FMO

Entrepreneurial
Development
Bank

ANNUAL REPORT

2020

Pavana Anand works as assistant manager at WayCool Foods and Products. She provides technical guidance to the farmers. WayCool is one of India's fastest growing Agri-Tech companies, driving social impact while transforming India's food economy. In 2020, in addition to supporting them with risk capital, we provided a grant for the procurement and distribution of Personal Protective Equipment to staff making field visits on a continual basis.

Our mission is to empower entrepreneurs to build a better world

On 8 July 2020, it was exactly fifty years ago that the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden, now better known as FMO, was established. Despite being housebound, we could not let this milestone go by unnoticed. We adjusted our plans, explored new ways to connect and shifted our celebrations to the online world.

As 2020 started, we also tipped into the 'decade of decisive action' to achieve the Sustainable Development Goals (SDGs) by 2030. Back then we all recognized that while some progress had been made, the world was overall off track to meet the SDGs by 2030.

Our anniversary year presented an opportunity to accelerate our efforts together with our partners for the SDGs. This is why we focused our communication efforts in light of our anniversary on raising awareness that, together with our partners, we need to make 'The Challenge of a Decade, the Achievement of the Century'.

Then COVID-19 swept across the globe, setting the world even further back from achieving the SDGs. Something no one could have imagined in January. COVID-19 had made our theme even more urgent. To build back better, we need to keep ourselves on the road to the SDGs and make every decision made today, count for the world we want to see tomorrow.

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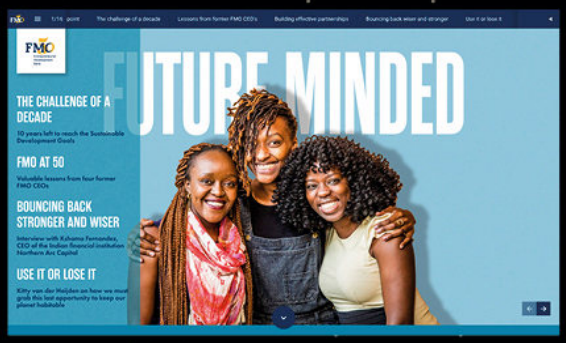
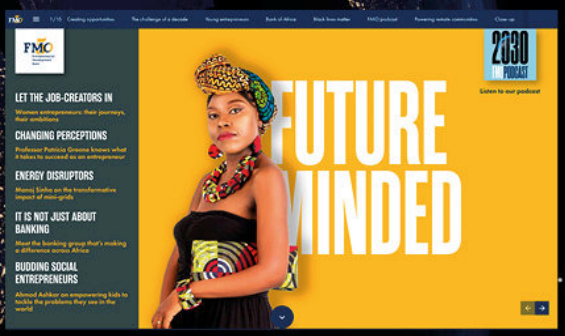
2030

January 2020 | Launch of 'The Challenge of a Decade, the Achievement of the Century' theme
We launched our anniversary theme with a clip about the need to act decisively on the SDGs and the Paris Agreement. At FMO we feel strongly that we can be part of the solution if we empower entrepreneurs to build a better world.

July 2020 | Cake Challenge
On 8 July we commemorated fifty years of FMO during an online staff event. Part of these online celebrations was a bake off challenge. Everyone received the ingredients to bake their own FMO birthday carrot cake. We discovered that we have a lot of baking talent within FMO.

July 2020 | Launch of the first edition of our anniversary magazine Future-minded
Future-minded is about people who are driving action on the SDGs. People who have built sustainable businesses in emerging economies that are a force for good and make a profit while doing it. They are showing us how we can unleash the best of entrepreneurialism for the greater good and the future we want.





September | Start of the 1.5°C Challenge
Our Young FMO network, introduced the FMO 1.5 Challenge. For three months, from 1st September to 1st December, a group of 50 FMOers were selected to live within a CO_2 emissions budget of 5.16 tons.

This challenge showed us how the personal choices we make in everyday life can reduce our CO_2 emissions and help to halt the ravages of climate change.

FMOPODCAST

October 2020 | Launch of the podcast series 'The Challenge of a Decade'
'Challenge of a Decade' is a podcast series that interviews people on the challenges and actions that need to be taken for reaching the SDGs.

Sucafina coffee farm in Rwanda
Sucafina is a leading sustainable "farm to roaster" coffee company, with more than 900 employees in 28 countries.

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AT A GLANCE

FMO is the Dutch entrepreneurial development bank

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

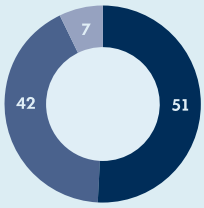
We invest with the aim of enhancing local prosperity in emerging markets. And take risks that the commercial banking sector is not willing to take. We focus on the private sector in the following industries: Energy, Financial Institutions and Agribusiness, Food & Water. Through our investments in these industries we empower entrepreneurs to build a better world.

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

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

Organization and ratings

Ownership structure %



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

Ratings

AAA
Fitch ratings

AAA
Standard&Poor's

1st /966 banks
Sustainalytics relative performance (1st=lowest risk)

Prime
ISS ESG rating

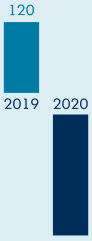
Employees

627
Total number of employees

55
Number of nationalities

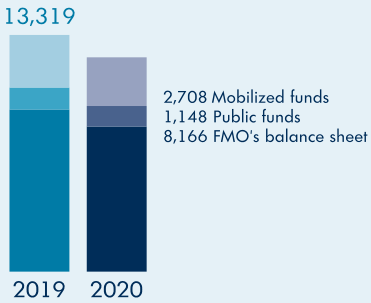
42%
of women in senior and middle management

Financial performance

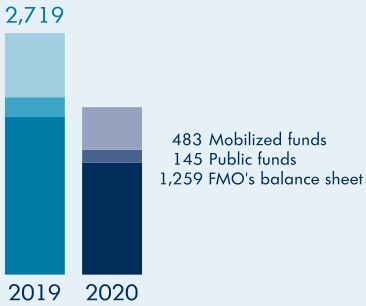


-€205 million
Net profit/loss

23.3%
CET1(%)

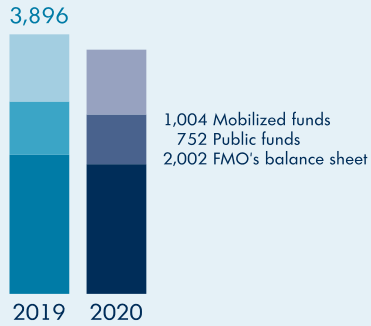


€12,022 million
Total committed portfolio

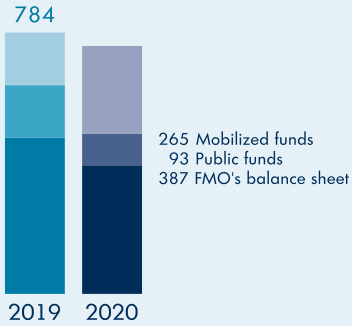


€1,887 million
Total new investment volume

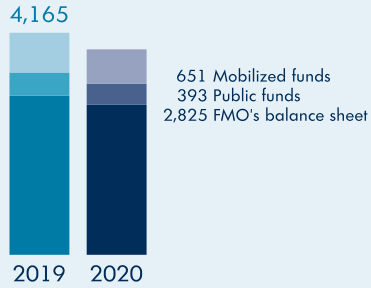
427,489
Jobs supported



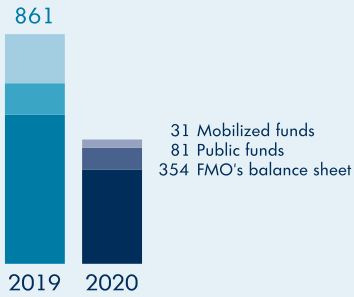
€3,758 million
Reducing Inequality-labelled
committed portfolio



€745 million
Reducing Inequality-labelled
new investment volume



€3,869 million
Green-labelled
committed portfolio



€466 million
Green-labelled
new investment volume

2020
1,577,816 tCO_2e
Financed avoided
greenhouse gas emissions

02 Report of the Management Board

LETTER OF THE MANAGEMENT BOARD

In July 2020, we celebrated FMO's 50th birthday. Hundreds of colleagues joined the online celebration in which we commemorated half a century of empowering entrepreneurs to build a better world. It was a heartwarming and joyful moment, in the midst of a painful pandemic and in a year that proved to be extraordinarily challenging for everyone.

Loss of lives, loved ones and livelihoods marked people globally. All countries and businesses were affected in one way or another. FMO was impacted as well. Our main priorities became the wellbeing of our colleagues and the wellbeing of our customers and investees, doing our utmost to ensure they could weather the storm and support their local communities. FMO staff showed tremendous flexibility and resilience, quickly adapting to the changing environment, while maintaining our mission as their priority.

Support to COVID-19-affected businesses

Our additionality to the market and risk appetite as a development bank became even more important, also because of significant capital outflows of emerging markets. We provided payment holidays or emergency funding to some customers and worked with financial institutions to enhance their support to micro, small and medium-sized enterprises. And, perhaps most important of all, we continued regular financing in our focus sectors - Agribusiness, Food and Water, Financial Institutions and Energy - to create jobs, reduce inequality and take climate action. It was also good to see that our capacity development program, through consultants and webinars, helped customers find their way in crisis management and remote working.

In March, at the start of the first lockdown, we prepared for a worst-case scenario. During the year, however, we were pleased to cautiously conclude that our customers were more resilient than we initially thought. Still, reflecting on the uncertainty that current times have brought, the value of our Private Equity portfolio decreased. Consequently, we ended the year with a negative result of €205 million for the year 2020. Our first loss since 1991 is largely driven by a decrease of the fair value of FMO's private equity portfolio; this is seen across sectors and geographies, and the result of a global decline in emerging market equity valuations due to the COVID–19 pandemic. Furthermore, these assets are exposed to changes in currency rates as a large part of FMO's private equity portfolio is denominated in US dollars.

Despite these negative factors, our net interest income grew due to lower interest rates during 2020, resulting in lower interest expenses.

Although we are reporting a net loss in 2020, FMO's capital ratio remains well above the combined ratio of the SREP minimum requirement, set by the Dutch Central Bank. FMO continues to receive an AAA rating with a stable outlook from both Fitch and Standard & Poor's. Our diversification strategy, with exposures diversified across sectors and countries, has again proven effective during the pandemic as some economies and sectors have been affected less than others.

Highlights

Does that mean 2020 is without highlights? On the contrary. We have a lot to be proud of. A few of the highlights are mentioned here:

- Our first renewable energy investment in Djibouti for the construction and operation of a 60MW windfarm, helping Djibouti meet energy demands and transition towards 100% renewable energy by 2030.
- The launch of FMO's Ventures program to support pioneering technology-enabled business models. These innovative players are crucial to accelerate progress towards the SDGs. With 10 investments in 2020 FMO is now one of the most active Venture Capital investors in Africa.

- The extension of the NASIRA risk sharing program to support COVID-19-affected entrepreneurs in Africa and the European Neighborhood together with the European Commission. The first guarantee with EU support was signed with SASFIN in South Africa.
- An additional €40 million was granted to the Access to Energy Fund by the Dutch Ministry of Foreign Affairs. This will enable us to invest in more high-risk, high-impact renewable energy transactions.
- FMO played an important role in the development of the green bond market in the Caucasus by acting as anchor investor in the first green bonds issued in Armenia and in Georgia for respectively Ameria Bank and Georgian Global Utilities.
- Throughout the year we intensified our collaboration with other development finance institutions (DFIs), in particular the European DFIs (EDFI), to support our joint customers throughout the pandemic and economic crisis.
- Through our NL Business activities, we co-funded four tech-enabled COVID-19 initiatives for the African health sector.
- We worked closely with the Dutch government on the establishment of Invest International, with Joost Oorthuizen appointed as prospective CEO and Ineke Bussemaker as prospective Chair of the Supervisory Board.
- Our draft position statement on phasing out fossil fuels from direct investments was published for consultation. Feedback was generally positive and provides confidence that we are moving in the right direction. We are currently processing this feedback.
- We issued a seven-year, €500 million sustainability bond.
- Harmonization of impact measurement:
    - The Partnership for Carbon Accounting Financials (PCAF) launched the first global standard for measuring and reporting financed emissions.
    - FMO has reported on jobs supported and financed absolute GHG emissions using the Joint Impact Model for the first time. Other impact investors are adopting the model as well.
    - EDFIs announced joint ambitions for climate action.

Internal tensions

As mentioned, our anniversary year was a challenging one. FMO operates in a rapidly changing environment, which became even more challenging because of the COVID-19 pandemic. Increasing expectations from society and our stakeholders require continuous improvement of FMO's way of working and its operational processes.

The Management Board defined a strategic agenda to address the challenges posed, which could count on broad support within the organization. It also focused on culture, diversity, feedback, accountability, and compliance. Unfortunately the implementation of the strategic agenda caused increasing tensions.

In June, Peter van Mierlo decided to step down as CEO of FMO. The Executive Committee was subsequently dissolved in August and in October, Linda Broekhuizen was appointed as interim CEO and Huib-Jan de Ruijter as interim CIO, while the search for a new CEO commenced.

The tensions in the organization impacted FMO as an institution as well as our staff; in a dialogue process that took place over the summer within the organization, the topics of collaboration and behavior were discussed extensively. Amidst the lockdown and measures that were in place, we needed to find a way to share divergent perspectives, emotions, and experiences through screens, while the situation really called for in-person conversations. While we continued to build on the strategic agenda, it became clear that we needed to change how we interact with one another, starting with leadership. A number of initiatives were started or developed further. For example, the Management Board, together with the broader leadership team, implemented a more open and inclusive way of working. We stepped up in embedding dialogue sessions – open to everybody in the organization – as a regular engagement moment, in combination with dialogue sessions with specific teams in the organization. We upgraded our Grievance and Complaint-mechanisms, updated our Speak Up policy, intensified our engagement with the Works Council and clarified the role of our Confidentiality Counsellors. Moreover, we decided to further intensify the focus on workplace behavior, unconscious bias, diversity and inclusion, and feedback through launching a program called Culture Conversations. These topics were included in the strategic agenda mentioned, and consistent with feedback given, they required significantly more attention in the near-term.

Reshaping our Financial Economic Crime program

The financial industry is facing increasing regulatory requirements and supervisory scrutiny. In 2020, we therefore accelerated the pace of aligning our investments and customer files with the obligations arising from the anti-Money Laundering and Anti-Terrorist Financing Act (in Dutch: Wwft) and the Know Your Customer (KYC) regulation. We see this as an area where the risk of non-compliance with Wwft and the Sanctions Law is present, therefore a Financial Economic Crime (FEC) Enhancement program was set up to demonstrate full compliance by the end of 2021. We take our role as gatekeeper to the financial system very seriously, as progress towards our focus SDGs can be severely hampered by financial economic crime. As was said recently by the co-chair of the UN Panel on International Financial Accountability, Transparency and Integrity: 'A corrupt and failing financial system robs the poor and deprives the whole world of the resources needed to eradicate poverty, recover from COVID and tackle the climate crisis.' With significant effort from FMO staff across the entire organization, we will ensure FEC is more firmly embedded in our processes.

Together, we are stronger

Our motto for FMO's anniversary celebration was The Challenge of the Decade, the Achievement of the Century. The challenge has only become bigger in the last year. The pandemic has caused rising inequality within and amongst countries. And although greenhouse gas emissions fell, fulfilling the promise of the Paris Agreement on climate change still requires strong efforts from people, industries and governments.

Cooperating with other development banks and partners has become key. Together, we are stronger. Joining forces creates efficiency and strengthens our ability to address the immediate COVID-19 recovery and long-term challenges like climate change. Equally significant are commercial partners who see the need and the gains of investing in sustainable development in emerging markets. Partners that are willing to build on our 50-year track record and experience, help us accelerate promising projects, grow green and inclusive businesses and replicate best practices.

Stabilization

Internally, 2021 is a year for stabilization, which will set us up even better for accelerating our efforts towards realizing the SDGs. We will continue to support our customers to weather these uncertain economic times, together with our partners. We look forward to welcoming a new CEO within a few months and are well on our way to anchoring our FEC approach throughout FMO. Hopefully, towards the summer, we will be able to see each other again in our refurbished offices.

We are very grateful for the trust we received from our stakeholders, customers and investees. And, above all, we would like to give a special, heartfelt thanks to the FMO staff, who kept being formidable, even under very difficult circumstances.

Fatoumata Bouaré
Chief Risk & Finance Officer

Linda Broekhuizen
Chief Executive Officer a.i.

Huib-Jan de Ruijter
Chief Investment Officer a.i.

ABOUT THIS REPORT

FMO's integrated annual report was prepared following the principles of the Integrated Reporting framework of the International Integrated Reporting Council (IIRC) and in accordance with the 'core option' of the Global Reporting Initiative (GRI) standards. We strive to report transparently on our strategy, the way we implement our strategy to create value for our stakeholders and the dilemmas we face along the way.

Material topics

Every year, we confirm our material topics with our stakeholders through a survey and regular stakeholder dialogue. Our last materiality assessment survey was done in 2018 and the outcomes were updated in 2019 based on our engagement with each stakeholder.

In 2020, we conducted a new survey that was based on the assumption that the topics material to FMO are also what stakeholders measure our performance against. We asked stakeholders to rate our performance on each of these topics. In addition, through an open-ended question, we asked their view on the most relevant risks and opportunities for FMO in the coming years. The topics with the highest scores that were not yet covered previously were added to the set of material topics.

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

Connectivity table

The material topics resulting from the 2020 materiality assessment are included in the following connectivity table. This table links the material topics to our key performance indicators, targets, and performance as well as the sections in this annual report that cover each topic.

The topics requiring further attention from FMO, as concluded by the recent materiality assessment, are highlighted in the table by an asterisk (*). This annual report already discloses information on new material topics such as the 'effects of the pandemic', as we anticipated this would be a material topic for our stakeholders and FMO. We will need more time to collect insights on other (new) material topics to understand where improvements need to be made in the future.

In € million unless stated otherwise

Mission: We empower entrepreneurs to build a better world Strategy: Be the preferred partner to invest in local prosperity						
Material topic	**Contributing to SDG**	**Page nr.**	**Key performance indicator**	**2020 performance**	**2020 target**	**2019 performance**
Higher impact portfolio						
Contributing to decent work and economic growth	SDG 8	50, 51	Total committed portfolio FMO	8,166	9,821	9,124
		50, 51	New investments FMO[1]	1,259	2,155	1,774
		51-53	Jobs supported (nr. of jobs)[2]	427,489		
Reducing inequality*	SDG 10	53, 54	Reducing Inequality-labelled committed portfolio	3,758	3,953	3,896
		53, 54	Reducing Inequality-labelled new investments[1]	745	888	784
Combating climate change and its impacts*	SDG 13	55, 56	Green-labelled committed portfolio	3,869	4,877	4,165
		55, 56	Green-labelled new investments[1]	466	1,137	861
		56-58	Financed absolute GHG emissions (tCO_2e)[2]	2,939,695		
Supporting women's economic empowerment*	SDG 5	60	Gender-line financing[1]	151		147
Promoting environmental, social and governance (ESG)	SDG 3, 5, 8, 10, 12, 13, 14, 15	62-66	ESG target performance (% of risks managed)[3]	93%	90%	

Mission: We empower entrepreneurs to build a better world Strategy: Be the preferred partner to invest in local prosperity						
Material topic	**Contributing to SDG**	**Page nr.**	**Key performance indicator**	**2020 performance**	**2020 target**	**2019 performance**
Supporting customers to safeguard human rights*	SDG 3, 5, 8, 10, 12, 13, 14, 15	65-66	New admissible complaints received	1		0
		38	Number of customers in portfolio for which human rights were assessed during due diligence	301		308
COVID-19 effects / supporting economic recovery*		48, 49	Number of payment deferrals[4]	31		
		48, 49	Number of full restructurings[4]	3		
Deeper relationships						
Mobilizing public & private capital	SDG 17	66-68	Total committed portfolio mobilized funds	2,708	3,157	2,960
		66-68	New investments mobilized funds[1]	483	902	722
		68-70	Total committed portfolio public funds[5]	1,148	1,294	1,235
		68-70	New investments public funds[1],[5]	145	195	223
Supporting Dutch business opportunities in developing countries		70	New investments in Dutch business[1],[6]	0	100	54
Providing capacity development to our customers		70	Total capacity development contracted	9.5		9.2
Investing in innovation*		-	*No indicator*			
Cooperation & harmonization with other DFIs		36, 49, 84, 85	*No indicator*			
Ensure employee engagement, health and well-being*		71, 72	Employee engagement score	7.1	8.0	7.4
Being an inclusive organization		72	Gender diversity: % women in the workforce	50%	50%	50%
		72	Gender diversity: % women in management positions	42%	50%	42%
Other		71	Customer satisfaction (NPS score)	70.2%	70%	75.5%
Higher productivity						
Being a high-performing DFI		74	Realized delivery on project portfolio	92%	85%	87%
Measuring impact & learning from evaluations*		42, 50-66	*No indicator*			
Being a responsible, transparent & accountable bank		-	Score in latest Transparency Benchmark	76%		76%
		74	Nr. of alleged employee-related integrity issues	1		2
		74	Nr. of alleged customer-related integrity issues	20		21
		74	Nr. of alleged customer-related integrity issues closed	24		9
Financial performance						
Maintaining financial sustainability & risk appetite of FMO*			Profit & Loss account			
		121	Operating income	88	410	330
		121	Operating expenses	144	144	130
		121	Impairments	-78		-92
		121	Net profit/loss	-205		120
		174	Underlying net profit/loss	-90		96
			Balance sheet			
		120	Total assets	8,998		9,412
		120	Shareholders' equity	2,897		3,127
		120	Debentures & notes	5,486		5,808
			Ratios at end of period			
		190	Non Performing Loans (%)	9.1%		9.8%
		120	Return on average shareholders' equity (%)	-6.8%		3.9%
		120	Return on assets (%)	-2.3%		1.3%
		188	Common Equity Tier 1 (%)	23.3%		21.8%

1 In 2020, FMO introduced a new methodology to account for new investments. The 2019 comparative figures reported in the 2019 Integrated Annual Report have been restated to reflect the new methodology.

2 Results are based on the new harmonized joint impact model. No comparative figures are available.

3 In 2020, FMO expanded the scope of its target on ESG performance. In 2019, the performance target was limited to a sub-set of 40 new customers classified as high-risk or supported by a Corporate Governance (CG) specialist that were contracted in 2017 or 2018, where FMO was in the lead. In 2020, the scope was expanded to 293 customers consisting of all high-risk customers and those supported by a CG specialist, including investments where another financial institution is in the lead (e.g. IFC, DEG, Proparco, etc.). As a result of the expansion of the scope, there is no comparative figure for 2019.

4 In 2020, FMO introduced this as an indicator to reflect the additional COVID-19 support we have provided our customers since the start of the pandemic. In 2019, the pandemic did not yet pose a major problem to our customers. A comparative figure is therefore not applicable. This indicator will be reported as long as FMO deems it necessary to support its customers in this way.

