedge accounting. The underlying changes to the fair value of these assets and liabilities are therefore not recognized in the balance sheet.

Carrying value financial assets	**2019**		**2018**	
At December 31	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Short term deposits at AC	-	-	-	-
Banks	30,969	30,969	14,363	14,363
Loans to the private sector at AC	142,311	128,864	156,139	116,817
Total non fair value financial assets	**173,280**	**159,833**	**170,502**	**131,180**

The following table gives an overview of the financial instruments measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Short-term deposits mandatory at FVPL	14,285	-	-	14,285
Loans to the private sector mandatory at FVPL	-	-	41,149	41,149
Equity investments	11,080	-	244,962	256,042
Financial assets at FVOCI				
Equity investments	-	-	-	-
Total financial assets at fair value	**25,365**	**-**	**286,111**	**311,476**

December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Short-term deposits mandatorily at FVPL	37,969	-	-	37,969
Loans to the private sector mandatorily at FVPL	-	-	30,522	30,522
Equity investments	-	-	252,854	252,854
Financial assets at FVOCI				
Equity investments	-	-	-	-
Total financial assets at fair value	**37,969**	**-**	**283,376**	**321,345**

The following table shows the movements of financial assets measured at fair value based on level 3.

	Loans to the private sector	Equity investments	Total
Balance at January 1, 2019	30,522	252,854	283,376
Total gains or losses			
· In profit and loss (changes in fair value)	-566	-13,473	-14,039
· In other comprehensive income (changes in fair value reserve)	-	-	-
Purchases/disbursements	13,911	31,604	45,515
Sales/repayments	-3,777	-15,845	-19,622
Write-offs	-	-	-
Accrued income	501	-	501
Exchange rate differences	1,008	416	1,424
Derecognition and/or restructuring FVPL versus AC	-	-	-
Reclassification Loans versus Equity	-450	486	36
Transfers into level 3	-	-	-
Transfers out of level 3	-	-11,080	-11,080
Balance at December 31, 2019	**41,149**	**244,962**	**286,111**

	Loans to the private sector	Equity investments	Total
Balance at January 1, 2018	27,482	235,179	262,661
Total gains or losses			
· In profit and loss (changes in fair value)	368	6,276	6,644
· In other comprehensive income (changes in fair value reserve)	-	-	-
Purchases/disbursements	6,014	24,379	30,393
Sales/repayments	-4,096	-19,479	-23,575
Write-offs	-	-	-
Accrued income	413	-	413
Exchange rate differences	341	6,499	6,840
Derecognition and/or restructuring FVPL versus AC	-	-	-
Reclassification Loans versus Equity	-	-	-
Transfers into level 3	-	-	-
Transfers out of level 3	-	-	-
Balance at December 31, 2018	**30,522**	**252,854**	**283,376**

Type of debt investment	Fair value at December 31, 2019	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Loans	14,231	Discounted cash flow model	Based on client spread	A decrease/increase of the used spreads with 1% will result is a higher/lower fair value of approx €0.1m.
	2,834	ECL measurement	Based on client rating	An improvement / deterioration of the Client Rating with 1 notch wil result 2% increase/decrease
	-	Credit impairment	n/a	n/a
Debt Funds	24,084	Net Asset Value	n/a	n/a
Total	**41,149**			

Type of equity investment	Fair value at December 31, 2019	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity based on the significant unobservable inputs
Private equity fund investments	135,072	Net Asset Value	n/a	n/a
Private equity direct investments	34,325	Recent transactions	Based on at arm's length recent transactions	n/a
	41,363	Book multiples	Depends on the book value of the underlying investment (range 1.0 – 1.4)	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of €4 million.
	-	Earning Multiples	n/a	n/a
	-	Discounted Cash Flow (DCF)	n/a	n/a
	1,959	Put option	Based on put option agreement in place	A decrease/increase of the used unobservable data with 10% will result in a lower/ higher fair value of €0.2 million.
	32,243	Firm offers	Based on offers received from external parties	n/a
Total	**244,962**			

21. Related party information

Dutch Government:

The Dutch Ministry of Foreign Affairs, Directoraat-generaal internationale Samenwerking sets up and administers the investments funds ("State Funds"), including MASSIF, according to the Dutch Government's development agenda. Directoraat-generaal internationale Samenwerking is the main contributor to MASSIF, providing funding upon FMO's request (2019 € 0; 2018 € 15 million).

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("FMO")

The Dutch development bank FMO supports sustainable private sector growth in developing and emerging markets by leveraging its expertise in agribusiness, food & water, energy, financial institutions, Dutch business focus areas to invest in impactful businesses. FMO is a public-private partnership, with 51% of FMO's shares held by the Dutch State and 49% held by commercial banks, trade unions and other members of the private sector. FMO has a triple A rating from both Fitch and Standard & Poor's.

