FMO

Entrepreneurial
Development
Bank

MASSIF

Annual report

2020

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 € 1,180 mln as per December 31, 2020. 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.

Photo is from ChangeLab competition 2020, Egypt

MASSIF enhances financial inclusion for small 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 MB OF THE FUND MANAGER

Dear reader,

Without a doubt, 2020 has been one of the most challenging years for FMO and its customers. Amid the economic and social fall-out of the pandemic, the state funds under management by FMO played an important role in ensuring that our customers could stay afloat. We look back with satisfaction on our ability to deploy all tools at our disposal to keep the pipelines on track.

In 2021, substantial challenges and uncertainties remain. The pandemic aggravates existing challenges related to climate change, the deepening inequality-crisis and macro-economic precariousness. The public funds and facilities under management by FMO will continue to play their countercyclical role, generate impact on the ground and contribute to the creation of markets in which private finance can flow to those areas where it is most needed.

The COVID-19 pandemic affected our financial intermediate customers and their end-beneficiaries, the micro, small and medium sized enterprises. The impact varies per continent and between countries but overall, we have seen non-performing loans increasing, fair value losses in our equity investments and businesses generally adversely affected. We increased our monitoring and drafted a response program with the support of the Ministry that can provide flexible finance solutions to our portfolio customers under the MASSIF mandate. The expected surge in liquidity requests did not materialize in 2020 although we did adjust terms on several outstanding facilities and waived related covenant breaches. Through our capacity development program virtual knowledge sessions have been organized for customers and emergency grants were provided enabling acquisition of protective gear or develop communication tools.

We also noted resilience, the continuation of business activities and even innovation related to digital financial services. Looking beyond this year we expect the effects of COVID-19 to become more financially apparent as moratoria and regulatory interventions will expire. MASSIF has taken measures like engaging with partners to keep providing access to finance to businesses in fragile states, to support female entrepreneurs, youth and to spur innovation.

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

The Hague, 29 April 2021

On behalf of the Management Board

Linda Broekhuizen, Chief Executive Officer, a.i.
Fatoumata Bouaré, Chief Risk and Finance Officer
Huib-Jan de Ruijter, Chief Investment Officer, a.i.

TABLE OF CONTENTS

AT A GLANCE

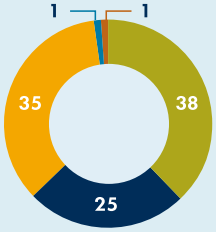
Set up in 2006 and managed on behalf of the Dutch Ministry of Foreign Affairs, MASSIF is FMO's financial inclusion fund. MASSIF enhances financial inclusion for micro-entrepreneurs and small- and medium-sized enterprises (MSMEs) that are disproportionately affected by a lack of access to financial services. 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 31-12-2020

Total committed portfolio

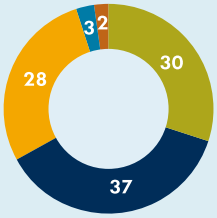
€545 mln

Portfolio by product
(in % as of 31 Dec 2020)



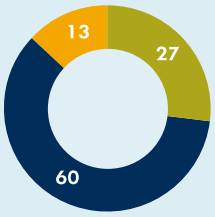
- Loans
- Direct Equity
- Fund Investments
- Mezzanine
- Guarantees

Portfolio by customer type
(in % as of 31 Dec 2020)



- Financial Institution
- Investment Fund
- Microfinance Institutions
- Corporate
- Other diverse sectors

Portfolio by currency
(in % as of 31 Dec 2020)



- EUR
- USD/Indirect Local[1]
- Local

122
Total investments

47
Capacity Development projects

€77 mln
Disbursements

128.39%
Revolvability

5,622,908
Number of micro loans[2]

8,685,173
Current number of depositors[2]

115,623
Number of SME loans[2]

53% | 47%
female and male[2]

43% | 57%
rural and urban[2]

1 The USD/Indirect Local category is a combination of direct USD exposure and USD denominated investments with underlying Local currency exposures.
2 These numbers represent all the clients that have provided the above mentioned data.

Total committed portfolio by region (per 31 December 2020)

Latin America & the Caribbean	Africa	Eastern Europe & Central Asia	Asia	Global
€51 mln	**€202 mln**	**€63 mln**	**€112 mln**	**€117 mln**

Total committed portfolio

€545 mln

PERFORMANCE ON OUR STRATEGY

Highlights

The COVID-19 pandemic affected our financial intermediary customers and their end-beneficiaries the micro, small and medium sized enterprises. The impact varies per continent and between countries but overall, we have seen non-performing loans increasing and businesses adversely affected. We strengthened our monitoring and drafted a response program with the support of the Ministry that can provide flexible finance solutions to our portfolio customers under the MASSIF mandate. The expected surge in liquidity requests did not materialize in 2020 although we adjusted terms on a number of outstanding facilities and waived related covenant breaches. Through our capacity development program virtual knowledge sessions have been organized for customers and emergency grants were provided enabling acquisition of protective gear or develop communication tools.

We also noted resilience and the continuation of business activities despite the challenging environment. We were able to commit to 14 new investments amounting to € 55 mln. The fund increased its footprint in fragile states with new investments in Cote D'Ivoire and The Palestine territories.

MASSIF supported rural businesses and livelihoods through its investment in Maha Agriculture Microfinance and Proximity finance among others. Both companies are based in Myanmar, and they focus on providing sustainable financing to rural farmers and SMEs. Additionally, gender and youth focused financing was also provided specifically to COFINA, a Côte d'Ivoire based micro-finance institution that focuses on funding enterprises in the "missing middle".

To support financial inclusion through innovation, MASSIF made a € 25 mln commitment to the FMO Venture's program an initiative developed from a collaboration between the European Commission, FMO and other government funds. Through this investment, MASSIF expects to support financing of early stage FinTech companies. MASSIF increased support to the NASIRA program with $2.5 mln next to the $25 mln increase from the European Commission. This increase relates to the amendment of NASIRA to also support COVID-19 affected entrepreneurs next to its focus on gender, youth and migrants.

With the Capacity Development program, MASSIF initiated a total of 47 projects to support customers predominantly on COVID-19 response but also, amongst others, governance and risk management support, E&S risk management, inclusive financing specifically focusing on gender topics or digital transformation.

Looking back on 2020, we are pleased to see our efforts and strategy continuing to bear fruit with new transactions and projects making a difference particularly in the current environment. Looking beyond this year we expect the effects of COVID-19 to become more financially apparent as moratoria and regulatory interventions expire. MASSIF has taken measures, like engaging with partners, to keep providing access to finance to businesses in fragile states, to support female entrepreneurs as well as youth, supporting agriculture and rural livelihoods and to spur innovation.

Production

Production 2020	
EQUITY Bank • Your Listening, Caring Partner	**Equity Bank (Kenya) Limited Nasira Portfolio – USD 0.5mln guarantee** Equity Bank Kenya Limited is a wholly owned subsidiary of Equity Group Holdings Limited a listed company at the Nairobi Stock Exchange. Equity Bank- an ARISE B.V. investee- is a strong and well-reputed Tier 1 bank in Kenya. This guarantee is aimed at supporting our strategy to promote and facilitate trade in and between emerging markets thus support economic growth.
nomanini	**Nomanini Holdings Proprietary Ltd. - USD 0.5 mln loan** Nomanini Holdings Proprietary Ltd. (Nomanini) offers technological solutions for informal retailers across Africa, allowing them to access financial services and improve access to working capital within the FMCG value chain. Nomanini focuses on unbanked vendors, kiosk- and shop holders. Its strategic partnerships allow the FinTech platform to be one of the 'winning' models. This fits with MASSIF's objective to support end-beneficiaries through financing local financial intermediaries and institutions.
	United Liwwa for SME Finance LLC – USD 1 mln loan

United Liwwa for SME Finance is a technology enabled SME lending company with proprietary marketplace, established in 2015 and 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 statements, discounting of invoices and working capital based on proven sales via Point of Sales. Liwwa has a unique brand in Jordan and strong competitive advantages that supports replicating the platform in the MENA region. Jordanian SMEs are un(der)served, but sophisticated enough for an automated loan process and sizable enough to scale the business, this serves as proof of demand for Liwwa.

Sasfin Bank Limited– ZAR 559.58 MLN Guarantee (NASIRA)

Sasfin Bank Ltd. is a commercial bank specialising in asset backed lending to SMEs. It was established as a family-owned textile importer in 1951 and shifted towards providing trade finance in 1970. Female, youth and migrant entrepreneurs are often under served in accessing financial services crucial for business developments. The NASIRA guarantee seeks to address these inequalities by supporting partners like Sasfin bank who have the capacity to increase lending to these segments and contributing to inclusive development.

African Rivers Fund (ARF) III LP – USD 10 mln equity

XSML is raising ARF III to build on the successful strategy of CASF and ARF I, and the Fund to employ a mixed mezzanine and equity investment approach to build a diversified portfolio of SME investments. An investment in ARF III aligns strongly with FMO's strategy to deepen relationships with existing partners and generate a higher impact portfolio. SME financing is scarce in the regions where the Fund will operate, and by investing in the Fund FMO will help empower local entrepreneurs and prove itself a valuable partner for investing in local prosperity.

Maha Agriculture Public Company limited – USD 3mln loan

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

Alliance de Credit et d'Epargne pour la Production (ACEP), Burkina Faso SA – EUR 3mln loan

ACEP, Burkina Faso is a young microfinance institution providing financial products and services customised for mainly micro-entrepreneurs and SMEs whose needs are not covered by commercial banks given their informal nature. The € 3mln loan facility will support on-lending to MSMEs in one of the Least Developed Countries, hence aligning with FMO's strategic goal of Reducing Inequalities.

Proximity Finance Microfinance. LTD – USD 5mln loan

Proximity Finance is a microfinance program in Myanmar, providing microfinance loans to farmers in especially in rural areas which have limited or no access to formal financing. This investment is highly inclusive and supports FMO strategy because funds will go to a low-income, fragile country. The USD 5mln loan in MMK equivalent will be used to on-lend to micro entrepreneurs in rural areas of Myanmar.