5 Figures include assets under FMO's management. Funds that have been sub-delegated to others are excluded, such as Green Climate Fund. In 2019, some of these funds were included in the figures. The 2019 comparative figures have been restated to reflect this change.

6 Figures include only FMO invested amounts in line with FMO's target. In 2019, invested amounts through public and mobilized funds were also included. The 2019 comparative figure has been restated to reflect this change.

EXTERNAL ENVIRONMENT

Our markets have faced record-breaking capital outflows[1] and recessions as a result of COVID-19, which has reversed some of the progress made in the past two decades towards reducing poverty and inequality. More than ever, FMO's role as a Development Finance Institution (DFI) is needed.

Impact of COVID-19 on our markets

The global economy and financial markets, particularly those in emerging markets (EMs), have been greatly affected by the COVID-19 pandemic. The IMF estimated that emerging markets and developing economies contracted by 2.4% in 2020 but are expected to recover and grow by 6.3% next year. Significant downside risk remains to this projection as the world continues to experience the impact of the pandemic.[2]

In March, the sudden realization of severe macroeconomic disruptions led to the collapse of equity markets and the largest capital outflow[1] ever seen in emerging markets, resulting in a large drop in EM exchange rates versus the US dollar and euro. While EM capital flows and currencies have since won back terrain, the recovery has been uneven, with some markets remaining more affected than others. Highly indebted markets have proved to be particularly vulnerable to market stress. For example, Argentina, Lebanon, Ecuador and Zambia defaulted, restructured or are in the process of restructuring their government debts. Turkey, where the private and financial sectors have high external debt ratios, has seen its lira fall by more than 30% in 2020 and remains at risk of a current account crisis.

The energy sector has been particularly disrupted by the pandemic, as prices for energy commodities dropped to historic lows and construction projects ground to a halt. In contrast, the agricultural sector has not been affected as much, as prices for these commodities remained fairly constant and production and trade were disrupted less. Financial institutions in EMs have so far held up relatively well. As the crisis lasts longer, however, they may face higher impairments and customer defaults.

The current crisis will slow progress towards achieving the SDGs and in some cases has exacerbated existing challenges. The pandemic has significantly impacted employment and economic growth (SDG 8). Demand and economic activity have further suffered from local lockdowns and ongoing social distancing. Some companies are laying off employees as they face sharp decreases in demand and interruptions to production and shipping. In EMs, millions of workers in the informal sector have been affected. Many have lost their jobs and are left without an income as they are unprotected by social security or local laws, resulting in increased levels of poverty and inequality (SDG 10). Meanwhile, the world continues to face a climate crisis (SDG 13) that is becoming more urgent as countries are not yet delivering on commitments made in the Paris Agreement. Despite the drastic reduction in economic activity due to COVID-19, the resulting 6% drop in greenhouse gas emissions projected for 2020 falls short of the 7.6% target needed to meet the 1.5°C ambition set in the Paris Agreement.[3]

Road to recovery – the role of DFIs

Constrained by high debt ratios and low real interest rates prior to the crisis, many governments and central banks in EMs have struggled to adequately shield the private sector. DFIs such as FMO play an important role in building back better, by supporting and investing in these businesses, and the jobs they provide. In the short-term, we continue to align our COVID-19 response with peers and partners to support our customers. Meanwhile, government imposed lockdowns and travel restrictions have challenged FMO's conventional way of sourcing and following up on new business opportunities. This has required us to find new ways of working (e.g. virtual due diligence). We will continue to explore and develop new ways of working to invest in our markets.

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1 **International Monetary Fund (September 2020). Emerging Market Capital Flows under COVID: What to Expect Given What We Know.**

2 International Monetary Fund (January 2021). World Economic Outlook Update.

3 United Nations (2020). The Sustainable Development Goals Report 2020.

Use of blended finance

The availability of development finance has increased significantly over the past few years, even during the pandemic. DFIs can draw from a greater pool of blended finance offered by institutions like the European Commission (EC), Global Climate Fund (GCF) and national governments. Project development to address the gap in supply and demand for concessional funding has become clearer and is starting to gain traction in the industry. IFC, for instance, received a large capital increase to aid project and market development that typically takes considerable time and funds to get off the ground.

Mobilizing commercial capital

Commercial capital is crucial to achieving the SDGs. In the years leading up to the pandemic, impact investing had picked up pace among institutional and other commercial investors. Despite experiencing one of the largest capital outflows ever, overall EMs were able to recover from the shock as foreign investments picked up pace towards the end of 2020. However, the recovery has been unequal with some markets lagging behind. FMO needs to continue to demonstrate that impact investing in these markets – even under the current circumstances – is worthwhile and profitable. FMO's role is to bring together public and private parties to invest capital (back) into emerging and developing markets to boost their resilience post COVID-19. With our syndicated and blended product lines, FMO can develop products with different risk profiles and pave the way for the private sector to invest in EMs. We are pleased to see that several of our commercial partners, such as our FMO Investment Management (FMO IM) funds and Munich Re, have expressed their ongoing commitment to co-invest in select FMO loans.

Regulatory changes

Several new regulations have impacted or are likely to impact FMO's operations and the markets in which we operate.

Financial Economic Crime (FEC) and tax integrity | Financial institutions are expected to act as gatekeepers to help prevent Financial Economic Crime and preserve the integrity and reputation of the financial system. FMO faces strict regulations and supervision from both the EC and the Dutch Central Bank (DNB) with respect to safeguarding its customer integrity. We closely monitor countries considered by the EC and the Financial Action Task Force as high-risk to ensure customers located in these countries undergo the adequate level of due diligence. In 2021, we will step up our efforts to ensure full compliance with the Dutch Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft) and Sanctions Law by the end of 2021.

Basel IV | The translation of the Basel IV agreement into European law (CRR-3) is expected to increase the capital requirements for FMO, starting in 2023. We will be required to apply a higher risk weight to equity investments and a higher capital charge for market and operational risk. Therefore, we already started assessing solutions and alternative options to prudently manage our capital.

Climate related risks | The European Central Bank (ECB) published a guide on climate-related and environmental risks. The guide outlines the ECB's understanding of prudent management of these risks and outlines supervisory expectations for banks. This will likely have implications for FMO's internal procedures, climate-related and environmental disclosures and how we reflect climate and environmental risks into our business strategy, risk management and governance frameworks.

EU Taxonomy | Member states and the European Union (EU) will be required to apply the Taxonomy when adopting measures (e.g. labels or standards) in setting requirements for financial products or corporate bonds presented as 'environmentally sustainable'. Banks will be required to report on how their investments align with the climate change mitigation and adaptation sustainability objectives of the Taxonomy beginning on January 1, 2022. FMO expects the other sustainability objectives of the Taxonomy to be ready for reporting in early 2023. FMO is carrying out an assessment of how to apply the EU Taxonomy to its current practices. FMO's Green Label for new investments is largely aligned with the environmental objectives of the EU Taxonomy. ESG standards are an integral part of FMO's investment process. The main challenges of aligning with the Taxonomy are in how to apply EU regulations to markets outside of the EU and in areas where accepted international environmental and social standards do not fully align with its Do No Significant Harm criterion. These issues will be addressed in 2021 by the International Platform on Sustainable Finance, a body chaired by the European Commission and which is informed, among others, by the EDFIs.

Komaza micro-forestry company in Kenya

Komaza is a forestry company designed to get Kenyan smallholder farmers out of poverty and to address a large and fast-growing wood market in Africa.

Through the COVID-19 pandemic, we continued to invest in our customers to ensure business continuity and increase their economic resilience by offering liquidity support, (working) capital, grants and guarantees. Here is a selection of our COVID-19-related investments.

WayCool Foods

AgriTech company in India

The Building Prospects fund

Through the Building Prospects fund, that we manage on behalf of the Dutch government, we provided a grant of US$114,000 to WayCool Foods for the procurement and distribution of dual-purpose personal protective equipment (PPE) kits and onsite soil testing to farmers. 15,000 small holding farmers across 5 states in India will benefit from the initiative. The PPE kits help protect farmers during the pandemic and shield them during agricultural operations such as pesticide spraying. In-situ soil testing will enable farmers to get their soil health measured without having to travel, thus facilitating effective soil management while maintaining social distancing.

Amret
microfinance institution in Cambodia

FMO

The pandemic put a halt to most of Cambodia's key engines of economic growth. Microfinance institution Amret was confronted with savings being withdrawn by depositors. FMO and IFC provided a 1-year emergency facility of US$25 million dollars, so Amret could maintain enough liquidity to weather the crisis itself and continue its support for the small entrepreneurs with good underlying businesses. To help its customers survive, Amret provided a third of its portfolio a 3-month moratorium. This in turn gave the opportunity to keep their families and communities financially afloat.

DeHaat
AgriTech platform in India

FMO Ventures Program

Smallholder farmers are a crucial part of the food value chain in India, as well as a critical element of the global food system. The pandemic brought new risks that threaten livelihoods as well as food security, while lockdowns created both a shortage of labor and equipment. FMO supported the sector in this difficult period through its partnership with DeHaat, an Indian Agri Tech platform developed by Green Agrevolution. DeHaat connects over 190,000 Indian farmers to local centers managed by micro-entrepreneurs who are supplying seeds and agrochemicals as well as providing agronomic and market advice to farmers.

Agrocorp International
supply chain company focused on South- and South-East Asia

FMO

The pandemic challenged food supply chains globally, but especially in developing markets in Asia, the Middle East and Africa where the disruption from lockdown measures has led to reduced food production and rising prices. In order to increase Agrocorp International's ability to provide food to consumers in these countries, FMO and Rabobank signed a US$50 million committed sustainable borrowing base facility with them.

Nibulon

grain and oilseed producer and exporter in Ukraine

FMO

This spring was hot and dry which resulted in a very early grain harvest in Ukraine. On top of the pandemic, European banks have been cautious with investing in the country. This is why grain and oilseed producer and exporter Nibulon asked development finance institutions like FMO to help secure emergency funding. FMO provided US$20 million working capital to finance the continuation of Nibulon's operations in purchasing and trading grains and oilseeds. During the pandemic, the company donated US$1.5 million for equipment and hospitals and plans to spend US$2 million more.

Kompanion Bank

CJSC – 2nd largest bank in rural outreach in Kyrgyzstan

FMO

The COVID-19 crisis hit the Kyrgyz Republic significantly. Exacerbated by a political crisis, economic growth decreased sharply. FMO signed a US$7 million (US$3 million committed + US$4 million uncommitted tranche) senior unsecured loan with Kompanion, a longstanding customer of FMO since 2013 and the second largest bank in terms of rural outreach in Kyrgyzstan. This facility provides Kompanion a buffer as uncertainties are still high due to the pandemic. Additionally, the transaction contributes to job creation in rural areas.

Fortio Co. Ltd.

COVID-Liquidity injection plan, Indonesia

FMO

FMO committed US$6 million in Fortio to support portfolio companies of Falcon House Partners Indonesia Fund I that are affected by the COVID-19 pandemic. The fund focuses on consumer and healthcare sectors, with investees in food and beverages, and retail industries more heavily hit by COVID-19. This investment is aimed at keeping thousands of jobs afloat and saving the businesses that will continue to positively contribute to the Indonesian economy. Fortio is a special purpose vehicle used as part of a COVID Liquidity Injection Plan (CLIP), while CLIP is a product created by the German development bank DEG.

Maha Agriculture
microfinance institution in Myanmar

The MASSIF fund

The Myanmar government ordered a lockdown over April to hamper the spread of COVID-19, resulting in the complete closure of all economic activities in the country. Consequently, liquidity in the market dried up, resulting in further deterioration of the economic downturn. This affected food security and the lives of farmers in Myanmar. Maha Agriculture Public Company Limited is a deposit-taking microfinance institution operating in rural areas throughout Myanmar. It serves more than 40,000 clients, 93% of whom are farmers. FMO provided a US$6 million loan in local currency through the MASSIF fund, that FMO manages on behalf of the Dutch government, so Maha could continue to serve them.

Banco Promerica de Costa Rica
privately-owned universal bank in Costa Rica

FMO

The pandemic hit Costa Rican SMEs hard. Therefore, our longstanding client Banco Promerica de Costa Rica asked to repurpose US$10 million of its funding to support SMEs that need additional liquidity. As a condition to receive COVID-19 financing, these SMEs were required to maintain their workforce. Originally, FMO's funding (US$30 million, signed in 2019) was meant for the financing of green buildings; later in the year, FMO activated an additional US$10 million uncommitted facility of which proceeds will be utilized to finance green (i.e. EDGE certified) residential construction.

Frontier Energy
investor in the African renewable energy market

The Access to Energy Fund

Through the Access to Energy Fund, that FMO manages on behalf of the Dutch government, we provided an emergency grant of €73,000 to support Frontier in the production of 5,000 face masks by training 15 tailors from the community, the distribution of hygiene packs to 250 construction workers and neighboring schools, and the drilling of 2 boreholes to provide access to clean water to a target population of 287 households. These projects were implemented within the communities neighboring Eldosol Energy, a 40 MW Solar PV Power Plant in Kenya in order to prevent the spread of COVID-19 by promoting hygiene standards within the communities.

OUR VISION

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

OUR MISSION

We empower entrepreneurs to build a better world.

OUR SDGs

STRATEGIC GOAL

Your preferred partner to invest in local prosperity.

OUR MARKETS

- Agribusiness, Food & Water
- Energy
- Financial Institutions
- Dutch Business

OUR STRATEGY

→ Higher Impact Portfolio

→ Deeper Relationships

→ Higher Productivity

OUR VALUES AND BEHAVIORS

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

OUR STRATEGY

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

In line with our vision and mission, we aligned our strategy with the SDGs with an overarching strategic goal of being 'Your preferred partner to invest in local prosperity'.

Our efforts to achieve this goal focus on three pillars: higher impact portfolio, deeper relationships and higher productivity. We create higher impact by focusing our activities on SDGs and markets that are key to economic, environmental and social progress. We increase this impact by deepening relationships with our customers and other stakeholders, by mobilizing third-party funds and by working closely with businesses and industry associations to enhance ESG standards. By achieving higher productivity and organizational efficiency, we can scale up our activities, and create greater impact.

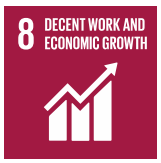
We monitor a set of performance metrics aligned with these three pillars and set specific targets for each. This allows us to define, steer and track success for each objective.

Higher impact portfolio

SDG focus

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

SDG 8 | Decent Work and Economic Growth



The central goal of SDG 8 is economic growth and decent work for all. By investing in underserved markets, we support jobs, improved labor standards and economic prosperity. Jobs allow people to develop themselves and lift their families out of poverty.

Our contribution consists of:

- Providing finance to enhance economic growth and support jobs. In line with our mandate, we invest in low- and middle-income countries where we are additional to the market;
- Promoting and protecting labor standards by working with our customer to meet our ESG standards, which are based on the IFC Performance Standards and ILO labor standards. This includes freedom from forced and child labor, freedom from discrimination at work, freedom of association and the right to collective bargaining;
- Through our investments in financial institutions, we invest in small and medium-sized enterprises (SMEs). Several studies show that SMEs are job generators but that their financing needs are often underserved.

SDG 10 | Reduced Inequalities

Inequality within and among countries remains a key issue in the world. SDG 10 is about promoting social and economic inclusion of all, which we support by investing in the world's poorest countries and inclusive businesses. Reducing inequality also strives for gender equality as women are often underserved in low-income countries.

Our contribution consists of:

- Providing finance to inclusive businesses that reduce inequalities within countries. Inclusive businesses expand access to goods, services and livelihood opportunities on a commercially viable basis to people at the Base of the Pyramid by making them part of the companies' value chain of suppliers, distributors, retailers or customers;
- Providing finance to projects in the Least Developed Countries[4] to reduce inequalities between countries;
- Providing finance to financial institutions with an SME and/or microfinance portfolio to increase access to capital and support business growth;
- Providing finance to power generation projects and off-grid power solutions to increase access to reliable and sustainable energy.

SDG 13 | Climate Action

We all experience the effects of climate change. Annual average economic losses due to climate-related disasters are estimated by the UN to be hundreds of billions of dollars. Each country has a responsibility to contribute to solutions that limit the global mean temperature increase to below 2 degrees. An annual injection of approximately US$100 billion[5] is needed (and more is likely required) to help developing countries to adapt to climate change and invest in low-carbon economies.

Our contribution consists of:

- Providing finance to projects that reduce greenhouse gas emissions, increase resource efficiency, preserve and grow natural capital and support climate mitigation;
- Building expertise and deal experience on climate adaptation;
- Aiming to align our portfolio to a 1.5° pathway. Staying on this pathway requires a continued reduction in portfolio emissions. This can be achieved through growing the green volumes across all departments, investing in projects delivering negative emissions, developing an approach to measure and report on climate risk, and finding ways to further improve data quality and availability.

Focus markets

To achieve higher impact, we focus our investments on regions where our impact can be the greatest and on sectors that are crucial to economic, environmental and social progress.

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

4 As defined by the UN.

5 https://www.undp.org/content/undp/en/home/sustainable-development-goals/goal-13-climate-action.html

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

1. **Agribusiness, Food & Water |** Approximately, 800 million people globally are undernourished[6]. This sector can ensure that by 2050, 9 billion people have access to food and that the environmental and social footprint is minimized.[7] To this end, we invest in advanced technologies and apply international standards. We finance sustainable agribusiness companies throughout the value chain including those that make agriculture more water-efficient. We also invest in forestry.
2. **Energy |** Approximately one billion people lack access to energy. Many of these people live in rural Africa. Three billion people lack access to clean cooking fuels and technology.[8] We invest in renewable energy, as well as in projects that provide access to energy in less developed economies.
3. **Financial Institutions |** Globally, approximately 1.7 billion adults are still unbanked[9]. Accessible finance is a cornerstone of a strong economy and private sector. A healthy financial sector can bolster entrepreneurs and individuals. We provide long-term funding, risk capital and local currency financing and focus on SME financing. We also promote green lines and look for business models that serve the unbanked.

Deeper relationships

FMO is a small player relative to the challenge we face. To achieve the SDGs in the next decade, we need to pool our resources and work with others. Deepening our relationships will enable us to mobilize third-party funds and create investment opportunities to increase our impact in our focus markets.

This is important for several reasons. First, to close the financing gap: in 2014, the UN estimated an additional US$2.5 trillion a year is needed in developing countries alone to achieve the SDGs[10]. Second, to facilitate learning and achieve more by harmonizing the way stakeholders measure and report on impact. Third, to address the lack of bankable projects in these markets. FMO and other stakeholders need to get involved much earlier in the development phase of a project and support projects throughout the entire life cycle.

We will continue to grow our mobilizing activities to increase the capital flow towards developing countries. This entails developing more efficient mobilizing vehicles with commercial investors and insurance companies, such as the new Unfunded Risk Participation Program FMO established with Munich Re at the end of 2019. Munich Re will contribute to the SDGs by participating in FMO transactions for up to US$500 million in the next three years.

FMO will increase and strengthen its partnerships with (existing) donors on a national, European and global level. We will continue to manage several public funds on behalf of the Dutch government to invest early on in projects, take higher risks and achieve our higher impact objective. FMO will scale up the investments made through NASIRA, a program guaranteed by the European Commission, which provides risk-sharing to Financial Institutions customers to unlock lending to migrant, female and young entrepreneurs. Furthermore, FMO will operationalize the Dutch Fund for Climate and Development which it established together with the SNV Netherlands Development Organization, World Wide Fund for Nature and Climate Fund Managers.

We also support the Dutch private sector. We are building a portfolio which will be transferred to Invest International, a new organization that will be established together with the Dutch government. Invest International will continue to provide Dutch businesses and commercial banks with export finance and other investment solutions in emerging markets.

6 Food and Agriculture Organization of the United Nations (2019). Help eliminate hunger and malnutrition.

7 https://www.un.org/sustainabledevelopment/wp-content/uploads/2016/08/2.pdf

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

9 World Bank Group (2018). The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution.

10 UNCTAD (2014). World Investment Report 2014.

Higher productivity

We are committed to building a high-performing organization that enables us to deliver higher impact and build deeper relationships. We will continue our transition towards a more efficient and productive organization that is values, process and data-driven. This transition is focused on two areas. First, we will continue to address regulatory requirements, reduce operational risk, and improve processes by bringing our house in order so as to build a strong foundation for the future. Second, we will step up our efforts in seeking productivity gains inspired by the new ways of working triggered by COVID-19 and creating synergies and new forms of collaboration internally and with our partners.

At the heart of this lies our digitalization agenda that brings in technology to support the needs of our growing business, to lower the organization's risk profile and to further enhance our own efficiency and productivity. In coming years, we will allocate sufficient time and resources towards building a solid foundation of IT systems and applications, data management and automating business processes to ensure interconnectivity and flexibility.

We will continue to redesign and optimize processes to deliver better and faster service to our customers and ensure we comply with regulations.

In coming years, we will continue to focus on quality improvements, for example on:

1. Know Your Customer (KYC). We will continue to improve our KYC process to mitigate risks associated with financial economic crime. We will ensure it is supported by a strong FEC policy and control framework, robust governance, systems and a dedicated team of skilled employees.
2. ESG risk management. We will strengthen ESG risk management by aligning internal policies, risk appetite, controls and processes to improve how we assess, track and manage ESG risks.
3. Issue management. We will expand our efforts to safeguard FMO's reputational risk by bringing in stakeholder perspectives and expertise on FMO's business, policies and future investments as well as on dilemmas we face. By creating a two-way dialogue, we aim to establish a better understanding among our stakeholders and ourselves of the impact we may have on our environment.

This transition requires a new way of working and culture that is trust-based, inclusive and values-driven. FMO focuses on ongoing dialogue and engagement with its employees where internal collaboration, openness, transparency and accountability are key. We continue to upskill our employees at all levels of the organization; for instance, through a revised Learning & Development strategy aimed to align skills and capabilities with our strategic objectives. Furthermore, we aim to develop more effective knowledge management and exchange, improving the way we collect, store and share knowledge with our external community.

Hats off to our investees and local partners who successfully managed the crisis on the ground!

The COVID-19 pandemic completely disrupted not just our job itself, but how we worked. To keep providing much-needed support in times of crisis, we needed to quickly adapt. But how do you evolve "on the go," while minimizing COVID-19's impact on your customers?

Nikolay Zubtsov

Investment Officer at FMO

FMO's Private Equity department uses a tried-and-true 3-step process to handle deals prior to COVID-19: opportunity scan, clearance-in-principle, and financial proposal. Investment Officers, such as Nikolay Zubtsov, start by reviewing the opportunity scan, determining whether the potential investment is a prudent portfolio addition. If approved, he conducts on-site due diligence, which involves meeting the management team or the fund manager, visiting offices and production facilities, and collecting feedback from stakeholders.

For Zubtsov, who is in charge of Asian and Eastern European investments, remote working had been already integrated on a certain level. He frequently contacted investees remotely, while still meeting in person at least once a year. With COVID-19, even that became impossible. "We had customers requiring urgent funds," Zubtsov says, "so critical action was needed. The focus was on saving and supporting portfolio companies."