FMO has been entrusted by the Dutch Government to execute the mandates of the State Funds: Currently MASSIF, Building Prospects, Access to Energy – I, FOM, FOM-OS, Dutch Fund for Climate and Development Land Use Facility are under FMO's direct management; the execution of Access to Energy – II and the other facilities of the Dutch Fund for Climate and Development are performed by third parties under FMO's supervision.

FMO charges a management fee to the Dutch Ministry of Foreign Affairs and it is reimbursed accordingly from MASSIF's subsidy amount (2019: € 11 million; 2018: € 11 million). FMO is also a minor contributor to the fund with a total contribution of € 8 million in 2019 (2018: € 8 million)

22. Subsequent events

There has been no significant subsequent event between the balance sheet date and the date of approval of these accounts which should be reported by the Fund.

The current COVID-19 outbreak will likely impact the global economy and the Fund's financial performance. The impact is expected to be greatest on investments in debt and equity. Given the uncertainties, ongoing developments and measures taken by governments around the globe, the Fund cannot estimate the quantitative impact in an accurate and reliable way at this point in time.

Risk management

Organization of risk management

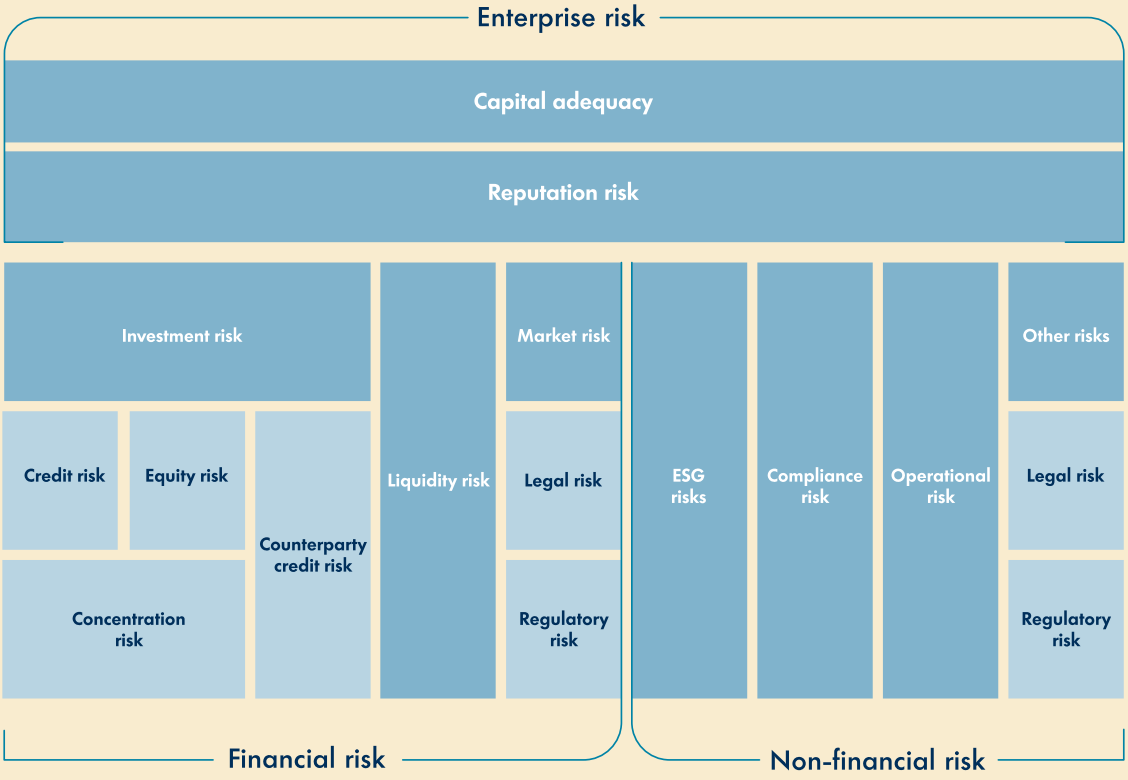
For FMO, acting in its role as Fund Manager (hereafter 'FMO'), to be able to carry out the Fund's strategy, it is essential to have an adequate risk management system in place to identify, measure, monitor and mitigate financial risks. MASSIF (hereafter 'the Fund') has a pre-defined risk appetite translated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

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

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

Risk Taxonomy Framework FMO

FMO's risk taxonomy



Risk profile & appetite

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

Capital management

The Fund's aim is to optimize development impact. This can only be achieved with a sound financial framework in place, combining a healthy long-term revolvability of ≥100% and sound capital adequacy. Therefore, FMO seeks to maintain a strong capital position for the Fund. The Fund's structure is based on a contribution from the Dutch government (97.83%) and a contribution from FMO (2.17%). Total contribution from the Dutch government is EUR 351 mln on 31 December 2019. FMO contributed EUR 7.8 mln to the Fund. Total fund capital – which is the sum of the contribution by the government, the contribution by FMO, undistributed results from previous years, results from the current year, grants, and evaluations costs – decreased to EUR 494.8 mln in 2019 (2018: EUR 498.6 mln).