Compagnie Financiere Africaine Cote d'Ivoire – EUR 7.5 mln loan

COFINA Côte d'Ivoire is a young microfinance institution providing financial products and services customised for the "missing-middle". MSMEs. The loan facility to COFINA Côte d'Ivoire will support on-lending to women micro-entrepreneurs, young entrepreneurs and SMEs. This will thereby drive financial inclusion, which is critical in reducing poverty and achieving inclusive economic growth and is fully aligned with FMO's strategic goal of Reducing Inequalities and SDG 8.

Vitas Palestine Microfinance Company – USD 5 mln loan

Vitas Palestine ("Vitas") is the second largest MFI in Palestine. Its mission is to support unbanked people to improve and sustain their lives and businesses by providing them the financial resources needed to support their economic activity, improving their standard of living. Vitas will use the new facility to continue funding clients in underserved areas of Palestine. The objective of these funds is to extend access to finance for micro-sized enterprises. FMO believes that stable access to finance for micro enterprises contributes to economic development.

Compagnie Financiere Africaine Cofina Senegal S.A. – EUR 2.5mln loan

COFINA Senegal is a young microfinance institution providing financial products and services customised for the "missing middle" among MSMEs. The loan facility to COFINA Senegal will support on-lending to women-owned MSMEs, youth and/or rural clients, which is fully aligned with FMO's strategic goal of Reducing Inequalities. The transaction is a new client for FMO and will also be the first Financial Institution loan in Senegal. 90% of COFINA Senegal's portfolio is dedicated to MSME funding, our loan will thereby drive financial inclusion, which is critical in reducing poverty and achieving inclusive economic growth.

IDH FarmFit Fund B.V. – EUR 5mln loan

Since its inception in 2008, the Sustainable Trade Initiative ("IDH") has developed a market-based approach to smallholder value chain development. FMO will play an instrumental role in showcasing the viability of farmer finance. A dedicated team of investment professionals will focus on offering tailor-made financial instruments (debt, risk sharing, equity) and TA to a wide range of investees that sustainably engage with smallholder farmers. Its impact is further increased through leveraging commercial bank finance.

Acumen Resilient Agriculture Fund, LP – USD 5mln loan

Acumen Resilient Agriculture Fund ("ARAF" or "Fund") will be a fund that provides equity & mezzanine products and technical support to early-stage and early-growth agribusinesses. ARAF supports smallholder farmers to enhance their livelihoods and climate resilience. This strategy fits well with FMO's goal to improve the livelihoods of smallholder farmers and the communities they live in. Using FMO's funding, ARAF will invest in Aggregators, Agritechs and Financial services providers.

FMO Ventures Program – USD 25 mln equity

FMO Ventures Program is an initiative of FMO. The EUR 200 million program is supported by contributions from the Ministry of Foreign Affairs of the Netherlands as well as by a guarantee from the European Commission. FMO Ventures Program aims to empower innovative business models applying disruptive technology to enable or improve affordable access to goods and services to the un(der)served in emerging markets. FMO Ventures Program focuses on direct investments in young start-up and scale-up companies in Fintech, Energy access and Agritech, as well as on indirect (fund) investments in Venture Capital funds, predominantly in Africa and the European neighbourhood, and in certain parts of Asia.

Sales and exits

No full sales and exits were performed in 2020.

Production capacity development

Contracts CD 2020

Advision Finance – EUR 80,725

This project is part of FMO's Covid 19 Response package. The aim is to support the target customers with community engagement as well as risk management and business continuity. The clients supported under this framework include Aye Finance, Finca and FMC.

Advans International- EUR 90,800

Advans International, is an MFI group operating in Africa, Asia and the Middle East. The project aims to support the customer by providing funding for research of the effects of COVID-19 on its portfolio and the wider MFI landscape in its operating countries, which is also to be used for community awareness raising activities. This financing was a part of FMO's COVID-19 Response Package aimed as supporting customers to adapt or scale their business models.

Aimforthemoon – EUR 177,853

The objective of the funding is to support innovation activities for our customer's customers. Using the lean start-up and design thinking methodology, this project works hand-in-hand with the customer to discover their pain points and validate possible solutions before building to scale.

Babson College – EUR 255,805

The EMPOW(H)ER Initiative seeks to support FMO (prospective) customers to provide access to training, mentoring and capacity building for women-led MSMEs in emerging economies. Through this project, FMO customers will expand their non-financial offering with a high-quality and adaptable educational programme, benefiting women entrepreneurs and making the implementation cost-effective through a sustainable training model.

BRAC Microfinance Sierra Leone (BMSL) – EUR 47,000 and BRAC International Holdings Liberia (BML) – EUR 47,000

BRAC started its microfinance activities in both Sierra Leone and Liberia in 2008. As of July 2019, BMSL has reached over 49,000 clients and BML 36,000 with their individual microloans for women delivered through groups, and enterprise loans targeting small-scale entrepreneurs. Through this capacity development project, an in-depth market analysis will be conducted, and client-centric products and services will be developed. The project has two main goals: i) to have a deeper understanding of economic activities and financial needs of smallholder farmers in Sierra Leone and Liberia, and ii) to diversify the product offerings in the two countries.

The project is well aligned with MASSIF's impact priorities and contributes to FMO's Gender finance strategy as the main target for this project are women.

Brac Tanzania Finance Ltd – EUR 99,745

BRAC Tanzania Finance Ltd is a microfinance institution active in Tanzania. The project aims to support BRAC Tanzania Finance Ltd by providing funding for PPE, Community Engagement and Digitalisation. This financing was a part of FMO's COVID-19 Response Package aimed as supporting customers to adapt or scale their business models. This project contributes to mitigating the effects of Covid-19 on people at the bottom of the pyramid and adapting to the new normal.

Brac Uganda Bank Ltd – EUR 99,190

BRAC Uganda Microfinance Ltd is a Ugandan microfinance institution targeting the base of the pyramid (BoP). Through an extensive network in rural areas. The project supports the ongoing response efforts by BRAC Uganda and its partners to address the immediate challenges and the long-term impacts of the COVID-19 pandemic in Uganda.
Specifically, this project focused on three areas: i) community sensitisation and health awareness-raising, ii) enhancing communication channels for client engagement, and iii) delivering training to staff on prevention and control, delinquency collection and business recovery management, as well as training on financial literacy to clients.

Creditaccess Philippines Financing – EUR 54,000

CreditAccess Philippines Financing Company Inc. (aka One Puhunan) is a non-bank financial company. One Puhunan provides working capital loans to low-income entrepreneurs. This project is aimed to expand the provision of masks to clients in need as well as staff. This would simultaneously benefit OP's operations in the field, by building loan officer and client confidence to interact more safely.

Deloitte Financial Advisory B.V. – EUR 67,500

This project is part of FMO's Covid 19 Response package. The aim is to support the target customers with community engagement. The clients supported under this framework include Lafise and Partec.

Dolma Impact Fund 1 - EUR 100,000

Dolma Impact 1 is a Nepal based fund. The project aims to support the customer's investee companies with PPE, awareness raising and community engagement. This financing was a part of FMO's Covid-19 Response Package, aimed at supporting customers to adapt or scale up their business model.

Enclude B.V. – EUR 19,600

In this project, FMO's client is Off Grid Electric one of the leading off-grid solar home system providers in Tanzania. The engagement with Enclude to support the client with financial management as part of the Remote Advisory Services package. With this package, FMO clients are supported in business continuity, crisis management, leadership and coaching to minimize the impact of the pandemic on their business, which in turn will help to sustain it.

Financiera Fama S.A. – EUR 71,000

Financiera FAMA provides support through credit and training to the micro and small business sector in Nicaragua. Through the Emergency Grant Facility, FMO is supporting Financiera FAMA to develop a mobile application to facilitate the granting of digital loans. This mobile application will allow Financiera FAMA to move fast to ensure they can establish contactless distribution channels to reach their customers at this critical time. The grant also covers protective equipment for clients and staff during the COVID crisis.

Financiera FDL S.A. – EUR 32,800

Financiera FDL, S.A. is a regulated financial institution providing financial services to urban and rural people in Nicaragua. They develop special programs to serve micro, small and medium enterprises as well as wage workers in order to promote financial sustainability and social and environmental development of their clients. With the onset of COVID-19, FDL needs protective equipment for its staff and clients for business continuity, a need that will be met with this financing.

Frankfurt School of Finance – EUR 35,511

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

Greenland Fedha Limited – EUR 100,000

Greenland Fedha Limited (GFL) is a non-deposit taking microfinance institution fully owned by Kenya Tea Development Agency Holdings Limited (KTDA), whose core mandate is to provide affordable financial services, to small-scale farmers and lower income and rural households in Kenya. Through this project, GFL staff with PPE for their safety. Further, small scale tea farmers and their households receive support of income-generating activities that will enhance their livelihoods and income sources

Ibis Environmental Social Consulting – EUR 37,115

This project is part of FMO's Covid 19 Response package. The aim is to support the target customers with community engagement. The clients supported under this framework include Energy Access and Scatec.

Inspiring Development – EUR 85,200

This project is a part of FMO's Covid-19 Response Package. The project aims to support the customer with community engagement. The clients include: Middle East based Liwwa Inc (EUR 16,000); MAHA (EUR 16,800), JSC MFO CRYS (EUR 36,000), and DAWN (EUR 16,400).

Kashf Foundation- EUR 49,801

Kashf Foundation is an MFI active in Pakistan. The project aims to support Kashf Foundation with awareness raising and education, community engagement and business continuity. This financing was a part of FMO's COVID-19 Response Package aimed as supporting customers to adapt or scale their business models.

Konu – EUR 16,500

This project is part of FMO's Covid 19 Response package. The project aims to support the target customer with community engagement.

Lfs Advisory Gmbh – EUR 21,150

This project is a part of FMO's Covid 19 Response package. The aim is to support the customers with community engagement. The clients supported under this framework include SFC Finance.

Liwwa Inc – EUR 12,000

Liwwa inc, a Middle East based company benefited from the Covid-19 Response Package receiving funds that were channelled towards community engagement.

Maris Limited- EUR 42,000

FMO's client is Maris Limited, one of FMO's investee funds in Africa. Maris limited is an existing recipient of funding for use in Capacity Development. In this project, FMO supported Maris in its commitment to further improve social and Human rights risk management within the company's portfolio.