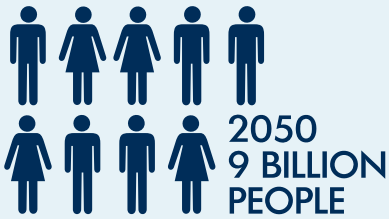
FMO also invests together with local Private Equity partners in sectors, other than our core sectors, that contribute strongly to job creation and sustainable economic development. One of our Indonesian fund investments active in the retail and restaurant and dining sector was badly hit by COVID-19, with some of the portfolio companies generating almost no revenue at the time and requiring immediate assistance. Together with the German Development Finance Institution (DEG), FMO set up a funding facility tailored for this specific situation. Through Fortio, a special purpose vehicle created for this transaction FMO invested US$6 million in a COVID Liquidity Injection Plan, supporting our investee when most needed and deepening our business relationship.

Mandarin Overseas Robotics Enterprise (MORE), an Indonesian auto parts manufacturer, is another example of a business that was hit by the pandemic. The company suffered a significant drop in revenue following the decrease in orders from its main customers last spring. Together with our local partner, FMO provided additional funding through a follow-on equity investment, allowing MORE to continue working during the peak of the crisis .

That said, Zubtsov's challenge was having no physical meetings with investees or other partners. With everything now "2D", he—and the rest of FMO—had to adapt to a new working style. "It was strange: Wi-Fi quality was suddenly very important," he says. Since both investments were with existing partners, and timing was of the essence, we relied on virtual checks and visits. "We adapted quickly, but social interaction was still the missing part of the equation. Hats off to our investees and local partners who successfully managed the crisis on the ground!"

Zoom and emails cannot fully replace Zubtsov's on-site due diligence—particularly for new customers—but as we start to integrate a new form of working, striking the balance between remote and on-site work must be found. "What's the proportion of remote and on-site work?" Zubtsov asks. "I can't say yet. These components will be there—just how exactly, remains to be seen."

why



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

Our Mission
We empower entrepreneurs to build a better world.

how

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

Our guiding principles
- Additionality
- Mobilizing
- Good governance

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

where

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

what

Inputs

Human
professional and skilled employees

Intellectual
reputation and knowledge of finance and ESG in developing countries

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

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

Our business activities

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

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

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

VALUE CREATION

Short term → **Long term**

Customers	sustainable business through capital availibilty and mutually agreed E&S Action Plans
Employees	career develoment with equal opportunity for professional development, leading to engaged employees
Investors	stable risk-return and development impact
Local communities	access to finance, markets, energy, food and other basic goods and services as well as job opportunities
Shareholders	risk-return profile suitable for development of sustainable businesses

- Economic growth, employment and decent work for all
- Reducing inequalities within and between countries
- Low carbon and climate resilient economies
- Raising ESG industry standards

OUR VALUE CREATION MODEL

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

Our business model

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

Operating context

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

1. Additionality: we exist so we can be additional to the market. FMO was established and received government support to only provide financial services that the market does not provide or does not provide on an adequate scale or on reasonable terms. We distinguish between two types of additionality:
    - Financial: providing financial products that are not readily available from commercial parties on workable terms;
    - ESG: ensuring that outcomes and returns to society will be higher than those of other parties.
2. Mobilizing: maximizing the flow of finance to FMO's target sectors or groups. This requires FMO to maximize the growth in and utilization of its equity and the leverage provided by its financing activities.
3. Good governance: adherence to the principles of good governance in the widest sense. FMO sets the standard in several areas of its operations, including the implementation of social and environmental policies.

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

Regional spread

Diversification is key to our risk management approach and allows us to limit the volatility of our earnings. FMO invests in 82 countries, across four regions: Africa, Asia, Eastern Europe and Central Asia, and Latin America and the Caribbean.

Sectors

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

We also finance other sectors indirectly through our investments in financial institutions, through private equity (PE) funds with a strong track-record in job creation, and through our Dutch business activities. Investing in different sectors also diversifies risks as each sector is impacted differently by macroeconomic developments.

Value creation process

Key inputs

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

- **Human capital** | FMO has a stable and professional workforce. At the end of 2020, FMO employed 627 permanent and 131 external professionals, who are passionate about FMO's mission. Our employees are expected to embody the values – making the difference, diversity, quality and integrity – that were introduced in 2019;
- **Financial capital** | We are a triple-A rated bank with 50 years of experience in the private sector in emerging and frontier markets. This rating follows from our ownership structure (51% of shares are owned by the State of The Netherlands) and the Dutch state guarantee. It allows us to attract funding at attractive rates. Commercial investors supply capital through FMO's (sustainability) bonds;
- **Intellectual capital** | We are recognized as a responsible impact investor and for our in-depth knowledge of ESG management and financing in emerging and frontier markets. This knowledge makes us an attractive business partner for others in the industry;
- **Social and relationship capital** | We have strong partnerships and networks with (networks of) customers, knowledge institutes, NGOs, governments and financial partners such as commercial investors and banks. By connecting their networks and resources to our own, and by inspiring them to act, we increase our impact on the world.

FMO's business activities

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

- We offer direct medium and long-term loans at both fixed and variable interest rates, with a repayment grace period where needed.

- We arrange syndicated loans by bringing together commercial banks, investors and other DFIs to raise larger financing amounts in an efficient way. FMO receives an arrangement and/or agency fee for these services.
- We invest equity directly or indirectly (through funds) or co-invest with partners. We work with fund managers and investee companies to integrate sustainability into their core operations. We provide stable, long-term capital and usually sell our stake after five to ten years. FMO receives dividends and accounts for fair value gains or losses during the lifetime of an investment.
- We structure our guarantees so that they meet the needs of the beneficiary, the market and the targeted creditors. This ensures companies have access to international markets and can participate in global trading.

Investment management | We manage public funds that we invest in higher-risk projects that promise substantial development impact. Through FMO IM funds and unfunded risk participations, institutional and other professional investors have access to FMO's expertise in impact investing in emerging and frontier markets. We offer a selection of funds with different market-based, risk-return profiles.

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

Long-term value

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

Guided by our investment principles, we allocate capital to projects and businesses in developing countries, focusing on sectors that are crucial for job creation (SDG 8), reducing inequalities (SDG 10) and taking climate action (SDG 13). Our loans, equity and guarantees deliver financial impact and we leverage this impact by mobilizing third-party funds – public and private – through partnerships that complement our mandate and impact goals. This includes co-development of high impact models such as blended finance initiatives, risk-sharing mechanisms and market transformation programs.

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

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

At the same time, we recognize that the activities we invest in can also have a negative impact. A bank that needs restructuring to drive SME growth and job creation, could see direct jobs be turned into indirect jobs. Or, people may need to be physically or economically resettled for a hydro power plant, which generates a country's renewable energy. Or unsustainable agricultural practices may adversely affect ecosystem services such as carbon storage, water and air purification and maintaining wildlife habitat. This is why we hold our customers to international ESG standards. We require customers to identify and evaluate environmental and social risks and impact as a result of their activities and adopt a mitigation plan. We furthermore require customers to put in place a grievance mechanism and respond to community concerns.

Throughout the lifetime of our financing, we monitor a customer's progress on the environmental and social action plan and support them in building a sustainable business for the long-term. We also work towards continuous improvement of our own practices, for instance by including human rights in our ESG approach (refer to Our investment process), our KYC procedure (refer to Our performance) and our GHG accounting methodology (refer to Our commitments).

Potential risks and opportunities

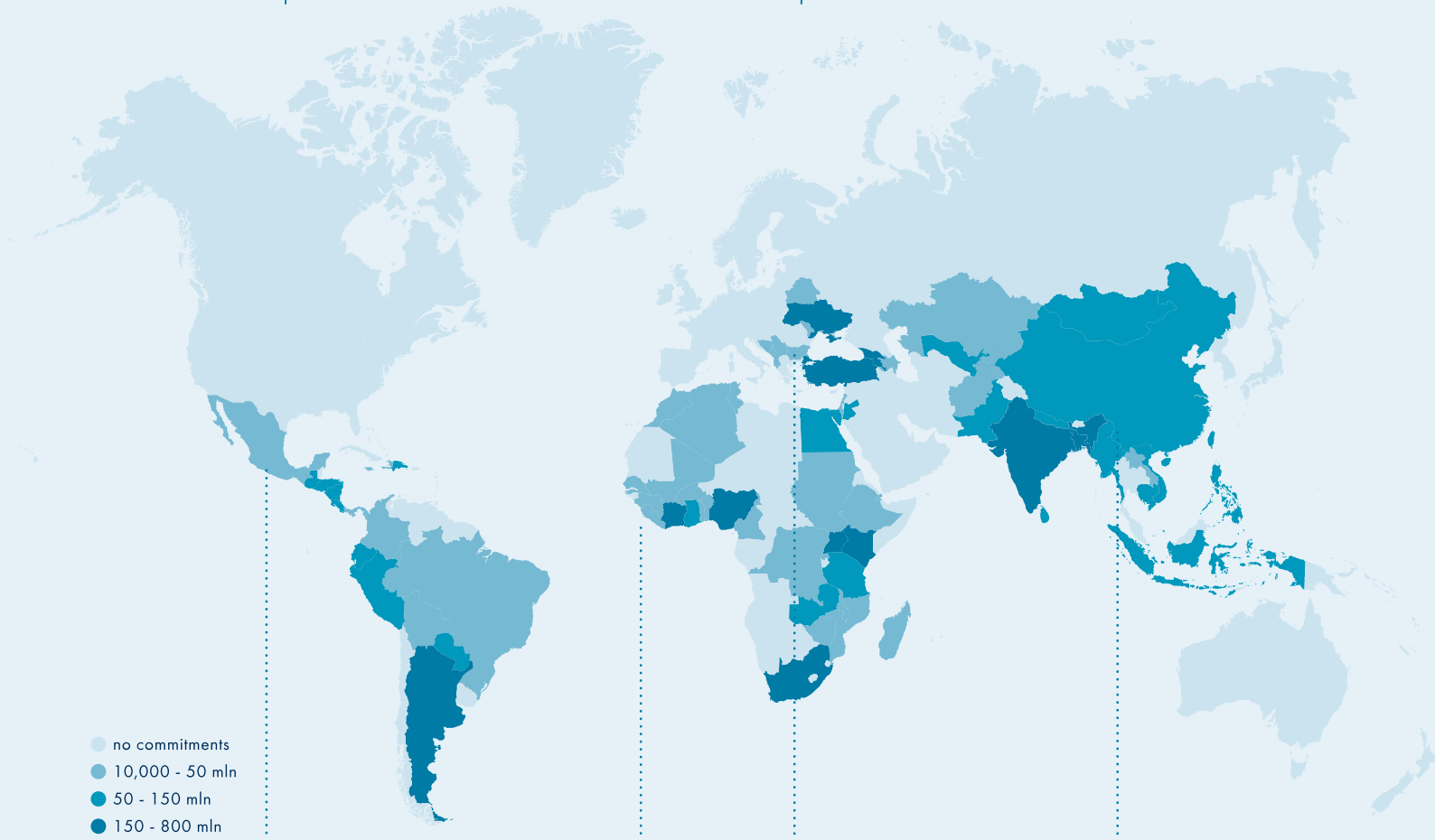
FMO has identified several potential risks and opportunities linked to its value creation model, in the context of external developments, as follows:

Strategic Challenge	Risks	Opportunities	Strategic response
How to achieve a growing impact agenda, while facing external pressures during uncertain times.	• The effects of COVID-19, incl. current travel restrictions and increased credit risk, as well as greater regulatory pressure may result in lower impact results to achieve FMO's impact ambitions. • Temporary slowdown of business development could result in loss of market position in certain sectors crucial to the achievement of the SDGs (e.g. Energy deals contributing to the 1.5° pathway).	• Step up investments in blended finance capabilities (internally and externally) and mobilized finance to scale up impact. • Introduce and expand different ways of working to source new deals and carry out due diligence (e.g. virtual DD, working with partners on the ground).	Explore different ways of sourcing transactions. Focus on new and innovative solutions in energy transition, forestry and fintech and grow mobilized finance to accelerate inclusion and climate action.
How to deal with a growing offer of DFI/blended finance in markets while availability of (bankable) projects are limited.	• Challenging to source sufficient opportunities to deliver on agreed commitments from public and commercial investors. • Crowding out private investors.	• Innovation and development of niches incl. early stage of development and economic subsectors (e.g. in Energy market). • Matching donor appetite from third parties to investments in high-risk projects. By providing support on regulatory limits such as solvency and capital requirements, FMO can unlock large scale capital from institutional investors.	Invest in blended finance capabilities, increase efforts to attract high risk blending capital and invest in nascent markets and innovation.
How to deal with increased regulatory requirements & supervisory scrutiny that puts pressure on organizational capacity and capital allocation.	• A greater internal focus may result in lower productivity and slower portfolio growth, which in turn could result in lower impact. • Increasing requirements, without efficiency gains, will put additional cost pressure on FMO due to increasing FTEs and capital allocations. • Increased scrutiny and risk of non-compliance may lead to risk-averse project selection which counteracts FMO's role as a DFI. • Non-compliance may result in reputational damage.	• By being fully compliant and holding itself to applicable KYC, AML and ESG standards, FMO can serve as an example to its peers and customers. • As other market participants are also severely impacted by regulatory developments, FMO could partner with other DFIs and play a role to further remove barriers to commercial investors. • Optimization of FMO's balance sheet and capital management.	Enhance risk management (incl. ESG and climate). Invest in improving internal processes and productivity, automating and integrating reporting where possible.
How to deal with increasing stakeholder expectations to apply home country ambitions and 'one size fits all' regulations to host countries despite differences in local legislation, regulations and political context.	• Reputation risk due to a mismatch between the public perception of the role of FMO and the choices made to invest in certain projects. • Misalignment or regulatory non-compliance with home-country ambitions and regulations leading to reputational damage.	• Maintain a strong relationship with the Dutch government, aligning on ambitions where possible, to continue making high impact investments, enabled by the state guarantee. • Increase reporting on dilemmas, contextual differences and considerations made throughout FMO's investment process.	Increase transparency on FMO's investment decisions and continue to strengthen ESG risk management and impact measurement.
How to achieve harmonization and collaboration among industry peers with different interests.	• Seeking alignment in areas where interests differ considerably with respect to risk appetite, risk-return and supervision may be unproductive and lead to too much compromise. • Large-scale harmonization and collaboration could result in over-convergence and compromise FMO's market position.	• Increase harmonization efforts among peers to better serve customers with respect to shared processes, requirements and reporting. • Combine forces with EDFIs to strengthen FMO's position vis-a-vis regulators and governments • Collaborate with multilaterals, which can work with local governments, to exploit new opportunities to scale up impact.	Focus harmonization efforts on FMO's core SDGs, including further development of the joint impact model and contributing to harmonization of climate reporting.

€9.3 billion

Total committed portfolio

Note: total committed portfolio consists of €8.2 billion for FMO and €1.1 billion for public funds.

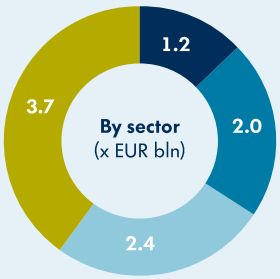


Total committed portfolio by region (per 31 December 2020)

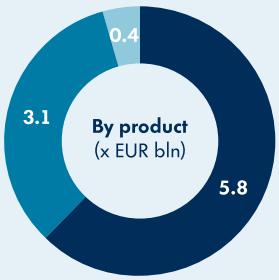
Latin America & the Caribbean	Africa	Eastern Europe & Central Asia	Asia	Non-region specific
€1.7 bln	**€3.3 bln**	**€1.4 bln**	**€2.2 bln**	**€0.7 bln**
18% of total	35% of total	15% of total	24% of total	8% of total

Total committed portfolio

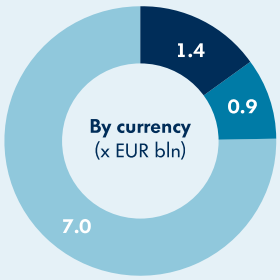
€9.3 bln



- Agribusiness, Food & Water
- Diverse Sectors
- Energy
- Financial Institutions



- Debt
- Equity
- Guarantee



- EUR
- Local currency
- USD

OUR INVESTMENT PROCESS

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

Our investments are guided by policies that ensure that integrity, development impact and ESG are at the heart of our operations and our way of working adheres to high ethical standards. The IFC Performance Standards (IFC PS) provide operational guidance to our ESG assessments, covering a range of environmental, social and human rights impacts.

As a bank, FMO runs the risk of becoming involved in money laundering or financing terrorism. FMO is also at risk of financing sanctioned entities or customers with a bad reputation in general. To mitigate such risks, we follow policies and procedures to deter criminal activity and ensure we do business with reputable customers. For more on FMO's risk management please refer to the Risk Management section. Applicable investment policies and guidelines can be found on our website.

Impact of COVID-19 on our investment process

During the COVID-19 pandemic, FMO has increased the financial and non-financial support to its existing customers to help them withstand the economic impact of the pandemic. Our ability to onboard new customers has temporarily been hampered by the travel restrictions that are currently in place. Not being able to meet in person makes it more difficult to execute proper due diligence. At the same time, FMO has implemented several changes to adjust to the new situation. For instance, we introduced guidelines for remote due diligence to service existing customers and to onboard new customers selectively. We also adapted our governance structure to enhance decision-making and delegated approval authority to investment teams on providing deferrals on principal and interest payments. In addition, we further strengthened cooperation with our partners, to mitigate the impact of travel restrictions on deal sourcing and execution.

The COVID-19 pandemic has also affected the way in which we monitor the portfolio. In 2020, we held regular portfolio meetings to discuss the most recent developments in our sectors and regions. We normally visit our customers once or twice a year. Since the pandemic, we have increased the engagement with our customers. In some cases as frequent as once to twice a month. Due to the crisis, several customers requested temporary payment deferrals or a waiver of financial covenants. In order to streamline decision-making for such requests, FMO worked closely with its partners (in particular other European DFIs and Multilateral Development Banks) to agree on a joint approach. In addition, we streamlined internal processes and standardized documentation as much as possible. These measures enabled FMO to meet the needs of our customers and to respond in an adequate and timely manner.

Know Your Customer

FMO plays an important role as gatekeeper to help prevent financial economic crime (FEC) and preserve the integrity and reputation of the financial system. We implement high standards and best practices which continue to develop over time. This means FMO only wants to deal with customers of good standing and reputation. In order to know with whom we are establishing a business relationship, FMO needs to acquire and monitor information and documents concerning the identity of a customer, gain insight into the business and its structure, and assess customer integrity risk holistically. Referred to as Know Your Customer (KYC), this is an integral part of the investment process and the relationship throughout its entire lifetime.

FMO is currently aligning its KYC files with best practices, and national and international standards related to FEC and KYC processes. Our work is mainly located in countries where obtaining documents and verifying these documents can be a time consuming and complex process. Not being able to meet in person due to COVID-19 makes it more difficult to execute a proper due diligence process. Following a DNB onsite inspection in 2018, DNB identified several shortcomings in the way FMO conducts Customer Due Diligence/Know Your Customer. 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 demonstrate full compliance. It became clear in September 2020 that the progress of the FEC Enhancement program was not fast enough. As a result, FMO and DNB agreed on a deadline to ensure full compliance with the Wwft and Sanctions Law by the end of 2021. This includes the remediation of approximately 1,050 customer files.

In the past year, FMO has made improvements in the governance and infrastructure of its FEC capabilities. This includes a significant increase in the number of FTEs in both the first and second lines of defense. In the first line of defense, a new KYC department was formed that supports and works closely with the investment teams to prepare in-depth customer due diligence. The Compliance Department maintains the second line of defense and has transferred some of its tasks to the investments teams, to better reflect the investment team's responsibility towards KYC. Other improvements include the enhancement of FMO's FEC Framework, where new policies and procedures and guidance notes on a variety of relevant FEC themes were developed, enabling the investment teams to conduct proper due diligence. A mandatory training program was deployed for all (permanent and temporary) investment personnel and relevant support functions, which will continue in 2021. FMO renewed its KYC-source system that allows FMO to perform KYC in a more efficient and sustainable manner and demonstrate compliance with its FEC Framework.

Regarding the remediation of KYC files, temporary resources have been engaged to ensure timely remediation and allowing existing investment teams to continue to support existing customers. The remediation is managed tightly by a project team comprising of representatives of the investment teams and compliance, under the responsibility of a dedicated director and the Management Board.

Environmental, social and governance standards

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

Good corporate governance (CG) breeds trust between management, investors, employees, and other stakeholders through accountability, transparency, and fairness. Poor governance increases risk; many of FMO's non-performing loans are rooted in weak governance. Improving governance therefore not only adds value to customers, it also helps us increase the performance of our portfolio. It further protects the reputation of FMO from issues such as corruption, which is present in some of our countries of operation.

FMO's ESG standards are anchored in our Sustainability Policy. This policy guides our contribution to sustainable development with respect to both development impact and ESG. This is further supplemented by our position statements on topics such as human rights, land governance and coal. FMO expects customers to work towards meeting our ESG requirements. We have adopted the IFC Performance Standards as our operating standard and are further guided, among others, by the United Nations Guiding Principles for Business and Human Rights (UNGPs), the OECD Guidelines on Multinational Enterprises and the International Labor Organization Declaration on Fundamental Principles and Rights at Work. The IFC Performance Standards cover: the Assessment and Management of Environmental and Social Risks and Impacts, Labor and Working Conditions, Resource Efficiency and Pollution Prevention, Community Health, Safety and Security, Land Acquisition and Involuntary Resettlement, Biodiversity Conservation and Sustainable Management of Living Natural Resources, Indigenous Peoples, and Cultural Heritage.

ESG risk management

Our ESG standards are championed by a team of 32 environmental, social and corporate governance staff, who are embedded in our investment teams and are involved in individual transactions. Our ESG specialists and managers report to the Director of Impact & ESG.

FMO assesses all potential investments from an ESG risk perspective and categorizes them accordingly. ESG specialists are involved in all high ESG risk transactions to support due diligence and transaction monitoring. They assess a potential customer's performance against our ESG standards, identify risks and opportunities for improvement and prepare action plans. Their advice is included in the Finance Proposal that is submitted for each investment decision. Investment staff are responsible for ESG performance management on medium and low ESG risk transactions. Independent scrutiny and challenge are provided by FMO's Credit Department. Following a positive investment decision, ESG requirements are included in a customer's contract. We closely monitor the follow-up of ESG actions through regular contact and site visits, often supported by independent consultants. The level of involvement from ESG specialists in transaction monitoring and support depends on a customer's ESG performance, including residual risks.

We work closely with other DFIs to ensure our ESG approaches are harmonized. Greater harmonization creates a level-playing field, helps to create greater impact and leads to efficiencies for customers working with multiple DFIs.

Human rights in ESG risk management

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

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

In recent years, FMO has strengthened its rights-based approach to ESG risk management throughout the investment process. In 2019, we introduced further guidance on performing contextual risk analysis with a human rights lens. In 2020, we have started working towards extending this to our indirect E&S risk exposures in financial institutions and private equity funds. Furthermore, we centralized our serious incident register, which tracks customer reports of fatalities, serious injuries, and environmental accidents, and started expanding the register with a wider range of reported (potential) harm to people or the environment. More information on the serious incident register is provided in the ESG performance section.