Reputational risk

Reputation risk is inevitable given the nature of the fund's operations in developing and emerging markets. FMO has a moderate appetite for reputation risk, accepting that reputational impact of activities may incidentally lead to negative press coverage, NGO attention, undesirable client feedback, or isolated cases of financial losses, as long as these activities clearly contribute to FMO's mission. Outside of this, FMO has a limited appetite for additional reputation risk that, in extreme cases, may prompt key stakeholders to intervene in the decision-making or running of FMO's daily business. FMO actively mitigates the risk as much as possible through strict and clear policies, thorough upfront assessments, consultations with stakeholders, and when necessary, through legal agreements with clients. FMO has a Sustainability Policy in place and it published statements on human rights, land rights, and gender positions.

Financial risk

Investment risk

Credit risk

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

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

Credit risk in the emerging markets loan portfolio

The Fund offers loans in emerging market countries. Strong diversification within the Fund's emerging market portfolio is ensured through stringent limits on individual counterparties (single client limit of 7.5% of the Fund's capital, and economic group limit of 10% of the Fund's capital), countries (20% of the Fund's capital), continents (40% of the Fund's capital, and at least 40% in Africa), local currency (20% of the Fund's capital) and in fund investments (40% of the Fund's capital).

Internal credit approval process

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

In measuring the credit risk of the emerging market portfolio at counterparty level, the main parameters are the credit quality of counterparties and the expected recovery ratio in case of defaults. Counterparty credit quality is measured by scoring counterparties on various dimensions of financial strength. Based on these scores, FMO assigns ratings to each counterparty on an internal scale from F1 (lowest risk) to F20 (default), equivalent from AAA to C ratings.

Maximum exposure to credit risk

	2019	2018
On balance		
Banks	30,969	14,363
Short-term deposits	14,285	37,969
Loans to private sector		
- of which: Amortized cost	141,621	155,828
- of which: Fair value through profit or loss	41,839	30,833
Current accounts	110	-
Other receivables	6,831	1,601
Accrued Income	2	8
Total on-balance	**235,657**	**240,602**
Off-balance		
Contingent liabilities	1,220	-
Total off-balance	**1,220**	**-**
Total credit risk exposure	**236,877**	**240,602**

Credit quality analysis

In addition to on balance loans, irrevocable facilities (off-balance) represent commitments to extend finance to clients and consist of contracts signed but not disbursed yet which are usually not immediately and fully drawn.

The following tables provide insights in the credit risk allocation of loan portfolio, loan commitments and financial guarantees according to internal ratings.

Loans to the private sector at December 31, 2019 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Fair Value	Total
F1-F10 (BBB- and higher)	1,080	-	-	-	1,080
F11-F13 (BB-,BB,BB+)	55,670	6,781	-	25,514	87,965
F14-F16 (B-,B,B+)	49,147	-	-	12,413	61,560
F17 and lower (CCC+ and lower)	8,613	6,964	34,957	3,588	54,122
Sub-total	**114,510**	**13,745**	**34,957**	**41,515**	**204,727**
Less: amortizable fees	-768	-50	-21	82	-757
Less: ECL allowance	-1,881	-572	-17,609	-	-20,062
FV adjustments	-	-	-	-448	-448
Carrying value	**111,861**	**13,123**	**17,327**	**41,149**	**183,460**

Loans commitments at December 31, 2019 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Other (*)	Total
F1-F10 (BBB- and higher)	-	-	-	-	-
F11-F13 (BB-,BB,BB+)	-	-	-	36	36
F14-F16 (B-,B,B+)	1,926	308	-	15,599	17,833
F17 and lower (CCC+ and lower)	4,899	1,200	-		6,099
Total nominal amount	**6,825**	**1,508**	**-**	**15,635**	**23,968**
ECL allowance	-289	-63	-	-	-352
Total	**6,536**	**1,445**	**-**	**15,635**	**23,616**

Financial guarantees at December 31, 2019 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	-	-	-	-
F11-F13 (BB-,BB,BB+)	-	-	-	-
F14-F16 (B-,B,B+)	1,479	-	-	1,479
F17 and lower (CCC+ and lower)	-	-	-	-
Sub-total	**1,479**	**-**	**-**	**1,479**
ECL allowance / group impairments under IAS 39	-37	-	-	-37
Total	**1,442**	**-**	**-**	**1,442**

Loans to the private sector at December 31, 2018 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Fair Value	Total
F1-F10 (BBB- and higher)	-	-	-	292	292
F11-F13 (BB-,BB,BB+)	45,336	6,653	-	17,734	69,723
F14-F16 (B-,B,B+)	78,974	-	2,060	8,557	89,591
F17 and lower (CCC+ and lower)	10,051	3,787	26,805	3,701	44,344
Sub-total	**134,361**	**10,440**	**28,865**	**30,284**	**203,950**
Less: amortizable fees	-785	-80	-12	104	-773
Less: ECL allowance	-1,940	-249	-14,462	-	-16,650
FV adjustments	-	-	-	135	135
Carrying value	**131,636**	**10,111**	**14,391**	**30,522**	**186,661**