Mennonite Economic Development Associates of Canada (MEDA) - EUR 200,000

FMO's partner is MEDA (the Mennonite Economic Development Associates of Canada), a development cooperation consultant active in Myanmar. The funding objective is to collaborate with CDC to create an ecosystem development program in Myanmar dubbed the Myanmar Enabling Investment Program (MEIP).

Nathan Associates London Ltd. – EUR 85,000

This project is under the Internal framework allocation. The objective is to manage corporate governance risks in our customer's portfolio

Nederlandse Financierings-Maatschap – EUR 128,652

This project is under the Internal framework allocation. The objective is to manage corporate governance risks in our customer's portfolio.

One To Watch B.V. – EUR 400,000

One to Watch (OTW) is an impact investment management company established in 2012. It is based in the Netherlands with subsidiaries in Nepal and Myanmar. FMO will provide a grant to One To Watch to support two accelerator programs for local entrepreneurs/small and medium enterprises in Myanmar and Nepal to support capacity building and make them investment-ready.

Seeds For Progress Foundation – EUR 100,000

Seeds for Progress is the foundation of FMO´s client MERCON, which is a global, green coffee supplier. This project combines and scales up measures against COVID-19. It is composed of 3 main actions: 1) Communication and awareness, 2) Education, 3) Provision of safety kits. This project will reach 4,000 small farmers, 12,220 family members, 77,278 temporary workers and 4,769 children. The target groups are small coffee farmers, plus their families and rural workers.

Takura Capital Partners (Private) L – EUR 99,600

Takura Capital is a Private Equity Fund active in Africa. With this project, funded as part of the Covid-19 response package, Takura aims to support its customers with health care services by providing funding for medical facilities and PPE.

First Microfinance Company – EUR 31,900

First Microfinance Company Egypt (FMF-E) is a non-profit MFI in Egypt. FMF-E focuses on bottom-of-the-pyramid, mainly rural clients in Egypt, particularly youth and women. The project supports FMF-E in taking the required precaution measures and stimulates the use of digital channels for FMF-E's customers. The project is an emergency response to the spread of COVID-19 and aims to facilitate the sustainable provision of the company's financial services during and post-pandemic

The Lebanese Association For Development – EUR 65,000

Digital business continuity to Al Majmoua. Al Majmoua is the number one MFI in Lebanon and provides loans and free business development services and socially oriented activities, with a focus on empowerment of marginalized communities. The economic and political crises in Lebanon have been exacerbated by the COVID-19 pandemic and the more recent destruction of Beirut. In this highly challenging context, Al Majmoua struggles to run its operations and to serve its 72,500 clients. Through this emergency grant, FMO supports Al Majmoua in ensuring the continuity of services, during and after COVID-19. It does so by renewing the subscriptions of key IT and software licenses Al Majmoua uses to conduct their daily business as currently, Al Majmoua is not able to renew these licenses because of capital controls that prevent international payments. The operating systems could not be sustained without the availability of this grant and it allows Al Majmoua to keep serving its customers.

The Meloy Fund - I , GP LLC – EUR 72,500

The Meloy Fund for Sustainable Community Fisheries ("Meloy") is a pioneering impact investing vehicle developed to provide capital to enterprises that participate in the coastal fishing and aquaculture supply chains. Its focus is on investments in Indonesia and the Philippines. The objective of this project is to help Meloy with supporting portfolio companies and other impacted SMEs in its pipeline to provide a safe working environment for employees and fish suppliers, as well as bridge the gap between slow-moving government aid and current need for subsistence and health and safety supplies.

Thitsar Ooyin Company Limited- EUR 75,000

Thitsar Ooyin Company Limited is a microfinance institution created by GRET, an international development NGO based in France. In this project. FMO co-funded the services of GRET to support Thitsar Ooyin's to i) Improve the overall governance of the organization ii) support the implementation of new departments in the organization and iii) support in ensuring the Operational, Audit, Finance and HR manuals are in place. This project will provide quality financial services and strengthen the management capacities of low-income farmers.

UN Capital Development Fund – EUR 500,000

UNCDF is the United Nations' capital investment agency for the world's least developed countries and has a mandate to provide capital and technical support. FMO engaged in two projects with this partner. The first is focused on providing investment capital and technical assistance (TA) support to promising SMEs operating in two fragile states: Sierra Leone and the Democratic Republic of Congo (DRC). This project will allow cooperation towards sustainable financial inclusion targeting the base of the pyramid.
In the second, FMO would support the launch of the Women Enterprise Recovery Fund which looks to partner with private sector innovators to design and launch digital solutions which help women enterprises that have been economically impacted by COVID-19 and to address their financial and other business requirements.

Varcando Limited – EUR 253,000

The objective of the funding is to support a feasibility study for a microfinance fund focused on setting up greenfield MFIs in the Sahel region, to be managed by Varcando.

WIC Capital – EUR 350,000

Women's Investment Club Senegal (WIC Senegal) is a non-profit woman-led initiative, whose objective is to promote women's participation in economic growth of Africa through investing in Women-led MSMEs (WMSMEs). FMO participated in 2 projects with WIC Capital. In one, funds aimed at strengthening the WIC Academy with a classic CD grant, supporting the first cohort of WMSMEs to receive tailored technical support, amongst others to get these WMSMEs to a stage of investment readiness. In the second, funds were used to provide catalytic first loss capital for WIC Capital, aiming to mobilize funding to be invested in about 50 promising WMSMEs over a 5-year horizon.

XSML Capital Ltd – EUR 280,000

The client in this project is XSML Capital, a fund active in East Africa. The project aims to support the customer's investee companies with PPE, awareness raising and community engagement as part of FMO's Covid-19 Response Package.

XSML Capital III LTD – EUR 30,000

XSML Capital III ltd, a PE Fund active in Africa. FMO is dedicated to creating value for its customers through the provision of external guidance, knowledge, and skills transfer. The project funds will be used to provide support to the customer in the following topics: HR and Diversity and Inclusion.

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.

UNEP FI | Principles for responsible banking — Signatory

FMO is a signatory of the Principles for Responsible Banking.

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

- 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

	Notes	2020	2019
Assets			
Banks	(1)	17,257	30,969
Current account with FMO	(2)	107	110
Short-term deposits	(3)	13,936	14,285
Loan portfolio	(4)		
- of which: Amortized cost		151,355	142,311
- of which: Fair value through profit or loss		30,867	41,149
Equity investments	(5)	252,341	256,042
Investments in associates	(6)	7,160	6,746
Other receivables	(7)	528	6,834
Total assets		**473,551**	**498,446**
Liabilities			
Other liabilities	(8)	20	440
Accrued liabilities	(9)	5,668	2,789
Provisions	(10)	39	389
Total liabilities		**5,727**	**3,618**
Fund capital			
Contribution DGIS previous years		350,990	350,990
Contribution DGIS current year		1,850	-
Total contribution DGIS	(11)	352,840	350,990
Initial contribution FMO		7,778	7,778
Total contribution FMO		7,778	7,778
Translation reserve		150	734
Other reserves		68,697	68,697
Undistributed results previous years		66,629	70,507
Net profit / (loss)		-28,270	-3,878
Total fund capital		**467,824**	**494,828**
Total liabilities and fund capital		**473,551**	**498,446**
Effective guarantees issued	(18)	556	1,479
Irrevocable facilities	(18)	81,902	81,800
Total subsidy allocated to MASSIF (including HMA Skopje)		345,096	345,096
Total subsidy withdrawn from DGIS for MASSIF		345,096	343,246
"Total subsidy available MASSIF"		**-**	**1,850**
Subsidy received by G-20 SME Finance Challenge		7,744	7,744

Statement of comprehensive income

At December 31

	Notes	2020	2019
Income			
Interest income from financial instruments measured at AC		13,138	13,254
Interest income from financial instruments measured at FVPL		2,353	2,913
Net interest income	**(12)**	**15,491**	**16,167**
Fee and commission income	(13)	180	243
Results from equity investments	(15)	-5,411	-7,663
Dividend income	(14)	1,386	3,458
Results from financial transactions	(16)	-17,277	2,667
Remuneration for services rendered		-	14
Total income		**-5,631**	**14,886**
Expenses			
Remuneration FMO	(17)	-10,680	-10,896
Capacity development expenses		-6,409	-4,960
Other operating expenses		-	-6
Evaluation expenses		-849	-218
Total expenses		**-17,938**	**-16,080**
Impairments on			
Loans	(4)	-5,702	-3,500
Guarantees issued		2	11
Total impairments		**-5,700**	**-3,489**
Share in result of associates	(6)	999	805
Net profit / (loss)		**-28,270**	**-3,878**
Other comprehensive income			
Translation reserve	(6)	-584	113
Other comprehensive income		**-584**	**113**
Total comprehensive income / (loss)		**-28,854**	**-3,765**

Statement of changes in fund capital

At December 31

	Contributed Fund capital	Contribution FMO	Translation reserve	Other reserves	Undistributed results previous years	Net profit / (loss)	Total fund capital
Balance at January 1, 2019	**350,990**	**7,778**	**621**	**68,697**	**70,507**	**-**	**498,593**
Contribution DGIS	-	-	-	-	-	-	-
Contribution FMO	-	-	-	-	-	-	-
Exchange differences on translating associates	-	-	113	-	-	-	113
Results current year	-	-	-	-	-	-3,878	-3,878
Net balance at December 31, 2019	**350,990**	**7,778**	**734**	**68,697**	**70,507**	**-3,878**	**494,828**
Net balance at January 1, 2020	**350,990**	**7,778**	**734**	**68,697**	**70,507**	**-3,878**	**494,828**
Contribution DGIS	1,850	-	-	-	-	-	1,850
Contribution FMO	-	-	-	-	-	-	-
Exchange differences on translating associates	-	-	-584	-	-	-	-584
Transfer net profit/(loss) PY to Undistr. Results	-	-	-	-	-3,878	3,878	-
Results current year	-	-	-	-	-	-28,270	-28,270
Net balance at December 31, 2020	**352,840**	**7,778**	**150**	**68,697**	**66,629**	**-28,270**	**467,824**

Statement of cash flows

At December 31

	Notes	2020	2019
Cash from operating activities			
Inflows			
Interest received on loans		13,892	15,608
Repayments on loans	(4)	23,662	45,771
Sale of equity instruments to other parties than FMO		31,592	21,239
Dividends and fees received		1,559	3,732
Other received amounts		6,434	686
Outflows			
Disbursements on loans	(4)	-43,094	-42,721
Investments in equity instruments and associates	(5),(6)	-31,752	-31,750
Disbursements on grants		-3,612	-2,217
Management fees FMO	(17)	-10,678	-10,896
Other paid amounts		-3,917	-6,156
Net cash from operating activities		**-15,914**	**-6,704**
Cash flow financing activities			
Inflows			
Contribution DGIS current year	(11)	1,850	-
Net cash from financing activities		**1,850**	**-**
Net change in cash & cash equivalent		-14,064	-6,704
Position of cash at January 1 [1)]		45,364	52,068
Position of cash at end of period [1)]		**31,300**	**45,364**

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 to itself (2% equity) the Dutch State (98% equity). 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;

Adoption of new standards, interpretations and amendments

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

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 are effective from January 1, 2020 and have no impact on the Fund's existing accounting policies.

Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments are effective for annual periods beginning on or after January 1, 2020 and are applied prospectively. The amendments did not change the information the Funds judges to be material to the primary users of its financial statements.

Amendment to IFRS 3 Business Combinations

The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations in order to help entities determine whether an acquired set of activities and assets is a business or not. An entity shall apply the amendments to business combinations and asset acquisitions that occur on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The amendments have had no impact to date as the Fund has not entered into any business combinations as at the date of these annual accounts. Any future business combinations will be assessed in light of the amendments.

Amendment to IFRS 16 - COVID-19 Related Rent Concessions

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

Interest Rate Benchmark Reform Phase 1 - Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. This concluded the first phase to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. 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 standard is effective from January 1, 2020 and does not have any impact on the Fund's financial statements.

Issued but not yet adopted standards

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

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

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

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. The amendments are effective for annual periods beginning on or after 1 January 2022 and are applied retrospectively. This amendment has no impact on financial statements of the Fund.

Amendments to IAS 37 - Onerous Contracts

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

IFRS 17 Insurance Contracts

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

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

These amendments, mandatory and effective from January 1, 2021, provide reliefs and practical expedients on issues that affect financial reporting when an existing interest rate benchmark is replaced with an RFR. No early adoption of Phase 2 amendments is implemented by the Fund. The retirement of libor rates in second half of 2021 will impact the valuations of loans to private sector. As pricing of a part of these financial instruments is based on USD libor rates, Phase 2 reliefs will mainly be applied for recognition and measurement. The Fund is preparing to originate new loans new reference rates as from fourth quarter of 2021. The Funds will use the SOFR as the new reference rate. Transition of existing loans to new reference rate is planned from 2022 onwards and is expected to last till first half year of 2023.

Annual Improvements 2018-2020

Subsidiary as a First-Time Adopter (IFRS 1)

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

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

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

Lease Incentives (IFRS 16)

The amendment removes an illustrative example on the reimbursement of leasehold improvements and has no impact on the financial statements of 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 for loans to private sector, loans commitments and guarantees

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;

Changes in accounting estimate

Stage 3 ECL allowance

For financial reporting year 2020, FMO decided to change the way of estimating the ECL allowance for Stage 3 loans. The calculation is based on a multiple scenario analysis, using a discounted cash flow (DCF) model, to determine the percentage to be applied on the outstanding amount of the loan. The only change in 2020 compared to before, the Fund now follows a more granular approach by calculating the Stage 3 impairments using the exact ECL percentages as opposed to impairment matrix buckets.
The impact of the above change in calculation is a decrease in stage 3 provisions as per year end 2020 of €1.9 million

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

The overlay is derived by changing the country cap ('country crisis override') applied when assessing the client's credit rating applied when calculating the expected credit losses. The impact of the above change in calculation is an increase in stage 1 ECL allowances as per year end 2020 of €0.6 million, and an increase in stage 2 loans of €0.9 million. The total increase in the ECL stage 1 and stage 2 provision is €1.5 million. Refer to 'Credit Risk' section in the 'Risk Management' chapter for more information.

In addition, the macro-economic scenarios applied in the estimation of expected credit losses were updated to reflect the latest IMF GDP forecasts, considering the economic impact of the COVID-19 pandemic.

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 Investment Review Committee (IRC) to decide about the specific impairment level:

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

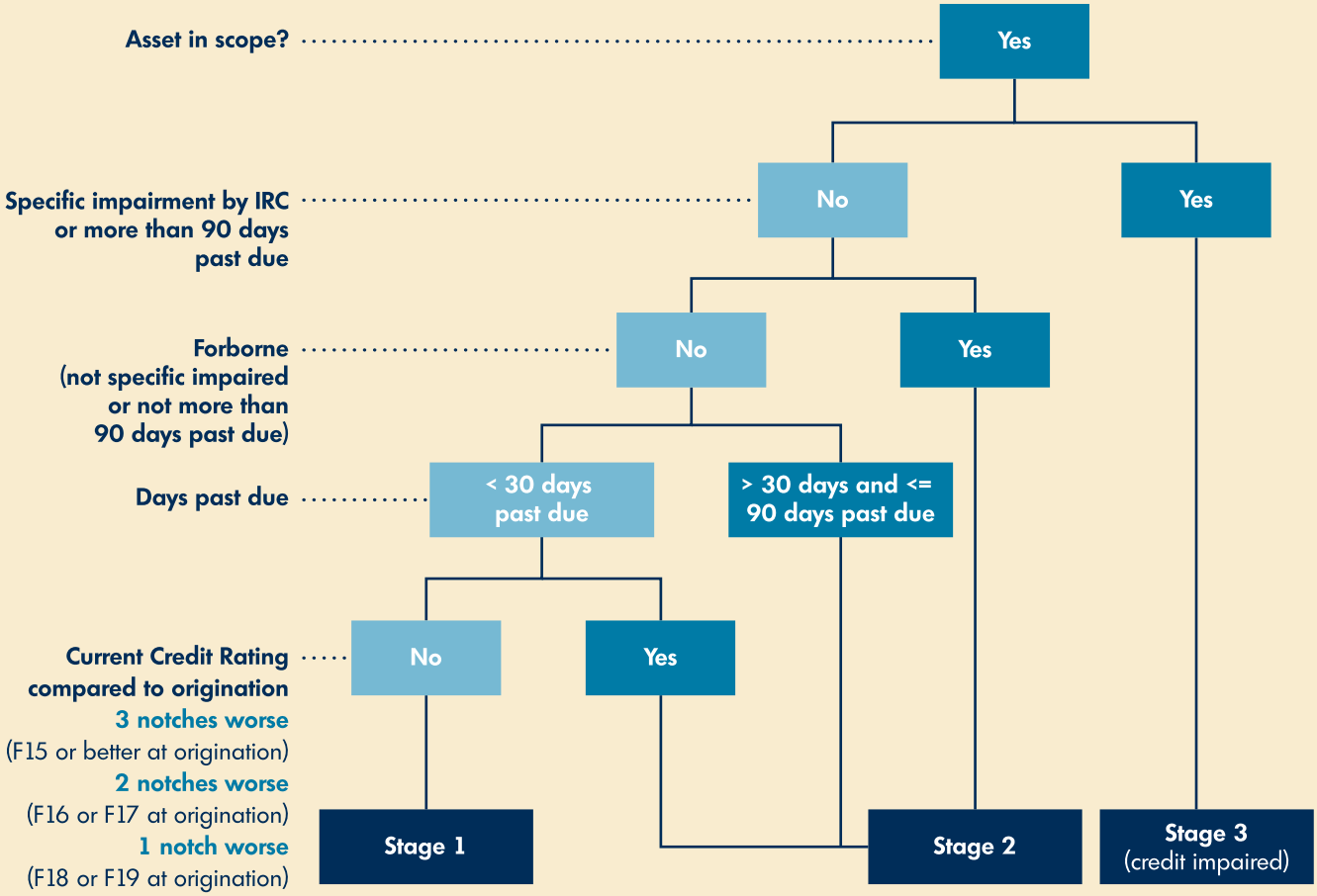
Definition of default (Stage 3)

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.

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 FMO has no reasonable prospects of recovery after, among others, enforcement of collateral or legal enforcement with means of lawsuits. Furthermore, a write-off is performed when the loan is being forgiven by 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. Generally when the impairment percentage exceeds 95%, the IRC is advised to consider a write - off.

Write-offs are charged against previously recorded 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

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

Modification of 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. 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 gain or loss following from the derecognition is recognized in line item 'gains and losses due to derecognition'. 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 performed due to potential higher credit risk. However for 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

	2020	2019
Banks	17,257	30,969
Balance at December 31	**17,257**	**30,969**

The cash on bank accounts can be freely disposed of.

2. Current accounts (assets)

	2020	2019
Current account with FMO	107	110
Balance at December 31	**107**	**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.

	2020	2019
Money market funds	13,936	14,285
Balance at December 31	**13,936**	**14,285**

Short term deposits consist of MMF, which are measured at FVPL. Short term deposits 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 2020
Balance at January 1, 2020	162,373	41,149	203,522
Disbursements	42,358	812	43,170
Conversion from loan to equity	-	-1,552	-1,552
Repayments	-17,283	-6,455	-23,738
Interest Capitalization	-	150	150
Derecognized and/or restructured loans	190	-	190
Changes in amortizable fees	152	-24	128
Changes in fair value	-	-1,193	-1,193
Changes in accrued income	1,633	-492	1,141
Exchange rate differences	-13,100	-1,528	-14,628
Balance at December 31, 2020	**176,323**	**30,867**	**207,190**
Impairment	-24,968	-	-24,968
Total balance at December 31, 2020	**151,355**	**30,867**	**182,222**

	Loans measured at AC	Loans measured at FVPL	Total 2019
Balance at January 1, 2019	172,789	30,522	203,311
Disbursements	28,809	13,911	42,720
Conversion from loan to equity	-	-450	-450
Repayments	-41,994	-3,777	-45,771
Write-offs	-408	-	-408
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, 2019	**162,373**	**41,149**	**203,522**
Impairment	-20,062	-	-20,062
Total balance at December 31, 2019	**142,311**	**41,149**	**183,460**

The contractual amount of assets that were written off during the period are still subject to enforcement activity. This period there were no recoveries from written off loans (2019: €0.1 mln).