In 2020, we have had to adapt our processes as a result of the COVID-19 pandemic. Due to the current travel restrictions, we rely on third parties to verify key human rights topics such as contextual risk assessment, E&S information disclosure and stakeholder engagement, broad community support and a customer's on-the-ground performance. This includes physical meetings with the customer, employees, affected communities, civil society, local authorities and other stakeholders that are normally part of our due diligence and monitoring visits. We have developed COVID-19 due diligence and monitoring guidance to mitigate the risk related to outsourcing these activities.

For high E&S risk customers we perform E&S due diligence, which includes a human rights lens. At year-end 2020, this was done for 301 customers in our portfolio.

Salient human rights issues

FMO considers salient human rights issues as those that pose the most severe negative impact on people through our customer's activities or business relationships. These include potential and actual issues in our portfolio. The ESG performance chapter gives insight into FMO's most salient human rights issues. It provides a breakdown of our portfolio in low, medium, and high E&S risk. It further describes the type of risks and frequency with which these risks occur in our high E&S risk portfolio and customer performance on managing these risks, which informs the scale of potential issues.

The management gap table shows the type of risks and frequency with which these risks have not been managed to our satisfaction, including a description of how rightsholders may be affected and which areas pose the most severe risks to human rights infringement. We also include the type and number of fatalities reported by our customers.

How we apply ESG standards in our investment process

In the following overview, we explain the different stages in our investment process, pre-COVID-19, and how ESG is integrated into that process. By means of examples, we show how this works in practice.

Step 1 | Customer selection

We identify investment opportunities within our key markets that contribute to our three SDGs. In our selection, we check country limits, the exclusion list, the viability of the investment plan and the business itself. We also check if our investment is 'additional'. This means that we can provide resources and share best practices that are critical for sustainable development and that otherwise would not have been available to the company or project.

Step 2 | Clearance in principle

We perform an initial assessment of risks and opportunities, define the key terms of customer engagement, and scope any further assessment needs. We document this in a 'clearance in principle' (CiP) proposal, informing our decision to continue preparing for a final investment decision. We conduct a Know Your Customer assessment to ensure that the customer complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations. The financing opportunity is also assessed against potential effects on environmental, social and human rights conditions, as well as governance structures.

Step 3 | Due diligence

We carry out a detailed project assessment. We document the results in a finance proposal informing FMO's final decision to invest. We perform a site visit, including visits to key stakeholders. Where needed, we engage consultant support in various fields. We define and negotiate further ESG requirements and conduct further human rights contextual risk assessment as informed by the CiP. This includes on-the-ground research and consultation with local civil society.

Step 4 | Decision to invest

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

Step 5 | Contracting & investment disclosure

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

Step 6 | Disbursement

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

Step 7 | Monitoring & value creation

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

STEP I
CUSTOMER SELECTION

high level of ecological importance requiring further assessment

in practice

FMO considered investing in a company that aimed to expand their industrial commercial wood plantations from a medium to a large plantation to promote higher volumes of CO_2-eq sequestration. This plan required the acquisition of extensive areas of land, and the conversion of grassland and tropical savannah (degraded, and intervened) into monocrop plantations. After an analysis of the geographical location, and type of ecosystem, it was concluded the region where the expansion was planned had a high level of ecological importance, which required further assessment. The transaction was put on hold while the company completed a comprehensive Environmental and Social Impact Assessment, High Conservation Value assessment and Land Use Cover Change Assessment to define targets for remediation and measurable conservation outcomes for biodiversity.

STEP II
CLEARANCE IN PRINCIPLE

dealing with legacy issues and engaging with the community and NGOs

in practice

FMO is considering investing in a portfolio of renewable energy projects. Prior to seeking CiP, an early Environmental & Social (E&S) review flagged that some of the customer's assets have received community and NGO complaints related to community water supplies for indigenous groups. The FMO deal team suspended the CiP process to visit the sponsor's existing assets and assess the situation on the ground. The site visit gave the deal team a chance to ascertain whether the sponsor's approach to dealing with the legacy issues and engaging with the community and NGOs met FMO's expectations. This also gave an indication of how the customer would handle any ESG and Human Rights issues that may come up in the projects FMO considers financing. We agreed on a set of steps to be completed by the sponsor before FMO would prepare and submit a CiP.

STEP III
DUE DILIGENCE

improving the ESMS and overall E&S performance

in practice

A key customer has activities and initiatives strongly aligned with FMO's strategic objectives, such as financing women-owned MSMEs and green products. During the Environmental & Social Due Diligence process (and during subsequent monitoring) FMO recognized the need to upgrade the Environmental and Social Management System (ESMS). However, the organizational structures did not support an integrated approach. The concerted efforts by FMO's deal-team, consultants and the bank's internal sustainability team improved the ESMS and the bank's overall E&S performance.

performing contextual risk analysis with a human rights lens

in practice

For a potential investment in a large agri-commodity facility in a tropical forest, we applied a human rights due diligence guidance and undertook a contextual risk assessment. The analysis discovered potential risks around legacy land issues, recognition of Indigenous Peoples by the State and dilemmas facing the communities with respect to forest protection versus deforestation for family farming and survival. Over the course of a year, the investment team worked with the customer to strengthen its environmental and social practices. This required the customer to commit to zero deforestation and net biodiversity gains, no physical resettlement and Livelihood Restoration Planning and Implementation and protecting Indigenous Peoples. The latter requirement further includes conducting human rights assessments, acknowledging the identity of Indigenous Peoples and undertaking processes around free, prior and informed consent (FPIC). Since then, the customer has followed up by engaging with third-party experts to conduct site assessments in areas with indigenous communities, human rights issues and/or high risk of biodiversity impacts. Seeing the customer's commitment and progress made, FMO felt comfortable to proceed to the next stage of the investment process.

STEP IV
DECISION TO INVEST

conditional to taking gender-related action

in practice

E&S due diligence on a renewable energy project revealed that the project site is in an area with significant social and economic inequality between men and women, with cultural and traditional roots. Women's freedoms and safety were perceived to be threatened by the project bringing men from other parts of the country to live and work in the area. These sensitivities were further investigated and characterized in a gender impact assessment, and the decision to invest was conditional to the customer's formal commitment to taking gender-related action. Furthermore, when COVID-19 posed the question of whether the worker camp should become a restricted access camp, the earlier gender assessment indicated that a more regulated camp was more gender sensitive, as this would minimize any interaction between migrant workers and vulnerable local women.

STEP VI
DISBURSEMENT

conditional to making governance improvements

in practice

A potential FMO customer was headquartered in a country with an underdeveloped culture of corporate governance, especially in relation to privately-held companies. The company had no Board of Directors, and the founder was the sole decision-maker. While considering a long-term engagement with the company, FMO emphasized the need for a Board of Directors with independent members to provide countervailing power to the dominant founder. The disbursement of the facility was conditional on the establishment of the Board and achievement of several milestones. The requirements have been met and FMO continues to work with this customer and support it on further governance improvements.

STEP V
CONTRACTING & INVESTMENT DISCLOSURE

onboarding E&S manager to oversee local sensitivities

in practice

FMO recently invested in a renewable energy project. Due diligence revealed that the tense security and human rights context requires a high degree of sensitivity to all typical environmental and social management aspects. This includes sharing cleared wood with communities, housing labor in local villages, traffic management and the grievance collection and redress mechanism in particular. FMO required the customer to onboard a highly qualified in-house E&S Manager at corporate level, prior to contracting, rather than continuing to rely on consultants to design and operate the E&S management systems.

STEP VII
MONITORING & VALUE CREATION

addressing root cause of health and safety incidents

in practice

During monitoring of a generalist Private Equity fund that targets SMEs, a significant number of health and safety incidents were recorded in the portfolio. Engagement with the fund manager revealed that this was due to insufficient health and safety measures and inadequate protections for workers' rights in some of the fund's portfolio companies. Further engagement and support led to a commitment by the fund manager to address the root causes of the incidents, corrective actions, training, inspections, workplace risk assessments and audits, while regularly updating the investors on progress. In cooperation with other DFIs/ investors FMO and the fund manager agreed an action plan including strengthening of the team's E&S capacity. The interaction with the fund manager and their strong commitment to E&S gave FMO the confidence to continue investing in future funds raised by the fund manager.

Lessons learned through evaluation

FMO undertakes evaluations to assess the impact of its investments and to learn from that experience. Evaluations help us be more effective in achieving our mission and develop a continuous learning culture. FMO carries out sector and SDG focused evaluations for investments made from FMO's balance sheet, commissions external studies for investments financed through the Dutch government funds we manage on its behalf, and coordinates external evaluations commissioned by the Ministry of Foreign Affairs.

In 2020, we completed an evaluation of investments made in the Financial Institutions (FI) sector. The evaluation found that, in the last 5 years, FMO has accelerated the impact it creates together with its customers. In particular, more micro, small and medium enterprises (MSMEs) have been reached (SDG 8: Decent Work and Economic Growth), a greater share of FIs in LDCs were supported and banking products for women increased significantly (SDG 10: Reducing Inequalities). Going forward, more could be done to increase FMO's non-financial additionality by improving the FI impact management framework around SDG 8 and deploying innovative products, which are currently being developed in the sector.

Learnings from past evaluations led to a strategic study with LadyAgri that was completed in 2020. In 2019, the Evidence Mapping Report identified that FMO should apply a gender lens to investments made through Building Prospects that has gender as a key strategic focus. In addition, the review of the progress made by our Agribusiness, Food and Water (AFW) department towards implementing the recommendations of the 2018 sector evaluation, showed that significant progress was made on eight out of nine action items. The only lagging item was for AFW to increase gender inclusion. To follow up on these findings, we worked with LadyAgri, which developed a Gender tool for investments in agri corporates, to identify the role of women along the value chain and opportunities to improve gender equality. The tool consists of a set of questions that investment teams can use during due diligence to score the company on gender aspects along dimensions such as leadership, employees and value chain. In 2020, FMO tested the tool on several investments financed by Building Prospects and is now adapting it to our own investment process. For example, by making Capacity Development opportunities more visible for agri corporates and identifying investments eligible for the 2X Challenge*.

For more information on these and other evaluations, please refer to our website.

FMO'S ADDITIONALITY

According to the 2020 Customer Satisfaction Survey, customers choose FMO as an investor because of the long-term relationship with FMO (79% of customers), the longer tenors offered by FMO (47% of customers) and the positive signal an FMO investment has on attracting funds from other investors in the future (42% of customers). This reflects the areas in which FMO is additional**, confirmed also by FMO's external evaluations including a gender finance study and the KivuWatt evaluation.

The gender finance study, commissioned externally by FMO, looked at three loans provided to customers in Lebanon, South Africa and Armenia and proved how important FMO's loan tenors are for these customers. It showed that by offering better financing terms, FMO promotes financial inclusion among women in these countries. For one of the customers, the evaluation concluded that flexibility and the willingness to provide financial backing during the COVID-19 pandemic were key to the relationship with FMO, and a sign of additionality. For another customer, it showed the significance FMO's investment has had in developing the Bank's products towards women-owned or -led businesses.

FMO also completed an evaluation on KivuWatt, a methane gas extraction and production facility in Rwanda funded by Building Prospects and Access to Energy Fund. As the only major facility that has entered the grid since 2016, KivuWatt has delivered multiple benefits to the national energy sector, households, health care centers, businesses, and local communities. In addition, it has resulted in a reduction in greenhouse gas emissions. The associated risk of the project and the lack of available finance in the local market, underline FMO's additionality. FMO offered financing terms both in amount and tenor that were not available in the market, and mobilized additional funds from BIO, the African Development Bank and Emerging Africa Infrastructure Fund which had no prior exposure in Rwanda. FMO's unsecured loan of US$31 million was instrumental in mobilizing the consortium's debt of US$91 million.

* Please refer to the 'Performance on our strategy' chapter
** For a current definition of additionality, refer to the chapter 'Our value creation model'

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

Banco Bolivariano

Universal Bank in Ecuador

Ecuador has been hit severely by COVID-19, leading to a collapse of the healthcare system in its largest city, Guayaquil. Together with the oil price drop and already-high fiscal deficit, this pushed Ecuador into default. During these extremely uncertain times, FMO signed two high-impact facilities with existing customer Banco Bolivariano. Via the first (US$10 million subordinated) loan, we helped improve the bank's capital base, with the proceeds of this loan earmarked for financing SMEs. With the second facility (a US$10 million senior loan), Banco Bolivariano will only finance green projects and customers.

US$20 million debt
FMO

FirstRand Bank Limited
universal bank in South Africa

US$75 million debt
FMO

South Africa's FirstRand Bank is looking to further develop its climate finance portfolio. With our green finance support, the bank can expand its customer base to also include projects which focus on adaptation and resilience, along with water resources, treatment and infrastructure projects. FMO's US$75 million green loan is part of a US$225 million syndicate led by IFC, making it the first dedicated green loan provided in the country. The transaction gave FMO the opportunity to develop a deeper relationship with FirstRand Bank, the second largest bank in South Africa and one of the leaders in South Africa's climate finance sector.

US$7.5 million equity
Dutch Fund for Climate and Development

Komaza Group Inc.
forestry group in Kenya

Many smallholder farmers in Africa leave large parts of their land untouched, and only plant what they need to survive. Komaza offers these farmers the option to plant fast-growing trees, like eucalyptus and melia (a native, drought-resistant species) on their untapped parts of land. This provides farmers with the opportunity to generate additional income over a longer period. This way, the forestry company addresses the large and fast-growing wood market in Africa while simultaneously helping Kenyan smallholder farmers out of poverty. FMO's investment is funded by the Dutch Fund for Climate and Development (DFCD). We are already a shareholder in this company through the Dutch government fund Building Prospects.

ZIZ Energie
minigrid company Chad

€0.5 million development equity
FMO Ventures Program

Chad is one of the poorest and least-developed countries in the world. It has an installed energy generation capacity of 176MW, with only seven towns connected to the national grid. This makes Chad heavily dependent on expensive diesel generators, with households paying an average of 77 cents per kWh. ZIZ Energie aims to reduce this price to 40 cents per kWh and is developing 'metro-grids' which hybridize existing facilities with solar energy and battery storage. FMO's co-investment with Energy Access Ventures marks the start of a larger investment round that will allow scaling of operations and improved green energy access.

AfricInvest IV

pan-African private equity fund

US$35 million equity
FMO

AfricInvest is a longstanding partner of FMO and one of the pioneers of private equity in Africa, successfully investing on the continent through their North African and sub-Saharan Africa funds for over 25 years. AfricInvest IV aims to make growth-capital investments in mid-cap African companies that are well-positioned in their local markets and are poised to scale up operations as they expand outside their borders to become "regional champions". By investing in AfricInvest IV, FMO can contribute to the economic growth and private equity market development across the African continent.

US$30 million debt
FMO + mobilized funds

Vistaar Financial Services

non-banking financial institution in India

Indian micro and SME businesses have been badly hit by the outbreak of COVID-19. To support this important segment of the Indian economy, FMO provided a US$30 million term facility to Vistaar Financial Services. Vistaar is a Non-Bank Financial Institution which offers loans to small businesses in rural and semi-urban areas, for expanding working capital capacities. These companies find themselves in the 'missing middle' segment: they are too small to be served by the banks but too large to be served by the pure microfinance institutions, and require specific credit analysis, for which Vistaar has a competitive advantage.

€60 million debt (in Tunisian Dinars)
FMO + mobilized funds
(Capacity Development)

Enda Tamweel

microfinance institution in Tunisia

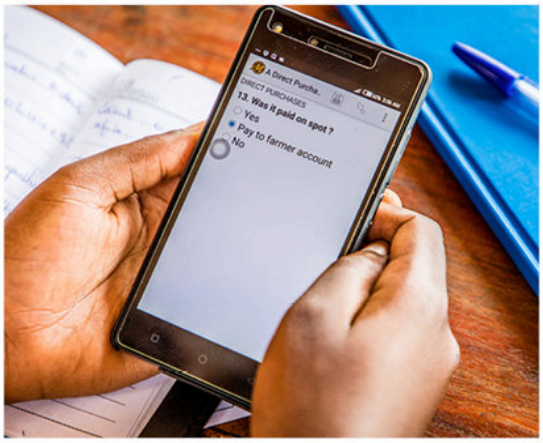
Almost ten years after the start of the Arab Spring, Tunisia still suffers from socioeconomic challenges like high (youth) unemployment and economic inequality. Enda Tamweel is one of the few institutions in Tunisia offering (non-)financial services for un(der)served Tunisian entrepreneurs and households. FMO provided a syndicated loan to support Enda Tamweel to finance women, youth entrepreneurs, and farmers, which was set-up with hedging partner TCX, and under the FMO's A/B loan structure. €39 million was syndicated to 5 funds, and we supported Enda Tamweel's digitalization journey via a Capacity Development project to implement digital payment.

Sucafina

Multinational coffee merchant in East Africa

US$18 million Debt
FMO + Capacity Development

Sucafina is active across the coffee value chain, from farming to roasting. FMO supports Sucafina with a US$18 million loan for washing stations, coffee mills and warehouses in – among others - Uganda, Rwanda, Burundi, Tanzania, and Kenya. With this funding, Sucafina will be able to further expand its origination activities in Africa and provide direct support to smallholder farmers. Additionally, FMO's Capacity Development program supports Sucafina in its Farmer Hub initiative to increase the number of smallholder farmers reached and assist them with growing speciality coffees, diversifying into other crops and access to banking services and markets. Previously we supported this customer through the Dutch government fund Building Prospects, since then its risk profile has evolved making financing on FMO's balance sheet possible.



€30 million debt
FMO + mobilized funds

Anadolu Etap

Fruit concentrate producer and processor in Turkey

Anadolu Etap operates a sustainably integrated value chain of plantations for fruit production, cold storage warehouses, and processing facilities in Turkey. Anadolu Etap supplies fruits and produces fruit puree, concentrates, and juices that are sold throughout Turkey and 60 other countries. The produce comes from 5 million trees located on eight farms spanning over 3,000 hectares. The company also runs three juice concentrate factories and a packaging facility. Together with EBRD, FMO financed a €60 million term facility to help Anadolu Etap ensure continuous growth, despite the uncertainty caused by the COVID-19 pandemic.

Atinkou

combined cycle gas-fired power plant in Côte d'Ivoire

€32 million debt
FMO

Côte d'Ivoire owns a set of old and inefficient power plants. FMO joined in a debt package of €303 million to develop, construct, and operate a 390MW combined cycle gas-fired power plant. Atinkou will provide the country with stable base load electricity to support economic growth and the development of intermittent renewable energy generation. The plant will be approximately 50% more efficient than the older plants, meaning it will produce the same amount of electricity with half the amount of gas.

PERFORMANCE ON OUR STRATEGY

This chapter outlines our 2020 performance with respect to FMO's three strategic pillars: a higher impact portfolio in our chosen industries, deeper relationships and higher productivity. We monitor our efforts through a set of performance metrics. This allows us to define, steer and track success for each of these pillars.

Our results were lower compared to last year, which is explained further in this chapter.

Contribution to the SDGs per investment area

In € million unless otherwise stated	SDGs	Total 2019	Total 2020	Agribusiness, Food & Water	Energy	Financial Institutions	Private Equity	NL Business	Other
Total Committed Portfolio	8 DECENT WORK AND ECONOMIC GROWTH	13,319	12,022	2,061	2,859	3,947	2,975	31	149
of which FMO		9,124	8,166	1,099	1,957	2,503	2,462	24	121
of which public funds[1]		1,235	1,148	197	228	178	513	4	28
of which mobilized funds		2,960	2,708	765	674	1,266		3	
New investments[2]		2,719	1,887	581	143	895	264		4
of which FMO		1,774	1,259	262	121	661	211		4
of which public funds[1]		223	145	45	10	37	53		
of which mobilized funds		722	483	274	12	197			
Direct jobs (number of jobs)[3]			53,162	11,442	1,553	7,345	31,396	104	1,322
Indirect jobs (number of jobs)[3]			374,327	63,046	74,727	103,910	114,051	363	18,230
Green-labelled committed portfolio	13 CLIMATE ACTION	4,165	3,869	516	2,047	755	549	1	1
Green-labelled new investments[2]		861	466	104	102	208	52		
Avoided greenhouse gas emissions (tCO_2e)[3]			1,577,816	76,928	780,774	22,636	640,003		57,475
Financed absolute greenhouse gas emissions (tCO_2e)[3]			2,939,695	597,018	544,086	892,690	800,877	4,971	100,053
RI-labelled committed portfolio	10 REDUCED INEQUALITIES	3,896	3,758	990	769	1,368	625	5	1
RI-labelled new investments[2]		784	745	361	35	300	49		
ESG target performance[4]			93%	97%	93%	99%	97%	100%	76%

[1] Figures include assets under FMO's management. Some funds for which management has been sub-delegated to others were included in the 2019 Annual Report. The 2019 comparative figures have been restated to reflect this change.
[2] In 2020, FMO introduced a new methodology to account for new investments. The 2019 comparative figures reported in the 2019 Integrated Annual Report have been restated to reflect the new methodology.
[3] Results are based on the new harmonized joint impact model. No comparative figures are available.
[4] In 2020, FMO expanded the scope of its target on ESG performance. In 2019, the performance target was limited to a sub-set of 40 new customers classified as high-risk or supported by a Corporate Governance (CG) specialist that were contracted in 2017 or 2018, where FMO was in the lead. In 2020, the scope was expanded to 293 customers consisting of all high-risk customers and those supported by a CG specialist, including investments where another financial institution is in the lead (e.g. IFC, DEG, Proparco, etc.). As a result of the expansion of the scope, there is no comparative figure for 2019.

COVID-19

COVID-19 has affected the people in our markets, our customers and FMO. Companies in emerging markets, particularly micro, small and medium enterprises (MSMEs), have experienced falls in demand, distorted supply chains, and production shutdowns. This, in turn, has led to increasing levels of unemployment and a rise in poverty rates across developing countries. Through these times, FMO has supported its customers where possible, enabling them to support their communities, while managing the uncertainties and the impact of COVID-19 on its own results.

Impact COVID-19 on our portfolio

The COVID-19 pandemic has created a great deal of uncertainty over the past year. Asia and Europe were affected first. In April and May, developing countries also started to feel the effects of the pandemic as commercial investors withdrew capital, resulting in record capital outflows in emerging markets. In our markets, contrary to Asia and Europe, the financial crisis preceded the health crisis.

FMO's losses in 2020 are primarily attributed to a decrease in valuations in our private equity portfolio. We have not yet incurred material increases in non-performing loans or write-offs. However, FMO did take additional provisions for the performing loan portfolio for the increased credit risk that is caused by the uncertainties around the pandemic. This resulted in higher impairments. Where customers have been affected, this often occurred as a result of an accumulation of non-COVID19-related external factors such as the political crisis in Lebanon, floods and the locust plague in East Africa or rising dollar prices. In addition, with stock markets plummeting at the beginning of the pandemic, the euro-dollar valuation has changed significantly, affecting our private equity portfolio on the currency side.