Loans commitments at December 31, 2018 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Other (*)	Total
F1-F10 (BBB- and higher)	-	-	-	-	-
F11-F13 (BB-,BB,BB+)	5,037	-	-	-	5,037
F14-F16 (B-,B,B+)	2,159	-	-	8,773	10,932
F17 and lower (CCC+ and lower)	3,652	3,076	-	-	6,728
Total nominal amount	**10,848**	**3,076**	**-**	**8,773**	**22,697**
ECL allowance	-127	-99	-	-	-226
Total	**10,721**	**2,977**	**-**	**-**	**22,471**

Financial guarantees at December 31, 2018 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	-	-	-	-
F11-F13 (BB-,BB,BB+)	-	-	-	-
F14-F16 (B-,B,B+)	2,270	-	-	2,270
F17 and lower (CCC+ and lower)	-	-	-	-
Sub-total	**2,270**	**-**	**-**	**2,270**
ECL allowance / group impairments under IAS 39	-49	-	-	-49
Total	**2,221**	**-**	**-**	**2,221**

Loans past due

Non-Performing Loans (NPL) are defined as loans with a specific impairment and/or loans with interest and/or principal payments that are past due 90 days or more

The Fund's NPL ratio increased from 14.2% to 17.1%. This increase is mainly linked to a specific impairment for NMB BANK LIMITED and more than 90 days past due for M-KOPA Kenya Limited and M-KOPA UGANDA Limited. In 2019, write-offs were limited to EUR 0.4 mln. This was caused by BAOBAB FINANCIAL SERVICES (PRIVATE).

Loans past due and impairments 2019

	Stage 1	Stage 2	Stage 3	Fair value	Total
Loans not past due	110,394	13,745	-	41,515	165,654
Loans past due:					
-Past due up to 30 days	4,116	-	-	-	4,116
-Past due 30-60 days	-	-	-	-	-
-Past due 60-90 days	-	-	-	-	-
-Past due more than 90 days	-	-	34,957	-	34,957
Subtotal[1]	**114,510**	**13,745**	**34,957**	**41,515**	**204,727**
Less: amortizable fees	-768	-50	-21	82	-757
Less: ECL allowance	-1,881	-572	-17,609	-	-20,062
Plus FV adjustments	-	-	-	-448	-448
Carrying value	**111,861**	**13,123**	**17,327**	**41,149**	**183,460**
Non performing loans (loans past due > 90 days + Impaired loans)	34,957				
NPL percentage	**17.07%**				

Loans past due and impairments 2018

	Stage 1	Stage 2	Stage 3	Fair value	Total
Loans not past due	134,361	9,738	-	30,284	174,383
Loans past due:					
-Past due up to 30 days	-	702	-	-	702
-Past due 30-60 days	-	-	-	-	-
-Past due 60-90 days	-	-	-	-	-
-Past due more than 90 days	-	-	28,865	-	28,865
Subtotal[1]	**134,361**	**10,440**	**28,865**	**30,284**	**203,950**
Less: amortizable fees	-785	-80	-12	104	-773
Less: ECL allowance	-1,940	-249	-14,462	-	-16,650
Plus FV adjustments	-	-	-	135	135
Carrying value	**131,636**	**10,111**	**14,391**	**30,522**	**186,661**
Non performing loans (loans past due > 90 days + Impaired loans)	**28,865**				
NPL percentage	**14.2%**				

Stage 3 credit impairment distributed by regions and sectors

At December 31, 2019	Financial Institutions	Energy	Agribusiness	Multi-sector Funds Investment	Infrastructure, Manufacturing, Services	Total
Africa	17,602	7	-	-	-	17,609
Asia	-	-	-	-	-	-
Latin America & the Caribbean	-	-	-	-	-	-
Europe & Central Asia	-	-	-	-	-	-
Non-region specific	-	-	-	-	-	-
Total	**17,602**	**7**	**-**	**-**	**-**	**17,609**

Stage 3 credit impairment distributed by regions and sectors

At December 31, 2018	Financial Institutions	Energy	Agribusiness	Multi-sector Funds Investment	Infrastructure, Manufacturing, Services	Total
Africa	14,462	-	-	-	-	14,462
Asia	-	-	-	-	-	-
Latin America & the Caribbean	-	-	-	-	-	-
Europe & Central Asia	-	-	-	-	-	-
Non-region specific	-	-	-	-	-	-
Total	**14,462**	**-**	**-**	**-**	**-**	**14,462**

Modified financial assets

Changes in terms and conditions usually include extending the maturity, changing the interest margin and changing the timing of interest payments. When the terms and conditions are modified due to financial difficulties, these loans are qualified as forborne. Refer to paragraph related to 'Modification of financial assets' in the Accounting Policies chapter.