The following table summarizes the loans segmented by sector:

	2020					
Loans segmented by sector	**Stage 1**	**Stage 2**	**Stage 3**	**Fair value**	**Total 2020**	**2019**
Financial Institutions	90,112	37,175	17,776	22,209	167,272	166,031
Energy	287	4,176	-	2,746	7,209	7,402
Agribusiness	823	1,006	-	536	2,365	3,167
Multi-Sector Fund Investments	-	-	-	5,376	5,376	6,860
Net balance at December 31	**91,222**	**42,357**	**17,776**	**30,867**	**182,222**	**183,460**

	2020					
Loans segmented by geographical area	**Stage 1**	**Stage 2**	**Stage 3**	**Fair value**	**Total 2020**	**2019**
Africa	26,949	34,779	16,494	6,642	84,864	71,126
Asia	32,358	7,578	1,282	8,658	49,876	51,659
Latin America & the Carribbean	27,736	-	-	1,494	29,230	28,847
Europe & Central Asia	4,179	-	-	13,823	18,002	23,830
Non - region specific	-	-	-	250	250	7,998
Net balance at December 31	**91,222**	**42,357**	**17,776**	**30,867**	**182,222**	**183,460**

	2020	2019
Gross amount of loans to companies in which the Fund has equity investments	10,975	12,170
Gross amount of subordinated loans	6,046	1,999
Gross amount of non-performing loans	38,281	34,936

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 2020	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
At December 31, 2019	113,742	-1,881	13,695	-572	34,936	-17609	162,373	-20,062
Additions	37,559	-1,328	4,723	-559	-	-	42,358	-1,887
Exposures derecognised or matured / lapsed (excluding write-offs and modifications)	-13,201	482	-4,006	224	-76	2	-17,283	708
Transfers to Stage 1	115	-4	-	-	-115	4	0	0
Transfers to Stage 2	-33,516	373	33,383	-373	133	-	0	0
Transfers to Stage 3	-3,792	141	-	-	3,792	-141	0	0
Modifications of financial assets (including derecognition)	-	-	190	-	-	-	190	0
Changes in risk profile not related to transfers	-	-757	-	-571	-	-3,525	0	-4,853
Amounts written off	-	-	-	-	-	-	0	0
Changes in amortizable fees	34	-	92	-	26	-	152	0
Changes in accrued income	802	-	147	-	684	-	1,633	0
Foreign exchange adjustments	-7,834	287	-4,091	75	-1,175	764	-13,100	1,126
At December 31, 2020	**93,909**	**-2,687**	**44,133**	**-1,776**	**38,281**	**-20,505**	**176,323**	**-24,968**

Changes in loans to the private sector at AC in 2019	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
At 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**

The impairments related to guarantees are included in provisions (see Note 10).

Total impairments on loans in the profit and loss account	2020	2019
Additions and reversals loans Massif portfolio	-5,702	-3,629
Recoveries (writen - off loans)	-	129
Balance at December 31	**-5,702**	**-3,500**

The following table shows the values of the IMF GDP forecasts used in each of the economic scenarios for the ECL calculations for 2020 and 2021. The upside and downside scenario calculations are derived from the base case scenario, adjusted based on an indicator of public debt to GDP in emerging markets.

IMF GDP % Growth Forecasts	2020	2021
India	-10.3%	8.8%
Myanmar	2.0%	5.7%
Zimbabwe	-10.4%	4.2%
Uzbekistan	0.7%	5.0%
Kenya	1.0%	4.7%
Nicaragua	-5.5%	-0.5%
Afghanistan	-5.0%	4.0%
Cote d Ivoire	1.8%	6.2%
Senegal	-0.7%	5.2%
Bangladesh	3.8%	4.4%

The following tables outline the impact of multiple scenarios on the ECL allowance as at December 31, 2020 and December 31, 2019:

December 31, 2020	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector	Guarantees	Total
ECL Scenario:					
Upside	23,334	2%	466	1	467
Base case	25,007	50%	12,488	16	12,504
Downside	28,406	48%	13,617	18	13,635
Total	**76,747**	**100%**	**26,571**	**35**	**26,606**

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	**62,239**	**100%**	**21,250**	**38**	**21,288**

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, 2020

ECL allowance - Stage 2 trigger assessment	Loans to private sector	Loan commitments	Total
More than 30 days past due	-64	-	-64
Forbearance	-794	-3	-797
Deterioration in credit risk rating	-918	-	-918
Total	**-1,776**	**-3**	**-1,779**

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**

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, 2020	256,042
Purchases and contributions	31,752
Reclassification from loans	1,550
Return of Capital	-34,280
Changes in fair value	-2,723
Net balance at December 31, 2020	**252,341**

	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**

The following table summarizes the equity investments segmented by sector:

	2020	2019
Financial Institutions	155,220	93,852
Energy	1,563	1,149
Agribusiness	7,697	9,752
Multi-Sector Fund Investments	77,121	65,419
Infrastructure, Manufacturing and Services	10,740	85,870
Net balance at December 31	**252,341**	**256,042**

6. Investments in associates

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

	2020	2019
Net balance at January 1	6,746	5,681
Purchases and contributions	-	146
Share in net results	999	805
Exchange rate differences	-585	114
Net balance at December 31	**7,160**	**6,746**

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

The following table summarizes the associates segmented by sector.

	2020	2019
Financial Institutions	7,160	6,746
Net balance at December 31	**7,160**	**6,746**

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

	Total
Total assets	15,446
Total liabilities	8,318
Total income	993
Total profit/loss	476

7. Other receivables

	2020	2019
Receivables related to equity disposals and dividends	476	6,645
Fee receivables	52	189
Balance at December 31	**528**	**6,834**

8. Other liabilities

	2020	2019
Amortized costs related to guarantees	20	17
Other liabilities	-	423
Balance at December 31	**20**	**440**

9. Accrued liabilities

	2020	2019
Suspense account	128	-
Accrued costs capacity development	5,540	2,789
Balance at December 31	**5,668**	**2,789**

10. Provisions

The amounts recognized in the balance sheet are as follow:

	2020	2019
Allowance for loan commitments	8	352
Liabilities for guarantees	31	37
Balance at December 31	**39**	**389**

11. Contributed fund capital and reserves

	2020	2019
Contributed Fund Capital	350,990	350,990
Initial contribution FMO	7,778	7,778
Contribution DGIS current year	1,850	-
Balance at December 31	**360,618**	**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	2020	2019
Other reserves	68,697	68,697
Balance at December 31	**68,697**	**68,697**

Undistributed results	2020	2019
Balance at January 1	66,629	70,507
Net profit / (loss)	-28,270	-3,878
Balance at December 31	**38,359**	**66,629**

12. Net interest income

	2020	2019
Interest on loans measured at AC	13,179	13,374
Interest on banks	-41	-120
Total interest income from financial instruments measured at AC	**13,138**	**13,254**
Interest on loans measured at FVPL	2,193	2,779
Interest on short-term deposits	160	134
Total interest income from financial instruments measured at FVPL	**2,353**	**2,913**
Total net interest income	**15,491**	**16,167**

13. Net fee and commission income

	2020	2019
Prepayment fees	-	14
Front-end fees for FVPL loans	-	31
Administration fees	173	168
Other fees (arrangement, cancellation and waiver fees)	7	30
Net fee and commission income	**180**	**243**

14. Dividend income

	2020	2019
Dividend income direct investments	527	2,050
Dividend income fund investments	859	1,408
Total dividend income	**1,386**	**3,458**

15. Results from equity investments

	2020	2019
Results from equity investments:		
Unrealized results from capital results	10,469	-8,845
Unrealized results from FX conversions - capital results	118	-1,375
Unrealized results from FX conversions - cost price	-13,309	5,149
Net unrealized results	**-2,722**	**-5,071**
Results from sales & distributions:		
Realized results	-498	5,462
Release unrealized results	-2,191	-8,054
Net results from sales & distributions	**-2,689**	**-2,592**
Total results from equity investments	**-5,411**	**-7,663**

16. Results from financial transactions

	2020	2019
Results on sales and valuations of FVPL loans	-1,193	566
Foreign exchange results	-16,084	2,101
Total results from financial transactions	**-17,277**	**2,667**

17. Expenses

	2020	2019
Remuneration FMO	-10,680	-10,896
Capacity development expenses	-6,409	-4,960
Other operating expenses	-	-6
Evaluation expenses	-849	-218
Total operating expenses	**-17,938**	**-16,080**

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.

18. 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 ECL measurement methodology.

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

	2020	2019
Contingent liabilities		
Effective guarantees issued	556	1,479
Less: provisions, amortized costs and obligations for guarantees (presented under other liabilities/provisions)	-51	-54
Total guarantees issued	**505**	**1,425**

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 2020 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:

	2020	2019
Irrevocable facilities		
Contractual commitments for disbursements of:		
- Loans	10,150	23,968
- Grants	2,396	1,499
- Equity investments and associates	69,356	55,113
Contractual commitments for financial guarantees given	-	1,220
Total irrevocable facilities	**81,902**	**81,800**

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

Movement financial guarantees in 2020	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance
At January 1, 2020	2,699	-37	-	-	-	-	2,699	-37
Additions	1,019	-6	-	-	-	-	1,019	-6
Exposures matured (excluding write-offs)	-802	-	-	-	-	-	-802	-
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	9	-	-	-	-	-	9
Foreign exchange adjustments	-222	3	-	-	-	-	-222	3
At December 31, 2020	**2,694**	**-31**	**-**	**-**	**-**	**-**	**2,694**	**-31**

Movement financial guarantees in 2019	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance
At January 1, 2019	2,270	-49	-	-	-	-	2,270	-49
Additions	1,135	-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	**2,699**	**-37**	**-**	**-**	**-**	**-**	**2,699**	**-37**

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

Movement of loans commitments in 2020	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
At January 1, 2020	18,541	-289	1,508	-63	0	0	20,049	-352
Additions	0	0	0	0	0	0	0	0
Exposures derecognised or matured (excluding write-offs)	-16,163	549	-1,243	126	0	0	-17,406	675
Transfers to Stage 1	240	-6	-240	6	0	0	0	0
Transfers to Stage 2	-859	5	859	-5	0	0	0	0
Transfers to Stage 3	0	0	0	0	0	0	0	0
Changes to models and inputs used for ECL calculations	0	-275	0	-71	0	0	0	-346
Changes due to modifications not resulting in derecognition	0	0	0	0	0	0	0	0
Amounts written off	0	0	0	0	0	0	0	0
Foreign exchange adjustments	-1,109	11	-25	4	0	0	-1,134	15
At December 31, 2020	**650**	**-5**	**859**	**-3**	**0**	**0**	**1,509**	**-8**

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**

19. 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, 2020	FVPL - mandatory	Amortized cost	Total
Financial assets measured at fair value			
Short-term deposits	13,936	-	13,936
Loans to the private sector	30,867	-	30,867
Equity investments	252,341	-	252,341
Total	**297,144**	**-**	**297,144**
Financial assets not measured at fair value			
Banks	-	17,257	17,257
Loans to the private sector	-	151,355	151,355
Current accounts	-	107	107
Other receivables	-	528	528
Total	**-**	**169,247**	**169,247**
Financial liabilities not measured at fair value			
Other liabilities	-	20	20
Accrued liabilities	-	5,668	5,668
Total	**-**	**5,688**	**5,688**

December 31, 2019	FVPL - mandatory	Amortized cost	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
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			
Other liabilities	-	440	440
Accrued liabilities	-	2,789	2,789
Total	**-**	**3,229**	**3,229**

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.