However, travel restrictions have limited FMO's ability to fill its pipeline and close new contracts. This has impacted our 2020 results. Effects are expected to be long-term as FMO is unlikely to make up for the lower growth in 2020 and 2021, meaning it will affect income levels for years to come. FMO has, therefore, reviewed its cost base to maintain a healthy cost to income ratio.

The impact on our customers has differed per sector. In the energy sector, project development has come to a standstill, leading to fewer new business opportunities. Some projects were held up due to supply chain disruptions or faced delayed construction that ultimately led to restructuring of loans as their financial position deteriorated. For other operational projects, governments low on funds were unable to pay for the energy provided. Due to the decline in economic activity, demand for electricity has also decreased. Furthermore, FMO is active in the off-grid sector, where small entrepreneurs can no longer afford the facilities and supply chains of materials have been interrupted. Due to local lockdowns, payment for the off-grid systems could not be collected, which also hit the sector hard.

Our Agribusiness, Food & Water portfolio is diversified and is holding up well. In the first months of the pandemic, there were fears that the virus would lead to famine in developing countries as food could not be harvested or transported. On top of that, East Africa was affected by several floods and a locust plague. Fortunately, several months later, the impact was lower than expected.

There seems to be a correlation between the government imposed lockdowns and support packages and the impact on financial institutions. As such, there are notable differences between countries and regions. Lockdowns in Latin America, for example, were stringent and the financial sector suffered considerably. In Africa, where lockdowns were less stringent, market expectations remain relatively positive. FMO has a large microfinance portfolio that cannot count on government support as much as the universal banking sector. However, FMO's customers are holding up relatively well. Borrowers are repaying their loans as best as possible. Larger financial institutions are aided by moratoria offered by governments. The long-term effects remain to be seen once banks have to pay back this debt. Meanwhile, financial institutions have made good progress in their digitization process.

Our response to COVID-19

The private sector is needed to address the public health, economic and social impact of the COVID-19 crisis and safeguard employment in both the formal and informal sector. Therefore, FMO continues to work closely with its customers to boost their resilience during and post-COVID-19. We are in close contact with them to understand how they expect to be impacted by the pandemic, and what, specifically, they need to overcome the current crisis and support their communities. We are also closely aligning our COVID-19 response with partners.

Together with the DFI and MDB (Multilateral Development Banks) community we are committed to help resolve liquidity and solvency issues. Whilst FMO's focus is typically on supporting jobs, it is unavoidable that some retrenchment takes place in the current environment. FMO works closely with its customers to protect jobs and to ensure retrenchment happens in a responsible way if necessary.

We have provided our existing customers greater flexibility on previously agreed financing structures, including debt payment deferrals for firms in distress or for firms that offer deferrals to their customers, which is common in the microfinance sector. We have approved 31 payment deferrals and 3 full restructuring requests from existing customers. Demand for emergency liquidity was lower than anticipated. Several agribusiness customers did request replacement liquidity due to the withdrawal of commercial parties from deals as a result of the pandemic.

As small businesses are heavily affected, the European Commission, together with MASSIF and FMO scaled up the NASIRA program. The program is expanded to support COVID-19-affected entrepreneurs, in addition to female, young and migrant entrepreneurs who were already included. With these adjustments, the NASIRA guarantee will help small businesses in Africa and the European Neighborhood stay afloat during and after this pandemic. In response to the need for innovative technological solutions in our markets in Africa and Asia, FMO's NL Business team has supported several transactions by Dutch organizations, active in the health and water sector, based on a COVID-19 carve-out of €1 million from the Development Accelerator facility.

FMO also offers capacity development, which is comprised of three pillars, aimed to equip FMO customers with the critical knowledge, connections, and leadership to weather the social and economic implications of the crisis over the near- and long-term.

Pillar 1 | Remote Advisory Services, helps to ensure FMO customers can achieve sustained impact and business continuity. We provided (and continue to provide) access to advisory services to give our customers and investees the right knowledge for crisis management, business continuity and resilience planning, and to address ESG-related challenges.

Pillar 2 | a Platform for Learning and Exchange, offers a space for FMO customers to learn from each other and to exchange experiences in dealing with the pandemic. Through webinars hosted by FMO staff and in collaboration with external knowledge partners, FMO has put its internal expertise and external network to good use.

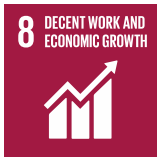
Through **Pillar 3 | the Emergency Grant Facility**, FMO provides its customers with €3.2 million in emergency funding to adapt or scale their business models to provide vital goods and services to employees, workers and communities during the pandemic. In total, 38 FMO customers have been awarded a grant between €30,000 and €100,000. The majority of grants focus on safeguarding the health and safety of affected employees, workers, and communities through provisioning of personal protective equipment (PPE). The other grants focus amongst others on business continuity by means of digitalization, last mile distribution of renewable energy to medical facilities and water and sanitation to communities, as well as education around effective health and safety measures to combat transmission.

Higher impact portfolio

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

Core focus SDGs

SDG 8 | Decent Work and Economic Growth



Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation.[11] SDG 8 calls for promoting economic growth that is sustained, inclusive and sustainable; and employment that is full, productive and decent.

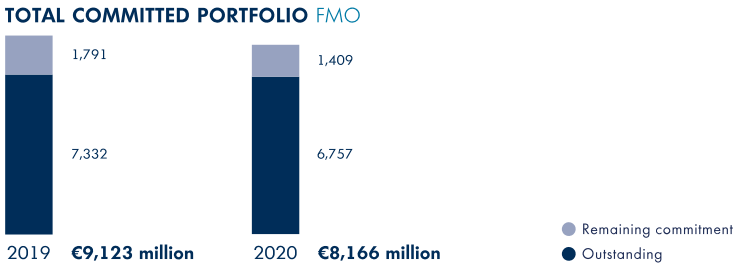
Total investment volume

To stimulate economic growth, FMO provides long-term financing to developing countries that the market does not provide or does not provide on an adequate scale or on reasonable terms. These countries are often characterized by a fragile private sector, little job security and high poverty rates. Our customers operate in volatile markets that are significantly impacted by macroeconomic trends like increasing commodity prices, exchange rate movements and more recently COVID-19.

Description and methodology

Our contribution towards economic growth is measured by the total committed portfolio and new investments made in developing countries. Total committed portfolio reflects the risk exposure taken by FMO or another party on active commitments. For debt this includes the outstanding portfolio plus remaining commitments that have not yet been disbursed, reduced by the guarantees received from third parties. For equity, it includes the current exposure plus the remaining commitment reserved for all previously made investments. For guarantees it includes the limit amount reduced by the guarantees received from third parties. New investments refer to the volume of new commitments made to customers in 2020. This includes increases of an existing commitment and new commitments to existing or new customers. Both metrics cover investments made on FMO's own books as well as investments made through public funds that are under FMO's management or through funds that have been mobilized from third party participants. This includes all loans, equity investments, guarantees and mezzanine products but excludes grants.

Results



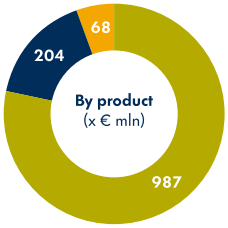
In 2020, our total committed portfolio in developing and emerging markets amounted to €12 billion of which €8.2 billion was on FMO's own books (2019: €9.1 billion), €1.1 billion was through public funds (2019: €1.2 billion) and €2.7 billion through mobilized funds (2019: €3 billion). FMO's committed portfolio decreased by 10%. This is short of our target of €8.9 billion and is explained by the direct and indirect impact of the pandemic and subsequent economic climate in our markets. Key drivers were the

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

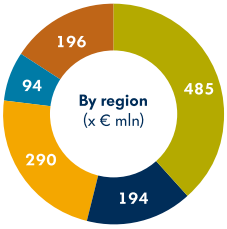
depreciation of the US dollar against the euro, affecting three-quarters of our portfolio, lower valuation of our equity portfolio and fewer new investments. At the start of the pandemic, FMO decided to prioritize customer support by keeping a close ear to the ground and provide emergency lines and payment deferrals to customers. At the same time, FMO pursued business development opportunities with existing and select new customers that had further advanced through the investment process.

We were able to proceed with several exits of investees that had been in FMO's equity portfolio for several years. Furthermore, we continued to transfer FMO participations to the FMO Investment Management funds in our efforts to mobilize more private party capital towards achieving higher impact. These investments are still monitored through our direct mobilized portfolio.

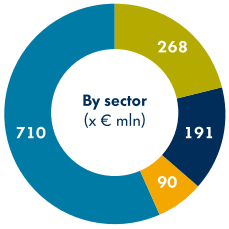
NEW INVESTMENTS FMO (€1.3 BILLION)



- Debt
- Equity
- Guarantees



- Africa
- Asia
- Europe & Central Asia
- Global
- Latin America & The Caribbean



- Agribusiness, Food & Water
- Diverse Sectors
- Energy
- Financial Institutions

In 2020, we invested a total of €1.9 billion in developing and emerging markets of which €1.3 billion was on FMO's own books (2019: €1.8 billion), €145 million through public funds (2019: €223 million) and €483 million through mobilized funds (2019: €722 million). In line with our strategy, 54% of new investments flowed towards Africa and Asia, while 26% of investments flowed towards countries in the European Neighborhood.

FMO started the year with a healthy pipeline but – like the rest of the world – was soon faced with the effects of the pandemic and resulting economic downturn. Particularly the Energy, Financial Institutions and Private Equity markets were affected. Travel restrictions and lockdowns, as well as internal capacity constraints due to KYC remediation later in the year, prevented FMO from carrying out its due diligence process and exploring new viable business opportunities in the conventional way. As a result, several deals were put on hold or took longer to materialize than normal. Deals that were closed in 2020 were mainly investments in existing customers with whom FMO has a well-established relationship, and in customers that had already advanced through FMO's due diligence and KYC process.

Jobs supported

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

Description and methodology

Direct jobs are a common indicator for corporates and DFIs. It enables us to report on how our investments impact employment. Direct jobs refer to the number of full-time equivalent employees, as defined at a local level, working for the customer company or on a project. In addition, we model the estimated indirect jobs supported by our portfolio businesses through supply chains, jobs supported from the spending of wages, and economy-wide employment enabled by bank lending and the supply of electricity. The additional output requires more direct employment and intermediary inputs. This, in turn, leads to expansion among existing and new suppliers, thereby supporting and/or creating jobs. Some products and services – notably electricity and finance – remove constraints for other businesses, enabling them to expand and support and/or create jobs. In emerging markets, firm expansion is assumed not to displace employment in competing businesses to a significant extent.

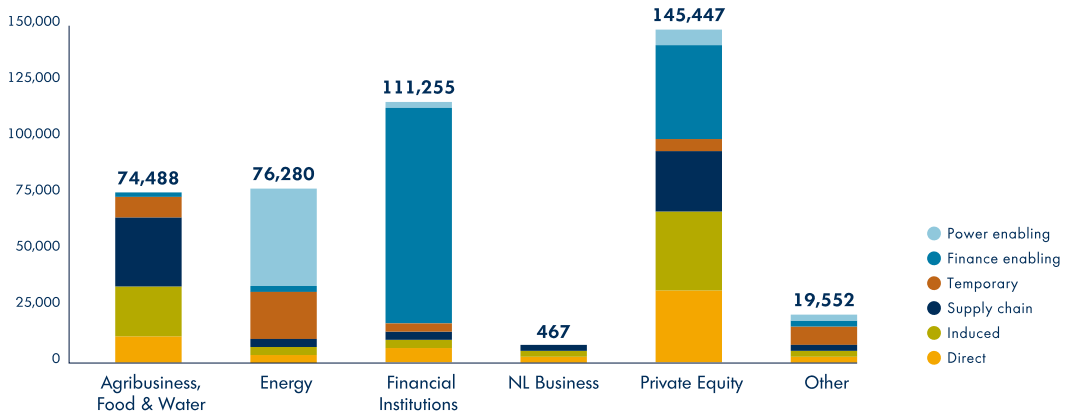
In our 2020 interim report, we reported for the first time on jobs supported using the new Joint Impact Model (JIM), which was founded by FMO, AfDB, BIO, CDC, FinDev Canada and Proparco. Prior to that, we reported on this metric using FMO's impact model that was introduced in 2015. Since early 2019, FMO and Steward Redqueen, together with other partners, have worked on the harmonization of the underlying methodology and the inputs required. Given the change in approach, we have published a separate article explaining the new methodology, the first insights and next steps. A full methodological description is available on our website.

An important methodological assumptions of this model, which fundamentally changes the result as compared to the previous model, is to run it at portfolio level (i.e. taking a snapshot of all customers of FMO at the time of reporting) instead of for new investments (i.e. new investments of FMO for a given year), which has been the methodology of the previous impact model. Another important assumption is reporting on actual results (ex-post) instead of forecasts (ex-ante). Our focus is on what is in our current portfolio; what has already been built, and who the investees of our funds are. This means we no longer estimate the expected effects in the future. For example, we no longer include estimations on power plants built in the future, or funds' future expected impact. Another important assumption which changes the results fundamentally is the attribution we apply. At FMO we have always believed in taking the same share of financing (attribution) for positive (jobs supported) and negative (financed absolute GHG emissions) impacts. For this we are aligning with the PCAF methodology. For more information refer to the SDG 13 section of this chapter.

The JIM is based on data from the Global Trade Analysis Project (GTAP), the most widely used source for analyzing and modeling global economic issues. The reference years for the most recent GTAP 10 database are 2004, 2007, 2011 and 2014. This means, the JIM does not reflect the negative effects of the COVID-19 pandemic. Customer data may also not be fully up-to-date. At this stage of the pandemic, we do not yet know the actual effects it has had on the economy, productivity and how the interlinkages have changed between sectors. In the meantime, FMO has conducted a preliminary assessment of the effects of COVID-19 on the results of the JIM that is currently being finalized and undergoing peer review. Once finalized, we will share the results of this study on our website.

Results

JOBS SUPPORTED PER INVESTMENT AREA



In 2020, FMO's outstanding portfolio resulted in an estimated 427,000 jobs supported. 88% of jobs supported were from FMO's own balance sheet, while 12% were from public funds. In relative terms, for the Agriculture, Food and Water portfolio this translates to 72 jobs per EUR million outstanding. This is split evenly between supply chain effects, where impact stems from sourcing goods and services from producers, and induced effects that stem from re-spending wages in the economy.

For the Energy portfolio, this translates to 50 jobs per EUR million outstanding. Here impact is mainly driven by power enabling effects, which attributes the number of jobs to an increase in gigawatt hours (GWh) of electricity supplied to the national system. It also has very high temporary effects, which is due to the number of projects that are currently in construction phase.

For the Financial Institutions portfolio, this translates to 52 jobs per EUR million outstanding. FI impact is mainly driven by finance enabling effects. These are economy-wide jobs generated by lending to businesses and individuals. Direct employment is also an important category for FI as they are one of the biggest direct employers.

For the Private Equity portfolio, this translates to 67 jobs per EUR million outstanding and consists of corporates, funds, energy projects and financial institutions. Their impact stems from Power Enabling, Finance Enabling and Induced/Supply Chain effects, reflecting the wide-ranging activities that PE engages in. For the first time the results also take into account PE investees themselves. However, the portion linked to FMO is very small as attribution is applied at the fund and investee level.

SDG 10 | Reduced Inequalities

Through our investments FMO aims to contribute towards the targets of SDG 10 – Reduced Inequalities (RI). Specifically, towards target 10.1 that aims to "progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average"; and towards target 10.B that aims to "encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes".[12] Reducing inequalities is also connected to gender and equal opportunity for women and men.

According to the United Nations Development Programme (UNDP) the COVID-19 pandemic is "exposing the gaps between the haves and the have nots, both within and between countries".[13] More than half of the world's population lacks access to essential healthcare and social protection. This is pushing over 100 million people into extreme poverty. Differences between countries are also apparent as fewer hospital beds, doctors and nurses are available in less developed countries and lockdowns – exacerbated by the digital divide – limit the ability to work, be educated and socialize.

RI-labelled investments

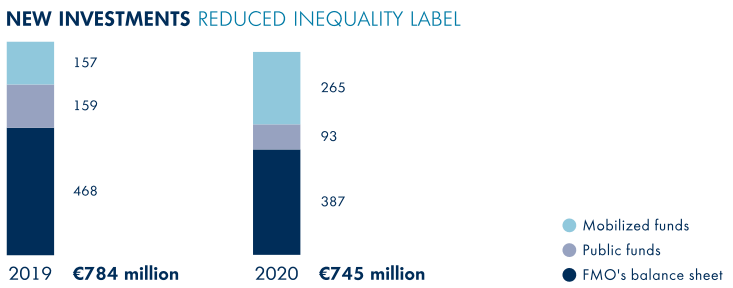
FMO labels investments to capture whether, and the extent to which they contribute towards reducing inequalities, between and within countries.

Description and methodology

An investment is eligible for the RI label when the level of (ex-ante) impact is targeted at Least Developed Countries (LDCs) and/or inclusive business. Funds channeled towards LDCs – Low Income Countries that suffer severe structural impediments to sustainable development – reduce inequalities vis-à-vis higher income countries. Investing in inclusive business reduces inequalities within countries by increasing access to goods, services, and livelihood opportunities on a commercially viable basis to people at the Base of the Pyramid (BoP). The BoP is defined as people who live on less than US$8 per day in terms of purchasing power parity or who lack access to basic goods, services and sources of income. FMO's inclusive business investments target the un(der)banked, the unconnected, youth, women, smallholder farmers and rural populations.

12 United Nations. Goal 10: Reduce Inequality within and among countries.

13 United Nations Development Programme (2020). Coronavirus vs. inequality – how we'll pay vastly different costs for the COVID-19 pandemic.



In 2020, FMO invested a total of €745 million in reducing inequalities (2019: €784 million), representing 39% of FMO's total new investment volume (2019: 29%). Of this total, €387 million was invested from FMO's own books, €93 million from funds managed on behalf of public entities (including the Dutch government) and €265 million from mobilized funds. €280 million was invested in companies and projects operating in LDCs, including Burkina Faso, Myanmar and Mozambique. €508 million was invested in inclusive businesses, focusing mostly on microfinance, women-owned SMEs and smallholder finance. Despite the COVID-19 crisis, FMO was able to close several large transactions targeting LDCs and inclusive businesses. We fell short of our target of €888 million as a result of the restrictions on our usual investment process. The depreciation of the US dollar and lower valuation of our equity portfolio have also had an effect on the total RI-labelled committed portfolio. This decreased from approximately €3.9 in 2019 to €3.8 billion in 2020, representing a 31% share of the total committed portfolio at the end of 2020.

As an example, in 2020, FMO provided a US$5 million loan to Vitas, a microfinance company that operates in the Palestinian Territories, where more than 50 percent of adults do not use banks or banking institutions. Vitas' mission is to support economic activity and improve the income of unbanked people. The majority of their loans consist of an amount between US$1,000 and US$5,000, mostly to owners of market stalls. The collaboration with Vitas fits in with FMO's strategy to increase its activities in the Middle East and North African region. The funding will be provided by the Dutch government's MASSIF fund, which aims to take early investment risks and act as a catalyst for the growth for the private financial sector, while stimulating financial inclusion in developing countries.

Number of micro and SME loans

FMO invests in microfinance to increase access to finance and support growth of business among micro entrepreneurs. Poor households can use micro loans to raise and smooth household income thereby reducing their vulnerability to economic stress. The intended impact of increasing access to finance of SMEs is job creation, inclusive development and economic growth. FMO targets SMEs because they are financially underserved and typically provide more jobs than corporates relative to the capital invested. FMO specifically targets women-owned and youth-owned SMEs as part of the Reducing Inequalities label.

Description and methodology

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

Both the number and volume of micro and SME loans are requested via templates from our customers. As for the other impact indicators, we include the latest available information in the results, meaning that in some cases only 2018 data is available.

Results
The number of micro loans in outstanding loan portfolios of FMO customers was 22 million (2019: 22 million), similar to last year. Despite several micro finance institutions exiting the portfolio, there was a strong performance from current micro finance institutions and an increase in customers providing microloans. The number of SME loans in outstanding loan portfolios of FMO customers was 1.8 million (2019: 1.4 million). This is explained by an overall increase in the number of SME loans provided per financial institution in our portfolio. There were relatively small changes in the number of financial institutions with SME loans that exited and entered the portfolio.

In 2020, FMO financed several financial institutions with microfinance loan portfolios. For instance, FMO concluded a debt transaction of US$8 million with Cofina, one of the few home-grown microfinance groups in Africa. Its products and services are customized for micro-, small- and medium-sized businesses whose needs are too large for smaller microfinance institutions, and whose structure is too informal or risky for commercial banks. Thanks to its innovative business model of providing tailor-made financial products and services to this missing middle, Cofina experienced considerable growth in recent years. The majority of FMO's funding, provided by the Dutch government's MASSIF fund, will support on-lending to women- and youth-owned businesses in countries where nearly half the population still lives below the poverty line.

SDG 13 | Climate action

FMO aims to contribute towards the targets of SDG 13 – climate action. Specifically, towards target 13A: to implement the commitment undertaken by developed-country parties to the UN Framework Convention on Climate Change, to jointly mobilize US$100 billion annually by 2020 to address the needs of developing countries in the context of meaningful mitigation actions. [14]

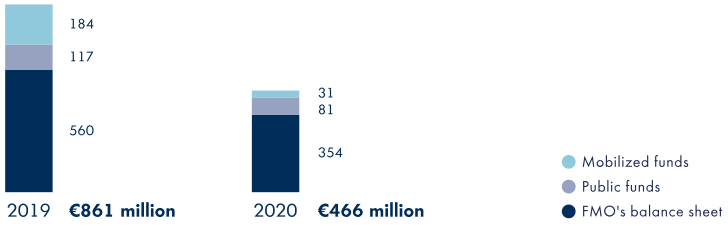
Green-labelled investments

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

Description and methodology
FMO's Green definition is based on the existing common Principles of Climate Mitigation as defined in the Multilateral Development Banks (IDFC-MDB) report for Climate Finance Tracking. All Green investments should meet FMO's Green principles, meaning: the improvement goes beyond the local regulatory requirements, is unrelated to stress on local resources and is sustainable throughout the value chain of an industry or a business. Furthermore, Green investments should not contribute to a long-term lock-in of high-carbon infrastructure. FMO's Green criteria, eligible investments and internal Green label process are further described in our Green Methodology available on our website.

14 United Nations. Goal 13: Take urgent action to combat climate change and its impacts.

NEW INVESTMENTS GREEN LABEL



The majority of our Green-labelled new investments flow towards renewable energy projects (wind, solar, hydro), agriculture and Green credit lines. In 2020, FMO invested a total of €466 million in Green projects (2019: €861 million), representing 25% of FMO's total new investment volume (2019: 32%). Of this total, €354 million was invested from FMO's own books, €81 million through public funds and €31 million from mobilized funds. This is short of our target of €1.1 billion. This is due to fewer investments in renewable energy, which during the pandemic have taken longer to materialize. Green investments in other sectors increased, including in sustainable agriculture, forestry and Green lines to financial institutions. The depreciation of the US dollar against the euro, lower valuation of our equity portfolio and fewer Green-labelled new investments have also had an effect on the total Green-labelled committed portfolio. This decreased from approximately €4.2 in 2019 to €3.9 billion in 2020, representing a 32% share of the total committed portfolio at the end of the year.