The watch-list process and the Credit department review modified loans periodically. When a loan is deemed no longer collectible, it is written off against the related loss allowance.

In 2019, (partial) write-offs equalled to EUR 0.4 mln due to 1 loan, corresponding to 0.2% of the Fund's portfolio.

The following table provides a summary of the Fund's forborne assets, both classified as performing and not, as of December 31, 2019.

	Performing	*of which: performing but past due > 30 days and <=90 days*	*of which: performing forborne*	**Non Performing**	*of which: non performing forborne*	*of which: impaired*	**Sub Total**	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	**Carrying value**
Loans to the private sector at amortised cost	128,255	-		34,957		34,676	163,212	-839	-20,062	-	142,311
Loans to the private sector at fair value	41,515	-		-			41,515	82		-448	41,149
Total	**169,770**	**-**		**34,957**	**-**	**34,676**	**204,727**	**-757**	**-20,062**	**-448**	**183,460**

	Performing	*of which: performing but past due > 30 days and <=90 days*	*of which: performing forborne*	**Non Performing**	*of which: non performing forborne*	*of which: impaired*	**Sub Total**	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	Carrying value
Loans to the private sector at amortised cost	144,801	-	-	28,865	-	28,865	173,666	-877	-16,651	-	156,138
Loans to the private sector at fair value	30,284	-	-	-	-		30,284	104		135	30,523
Total	**175,085**	**-**	**-**	**28,865**	**-**	**28,865**	**203,950**	**-773**	**-16,651**	**135**	**186,661**

Equity risk

Equity risk is the risk that the fair value of an equity investment decreases. It also includes exit risk, which is the risk that Fund's stake cannot be sold for a reasonable price and in a sufficiently liquid market.

The Fund takes long-term view on its equity portfolio, usually selling its equity stake within a period of five to ten years. The Fund can accommodate an increase in the average holding period of its equity investments and wait for markets to improve again to realize exits. We have no deadlines regarding the exit date of our equity investments. Equity investments are assessed by the Investment Committee in terms of specific obligor as well as country risk. The Investment Review Committee assesses the valuation of the majority of equity investments quarterly. The performance of the equity investments in the portfolio is periodically analyzed during the fair value process. Based on this performance and the market circumstances, exits are pursued in close cooperation with our co-investing partners. The total outstanding equity portfolio on December 31, 2019, amounted to EUR 256.0 mln (2018: EUR 252.9 mln).

Equity portfolio including Associates distributed by region and sector

At December 31, 2019	Financial Institutions		Energy		Agribusiness		Multi-Sector Fund Investments		Infrastructure, Manufacturing, Services		Total	
	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds
Africa	4,562	11,491		1,149	-	-	-	42,158	12,999		17,561	54,798
Asia	23,088	8,672		-	-	-	-	27,268	-		23,088	35,940
Latin America & the Caribbean	4,922	8,568		-	-	6,017	63	1,251	-		4,985	15,836
Europe & Central Asia	33,724	2,699		-	-	-	-	2,132	-		33,724	4,831
Non-region specific	48,307	19,983		-	51	3,684	-	-	-		48,358	23,667
Total	**114,603**	**51,413**	**-**	**1,149**	**51**	**9,701**	**63**	**72,809**	**12,999**	**-**	**127,716**	**135,072**

Equity portfolio including Associates distributed by region and sector

At December 31, 2018	Financial Institutions		Energy		Agribusiness		Multi-Sector Fund Investments		Infrastructure, Manufacturing, Services		Total	
	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds
Africa	4,973	12,412	833	754	-	-	-	49,037	11,932	-	17,738	62,203
Asia	12,193	13,361	-	-	-	-	-	22,534	-	-	12,193	35,895
Latin America & the Caribbean	5,105	14,025	-	-	-	8,096	-	3,602	-	-	5,105	25,723
Europe & Central Asia	21,793	1,429	-	-	-	-	-	3,464	-	-	21,793	4,893
Non-region specific	58,542	10,506	-	-	-	3,946	-	-	-	-	58,542	14,452
Total	**102,605**	**51,733**	**833**	**754**	**-**	**12,042**	**-**	**78,637**	**11,932**	**-**	**115,370**	**143,166**

Concentration risk

Country risk

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

In the fund's risk appetite the country risk exposure is set at a maximum of 20% of the total portfolio.

The level of the country limits depends on the sovereign rating. FMO recognizes that the impact of country risk differs across the financial products it offers. In 2019 the rating of Lebanon (1% of portfolio) was downgraded by three notches due to a country crisis and Uzbekistan (4% of portfolio) was downgraded by one notch. In 2019, FMO has reviewed its country risk framework, based on a peer analysis and discussions with external parties. It was found that FMO was overly conservative regarding assigning country ratings, hence a less conservative approach is now applied. Consequently, the ratings of various countries were upgraded. Indonesia, Georgia, Afghanistan, Kenya, Myanmar and Nepal were upgraded by one or more notches.