Carrying value financial assets	**2020**		**2019**	
At December 31	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Banks	17,257	17,257	30,969	30,969
Loans to the private sector at AC	151,355	142,915	142,311	128,864
Total non fair value financial assets	**168,612**	**160,172**	**173,280**	**159,833**

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, 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL				
Short-term deposits mandatory at FVPL	13,936	-	-	13,936
Loans to the private sector mandatory at FVPL	-	-	30,867	30,867
Equity investments	13,145	-	239,196	252,341
Total financial assets at fair value	**27,081**	**-**	**270,063**	**297,144**

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
Total financial assets at fair value	**25,365**	**-**	**286,111**	**311,476**

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, 2020	**41,149**	**244,962**	**286,111**
Total gains or losses			
· In profit and loss (changes in fair value)	-1,217	9,750	8,533
Purchases/disbursements	812	30,805	31,617
Sales/repayments	-6,455	-34,280	-40,735
Accrued income	-492	-	-492
Exchange rate differences	-1,528	-13,591	-15,119
Interest Capitalization	150	-	150
Reclassification Loans versus Equity	-1,552	1,550	-2
Balance at December 31, 2020	**30,867**	**239,196**	**270,063**

	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
Purchases/disbursements	13,911	31,604	45,515
Sales/repayments	-3,777	-15,845	-19,622
Accrued income	501	-	501
Exchange rate differences	1,008	416	1,424
Reclassification Loans versus Equity	-450	486	36
Transfers out of level 3	-	-11,080	-11,080
Balance at December 31, 2019	**41,149**	**244,962**	**286,111**

Type of debt investment	Fair value at December 31, 2020	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Loans	7,386	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 €7m.
	2,533	ECL measurement	Based on client rating	An improvement / deterioration of the Client Rating with 1 notch will result in 1% increase/decrease.
Debt Funds	20,948	Net Asset Value	n/a	n/a
Total	**30,867**			

Type of equity investment	Fair value at Dec 31, 2020	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Private equity fund investments	130,115	Net Asset Value	n/a	n/a
Private equity direct investments	37,620	Recent transactions	Based on at arm's length recent transactions	n/a
	40,622	Book multiples	1.0 – 1.4	A decrease/increase of the book multiple with 10% will result in a lower/ higher fair value of €4 million.
	29,233	Earning Multiples	Depends on several unobservable data such as EBITDA multiples (range 1.32 - 1.55)	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €3million.
	1,606	Put option	The guaranteed floor depends on several unobservable data such as IRR, EBITDA multiples, book multiples and Libor rates	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €2 million.
Total	**239,196**			

20. 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.

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 (2020: € 11 million; 2019: € 11 million). FMO is also a minor contributor to the fund with a total contribution of € 8 million in 2020 (2019: € 8 million)

21. 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.

Risk management

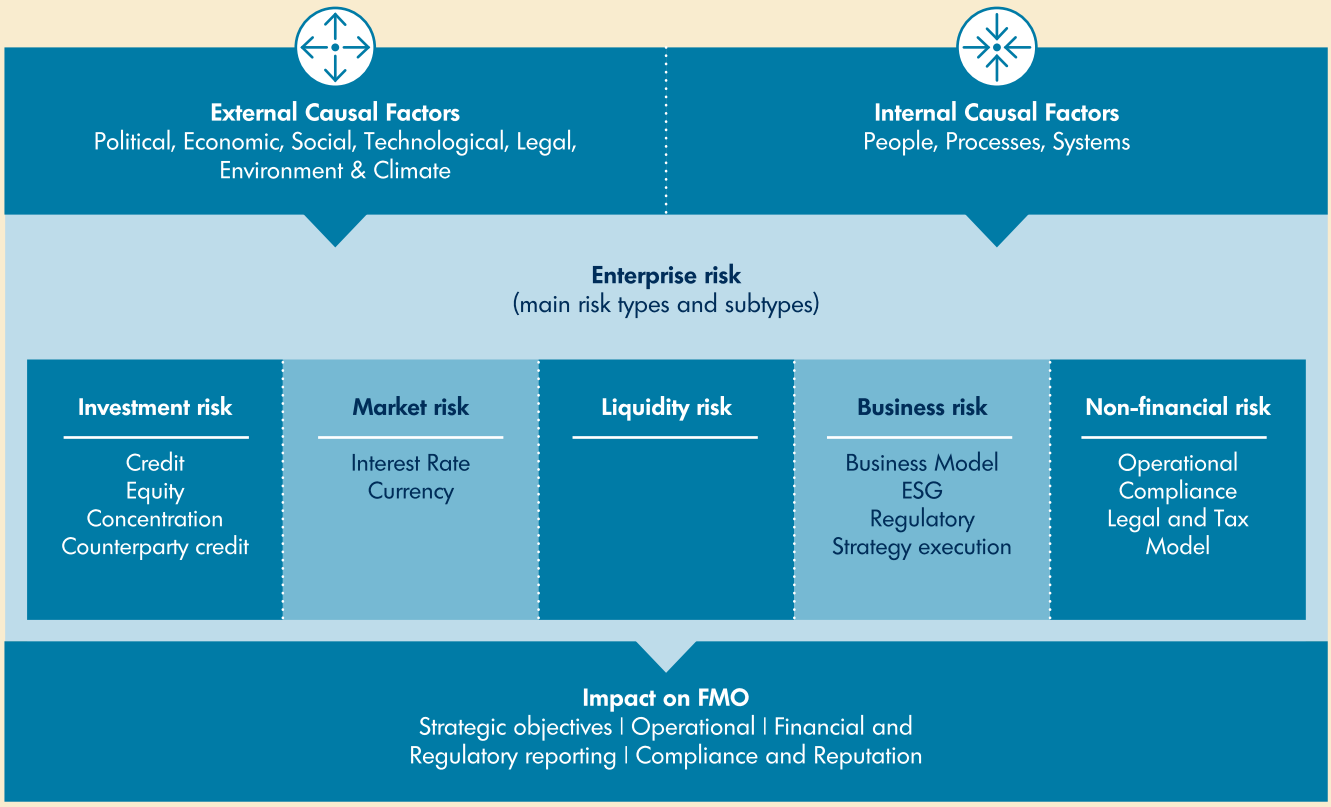
Organization of risk management

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



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 €352,8 million on 31 December 2020. FMO contributed €7.8 million 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 €467.6 million in 2020 (2019: €494.8 million).

Financial risk

Investment risk

Investment risk is defined as the risk that actual investment returns will be lower than expected returns, and includes credit, equity, concentration and counterparty credit risks.

Credit risk

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.

Developments

In March 2020, in response to the emerging COVID-19 pandemic, it was concluded that a crisis override (considered a management overlay) was required in the rating methodology, to be applied to the entire loan portfolio. Country ratings were considered the best proxy to estimate the increased risk of the individual clients. Risk ratings of a large number of clients were downgraded as the Fund temporarily implemented more stringent country caps with respect to client sectors in March 2020. As a result, significant financial impact of the country overrides was reflected in the ECL movement. This impact was observed in two ways: migration from Stage 1 to 2 due to significant increase in credit risk (namely 3 notch downgrade since origination) and increased Stage 1 and 2 impairments due to higher PDs (while the clients remained in the same stage). In the second half of 2020, the necessity and level of the override was again evaluated. Due to the remaining uncertainty about the impact of the crisis on the Fund's clients, it was deemed justified to maintain a crisis override. However, the Fund decided to gradually reduce the level of the crisis override, because a significant part of the COVID-19 impact already should be reflected in country ratings and individual client ratings. In addition, it also transpired that our clients have so far been able to do relatively well despite the crisis. Therefore, in the last quarter of 2020, a revised level of overrides was implemented. In addition, individual clients were assessed by the end of 2020 to assure the revised rating properly reflects the potential COVID impact. There was a total impact of €1.53 million increase in stage 1 and 2 impairments in 2020 related to the revised level of overrides and reassessment of the individual clients in Q4. Of the €1.53 million increase in impairments, €1.48 million was due to the combined impact of rating changes without stage migration (€0.75 million increase in stage 1 and €0.73 million increase in stage 2 impairments) and €0.05 million was due to the combined impact of rating changes with stage migration (€0.07 million release in stage 1 and less than €0.13 million increase in stage 2 impairments).

The ordinary country caps before COVID are summarized in the table below [1] .

1 The lower the credit rating, the higher the F-rating in FMO's terminology and the worse the creditworthiness of the clients, and vice versa.

Pre-COVID country caps

CRR type	Cap
Bank	If client rating >=F16: cap amounts to Country Rating to −3 [1] If client rating <=F15: cap amounts to Country Rating −2
Non-banking financial institution	If client rating >=F16: cap amounts to Country Rating −3 If client rating <=F15: cap amounts to Country Rating −2
Corporate	Cap amounts to Country Rating −3
Project Finance	In case of Purchasing Power Agreement/Offtake Agreement with a government-related entity: cap amounts to Country Rating −1 Other projects: cap amounts to Country Rating −2

1 In this example, the final rating considering the country cap cannot be more than three notches better than the country rating.