Nevertheless, there were still achievements to celebrate in 2020. For instance, FMO supported Ameriabank in successfully placing its first ever Green Bond in EUR for the equivalent of US$50 million. As the first ever Green Bond project in Armenia, this is a major milestone for the local financial market. The Green Bond is structured in accordance with internationally recognized ICMA Green Bond Principles (the GBP), and is issued in close cooperation with FMO, which is also the anchor investor in the transaction.

GHG emissions

Measuring and reporting the greenhouse gas (GHG) emissions linked to FMO's activities and investments provides insights into our climate impact and how to steer on climate in the future.

Description and methodology

We focus on the following:

- **Absolute GHG emissions from FMO's own operations**: the emissions associated with heating and electricity used in our office buildings as well as personnel travel. These are naturally much smaller than our financed absolute emissions but show what steps we are taking to reduce our own direct footprint.
- **Financed absolute GHG emissions**: the emissions generated through our investments, for example the emissions of agricultural activities at a financed cattle farm. These emissions, which we are reporting for the first time in this annual report, give an understanding of our portfolio's overall climate impact and the opportunity to reduce such emissions to align with a 1.5° pathway.
- **Financed avoided GHG emissions:** the emissions avoided through our investments, for example through the power production of a new solar park. These emissions quantify our contributions to climate change mitigation activities, which cannot be fully captured by absolute emissions. For example, a museum and a solar park might both have low absolute emissions, but the solar park additionally supports climate change mitigation by avoiding emissions of fossil fuel fired power plants.

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

Results

Absolute GHG emissions from FMO's own operations

The carbon footprint of FMO's own operations amounted to 1,309 tCO_2e (2019: 5,865 tCO_2e). Scope 1 emissions amounted to 299 tCO_2e, which came from cars leased for use by FMO employees. Scope 2 emissions amounted to 28 tCO_2e connected to the use of heating that FMO obtains through district heating networks. Scope 2 emissions related to the use of electricity were equal to zero since FMO purchases electricity from renewable sources. Scope 3 emissions amounted to 982 tCO_2e, which came mainly from staff travel. As we serve customers around the world, 72% of our own emissions resulted from air travel. The impact of COVID-19 led to reduced staff travel and office use, which has significantly lowered our carbon footprint compared to last year.[15] We made further progress to lower the emissions from our own operations through the renovation of our office in The Hague, which focused on renewable products and emissions reductions. FMO offsets the remaining emissions by investing in a VCS REDD+ certified[16] forest conservation project in Brazil.

Financed absolute GHG emissions

In 2018, FMO published a paper on an 'Absolute GHG Accounting Approach for financed emissions'. FMO brought this thinking to the development of the first Global GHG Accounting and Reporting Standard for the Financial Industry that was launched in November 2020 by the Partnership for Carbon Accounting Financials. We believe this will become the authoritative standard for carbon accounting and reporting for financial institutions, which will enable FMO to comply with the commitments made to the Dutch Climate Accord, Dutch Carbon Pledge and the Taskforce on Climate-Related Financial Disclosures.

FMO's first-time disclosure on absolute emissions is in step with the Dutch Climate Agreement and follows the new PCAF Global Standard with a few exceptions that prevent us from fully aligning to the methodology. First, there are certain data gaps. For example, for the majority of our customers we do not yet collect emissions data and we have not implemented a separate data collection for total debt and total equity, which is necessary to implement the PCAF Global attribution rules. In addition, the PCAF Global Standard does not yet factor in investments in funds, nor loans to financial institutions (FI). As such, FMO has made assumptions to calculate emissions for the investees of funds and the borrowers of FI customers in its portfolio. Data improvements and methodological refinements will be made in the future, which will affect our emissions estimations in subsequent years. Likely these will result in increased emissions compared to current estimations.

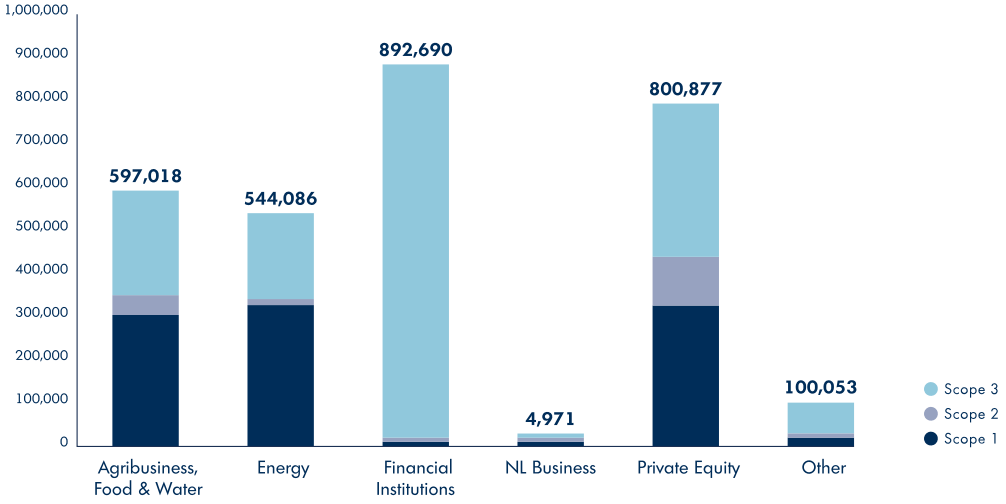
We use the Joint Impact Model to calculate our absolute emissions. Therefore, the attribution (share of financing) methodology is aligned with our results for jobs. In 2021, we will work towards fully aligning the Joint Impact Model with the methodology of the new PCAF Global Standard, which will be another methodological factor that will affect our emissions estimates. In addition, the attribution factor we implemented for the Joint Impact Model still uses fair value estimations while the new PCAF Global Standard uses book values which will also be addressed next year. More information on the JIM methodology is available on our website. The emissions calculation follows a data hierarchy based on PCAF whereby emissions data coming directly from the customer is preferred. If customer data is unavailable, the JIM will estimate the emissions.

In 2020, FMO's outstanding portfolio resulted in an estimated 980,000 tCO2e (scope 1), 179,000 tCO2e (scope 2), and 1,776,000 tCO2e (scope 3) absolute GHG emissions. 93% of emissions were from FMO's own balance sheet, while 7% were from public funds. In relative terms, for the Agriculture, Food and Water portfolio this translates to 628 GHG emissions per EUR million outstanding. A number of investments emit methane such as cattle raising or nitrous oxide through fertilizers used for growing crops. Manufacturing of other food products is also a large emitter due to the energy used in transport and processing. Scope 3 emissions included emissions from projects under construction. These were calculated based on the total project size, assuming that this is entirely converted into local expenditure in the construction sector that creates the emissions. Sequestration data from forestry projects has not been included.

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

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

FINANCED ABSOLUTE GHG EMISSIONS PER INVESTMENT AREA



For the Energy portfolio, this translates to 355 GHG emissions per EUR million outstanding. Most GHG emissions were caused by the generation of electricity from non-renewable energy sources and a wastewater project. This also included several legacy investments, such as freight transport, from the former Infrastructure, Manufacturing and Services Department. Also here, Scope 3 emissions include emissions from construction projects.

For the Financial Institutions sector, this translates to 406 GHG emissions per EUR million outstanding. Financial institutions and their operations have limited Scope 1 and Scope 2 emissions, as they mainly pertain to office buildings. FMO has not yet collected data on these emissions, but has the ambition to do so in the future. Regardless, most emissions stem from the financial institution's portfolio coming from sectors such as energy, agriculture, manufacturing and transport, which are important for the banks we invest in. Emissions are calculated based on the portfolio of the entire bank. Specific use of funds is not yet taken into account due to a lack of data.

For the Private Equity portfolio, this translates to 368 GHG emissions per EUR million outstanding. The private equity portfolio consisted of direct equity holdings in companies and fund investments. PCAF provides no conclusive guidance on how to account for the emissions of fund's investees. FMO has decided that fund's investees should be included under scope 1, 2 and 3 separately. Similarly to FIs, most emissions come from energy, agriculture, manufacturing and transport.

Financed avoided GHG emissions

In 2020, FMO changed its methodology for avoided GHG emissions to align with the new PCAF Global Standard with a few exceptions similar to those described for financed absolute GHG emissions. As a new methodology has been used, with different underlying assumptions compared to our old methodology, we will not be able to present comparative figures. The most important differences are that we report on the *actual* instead of the *expected* avoided emissions and do so for the *entire portfolio* instead of *new investments* as done in previous years. Generally, moving to actuals will reduce, while moving to portfolio reporting will increase the number of avoided emissions. It is not possible to quantify the full impact of this switch to PCAF. The reported amount of avoided GHG emissions represents the current annual GHG avoidance by customers in FMO's portfolio, attributed to the share of FMO's net carrying value (loan or equity) in a customer's assets.

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

latest available reporting year, multiplied by the country emission factors in accordance with the IFI harmonized list of emission factors. We are aligning the applied emissions factors with the new PCAF Global Standard. The GHG avoidance for energy efficiency projects is the difference between the project GHG emissions and the most likely alternative (i.e. industry average GHG emission per kWh energy production).

In 2020, FMO's current portfolio resulted in a yearly estimated 1,578,000 tCO2e avoided GHG emissions. Some 77,000 came from Agriculture, Food and Water, 781,000 from Energy, 23,000 from Financial Institutions, 640,000 from Private Equity and 57,000 from other sectors.

Sector focus SDGs

SDG 2 | Zero Hunger

By financing businesses across the entire agri-food chain we contribute to SDG 2, Zero Hunger. FMO targets smallholder farmers because in spite of meeting more than 70% of the world's need for food they have a weak market position and limited resources to invest in business improvements.

Number of smallholder farmers supported

Smallholders make up 85% of farmers globally. Being the first stage in numerous supply chains worldwide, several studies argue that smallholder agriculture might actually be the backbone of all SDGs.

The share of small-scale food producers in terms of all food producers in countries in Africa, Asia and Latin America ranges from 40 to 85%, compared with less than 10% in Europe. Yet, small-scale and family farmers' productivity is systematically lower than other food producers. Both beneficiaries and agents of sustainable development, strengthening their resilience and adaptive capacity is critical, notably to reverse the rise in hunger, especially in developing countries.

Description and methodology

Smallholder farmers are defined as marginal and sub-marginal farm households that own and/or cultivate relatively small plots of land, have low access to technology, limited resources in terms of capital, skills, and risk management, depend on family labor for most activities, and have limited capacity in terms of storage, marketing, and processing. [17]

Smallholder farmers supported have had active support from a company in order to improve production practices that have beneficial effects on yields, and/or reduce environmental degradation, and/or improve social practices during the reporting period. For Financial Institutions, smallholder farmers supported receive support from a customer company.

There is still limited data on smallholders' economics, therefore counting the number of smallholder farmers supported can be used as a proxy. Information is collected directly from our customers via our impact questionnaires.

Results

In 2020, companies financed by FMO supported 2.4 million smallholder farmers in 2020 (2019: 1.7 million). This increase includes 927,00 smallholders from our Equity portfolio that were previously excluded. FMO continued to invest in companies that support smallholders. For example, FMO invested €11 million in Zalar Agri, a fruit producer in Morocco. FMO's first investment in the Moroccan agribusiness sector will support job creation and spur export-led economic growth in rural Morocco. Zalar Agri owns 1,370ha of fruit orchards (including apples, mandarins, avocados, pomegranates, and dates) and produces around 12,000 tons of fruit per year. This volume is expected to double with the help of our financing as the fruit orchards will mature and expand. The investment will contribute to food security by increasing the production and sales of healthy and safe fruits that are ultimately consumed in developing countries.

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

FMO also committed €10 million to the IDH Farmfit Fund. Other investors in the Fund are the Dutch Ministry of Foreign Affairs (providing a €50 million first loss tranche), and the supply chain managers Jacobs Douwe Egberts, Unilever, and Mondelez for an aggregate amount of €27.5 million. To strengthen smallholder value chains, the Fund will offer a range of financial instruments to actors across Africa, Asia, and Latin America. Prospective investees are Traders & Input Providers, Agri-SMEs, Financial Institutions, and Agri Tech & Fintech companies. Furthermore, a US$30 million Technical Assistance facility has been established, which is funded by DFID and the Gates Foundation.

SDG 5 | Gender Equality

To encourage more women to participate in the economy, we seek investments that support female entrepreneurs, reach women as end-users of goods and services and include women in the labor market.

Gender financing

FMO has had a Gender Strategy since 2017. We aim to assure women's rights, to understand the gender-specific impacts of our investments and to ensure women and men enjoy equal economic opportunities. In May 2019, FMO joined the "2X Challenge – Financing for Women", which was launched in 2018 by DFIs from the G7 countries. This multilateral initiative has the ambitious objective of deploying and mobilizing large amounts of capital to support projects and enterprises that empower women as entrepreneurs, business leaders, employees and consumers of products and services that enhance their economic participation.

Description and methodology

We measure impact on SDG 5 in various ways. First, through the RI label as described above, which is assigned to gender financing that focuses specifically on on-lending to women-owned SMEs or investments of which the majority of end-beneficiaries are female. Second, we identify investments that meet at least one of the eligibility criteria as defined by the 2X Challenge in the area of entrepreneurship, leadership, employment, consumption and investments through financial intermediaries. The Gender Finance Collaborative, in which FMO also participates, translated these criteria into a set of indicators that have been harmonized with the Global Impact Investing Network's IRIS+ system.

Results

In 2020, we invested €151 million in gender financing for women-owned SMEs (2019: €147 million). For instance, FMO provided the equivalent of a US$7.5m loan and an agreement for advisory services to Early Dawn Microfinance Company Ltd. (Dawn). The loan comes at a critical time, as microfinance institutions (MFIs) face liquidity concerns arising from the COVID-19 pandemic. In Myanmar, MFIs have resumed activities following a sector-wide suspension of operations in April and imposed restrictions in May. The funds will allow Dawn to continue its mission to serve women microentrepreneurs and small business owners and help them recover from the impact of COVID-19.

At year end, a total of €185 million of new investments in the Agribusiness, Food & Water, Financial Institutions, Energy and Private Equity sectors qualified for 2X. €123 million was on FMO's own books, €16 million from public funds and €46 million from mobilized funds. This year, FMO has supported responsAbility Investments AG, a Swiss impact asset manager, in applying a gender lens to investments made through its climate fund. The climate fund is a private debt fund that aims to address the lack of access to clean power, primarily in Sub-Saharan Africa and South and South-East Asia. The fund qualified for the 2X Challenge as it committed to having at least 50% of its portfolio compliant with one or more of the direct eligibility criteria. The renewable energy sector is one of the least gender diverse industries where only 32% of the workforce are women.[18] Applying a gender lens will help the climate fund ensure that female talent is attracted and retained, and that women can contribute more to this growing industry.

18 IRENA (2019). Renewable Energy: A Gender Perspective.

SDG 7 | Affordable and Clean Energy

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

Energy production and equivalent number of people served

FMO invests in building (sustainable) power generation capacity in developing countries that, combined with investments in power distribution, improves access to energy. By financing off-grid power solutions, FMO invests in access to stable energy supply for rural populations. In low-income countries 41% of the population has access to electricity against 28% of the rural population.[19] FMO focuses on solar, wind and hydropower electricity supply.

Description and methodology

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

The number of people served via on-grid power generation projects is estimated by dividing the annual amount of electric energy delivered to customers during the reporting period by the power consumption per connected capita. The power consumption per connected capita is calculated as the electric power consumption per capita divided by the electrification rate[20] .

Results

The companies in FMO's energy portfolio produced 50,000 GWh per year (2019: 45,000 GWh per year[21]), of which 77% was generated from renewable sources. Approximately 14% came from solar, 28% from wind energy, 33% from hydro and the rest from other production types. The remaining 23% is from non-renewable sources, mostly related to gas-fired power plants. This served an equivalent of 81 million people (2019: 52 million). This increase is due to renewable power plants becoming fully operational, and inclusion of off-grid solar power in our portfolio.

In 2020, we helped finance a solar power plant in Burkina Faso by investing €32 million in Kodeni Solar. Burkina Faso has some of the most expensive electricity in West Africa, because most is imported from Ivory Coast and Ghana. The government wants to encourage investment in the private sector to stimulate the distribution of electricity generation and increase the electrification rate from 20% to 80%. FMO is supporting this by funding four solar projects. This year, we provided a €32 million senior loan for the development and construction Kodeni Solar, funded partly by the Access to Energy Fund, FMO and the Interact Climate Change Facility.

19 World Development Indicators, latest data available from 2017.

20 Source: World Bank Development Indicator Database

21 This is lower than reported in the 2019 annual report due to a data quality issue that was detected in 2021. The comparative figure for 2019, as such, was adjusted downward.

ESG risk management

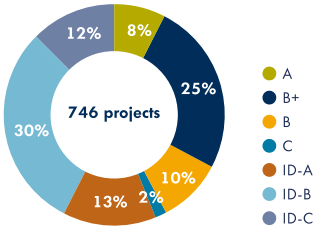
We have five management tools for tracking ESG performance:

1. The ESG performance target applies to the high-risk portfolio ('target list') and aims to have at least 90% of high and medium risks managed at a satisfactory level.
2. For customers with contractually agreed Environmental and Social Action Plans (ESAPs), we monitor progress towards ESAP implementation to ensure that our investments comply with our policies and standards within a reasonable time-period.
3. All high and medium E&S risks of high-risk customers, which are not yet managed at a satisfactory level, are included in the E&S Management gap table. By identifying gaps, we are able to focus our attention on engaging with our customers to resolve these.
4. The Serious Incidents Register is used to monitor customer reports of adverse events across our portfolio such as fatalities, serious injuries and environmental accidents. In all such cases, a root cause analysis (RCA) is requested from the customer in order to promote learning and prevention. FMO may also conduct portfolio level RCAs to improve our processes with respect to customer incident management.
5. Our Independent Complaint Mechanisms enables the resolution of disputes, organizational learning and the improvement of our current and future operations.

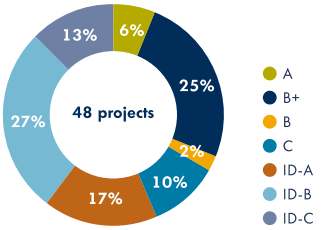
E&S risk profile of our customers

FMO categorizes the risk profile of its customers as follows: A & B+ (high risk), B (medium risk) and C (low risk) for direct investments and ID-A (high risk), ID-B (medium risk) and ID-C (low risk) for indirect exposure through Financial Institutions and Private Equity Funds. The following charts show the risk profile for our entire portfolio and for the new customers that were contracted in 2020. Out of 746 total customers, 347 are categorized as A or B+.

NUMBER OF CUSTOMERS BY E&S RISK CATEGORY
Full portfolio

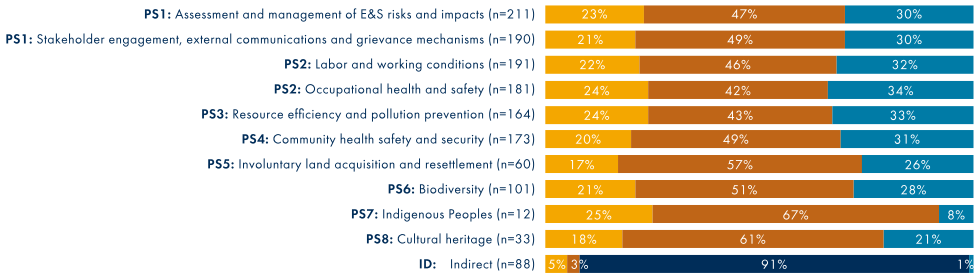


NUMBER OF CUSTOMERS BY E&S RISK CATEGORY
2020 new projects



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

TYPE AND FREQUENCY OF RISK PER IFC PERFORMANCE STANDARD[1]



[1] n=number of customers for which an IFC Performance Standard has been identified

ESG target performance

The ESG performance target applies to the high ESG risk customers in our portfolio contracted prior to 2020 ('target list'). We register and monitor the different types of ESG risks of our high risk customers and aim to have at least 90% of the high and medium ESG risks managed at a satisfactory level.

Description and methodology

Since 2018 we have been using a new ESG performance tracking system. The initial performance target was set for a limited number of new customers classified as high-risk or supported by a Corporate Governance specialist in transactions where FMO was in the lead. Each subsequent year the target list was extended to include a bigger part of our portfolio. In 2020, the list consisted of all high-risk customers and those supported by a CG specialist, including investments where another financial institution is in the lead (e.g. IFC, DEG, Proparco, etc.). The target remained the same: 90% of high and medium ESG risks should be managed in line with our standards or evidently towards meeting our standards.

Results

We monitor all medium and high E&S risks in our portfolio. Out of a total of 746 customers, 347 customers had a high E&S risk category (A or B+) and 3 customers were supported by a CG specialist. Consolidating those that are part of a group of customers led to a target list of 293 customers, which represented a total of 2,872 ESG risks that were tracked during the year. The 2020 results showed that 93% of high and medium risks were managed adequately by our high risk customers, exceeding our target of 90%.

In 2020, we introduced a new Sustainability Information System with better capabilities to manage and track ESG performance in our portfolio. To enhance the granularity of our assessments we have redefined the risks under each Performance Standard and introduced five different performance levels, replacing the previous three. In the interest of continuity with respect to ESG performance reporting, the existing assessments have been translated to the new methodology.

E&S management gaps in our portfolio

FMO accepts that when we first start working with a customer, the ESG performance may be below standard. We do, however, expect performance to improve over time in line with agreed action plans. Most customers show good progress towards these plans. FMO has identified 53 A and B+ customers that are not managing one or more of their E&S risks in line with expectations and demonstrate management gaps, which sometimes lead to incidents or issues. FMO works with these customers to address such gaps, in order to fully realize their positive impact potential. The total committed portfolio for these 53 customers amounts to €1 billion, which contributes to economic growth (SDG 8) in developing countries. Furthermore, more than half of this portfolio also contributes to climate action (SDG 13) and/or reducing inequalities (SDG 10).

In most cases, we are confident that we can bring customers back on track within a reasonable timeframe. In some instances, however, E&S impacts are irreversible. In other cases, a management gap may be the result of a bigger (financial) problem the customer is facing which requires the restructuring of a loan or a full exit. In these cases our engagement will differ. The following table shows the gaps and our approach. It also includes the number of customers for which gaps have been identified (represented in the table by the letter 'n'). The sector breakdown is similar to that of our high-risk portfolio that was provided earlier in this chapter. An explanation of the criteria used to compile this table are included in the chapter 'How we report'.