The following tables present how the Fund's loan portfolio is concentrated according to country ratings. The comparison with FMO demonstrates that loan portfolio of the Fund is concentrated in countries with higher ratings and is relatively prone to higher credit risk.

Overview country ratings

Indicative external rating equivalent 2019	MASSIF (%)	FMO-A (%)
F9 and higher (BBB and higher ratings)	3.1	4.5
F10 (BBB-)	5.1	8.5
F11 (BB+)	1.2	3.4
F12 (BB)	3.7	6.5
F13 (BB-)	16.7	10.5
F14 (B+)	15.8	26.3
F15 (B)	27.3	20.1
F16 (B-)	11.3	11.2
F17 and lower (CCC+ and lower ratings)	15.9	9.0
Total	**100.0**	**100.0**

Overview country ratings

Indicative external rating equivalent 2018	MASSIF (%)	FMO-A (%)
F9 and higher (BBB and higher ratings)	-	5.3
F10 (BBB-)	9.2	7.6
F11 (BB+)	-	-
F12 (BB)	5.1	3.5
F13 (BB-)	12.9	13.8
F14 (B+)	19.4	29.9
F15 (B)	13.6	14.8
F16 (B-)	21.6	17.0
F17 and lower (CCC+ and lower ratings)	18.2	8.1
Total	**100**	**100**

Gross exposure of loans distributed by region and sector

	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At December 31, 2019						
Africa	75,581	7,189	2,724	4,542	-	90,037
Asia	52,062	292	534	-	-	52,889
Latin America & the Caribbean	29,573	-	-	-	-	29,573
Europe & Central Asia	21,566	-	-	2,500	-	24,066
Non-region specific	8,162	-	-	-	-	8,162
Total	**186,944**	**7,482**	**3,259**	**7,042**	**-**	**204,727**
At December 31, 2018						
Africa	68,621	5,442	3,555	-	-	77,618
Asia	54,208	292	393	-	-	54,893
Latin America & the Caribbean	27,920	-	-	-	-	27,920
Europe & Central Asia	25,432	-	-	2,500	-	27,932
Non-region specific	15,587	-	-	-	-	15,587
Total	**191,768**	**5,734**	**3,948**	**2,500**	**-**	**203,950**

Single and group risk exposures

In the fund risk appetite the maximum customer exposure for MASSIF is set at 7.5% of the total portfolio.

Counterparty credit risk

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

Liquidity risk

Liquidity risk is the risk of not being able to fulfil the financial obligations and meet financial commitments due to insufficient availability of liquid means. The Fund aims to maintain adequate liquidity buffers, enough to support the implementation of the Fund's development agenda and impact objectives while avoiding putting pressure on Dutch Ministry of Foreign Affairs DGIS subsidy budget allocated to the Fund. To realize this ambition, the Fund benefits from the experience of FMO's treasury and risk management functions in managing the liquidity risk, which primarily involves periodical forecasting of the Fund's liquidity position under normal and stress scenarios. During these periodical exercises, the assumptions underlying the liquidity model are reviewed and changes in expected cashflows, stemming from updated portfolio management strategies and changes in the Fund's operating environment, are reflected on the said assumptions. As a result of the forecasting activity, the predicted liquidity shortfall is avoided through arrangements in investments portfolio, if possible; through the utilisation of the subsidies available from the budget allocated to the Fund by Dutch Ministry of Foreign Affairs DGIS ('beschikkingsruimte'); and lastly, through the request of a loan from FMO, not exceeding 10% of the Fund's net committed portfolio. In requesting subsidies that will be made available to the Fund's utilisation from Dutch Ministry of Foreign Affairs ('MoFA'), the Fund administrators strictly follow MoFA's directives.

Market risk

Interest rate risk

Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Changing interest rates mainly have an effect on the fair value of fixed interest balance sheet items. Given the balance sheet and capital structure of the Fund interest rate risks are considered limited.

Interest re-pricing characteristics

December 31, 2019	<3 months	3-12 months	1-5 years	>5 years	Non-interest-bearing	Total
Assets						
Banks	30,969	-	-	-	-	30,969
Short-term deposits	14,285	-	-	-	-	14,285
-of which: Amortized cost						
-of which: Fair value through profit or loss	14,285	-	-	-	-	14,285
Derivative financial instruments1	-	-	-	-	-	-
Loans to the private sector	8,083	78,396	79,100	9,800	8,081	183,460
-of which: Amortized cost	7,467	62,710	61,359	8,719	2,057	142,312
-of which: Fair value through profit or loss	616	15,686	17,741	1,081	6,024	41,148
Equity investments	-	-	-	-	256,042	256,042
-of which: Fair value through OCI	-	-	-	-	-	-
-of which: Fair value through profit or loss	-	-	-	-	256,042	256,042
Investments in associates	-	-	-	-	6,746	6,746
Current accounts with State funds and other programs	-	-	-	-	110	110
Other receivables	-	-	-	-	6,832	6,832
Accrued income	-	-	-	-	2	2
Total assets	**53,337**	**78,396**	**79,100**	**9,800**	**277,813**	**498,446**
Liabilities and Fund Capital						
Short-term credits	-	-	-	-	-	-
Other liabilities	-	-	-	-	440	440
Accrued liabilities	-	-	-	-	2,789	2,789
Provisions	-	-	-	-	389	389
Fund Capital	**-**	**-**	**-**	**-**	**494,828**	**494,828**
Total liabilities and Fund capital	**-**	**-**	**-**	**-**	**498,446**	**498,446**
Interest sensitivity gap 2019	**53,337**	**78,396**	**79,100**	**9,800**	**-220,633**	