The COVID-led country caps (initial and revised) are summarized in the table below.

Country crisis adjustment following COVID-19 pandemic

Sector	CRR type	Cap 30 June	Cap 31 December
Financial Institutions	Bank, Non-banking financial institution	Country Rating	Country Rating – 1
Energy – Production	Corporate, Project Finance	Country Rating	Country Rating – 1
Energy – Construction	Project Finance	Country Rating +1	Country Rating
Energy – Off-grid	Non-banking financial institution, Corporate	Country Rating +1	Country Rating
Agri/DS – Local market	Corporate, Project Finance	Country Rating	Country Rating – 1
Agri/DS – Exporting companies	Corporate, Project Finance	Country Rating – 1	Country Rating – 2

If country ratings change, the impact on impairment charge at a portfolio level is expected to be more substantial under the new country caps for countries with low ratings. Country ratings have been regularly updated based on currently available information from external rating agencies and not all countries were downgraded at this point in time.

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

	2020	2019
On balance		
Banks	17,257	30,969
Short-term deposits	13,936	14,285
Loans to private sector		
- of which: Amortized cost	174,825	161,683
- of which: Fair value through profit or loss	32,741	42,109
Current accounts	107	110
Other receivables	528	6,831
Total on-balance	**239,394**	**255,987**
Off-balance		
Contingent liabilities	-	1,220
Total off-balance	-	1,220
Total credit risk exposure	**239,394**	**257,207**

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, 2020 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Fair Value	Total
F1-F10 (BBB- and higher)	-	-	-	-	-
F11-F13 (BB-,BB,BB+)	15,080	6,198	-	13,314	34,592
F14-F16 (B-,B,B+)	65,499	24,018	-	13,265	102,782
F17 and lower (CCC+ and lower)	13,809	14,059	38,300	5,816	71,984
Sub-total	**94,388**	**44,275**	**38,300**	**32,395**	**209,358**
Less: amortizable fees	-479	-142	-20	-	-641
Less: ECL allowance	-2,687	-1,776	-20,504	-	-24,967
FV adjustments	-	-	-	-1,528	-1,528
Carrying value	**91,222**	**42,357**	**17,776**	**30,867**	**182,222**

Loans commitments at December 31, 2020 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Other (*)	Total
F1-F10 (BBB- and higher)	-	-	-	408	408
F11-F13 (BB-,BB,BB+)	-	-	-	-	-
F14-F16 (B-,B,B+)	409	190	-	8,234	8,833
F17 and lower (CCC+ and lower)	240	669	-	-	909
Total nominal amount	**649**	**859**	**-**	**8,642**	**10,150**
ECL allowance	-5	-3	-	-	-8
Total	**644**	**856**	**-**	**8,642**	**10,142**

Financial guarantees at December 31, 2020 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+)	501	-	-	501
F14-F16 (B-,B,B+)	2,193	-	-	2,193
F17 and lower (CCC+ and lower)	-	-	-	0
Sub-total	**2,694**	**-**	**-**	**2,694**
ECL allowance / group impairments under IAS 39	-31	-	-	-31
Total	**2,663**	**-**	**-**	**2,663**

1 Other loan commitments consist of transactions for which no ECL is calculated.

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 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 17.1% to 18.3%. This increase is mainly linked to a specific impairment for The Lebanese Association for Development - Al Majmoua. In 2020 there were no write-offs.

Loans past due and impairments 2020

	Stage 1	Stage 2	Stage 3	Fair value	Total
Loans not past due	93,657	43,205	-	32,395	169,257
Loans past due:	-	-	-	-	-
-Past due up to 30 days	731	-	-	-	731
-Past due 30-60 days	-	1,070	-	-	1,070
-Past due 60-90 days	-	-	-	-	-
-Past due more than 90 days	-	-	38,301	-	38,301
Subtotal[1]	**94,388**	**44,275**	**38,301**	**32,395**	**209,359**
Less: amortizable fees	-479	-142	-20	-	-641
Less: ECL allowance	-2,687	-1,776	-20,505	-	-24,968
Plus FV adjustments	-	-	-	-1,528	-1,528
Carrying value	**91,222**	**42,357**	**17,776**	**30,867**	**182,222**

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**

Stage 3 credit impairment distributed by regions and sectors

At December 31, 2020	Financial Institutions	Energy	Agribusiness	Multi-sector Funds Investment	Infrastructure, Manufacturing, Services	Total
Africa	18,034	-	-	-	-	18,034
Asia	2,471	-	-	-	-	2,471
Latin America & the Caribbean	-	-	-	-	-	-
Europe & Central Asia	-	-	-	-	-	-
Non-region specific	-	-	-	-	-	-
Total	**20,505**	**-**	**-**	**-**	**-**	**20,505**

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**

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.

The following table provides a summary of the Fund's forborne assets, both classified as performing and not, as of December 31, 2020.

December 31, 2020	**Performing**	*of which: performing but past due > 30 days and <=90 days*	*of which: performing forborne*	**Non Performing**	*of which: non performing forborne*	*of which: impaired*	**Sub Total**	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	**Carrying value**
Loans to the private sector (Amortised Cost)	138,663	-	27,850	38,300	3,319	3,319	176,963	-641	-24,967	-	151,355
Loans to the private sector (Fair value)	32,395	-	-	-	-	-	32,395	-	-	-1,528	30,867
Total	**171,058**	**-**	**27,850**	**38,300**	**3,319**	**3,319**	**209,358**	**-641**	**-24,967**	**-1,528**	**182,222**

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**

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 including investments in associates on December 31, 2020, amounted to €244.2 million (2019: €262.8 million).

Equity portfolio including Associates distributed by region and sector

At December 31, 2020	**Financial Institutions**		**Energy**		**Agribusiness**		**Multi-Sector Fund Investments**		**Infrastructure, Manufacturing, Services**		**Total**	
	Direct	**Funds**	**Direct**	**Funds**	**Direct**	**Funds**	**Direct**	**Funds**	**Direct**	**Funds**	**Direct**	**Funds**
Africa	36,830	10,336	-	1,563	-	774	-	43,486	10,740	-	47,570	56,159
Asia	18,365	1,576	-	-	-	-	-	30,165	-	-	18,365	31,741
Latin America & the Caribbean	37,645	3,049	-	-	-	-	-	2,095	-	-	37,645	5,144
Europe & Central Asia	4,611	8,113	-	-	-	4,915	-	1,375	-	-	4,611	14,403
Non-region specific	21,195	20,660	-	-	-	2,008	-	-	-	-	21,195	22,668
Total	**118,646**	**43,734**	**-**	**1,563**	**-**	**7,697**	**-**	**77,121**	**10,740**	**-**	**129,386**	**130,115**

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**

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. Multiple countries were subject to a downgrade throughout 2020, however MASSIF's exposures to these countries was rather limited. In 2020, Bolivia, Ghana, Lebanon, Liberia, South Africa, Sri Lanka, Tanzania and Zambia were downgraded by one or more notches, but MASSIF's exposure was limited to 4% of the portfolio. On the other hand, Haiti, Kosovo, Malawi, Nepal and Sierra Leone upgraded, also representing 4% of the portfolio.

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 2020	MASSIF (%)	FMO-A (%)
F9 and higher (BBB and higher ratings)	2.2	3.4
F10 (BBB-)	4.1	8.5
F11 (BB+)	0.0	2.3
F12 (BB)	2.3	5.9
F13 (BB-)	11.1	7.5
F14 (B+)	29.2	30.1
F15 (B)	27.1	24.2
F16 (B-)	12.3	8.1
F17 and lower (CCC+ and lower ratings)	11.7	10.0
Total	**100.0**	**100.0**

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**

Gross exposure of loans distributed by region and sector

	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
At December 31, 2020						
Africa	85,033	7,024	833	4,188	-	97,078
Asia	51,840	293	1,957	-	-	54,090
Latin America & the Caribbean	30,228	-	-	-	-	30,228
Europe & Central Asia	18,930	-	-	-	-	18,930
Non-region specific	9,032	-	-	-	-	9,032
Total	**195,063**	**7,317**	**2,790**	**4,188**	**-**	**209,358**
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**

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, 2020	<3 months	3-12 months	1-5 years	>5 years	Non-interest-bearing	Total
Assets						
Banks	17,257	-	-	-	-	17,257
Short-term deposits						
-of which: Amortized cost	-	-	-	-	-	-
-of which: Fair value through profit or loss	13,936	-	-	-	-	13,936
Derivative financial instruments1	-	-	-	-	-	-
Loans to the private sector						
-of which: Amortized cost	15,352	45,794	88,650	1,559	-	151,355
-of which: Fair value through profit or loss	1,693	15,800	11,354	2,020	-	30,867
Equity investments						
-of which: Fair value through OCI	-	-	-	-	-	-
-of which: Fair value through profit or loss	-	-	-	-	252,341	252,341
Investments in associates	-	-	-	-	7,160	7,160
Current accounts with State funds and other programs		-	-	-	107	107
Other receivables		-	-	-	528	528
Accrued income	-	-	-	-	-	-
Total assets	**48,873**	**61,594**	**100,004**	**3,579**	**259,501**	**473,551**
Liabilities and Fund Capital						
Short-term credits	-	-	-	-	-	-
Other liabilities		-	-	-	20	20
Accrued liabilities		-	-	-	5,668	5,668
Provisions	-	-	-	-	39	39
Fund Capital	**-**	**-**	**-**	**-**	**467,824**	**467,824**
Total liabilities and Fund capital	**5,688**	**-**	**-**	**-**	**467,863**	**473,551**
Interest sensitivity gap 2020	**43,185**	**61,594**	**100,004**	**3,579**	**-208,362**	