Gap	Description of identified gaps	FMO engagement
PS1: Assessment and management of E&S risks and impacts (n=22)	Weaknesses in the identification, evaluation and management of E&S risks. E.g. insufficient policies, procedures and management plans, budgets or organizational capabilities, or customer's commitment to improve on E&S risk management. Gaps in this area can lead to adverse impacts to people and planet, including infringements of human rights as referenced in the items below.	FMO supports customers to improve on E&S risk management, e.g. through CD. If gaps continue to persist, FMO will exercise its influence – directly or via the lead lender – to motivate the customer to improve in these areas. E.g. by withholding additional financing or disbursement, triggering default and other legal clauses or building incentives as part of restructuring.

Gap	Description of identified gaps	FMO engagement
PS1: Stakeholder engagement, external communications and grievance mechanisms (n=17)	Lack of effective community and other stakeholder engagement and insufficient mechanisms to ensure grievances are responded to appropriately. This may stem from insufficient disclosure of project information, delayed implementation of a robust community engagement plan and process or insufficient channels and/or response to deal with grievances. In some cases, affected communities have expressed dissatisfaction with the way a customer has engaged with and/or has managed the impact on them. Gaps in this area can lead to adverse impacts on people and planet, including infringements on the freedom of opinion and expression, and – if not resolved or effectively de-escalated – inhuman treatment, retaliation, and risk to lives.	We intensify our customer engagement and monitoring and offer support where possible. For instance, by connecting them to experts in the field and/or providing CD funding.
PS2: Labor and working conditions (n=20)	Lack of visibility on working conditions of (sub)contracted employees, (risk of) delays or interruptions in paid wages, poor employee accommodations or fear of reprisals for addressing such issues. Gaps can lead to substandard labor and working conditions and infringements on labor rights, including the right to decent work, freedom of association, equal opportunity, just and favorable conditions of work, and protection against discrimination.	We discuss gaps with the customer and exercise our leverage to improve the situation, e.g. by making disbursements conditional to an agreed improvement. We also help to prioritize issues, facilitate engagement with external experts, support them in managing COVID-19 in the workplace or offer CD funding.
PS2: Occupational health and safety (n=16)	Gaps in ensuring safe and healthy working conditions e.g. lack of Personal Protective Equipment at construction sites, poor housekeeping practices at construction sites and insufficient (sub)contractor oversight. In some cases, this is combined with higher number of fatalities, serious injuries, accidents or COVID-19 infections in the workplace. Such gaps can lead to infringements of human rights, most notably the right to health and safety in the workplace, and – in case of fatalities – the right to life.	We discuss these gaps with the customer and exercise our leverage to improve the situation, e.g. by making our disbursements conditional to an agreed improvement. We also help in prioritizing issues and facilitating engagement with external experts.
PS3: Resource efficiency and pollution prevention (n=15)	Resource efficiency: lack of sustainability-certified water suppliers in water-scarce-areas and significant cumulative impacts on groundwater from earlier projects and outdated equipment. Pollution prevention: problems controlling effluent, noise and air quality, delayed waste management planning and implementation or delayed replacement of old equipment to meet emission standards. Gaps can lead to adverse impacts on employee and public health, including infringements of human rights to health and life, the rights of the child and the right to live in a safe, clean, healthy, and sustainable environment.	We discuss these issues with the customer and exercise our leverage to improve the situation, e.g. by making our disbursements conditional to an agreed improvement. We also help in prioritizing issues and facilitating engagement with external experts.
PS4: Community health safety and security (n=18)	Substandard management practices around e.g. the protection of communities near assets and equipment, traffic management or providing information to demonstrate that community health, safety and security is managed well. In some cases, this is combined with serious incidents involving the public, e.g. car accidents or gender-based violence. Gaps also exist in the management of security personnel, which we consider a driver of safety and security risk to employees and local communities and possible infringements of their right to work and live in a safe environment and be fee from inhumane or cruel behavior.	We discuss these issues with the customer and exercise our leverage to improve the situation. We also help to prioritize issues and facilitate engagement with external experts. In case of serious incidents, FMO requires customers to conduct a root cause analysis and supports the implementation of corrective measures to prevent such incidents from recurring.
PS5: Involuntary land acquisition and resettlement (n=10)	Substandard or delayed implementation of resettlement and livelihood restoration plans that in some cases did not sufficiently recognize vulnerable groups, which was further constrained by COVID-19 restrictions. In other cases, the compensation of rightsholders had to be upgraded to international standards or there were tensions over land access. Gaps can lead to impoverishment of those affected and infringe on their right to a standard of living that is adequate for their health and well-being, including notably the right to food and adequate housing.	We help to find an expert to lead on this highly specialist topic in conducting gap analyses and implementing recommendations. In the event of an early exit, FMO offers to reimburse prepayment fees upon full implementation of livelihood restoration plans among other E&S mitigation measures to ensure a responsible exit.
PS6: Biodiversity conservation and the sustainable management of living natural resources (n=18)	High mortality rates of birds and/or bats, delayed preparation of biodiversity monitoring plans or substandard implementation of such plans. Some customers are delayed in achieving soft commodity sustainability certification, are yet to include supply chain activities in their biodiversity risk management strategy or have not yet fully operationalized their commitment to zero-deforestation. Biodiversity impacts can affect communities' access to forest products or other ecosystem services thereby potentially infringing on the right to food and/or a adequate standard of living.	FMO may intensify its customer monitoring, engage a biodiversity expert to improve on these matters or exercise its influence to improve the situation.
PS7: Indigenous peoples (n=4)	Lack of awareness of requirements in community engagement processes that do not meet FPIC and/or do not allow for sufficient participation of these communities. In some cases, the needs of indigenous peoples are not sufficiently addressed in livelihood restoration and community development plans. Other gaps are driven by challenging operating conditions where risks to these communities are difficult to control. Gaps may lead to the infringement of indigenous peoples' right to food and other necessities, and their specific rights to manifest, practice, develop and teach their spiritual and religious traditions, customs and ceremonies and to maintain, protect, and have access in privacy to their religious and cultural sites.	FMO exercises its influence to obtain customer commitment to implement requirements where possible. This consists of additional efforts to ensure community development, livelihood restoration and resettlement plans are accepted. We may also intensify monitoring of contextual risk factors related to the politicization of indigenous peoples issues, tensions between different communities and violence against defenders of indigenous peoples' rights.
PS8: Cultural heritage (n=2)	Failure to protect cultural heritage. Such gaps can infringe on the rights of individuals and communities to know, understand, visit, make use of, maintain, exchange and develop cultural heritage and cultural expressions, as well as to benefit from the cultural heritage and cultural expressions of others.	FMO is working with its customers on a proposal for a community development program to compensate for adverse social impacts caused by the project.
Financial intermediaries: financial institutions and fund managers (n=11)	Substandard system for identifying and managing E&S risks of financed activities. In some cases, processes and procedures are unclear, E&S management responsibilities are insufficiently defined and/or capabilities are lacking. In other cases, there is little evidence that E&S DD and monitoring are executed well and that E&S advice has been included in customer contracts. This is sometimes compounded by contextual risk factors, including the lack of exposure to and experience in E&S risks management by the financial sector in our markets and the lack of a level-playing field. Gaps can lead to infringements of all types of human rights as referenced before.	We support customers by providing expertise and funding for developing the ESMS or sitting on E&S risk management committees established by the fund manager. We exercise our leverage – alone or together with other lenders or Limited Partners to a fund – to negotiate improvement plans as part of a repeat investment or through the Advisory Board in which we have a seat. In select cases, we initiate or contribute to sector initiatives to address contextual challenges.

Serious incidents

Unfortunately, serious incidents at our customers cannot always be avoided considering the large number of people that are employed by our customers, the higher-risk sectors we invest in and the challenges that go hand-in-hand with operating in emerging markets. To help customers minimize these risks, FMO's environmental and social due diligence is designed to identify areas where a customer's mitigation practices fall short of (international) standards, to be able to agree actions to improve mitigation practices, so that our customers can - as best as possible - prevent such accidents and incidents from occurring.

Description and methodology

FMO requires its customers to immediately report any incident occurring on or nearby any site, plant, equipment or facility belonging to the customer or any member of the Group that has resulted in the loss of life (fatalities), has had a material effect on the environment or has resulted in a material breach of the law – inter alia – and how the incident was dealt with. FMO takes each report serious and follows up on each incident to ensure that an effective root cause analysis was completed, and corrective action plans were implemented to prevent similar events from recurring.

In many emerging markets, where occupational health and safety (OHS) norms and regulatory systems are often weak, serious accidents present an ongoing challenge. FMO's environmental and social due diligence is designed to identify areas where a customer's mitigation practices fall short of (international) standards. Where gaps against international standards are identified, an environmental and social action plan is agreed to close those gaps in a timely manner. Furthermore, FMO helps its customers to develop their OHS risk management capabilities, for instance through site visits, guidance materials and training, capacity development funding and informal support. We believe that strong OHS management systems are part of an employer's duty of care, improve job quality and add value to a business.

In 2020, FMO introduced a new process for registering these cases in a centralized system. This is currently being rolled out in a phased approach, starting with A and B+ customers in 2020. In 2021, the process will be expanded to B and C customers. Nevertheless, some teams have already started registering serious incidents for B and C customers.

Results

In 2020, we regret to inform that 20 FMO customers reported 44 fatal incidents with a total of 53 casualties. 10 of those were directly employed by our customers (as employees or contractors/suppliers), 23 worked in the underlying companies of funds and 20 concerned members of the general public. Of the 44 incidents, 21 were road accidents, 10 work-related, 6 asset-related [22] , 4 security-related, 1 resulted from illness and 2 were classified as 'other'. FMO aims to provide a total overview of all fatalities resulting from the activities it finances and trusts that its customers hold themselves to the contractual agreement to report any occurrence. However, as FMO relies on these instances being brought to our attention, there is an inherent risk that some incidents may not have been reported to us and, therefore, have not been included in these numbers.

Incident type	Incidents	Fatalities	Employees & contractor/supplier	Public
Work-related	10	10	10	0
Security-related	4	4	3	1
Road-related	21	29	18	11
Other	2	2	1	1
Illness	1	1		1
Asset-related	6	7	1	6
Total	**44**	**53**	**33**	**20**

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

Independent Complaints Mechanism

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

The ICM consists of the Complaints Offices of FMO, DEG and Proparco and an Independent Expert Panel (IEP). The IEP decides on the admissibility of each complaint, performs preliminary reviews to determine whether a complaint should proceed to the next stage, and when applicable, either performs a compliance review or supports a dispute resolution process in accordance with the ICM Policy. The ICM also monitors the implementation of measures agreed upon to bring a project into compliance or agreed as outcome of a mediation process. The IEP is composed of three members with complementary expertise.

The COVID-19 crisis had a significant impact on the ICM's activities. COVID-19 restrictions on traveling and gatherings have prevented the Panel from conducting certain planned activities such as site visits and in-person consultations. Therefore, the ICM adjusted its case handling, in discussion with the parties involved, as much as possible. The IEP continued its communications with complainants and other parties via videoconferencing and calls to achieve as much progress as possible under the circumstances. However, virtual communications with complainants and other local stakeholders have not always been possible and COVID-19 restrictions led to delays in handling and monitoring of cases. The ICM informed all complainants about adjustments of its work that were necessary to comply with COVID-19 restrictions. DEG, FMO and Proparco have placed a notification on their websites.

In 2020, eight complaints concerning one project were declared admissible and were subsequently handled as one case by the Independent Expert Panel. One other complaint pertaining to another project was declared inadmissible (2019: 0 admissible complaints). For information about the status of complaints filed in earlier years, please refer to our website.

Governance

FMO continues to support its customers and investees in the development of good Corporate Governance practices. The global pandemic and associated economic crisis has demonstrated that good Corporate Governance practices are essential to improve readiness and responses to risks and crisis situations. FMO launched a guidance note on the roles and responsibilities of Corporate Governance bodies in responding to any crisis and managing risks in general. In addition, we delivered two webinars widely attended by our investee companies on the role of the board of directors in crisis management.

FMO and DEG organized a Corporate Governance training for the directors that sit on the boards of our investee companies. Although the training this year was delivered virtually, this did not prevent participants from connecting and sharing lessons about their individual assignments.

Sector initiatives

Sector initiatives are a core part of FMO's value-adding service as they positively contribute towards market and business development. Sector initiatives address systemic issues that hinder FMO customers and their peers from implementing E&S best practices and aim to 'level the playing field' by fostering alignment and creating common standards. Currently, we are committed to sector initiatives with wider impact-related topics and at regional levels. For instance, improving E&S standards in the hydropower and banking sectors in Nepal that is part of a wider market shaping effort with other DFIs and stakeholders. In addition, FMO started to explore the options for a new Sector Initiative focusing on the intersection of gender and climate change in Africa. We are further refining the concept to understand how we can identify female-led business models for climate action and empower role models on the topic of climate action by demonstrating feminine traits of collaboration, custodianship care and community balanced with strong decision-making. This initiative will be scaled-up in 2021, and will be called "The Rallying Cry".

Deeper relationships

FMO attaches strategic importance to deepening relationships with our stakeholders, because by pooling resources and partnering with others we can significantly increase our impact. As part of these efforts, FMO mobilizes and blends funds, builds partnerships, manages funds on behalf of public institutions and the Dutch government, supports Dutch businesses and empowers its customers and employees.

Mobilized funds

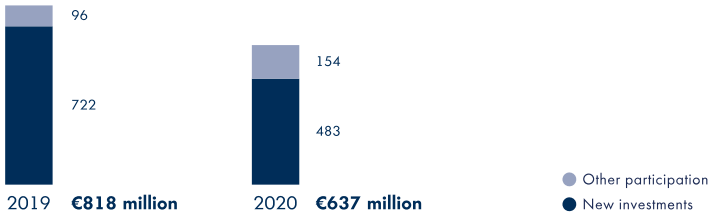
Mobilizing additional funds is important to finance the needs of the Sustainable Development Goals (SDGs). Private sector investments are among the most important sources of financing to support development and growth in low- and middle-income countries. Increasing private mobilized capital is therefore important to FMO.

Description and methodology

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

Results

NEW INVESTMENTS MOBILIZED AMOUNTS



Over the years, we built up a direct mobilized committed portfolio of €2.7 billion (2019: €3 billion). More than half (€1.4 billion) has been mobilized from private participants through our FIM funds and other commercial parties. This is short of our target of €3.2 billion, resulting from lower volumes of new investments of €483 million (2019: €722 million) and the depreciation of the US dollar compared to the euro.

In 2020, our efforts to crowd in more commercial capital towards projects with high development impact have been constrained by the economic crisis following the COVID-19 pandemic. Commercial investors are typically more risk-averse and are less interested in investing in developing and emerging markets at this stage of the crisis. In some cases, this has also led to opportunities for FMO and other DFIs to step in. However, the lower number of deals originating and executed by FMO have resulted in fewer mobilization volumes. Nevertheless, we continued to invest through the FMO Investment Management (FMO IM) funds and a mobilizing vehicle established with Munich Re, which have expressed their ongoing commitment to co-invest in select FMO loans. Below we provide some highlights for each FMO IM fund.

NN FMO Emerging Markets Loans Fund I | In 2020, we welcomed a German pension fund which committed US$50 million to the fund. In addition to the remaining commitment of US$75 million put in by the Swedish anchor investor Alecta, this resulted in a final close of US$397 million. This shows investors continue to trust FMO's investment capabilities. By year-end 2020, the fund participated in 50 loans to financial institutions, renewable energy projects and agribusinesses.

FMO Privium Impact Fund | The fund's net asset value decreased from US$157 million by year end to US$143 million. Private banks and wealth managers, including founding partner ABN AMRO Private Banking, continued to advise their customers to invest in the fund, though some investors needed to retract (part of) their investment due to concerns about the COVID-19 pandemic. In early 2021, new investor capital is expected to flow into the fund. Though most investors are from The Netherlands, the fund also has investors from for instance Spain, France, and the UK. Since the launch in 2016, the fund has made 87 participations. The fund ended the year with a total committed portfolio of US$129 million, which includes investments in 63 customers mostly in FMO's focus sectors: Energy, Financial Institutions and Agribusiness, Food and Water.

Actiam-FMO SME Finance Fund | With a net asset value by year end of €133 million, the fund participates in FMO loans to financial institutions to improve access to finance for emerging markets-based SME companies. Investors are mostly medium-sized Dutch pension funds and insurance companies. With the end of the fund's life-time drawing closer (2025), the first cash distributions were made to investors in early 2020. By the end of 2020, the fund still had €125 million invested across 46 financial institutions and will continue to re-invest proceeds in new loans during the first part 2021, if and when loans fit within the fund's duration.

ASN Green Projects Fund | FMO IM has been an investment advisor to the ASN Green Projects Fund since 2017. By the end of 2020, the fund had participated in a total of seven renewable energy transactions sourced by FMO, bringing the total committed portfolio in FMO loans to US$25 million.

Public funds

Public investment partners allow us to make investments with a higher risk profile and development impact.

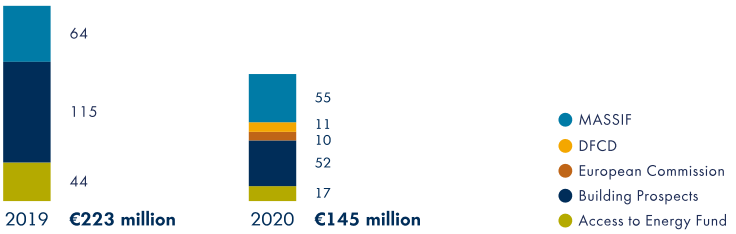
Description and methodology

We track the total committed portfolio as well as new investments made using the public funds we manage. This follows the same methodology as FMO funds, as described previously. Our public investment partners are the Dutch state, the European Commission and the Green Climate Fund. On behalf of the Dutch state, we manage Building Prospects, the Access to Energy Fund (AEF), the Dutch Fund for Climate and Development (DFCD) and MASSIF. With guarantees from the European Commission we were able to set up NASIRA and the FMO Ventures program.

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

Results

NEW INVESTMENTS PUBLIC FUNDS



Through our public funds we have built up a total committed portfolio of nearly €1.1 billion (2019: €1.2 billion). This is short of our target of €1.3 billion and is explained by lower valuations in our equity portfolio, which make up half of the portfolio, and the depreciation of the US dollar. Nevertheless, FMO was able to invest €145 million (2019: €223 million) in high-risk, impactful projects, below the target of €195 million. The deal flow for public funds was less affected by the pandemic in 2020 due to a strong push on public fund customers. Most new customers had already passed the first stage of FMO's approval process and materialized at year-end. We also provided COVID-19 support to several public fund customers. Below we provide some highlights for these funds. For more information, refer to the separate Fund Reports on our website.

Access to Energy Fund | The Dutch government and FMO set up the Access to Energy Fund (AEF) in 2007. AEF supports private sector projects aimed at providing access to energy services. At year end, new investments for AEF amounted to €17 million (2019: €44 million). In 2020, the AEF received a €40 million top-up from the Ministry of Foreign Affairs, increasing the total fund size to €150 million. This funding enables us to continue financing companies like Dharma Life, which the fund invested in in 2020. Dharma Life is a social impact enterprise in India selling products such as solar lamps and cooking stoves to rural households. The organization set up a network of more than 16,000 rural entrepreneurs, of which 75% are women. The AEF loan supports Dharma Life's growth and improves living conditions of rural households while reducing carbon emissions.

Building prospects | Building Prospects was established in 2002 by the Dutch government and FMO. Building Prospects supports investments in the overall agribusiness value chain. A value chain is strong when it has access to energy, water, logistics and transport, while climate resilience and gender equality are additional factors that make a supply chain sustainable. At year end, new investments for Building Prospects amounted to €52 million (2019: €115 million). Despite the COVID-19 crisis, two customers graduated to FMO-A funding. Another customer has requested early repayment because they are able to refinance with more commercial funding. This is good news for Building Prospects and demonstrates its catalytic and 'upstream' role in creating bankable projects.

MASSIF | MASSIF reaches end beneficiaries by financing local financial intermediaries and institutions that can contribute to their development. The fund focuses on small businesses and micro-entrepreneurs, women and youth entrepreneurs, as well as supporting innovations in inclusive business. At year-end, new investments for MASSIF amounted to €55 million (2019: €64 million). In 2020, MASSIF provided a €3 million loan facility to Alliance de Crédit et d'Epargne pour la Production Burkina Faso (ACEP BF). This transaction will support on-lending to micro, small and medium sized enterprises and will help improve access to finance in Burkina Faso, a fragile country with a large financially underserved population.

Dutch Fund for Climate and Development (DFCD) | The DFCD was set up in 2019 by FMO, SNV Netherlands Development Organization, World Wide Fund for Nature (WWF) and Climate Fund Managers. The DFCD connects the project development expertise of SNV and WWF to the mobilizing and investment power of FMO and Climate Fund Managers. At year-end, new investments for DFCD amounted to €11 million. In 2020, the DFCD funded a US$7.5 million investment in Komaza Group Inc., as part of a US$28 million Series B round with Novastar Ventures East Africa Fund, AXA Investment Managers and Mirova's Land Degradation Neutrality Fund. Komaza is a forestry company designed to get Kenyan smallholder farmers out of poverty and to address a large and fast-growing wood market in Africa.

NASIRA with EC guarantee | NASIRA is an innovative financial program that supports young, female, and migrant entrepreneurs in Sub-Saharan Africa and countries neighboring Europe. Since April 2020, the scope has been expanded to small COVID-19-affected entrepreneurs in the same regions. NASIRA uses guarantees to allow local banks to on-lend to underserved entrepreneurs. The goal is to allow local banks to provide loans to groups they normally perceive as too risky. By sharing risks NASIRA reduces the perceived and real risks of lending to vulnerable and underserved parts of the population. In 2020, FMO made several investments through the NASIRA program. The South African Bank Sasfin, for instance, was the first customer to benefit from the COVID-19 emergency facility. The transaction concerned a seven-year US$35 million facility to support on-lending to COVID-19-affected borrowers in South Africa, and developing and originating new (digital) lending products, specifically targeting youth, female and migrant borrowers.

FMO Ventures Program with EC guarantee | The FMO ventures program was set up last year, combining €40 million in guarantees provided by the European Commission, €60 million in financing from the Access to Energy, Building Prospects and MASSIF funds and €140 million in financing from FMO's own balance sheet. The funds will be used to invest in early-stage, technology-enabled businesses, technical assistance and the development of venture capital ecosystems in emerging markets. The EC's guarantees will allow FMO to take an equity stake in risky but growing companies, so they can become bankable and scalable in two to three years.

At year end, new investments for the VC program amounted to €19.4 million. In 2020, FMO invested amongst others in Aerobotics, a South African AgriTech startup developing intelligent tools to the feed the world. Aerobotics enables tree and fruit farmers not only to monitor their crops but also to increase their overall yield and reduce their footprint, through a combination of satellite and drone imagery coupled with machine learning algorithms. The investment is part of a ZAR250 million Series B round led by Naspers Foundry with participation from the FMO Ventures Program and the Cathay AfricInvest Innovation Fund. The funding will boost international expansion and technological development, as well as support local operations.