Currency risk

Currency risk is defined as the risk of having an adverse effect on the value of the Fund's financial position and future cash flows due to changes in foreign currency exchange rates. The Fund offers debt, equity and guarantee instruments in denominated in USD, EUR and partly in emerging market currencies, while the main source of funding to the Fund, subsidies received from Dutch Ministry of Foreign Affairs is in EUR. The Fund targets to invest in USD as a risk-averse alternative to investing in local currencies when possible; additionally, cash inflows denominated in local currencies are

converted to hard currencies when received. Due to its commitment to the implementation of the Fund's development agenda and impact objectives, the Fund does not exclusively look for investments that counter-balance this currency risk exposure in its portfolio; the Fund also does not use derivatives and other financial instruments to hedge against the currency risk, and avoids bearing the cost of these engineered measures. The Fund does not take active positions in any currency for the purpose of making a profit.

Currency risk exposure (at carrying values)

December 31, 2019	EUR	USD	UZS	CHF	Other	Total
Assets						
Banks	23,146	7,823	-	-	-	30,969
Short-term deposits	34	14,251	-	-	-	14,285
-of which: Amortized cost						
-of which: Fair value through profit or loss	34	14,251	-	-	-	-
Derivative financial instruments1	-	-	-	-	-	-
Loans to the private sector	4,551	92,275	-	12,193	74,441	183,460
-of which: Amortized cost	-89	70,950	-	11,750	59,701	142,312
-of which: Fair value through profit or loss	4,640	21,325	-	443	14,740	41,148
Equity investments	70,755	148,403	21,277	-	15,607	256,042
-of which: Fair value through OCI	-	-	-	-	-	-
-of which: Fair value through profit or loss	70,755	148,403	21,277	-	15,607	256,042
Investments in associates	-	6,746	-	-	-	6,746
Current accounts with State funds and other programs	110	-	-	-	-	110
Other receivables	78	630	4	-	6,120	6,832
Accrued income	-	2	-	-	-	2
Total assets	**98,674**	**270,130**	**21,281**	**12,193**	**96,168**	**498,446**
Liabilities and Fund Capital						
Short-term credits	-	-	-	-	-	-
Other liabilities	423	17	-	-	-	440
Accrued liabilities	2,789	-	-	-	-	2,789
Provisions	116	270	-	-	3	389
Fund Capital	**494,828**	**-**	**-**	**-**	**-**	**494,828**
Total liabilities and Fund capital	**498,156**	**287**	**-**	**-**	**3**	**498,446**
Currency sensitivity gap 2019		**269,843**	**21,281**	**12,193**	**96,165**	
Currency sensitivity gap 2019 excluding equity investments and investments in associates		**114,694**	**4**	**12,193**	**80,558**	

Sensitivity of profit & loss account and capital to main foreign currencies

December 31, 2019

Change of value relative to the euro	Sensitivity of profit & loss account
USD value increase of 10%	26,984
USD value decrease of 10%	-26,984
UZS value increase of 10%	2,128
UZS value decrease of 10%	-2,128
CHF value increase of 10%	1,219
CHF value decrease of 10%	-1,219

Non-financial risk

Environmental, social and governance risk

Environmental & Social (E&S) risk refers to potential adverse impacts of the FMO investments on the environment, the employees and workers, the communities, and other stakeholders. Corporate Governance (G) risks refers primarily to risk to client business. In addition to impacts on the environment, employees and workers, communities and other stakeholders, ESG risks can result in non-compliance with applicable regulation, NGO and press attention, reputation damage and financial loss where such risk adversely affects operational and financial performance. These risks stem from the nature of the Fund' projects in difficult markets, where regulations on ESG are less institutionalized. The Fund has an appetite for managed risk in portfolio, accepting ESG performance below standards when we first start working with a client. ESG risks are mitigated through environmental and social action plans and monitoring. The risk appetite for deviations from the exclusion list and human rights violations is zero. We furthermore expect the highest standards in professional conduct.

Compliance risk

Compliance Risk is the risk of failure to comply with laws, regulations, rules, related self-regulatory organization, standards and codes of conduct applicable to FMO. Being a regulated bank, the most important applicable laws in relation to products and customers, are the Dutch Financial Supervision Law (WFT); AML (WWFT); Sanctions Law and General Data Protection Regulation.