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						
-of which: Amortized cost	-	-	-	-	-	-
-of which: Fair value through profit or loss	14,285	-	-	-	-	14,285
Derivative financial instruments1	-	-	-	-	-	-
Loans to the private sector						
-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						
-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, 2020	EUR	USD	UZS	XOF	Other	Total
Assets						
Banks	11,789	5,468	-	-	-	17,257
Short-term deposits						
-of which: Amortized cost	-	-	-	-	-	-
-of which: Fair value through profit or loss	34	13,902	-	-	-	13,936
Derivative financial instruments	-	-	-	-	-	-
Loans to the private sector						
-of which: Amortized cost	1,327	64,730	-	22,327	62,971	151,355
-of which: Fair value through profit or loss	232	20,471	-	1	10,163	30,867
Equity investments						
-of which: Fair value through OCI	-	-	-	-	-	-
-of which: Fair value through profit or loss	82,354	131,398	26,010	1,143	11,436	252,341
Investments in associates	-	7,160	-	-	-	7,160
Current accounts with State funds and other programs	107	-	-	-	-	107
Other receivables	5	495	-	28	-	528
Accrued income						
Total assets	**95,848**	**243,624**	**26,010**	**23,499**	**84,570**	**473,551**
Liabilities and Fund Capital						
Short-term credits	-	-	-	-	-	-
Other liabilities	-	20	-	-	-	20
Accrued liabilities	5,668	-	-	-	-	5,668
Provisions	-	24	-	-	15	39
Fund Capital	**467,824**	**-**	**-**	**-**	**-**	**467,824**
Total liabilities and Fund capital	**473,492**	**44**	**-**	**-**	**15**	**473,551**
Currency sensitivity gap 2020		**243,580**	**26,010**	**23,499**	**84,555**	
Currency sensitivity gap 2020 excluding equity investments and investments in associates		**105,022**	**-**	**22,356**	**73,119**	

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						
-of which: Amortized cost	-	-	-	-	-	-
-of which: Fair value through profit or loss	34	14,251	-	-	-	14,285
Derivative financial instruments1	-	-	-	-	-	-
Loans to the private sector						
-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						
-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, 2020

Change of value relative to the euro	Sensitivity of profit & loss account
USD value increase of 10%	24,358
USD value decrease of 10%	-24,358
UZS value increase of 10%	2,601
UZS value decrease of 10%	-2,601
XOF value increase of 10%	2,350
XOF value decrease of 10%	-2,350

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 Fund's investments on the environment, employees, communities, or other stakeholders. Corporate Governance (G) risks refers primarily to risk to client business. ESG risks can lead to non-compliance with applicable regulation, NGO and press attention or reputation damage. These risks stem from the nature of the Fund's 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 starting to work with a client, with the goal that performance is brought in line with our ESG risk mitigation requirements within a credible and reasonable period. 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.

As part of the investment process, all clients are screened on ESG risk and categorizes them according to the ESG risk that their activities represent. FMO assesses in detail customers with a high ESG risk category to identify ESG impact and risks and to assess the quality of existing risk management and mitigation measures. Due diligence also includes an analysis of contextual and human rights risk. In case of gaps in ESG risk management, FMO works with clients to develop and implement an Action Plan to avoid adverse ESG impacts and/or to improve ESG risk management over time. Key ESG risk items are tracked during the tenor of the engagement. FMO's ESG risk management support to clients is an important part of development impact ambitions.

In addition, for customers with a high ESG category, FMO monitors customer performance on key ESG risk themes (against the IFC Performance Standards) using the ESG Performance Tracker (ESG-PT). The ESG-PT keeps track of key ESG risks and client performance level, enabling FMO to have a portfolio-wide view of its ESG risks.

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's services and activities.

Fund's customers follow FMO's procedures to mitigate compliance risk. FMO's standards and policies and good business practices foster acting with integrity. FMO is committed to its employees, customers and counterparties, to adhering to high ethical standards. FMO has a Compliance framework which entails identifying risks, designing policies, monitoring, training, raising awareness and providing advice. FMO has policies on topics such as combatting financial economic crime (including KYC, sanctions, anti-bribery and corruption), conflicts of interest, anti-fraud, private investments, privacy and speak-up procedures. FMO also regularly trains its employees to raise awareness by means of e.g. (virtual) classroom trainings and mandatory compliance related e-learnings. Employees are also encouraged to speak up in case of suspected integrity violations involving 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 levels. In case of violations, management will take appropriate actions. The governance of compliance also entails the following key risks:

Financial Economic Crime, incl. sanctions

FMO's financial economic crime procedures include, amongst others, screening of customers on compliance with applicable anti-money laundering, counter financing of terrorism and international sanctions laws and regulations. Due diligence is performed on customers, which includes checks such as identifying and verifying the ultimate beneficial owners of the customer we finance, identifying politically exposed persons, and screening against relevant international sanctions lists. These checks are also performed regularly during the relationship with existing customers. Following a DNB onsite inspection in 2018, DNB identified several shortcomings in the way FMO conducts Customer Due Diligence/Know Your Customer checks. As FMO sees this as an area where the risk of non-compliance with Wwft and Sanctions Law is present, a FEC Enhancement program was set up to work towards full compliance by the end of 2021. In 2019 FMO

started with the execution of the FEC EP which consisted of a.o. conducting the Systematic Integrity Risk Assessment (SIRA), the Risk Appetite Statement on Integrity, which was updated to include Tax Integrity Risk as well, and enhancing the CDD-AML Policy, CDD-AML Manual and a wide range of supporting guidance notes. It became clear in September 2020 that the progress of the FEC Enhancement program could be improved. The updated FEC Framework has meanwhile been implemented. Part of the FEC EP consists of remediation of the customer KYC files and bringing them in line with the updated framework. The remediation of customer KYC files will continue in 2021 and progress is closely monitored by the Management Board. As agreed with DNB, the remediation is to be finalized on December 31, 2021.

There is always a risk that a client is involved or alleged to be involved in illicit acts (e.g. money laundering, fraud or corruption). If such an event occurs, FMO will initiate a dialogue with the client, if possible and appropriate given the circumstances, to understand the background in order to be able to assess and investigate the severity. When FMO is of the opinion that there is a breach of law that cannot be remedied or that no improvement by the client will be achieved (e.g. awareness, implementing controls) or that the risk to FMO's reputation is unacceptably high, FMO may be able to exercise certain remedies under the contract such as the right to cancel a loan or suspend upcoming disbursements and will report to regulatory authorities if deemed necessary.

General Data Protection Act (GDPR)

FMO continues its effort towards the protection of personal data related to its employees, customers and other stakeholders. GDPR has FMO's full attention.

Corruption

Corruption is a global problem, requiring a global response. FMO is guided by the OECD Convention on Combating Bribery and the UN Convention against Corruption, and is dedicated to fighting corruption and bribery not only to adhere to the law, but also because such acts undermine sustainable development and the achievement of higher levels of economic and social welfare. Good governance, fair business practices and public trust in the private sector is necessary to unlock the full potential of an economy and its citizens. Corruption can be best prevented collaboratively and FMO actively supports the Transparency International's Netherlands branch and the International Chamber of Commerce in order to share best practices and stimulate the dialogue between Dutch corporates on best practices in doing international business

Operational risk

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

Overall, FMO is cautious with operational risks. Safe options, with low inherent risk are preferred, despite consequence of limited rewards (or higher costs). There is no appetite for high residual risk. Risk metrics are reported on a quarterly basis. These metrics cover operational risks in general, such as the amount of loss per quarter and timely follow-up of management actions, and specific metrics for risk-(sub)types.

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 functions that make up the second line of defense. Internal Audit in its role of the third line of defense provides independent assurance on the effectiveness of the first and second lines.

Departmental risk control self-assessments are conducted annually in order to identify and assess risks and corresponding controls. The strategy and business objectives are also reviewed annually by the Directors in a risk perspective. Based on among others these Risk and Control Self Assessments, the Directors sign a departmental In Control Statement at the year-end, which provides the underpinning for the management declaration in the Annual Report. Despite all preventive measures, operational risk events cannot always be eliminated. FMO, however, systematically collects risk event information and analyses such events in order to take appropriate actions. Furthermore, operational risks resulting from changes in activities are assessed in FMO's Change Risk Assessment Process and could trigger the 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.

Tax risk

Tax risk includes Tax Accounting risk and Tax Integrity risk. Tax Accounting risk is defined as the risk of paying or filing an incorrect amount of tax (direct and indirect). Tax Integrity risk is defined as the risk of facilitating or involvement in unlawful tax evasion or undesirable tax avoidance by clients or investees. Through its investments, FMO is indirectly exposed to the tax matters of its investees and clients. FMO could unwittingly support or be perceived to support aggressive tax structures. FMO is averse to Tax structures that are clearly aggressive and is cautious with accepting structures that have been set up for multiple underlying purposes and where the principle purpose is not tax. FMO seeks to transpose its Responsible Tax Principles to its clients.

EY
Building a better working world

Independent auditor's report

To: The management board of the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

We have audited the financial statements 2020 of MASSIF (hereafter: MASSIF or the Fund), based in Den Haag.

In our opinion the accompanying financial statements give a true and fair view of the financial position of MASSIF as at 31 December 2020, and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS).

The financial statements comprise:

- The Statement of Financial Position as at 31 December 2020
- The following statements for 2020:
  - The Statement of Comprehensive Income
  - The Statement of Changes in Fund Capital
  - The Statement of Cash Flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of MASSIF in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The management report
- At a glance
- Performance on our strategy
- International principles
- List of abbreviations
- Annexes

Based on the following procedures performed, we conclude that the other information is consistent with the financial statements and does not contain material misstatements.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Description of responsibilities for the financial statements

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the Fund's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a fund to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, 29 April 2021

Ernst & Young Accountants LLP

signed by J.G. Kolsters

Colophon

Contact details Should you have any feedback or questions, please feel free to contact us.

Corporate Communications +31 (0)70 314 96 96 info@fmo.nl www.fmo.nl

Mailing address P.O. Box 93060 2509 AB The Hague The Netherlands

Street address Anna van Saksenlaan 71 2593 HW The Hague The Netherlands

Text FMO N.V.

Photography Opmeer Reports, www.opmeerreports.nl | FMO's photo library

Design Studio Duel, The Hague www.studioduel.nl

Production F19 Digital Reporting, Eindhoven www.f19.nl

FMO
Anna van Saksenlaan 71
2593 HW The Hague
The Netherlands

+31 70 314 96 96
info@fmo.nl
www.fmo.nl