Fund's customers follow FMO's procedures e.g. customer onboarding; assessment of compliance risks, periodic Know Your Customer (KYC) reviews as well Event Driven KYC Reviews. FMO's standards and policies and good business practices foster acting with integrity. FMO is committed to its employees, clients and counterparties, adhering to high ethical standards. FMO has a Compliance framework which entails identifying risks, designing policies, monitoring, training and providing advices. FMO has policies on topics such as know your customer (KYC) & sanctions, anti-bribery and corruption, receiving and giving gifts-entertainment & hospitality, conflicts of interest, internal fraud, private investments, outside positions, privacy and speak-up. FMO also regularly trains its employees in order to raise awareness by means of e.g. face-to-face trainings and mandatory compliance related e-learnings. Employees are also encouraged to speak up in case of suspected integrity violations conducted by an FMO employee. Management is periodically informed via the Compliance Committee or when required on an ad-hoc basis, on integrity related matters at client or employee level. In 2019 no significant integrity incidents related to FMO employees have been reported and there were no incidents at existing clients' outside FMO's risk appetite.

KYC & Sanctions

FMO's KYC procedure includes screening of clients on compliance with applicable anti-money laundering, terrorist financing and international sanctions laws and regulations. Due diligence is performed on clients, which includes checks such as verifying the ultimate beneficial owners of the client, identifying politically exposed persons, and screening against mandatory international sanction lists. These checks are also performed regularly during the relationship with existing clients. Following the DNB onsite inspection in 2018, FMO set up a FEC Enhancement Plan (FEC EP). In 2019 FMO started with execution of the FEC EP which consisted of a.o. conducting the Systematic Integrity Risk Assessment (SIRA) and enhancing the know your customer (KYC) policy and procedures. The updated KYC policy and procedures have been implemented. Part of the FEC EP consists of remediation of the customer KYC files and bringing them in line with the updated policy. FMO has not been able to achieve the interim target on number of remediated customer KYC files. However additional actions, based on lessons learnt, are undertaken to further improve the FEC EP. The progress of the FEC EP is closely monitored by the Management Board and reported to DNB.
It cannot always be prevented that a client is involved or alleged to be involved in illicit acts (e.g. corruption). If such an event occurs, FMO will initiate a dialogue with the client to understand the background in order to be able to assess the severity. When FMO is of the opinion that no improvement by the client will be achieved (e.g. awareness, implementing controls) or the risk to FMO's reputation is unacceptably high, FMO can invoke legal clauses in the contract to terminate the client relationship.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or loss caused by external events. Operational risks are not actively sought and have no direct material upside in terms of return/income generation, yet operational risk events are inherent in operating a business. Operational risk events can result in non-compliance with applicable (internal and external) standards, financial losses or misstatements in the financial reports, and reputational damage.

FMO has in place an operational risk framework that governs the process of identifying, measuring, monitoring, reporting and mitigating operational risks. Operational risks are managed and monitored in accordance with the 'three lines of defense' governance principle. Management of the first line of defense is primarily responsible for managing (embedded)risks in the day-to-day business processes. The first line acts within the risk management framework and supporting guidelines defined by specialized risk departments and committees, the second line of defense. Internal Audit in its role of the third line of defense provides independent assurance on the effectiveness of the first and second lines. Operational risk control self-assessments are conducted annually in order to identify inherent operational risks, controls, and residual operational risks.

The strategy and business/strategic objectives are also reviewed annually by the Directors in a risk perspective. Based on these Risk and Control Self Assessments, the Directors sign an internal In Control Statement at the year-end, which sets the foundation for the management declaration in the Annual Report. operational risks resulting from new products or activities are assessed in FMO's Product Approval and Review Process. No risk events outside FMO's risk appetite have been reported.

Legal risk

Legal risk is defined as the risk of a counterparty (client, supplier, stakeholder or otherwise) not being liable to meet its obligations under law or FMO being liable at law for obligations not intended or expected, caused by lack of awareness or misunderstanding of, ambiguity in, or indifference to the way law and regulation apply to business, relationships, processes, products and services, leading to financial or reputational loss.

Given the specific nature of legal risks that can occur, no risk appetite metrics are assigned to this risk type. Instead, the most relevant developments on this risk type are included in the risk appetite report on a quarterly basis. FMO's Legal team is responsible for the review of the legal aspects of Fund's contracts with its clients and for mitigating legal risks arising from Fund's businesses and operations. The members of the team are qualified in a variety of jurisdictions and competent to provide expert and professional advice on a wide range of legal areas. Where applicable, the team seeks external expertise, particularly for legal analyses in emerging market jurisdictions, or in the event of particularly complex matters. Members of the team also serve on several cross-departmental committees, enabling them to address legal risks at an early stage and share their knowledge where needed.

Colophon

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