Capacity development | To increase our impact beyond our investments, we use our Capacity Development (CD) program to strengthen the organizational capabilities of our customers. The program is financed by FMO and the Dutch state and contributes up to 50% of the cost for external consultants, trainers and experts to facilitate knowledge transfer and the provision of technical expertise. In 2020, we contracted €9.5 million in CD support to our customers (2019: €9.2 million). Demand for CD remains high, with nearly all projects being considered containing an element that addresses or responds to COVID-19.

Dutch business

Over the years, FMO has made considerable effort to deepen relationships with Dutch corporate customers, increase the visibility of NL Business in the Dutch corporate landscape and in strategic relationship building. We used our Development Accelerator and Project Development Fund to develop new and innovative projects. In 2020, we disbursed €4.3 million, above our target of €3 million. In 2020, we did not close any Dutch business-related investments (2019: €54 million) and did not achieve the €100 million target. The complexity of several large opportunities, which did not materialize. This was further complicated by the COVID-19 crisis.

Through the Development Accelerator Facility, which FMO manages on behalf of the Dutch government, FMO provided development capital among others to four tech-enabled COVID-19 initiatives for the African health sector. One of these is a cloud-based artificial intelligence solution for COVID-19 screening with Delft Imaging in cooperation with Thirona. Based on X-Ray images, an algorithm was developed to screen CT Scan images. The X-Ray solution also includes insights from blood samples, which could help to detect other diseases like malaria and tuberculosis. Over 100 health facilities have signed up for the service of which about 80% in low to medium income countries. More than 15,000 images have been screened since the launch in April.

Invest International

If approved by the Senate of the Dutch Parliament, FMO's NL Business department will be merged with select international activities of the Netherlands Enterprise Agency (RVO) into a new organization named Invest International. FMO will hold a 49% stake and the Dutch government the remaining 51%. In 2020, preparations for the establishment of Invest International continued. In September, Joost Oorthuizen was appointed as prospective Chief Executive Officer of Invest International and Ineke Bussemaker as prospective Chair of the Supervisory Board, in close cooperation between the Dutch State and FMO as shareholders. In December, the draft text of the law establishing Invest International was discussed, voted on and approved by the House of Representatives. Key staff from both NL Business and RVO continue to prepare the launch of Invest International in early 2021.

Stakeholder events

FMO co-organized several webinars and exchange platforms to equip customers with the knowledge, connections and expertise to deal with the effects of COVID-19 on their business and community. FMO organized several events for our stakeholders to share expertise, ideas and build new connections. In June, FMO and Rockstart organized the second edition of Finture Solutions, a competition to support Dutch startups and scale-ups that bring positive change in emerging markets across the world in the fields of AgriTech, Clean Energy, and Health. Some 100 people attended a virtual event. Five winners were chosen after an extensive selection process that considered 80 applications and pitches of the top 10 startups. Each winner will receive €125,000 in development capital and support from FMO experts to grow their businesses.

Customer satisfaction

Each year, FMO carries out a customer satisfaction survey. The results show that FMO continues to have a good relationship with our customers, achieving a 70.2% Net Promoter Score in 2020 (2019: 75.5%) in line with our 70% target. While this represents a decrease compared to 2019, it still puts FMO in the top quartile of professional services organizations. With a satisfaction rating of nine out of ten, customers particularly appreciate FMO's quality of service. They are also satisfied with our financial products (8.8) and capacity development product suite (8.6). 82% of customers rate their experience with FMO better than with other DFIs, with a majority stating that this is due to their relationship with FMO, and the quality of service. Customers scored us lower on the degree to which they believe to have benefitted from FMO's international network (7.2).

Employee engagement

At the end of 2020, we had 627 internal staff, all of whom are covered under the collective labor agreement (2019: 601 employees). FMO invests in the well-being and development of its employees which in turn helps us realize our strategic objectives.

The 2020 Employee Engagement Survey returned an average score of 7.1 (2019: 7.4), below our ambition of 8.0. On average, employees indicated that they are passionate about FMO's mission (proud to be 'making a difference') and enjoy working for FMO and with their colleagues. Areas to improve included addressing undesirable behavior across all layers of the organization, starting with management, stronger connection between staff and senior management and efficiency in the way we work.

As mentioned, the approach taken by leadership during implementation of the strategic agenda caused increasing tensions. This impacted our staff and employee engagement. Amidst the lockdown and measures that were in place, we needed to find a way to share divergent perspectives, emotions, and experiences through screens, while the situation really called for in-person conversations.

What became painfully clear is that we needed to change how we interact with one another, and that these changes were, in fact, long overdue. Several initiatives – such as continued, more frequent Open Dialogues in various forms – took place to ensure that opinions could be heard, experiences could be addressed, and follow-up could be given as and where needed. Our Speak-Up policy and our internal Grievance and Complaint mechanisms, which help us to monitor the effectiveness of the code of conduct, have also been reviewed and updated. In addition, the role of our Confidentiality Counsellors has been clarified. The Management Board and the HR department intensified engagement with the Works Council. We further embedded Open Dialogues in the regular engagement flow in our organization and they will continue in 2021 alongside a company-wide program called Culture Conversations. With this program, we decided to intensify the focus on workplace behavior, feedback, unconscious bias, diversity and inclusion; this decision followed feedback given that showed that these topics required significantly more attention in the near-term. Together these initiatives will continue to help us to connect across the organization, and to create an open environment in which all FMO colleagues trust that they can express their opinions, suggestions, and feedback.

We continued to encourage employees to develop themselves through internal and external training. Our FMO Academy offers various trainings and courses, from personal development to banking knowledge. In 2020, 283 courses and trainings (2019: 216 courses) were followed by 492 employees (2019: 592 employees). In addition, 565 employees followed one or more trainings or modules on various Compliance and KYC-related topics. Part of these trainings were directly related to the role of the employee and were compulsory.

FMO aspires to be a diverse and inclusive employer. Last year we published a Diversity and Inclusion (D&I) statement in which we express our commitment to an inclusive and diverse society in which everyone feels valued, respected and included. At FMO we strive for diversity at all levels of our organization. We do our utmost to create an inclusive working culture for our employees and our stakeholders. We promote diversity of gender, gender identity and sexual orientation, culture (topics around ethnicity and race), age and generations and people with occupational disabilities. We believe a diverse workforce produces better, more balanced decision-making and enhances creativity and innovation. All of this leads to better solutions for our customers and more impact on the world. FMO holds an EDGE certification (Economic Dividends from Gender Equality), the leading global standard for gender equality in the workplace.

As we believe we need to practice what we preach, we want to be transparent about how we perform on key performance indicators (KPIs), starting with Gender Equality (SDG 5). Since 2019, we are committed to reporting on our performance on seven gender diversity KPIs, in the areas of gender balance, recruitment, turnover, reward, bonuses, promotions, and engagement.

7 Gender diversity & inclusion metrics

		total	female	male	% female
1. Gender balance	Total number of employees per December 31, 2020	627	313	314	50%
	Employees in senior and middle management per December 31, 2020	78	33	45	42%
2. Staff growth	New joiners January - December 2020 (headcount)	77	42	35	55%
	Net growth percentage	4.3%	5.0%	3.6%	
3. Turnover	Number of leavers January - December 2020 (headcount)	51	27	24	53%
	Turnover percentage (based on total headcount at beginning of reporting year)	8.5%	9.1%	7.9%	
4. Reward	Gender Pay Gap: FMO conducts periodically (at least once per year) quantitative research to compare men and women's salaries, while correcting for part-time work, salary scale, age and tenure to have a fair comparison. The outcome of the (multiple linear regression) analysis with reference date 1 April 2020, showed that there is no sufficient evidence to claim that men and women at FMO are not equally awarded for equal work.				
5. Bonuses	Share of bonus amount paid in 2020	100%	44%	56%	
6. Promotions	Promotion ratio January - December 2020	16%	18%	14%	
7. Engagement	Engagement score based on latest survey (September 2020)	7.1	7.1	7.2	

Furthermore, FMO has international staff, representing 55 different nationalities. More than one-third of our employees were born outside of The Netherlands and thirty percent of employees has a nationality other than Dutch. In 2020, 63 employees participated in cultural diversity training at our FMO Academy (2019: 70 employees). It is crucial to create a climate where people of different backgrounds feel comfortable expressing their opinions. Accepting diverse cultures starts by being aware of one's own.

Other FMO employee statistics		
	Dec 31, 2020	Dec 31, 2019
Number of internal employees	627	601
Number of internal FTEs	599	574
Percentage non-Dutch employees	30%	30%
Number of nationalities	55	57
Absenteeism	3.6%	4.1%
Number of external employees	131	114
Total number of internal and external employees	758	715

Higher productivity

During the COVID-19 pandemic, FMO has demonstrated it is resilient and can carry out its mission while operating in a robust, effective and efficient way. In 2020, we focused on business continuity and further embedding KYC processes and governance in our organization.

Business continuity

FMO quickly adapted to a new situation. Employees have been working from home and business continuity plans have been implemented and are working. We adapted our governance structure to ensure quality, agility and multiple perspectives in decision-making. This entailed combining existing decision-making bodies and establishing new task forces to monitor the impact of COVID-19 on our markets and customers, so as to provide support where needed, and on the liquidity and financial situation of FMO. To support customers requesting temporary payment deferrals or a waiver of financial covenants, FMO agreed a joint approach with its partners (in particular other European DFIs and Multilateral Development Banks). In addition, we streamlined our processes by delegating approval authority to investment teams on providing payment deferrals on principal and interest payments, by providing pricing guidance for new transactions that reflect new market realities and by providing guidance on which type of investments are eligible for digital ESG due diligence.

Business Integrity

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

In 2020, all new FMO employees were required to complete the Compliance e-learning that addresses personal integrity topics such as bribery and corruption. In addition, new investment staff were also required to complete the KYC e-learning as part of their onboarding. All investment staff were also required to undertake additional training related to the FEC program and remediation project.

KYC remediation and incidents. In August 2020, FMO restarted the KYC remediation effort to align with the latest KYC and FEC requirements. Since then, we onboarded temporary KYC staff to support the KYC remediation effort; they followed an intensive training program to get up and running. At the end of 2020, we released 290 files for remediation and completed 67 files, in line with 2020 expectations.

In 2020, we registered 2 KYC incidents at existing customers (2019: 2 incidents). In both cases the KYC procedure was not fully followed. Remedial actions were taken.

Alleged customer-related integrity issues. This refers to any indication of suspected money laundering, corruption, fraud, terrorist financing, or non-compliance with sanctions programs (OFAC/EU/NL/UN) by customers or other counter parties (such as guarantors, custodians, UBOs). In 2020, a total of 20 new alleged customer-related integrity cases were reported to the Compliance Committee (2019: 21 cases). Issues were raised by investment staff, other DFIs and International Finance Institutions (IFIs) (e.g. with local offices) or whistle blowers. FMO investigates each case together with partner DFIs/IFIs where needed, to verify its legitimacy and to determine solutions. During 2020, we closed 24 alleged customer-related integrity cases (2019: 9 cases), meaning either the issues were resolved or FMO decided to end the relationship.

Alleged employee-related integrity issues. Alleged employee-related integrity issues refer to any indication of suspected involvement with bribery, corruption, fraud, privacy violation, conflict of interest due to outside positions, gifts/entertainment/hospitality, or use of price-sensitive information. In 2020, 1 case was reported to the Compliance Committee (2019: 2 cases), which has been closed.

Reported data leaks. Over the course of the year, no data leaks were reported to the Data Protection Authority (2019: 2 data leaks).

Strategic projects

FMO continued to invest in an effective and efficient organization through its project portfolio. In 2020, we realized 92% of our project deliverables (2019: 87%), above our target of 85%.

The impact of COVID-19 on the project portfolio appeared to be minimal and varied between projects. Effects mostly related to the availability of resources, increased efforts on alignment and onboarding of new staff. In some cases, projects were negatively impacted due to illness of or caretaking by project staff. Some projects were positively impacted due to increased focus resulting from working from home.

In 2020, we strengthened our portfolio monitoring and control processes with improved reporting and time registration. This was enabled by the change made to project (portfolio) governance in 2019, which entailed greater involvement from the MB and accountability for project delivery at the Director level, as well as support by a dedicated Project Portfolio Management Team. This is reflected by an increase in the realized project deliverables from 87% in 2019 to 92% in 2020.

At year end, we finalized projects addressing regulatory requirements. This includes the implementation of tools that improve monitoring and reporting on troubled loans to the Dutch Central Bank, the establishment of governed data for our Financial Reporting System, and the adjustment of the Financial Reporting System to comply with the latest reporting requirements (e.g. implementation of EBA regulations). In addition, we finalized projects related to the operationalization of specific financial products like underwriting, secondary sales, funded and unfunded risk participation and blended debt finance. Furthermore, we set up Venture Capital as a new business line and adapted our equity system accordingly.

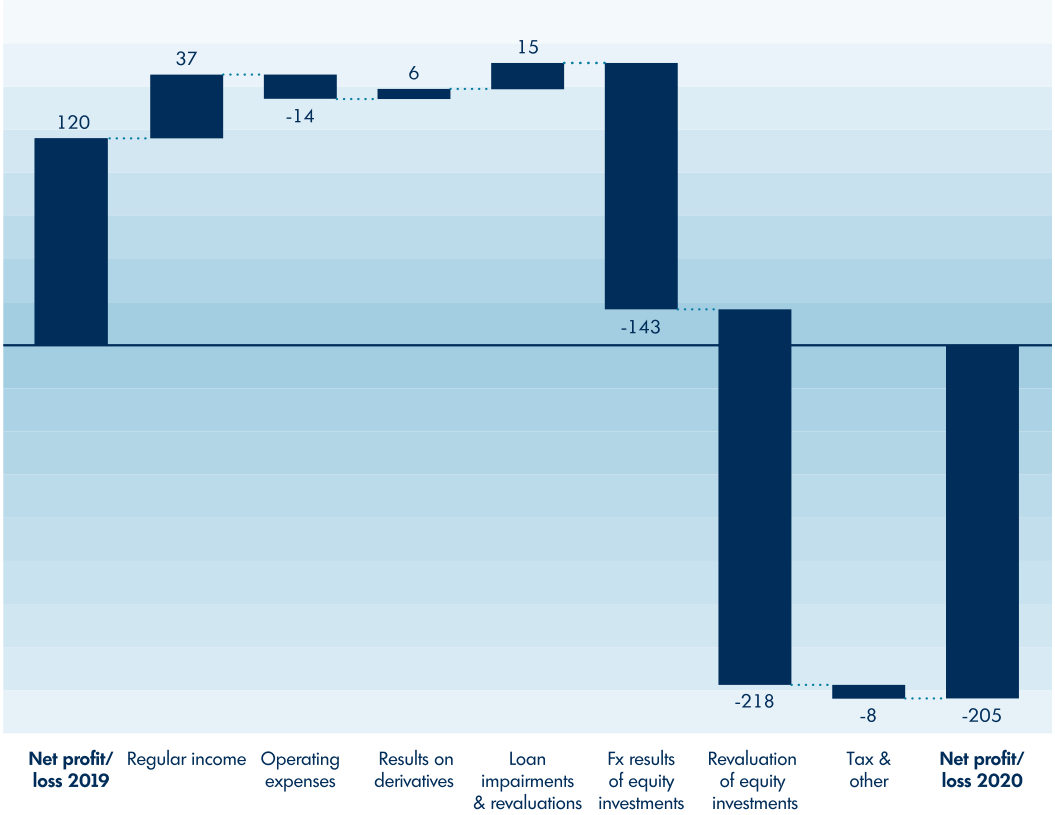
In 2020, we also worked on priority areas such as KYC remediation, enhancing FEC policies, operationalization of Invest International and developing tools to support the KYC process and reporting on impact and ESG.

Financial performance

At the end of 2020, FMO noted a net loss of €205 million. Our first loss since 1991 is largely driven by a decrease of the fair value of FMO's private equity portfolio (including investments in associates). This decrease is seen across sectors and geographies and is the result of a global decline in emerging market equity prices due to the COVID–19 pandemic. Furthermore, these assets are exposed to changes in FX rates as a large part of FMO's private equity portfolio is denominated in US dollar. Moreover, FMO does not hedge these assets for currency rate risk. Therefore, the EUR/USD depreciation of 10% in 2020 had a downward effect on the financial performance of these assets.

Despite these negative factors, regular income grew. Contrary to initial expectations at the start of the pandemic, performance of the existing loan portfolio remained stable. Few additional defaults occurred during 2020, resulting in an improvement of the non–performing loans ratio to 9.1% (2019: 9.8%). Uncertainties around the COVID-19 pandemic have resulted in increased credit risk in our loan portfolio. This has led to higher impairments.

The following diagram presents the changes in FMO's net result during 2020 in comparison with 2019.



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

- Results from our equity investments (including associates), including currency effects, amounted to a €277 million loss (2019: €84 million gain). This loss is the result of:
  - A depreciation of the portfolio, resulting in a €159 million loss (2019: €59 million gain);
  - FX effects, resulting in a €118 million loss (2019: €25 million gain).

Although the depreciation of the equity portfolio is significant, our investees continued distributing dividends. FMO has a long-term strategy to invest and hold these assets and expects that the valuation losses will be largely recovered over time, depending on how fast the global economy will recover from the COVID-19 pandemic.

- Regular income, consisting of net interest income, net fee and commission income, dividend income and remuneration for services rendered, amounted €307 million (2019: €271 million) and therefore improved by €36 million. This increase was largely driven by a higher net interest income due to lower average LIBOR rates. Strong decrease of the interest expense by €79 million, related to FMO's funding portfolio is the main driver for this improvement of regular income.
- Loan impairments and revaluations amounted to €88 million (2019: €103 million) and therefore improved by €15 million compared to 2019. This was largely driven by the stable performance of the existing loan portfolio, few additional defaults and recoveries in the non–performing loan portfolio. This resulted in an improvement of our non–performing loans.
- Operating expenses amounted to €144 million (2019: €130 million). Operating expenses increased by €14 million, largely due to a larger staff base and advisory costs related to our project portfolio. This increase was partially offset by lower travel costs due to travel restrictions as a result of the pandemic. We recorded a provision of €6 million for expenses related to KYC remediation.

Although we are reporting a net loss in 2020, FMO's capital ratio remains well above the combined ratio of the SREP minimum and FMO's internal buffers. In the course of 2020, FMO raised additional funding through the issue of a sustainability bond and a private placement of a bond in Swedish crown. In addition, FMO issued a Tier 2 subordinated bond amounting to €250 million. Furthermore, compared to last year, the total capital ratio increased to 24.9% (2019: 22.5%) and the CET–1 ratio increased to 23.3% (2019: 21.8%). The improvements of the capital ratios were driven by the EUR/USD depreciation leading to lower risk weighted assets. FMO's diversification strategy, with exposures diversified across sectors and countries, has proven effective during the pandemic as some economies and sectors have been affected less than others.

FMO continues to receive an AAA rating with a stable outlook from both Fitch and Standard &Poor's. Moreover, FMO's liquidity metrics remain strong.

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

The next step in Ameriabank's green journey

Despite the turbulent year, Ameriabank was able to launch Armenia's first-ever Green Bond in 2020, with FMO as anchor investor. "The green bond project was a milestone not just for us but also for the Armenian financial market in general", says Gevorg Tarumyan, Deputy CEO, and Chief Financial Officer at Ameriabank.

Gevorg Tarumyan

Chief Financial Officer at Ameriabank

FMO has a longstanding partnership with Ameriabank, the largest financial institution in Armenia. Since 2009, FMO and Ameriabank have taken a wide variety of steps together, including the provision of a subordinated loan, various senior debt facilities, and a loan targeted at youth entrepreneurs. In 2019, FMO and Ameriabank embarked on a green finance development journey, leading to the launch of Armenia's first ever Green Bond in 2020, enabling capital-raising and investment for projects with environmental benefits.

Ameriabank already had a leading position in renewable energy within the financial sector in Armenia. Still, being able to launch a Green Bond and adhere to the (voluntary) requirements of the Green Bond Principles, developed by the International Capital Market Association, was a big next step. "One of the biggest challenges was the alignment of our existing green business with Green Bond principles—learning the jargon, so to say," says Gevorg Tarumyan, Deputy CEO, and Chief Financial Officer at Ameriabank. The principles promote integrity in the Green Bond market through guidelines on transparency, disclosure and reporting. "With FMO's support and efficient project management within our teams, we managed to bring everything in line with ICMA's Green Bond Principles."

Tarumyan calls the issuing 'a leap and a milestone project not only for us, but for the Armenian financial market in general.' We have always been known in the market as a trendsetter in Armenia, so we believe more and more green bond placements will follow in the coming years. It is a unique product in a sense, that the issuer commits and makes sure that the entire flow of funds is green, with compliance to green bond principles."

One of FMO's goals in investing in frontier markets is paving the way for commercial money to follow. Ameriabank sees it happening already. "Based on the publicity this transaction received, some commercial investors already reached out to investigate if they can buy a portion of these green notes. It accelerates our plan to crowd in commercial investors for Ameriabank through this (and more to follow) green bonds. And most importantly, success of Ameriabank in capital markets is eventually translated into that of our customers, as their ability to finance more and more green projects grows."

On the relationship with FMO, Tarumyan comments on the mutual trust. "We are happy to see that cooperation with FMO goes beyond attraction of financial resources. Every deal we did with FMO so far was not just a repeat transaction, but genuinely novel in its nature. Perhaps the most important aspect of our collaboration is the very trust we have mutually earned throughout these years. While it has no monetary equivalent, we highly appreciate it."

2021 OUTLOOK

In 2021, our focus will be on supporting our customers' recovery from the COVID-19 pandemic and ensuring we comply with (new) rules and regulations.

	TARGETS	2021	2020
Higher impact portfolio	Green-labelled committed portfolio (€ mln / %)	4,293 / 34	4,877 / 34
	Reducing Inequalities-labelled committed portfolio (€ mln / %)	3,970 / 31	3,953 / 28
	Total committed portfolio FMO	8,837	9,821
	ESG risks managed at an adequate level (rating BB or better) (%)[1]	>90	90
Deeper relationships	Total committed portfolio public funds (€ mln)	1,318	1,294
	Total committed portfolio mobilized funds (€ mln)	2,624	3,157
	Customer satisfaction (NPS score)	70	70
Higher productivity	KYC file remediation (%)	100	100
	Realized delivery on project portfolio (%)	85	85
Financial performance	Net profit (€ mln)	120	192
	Return on Equity (%)	4.0	6.0

1 In 2021, a new methodology will be used to track ESG performance. In 2020, the definition and methodology focused on the % of high/medium risks that were amber/green for all customers with an A and B+ E&S risk category or with CG support.

Economic outlook

In 2020, central banks' quantitative easing measures and governments' fiscal stimulus packages addressed financial market dislocations and dampened the economic fallout of COVID-19. Advanced economies have been able to roll out more substantial support packages than emerging markets and developing economies.[23] The outlook for the year ahead remains uncertain. There are positive signs as testing and treatment have improved and vaccination programs are being rolled out. Economic recovery in 2021 is possible but projected to be long and uneven. Much will depend on what governments will do to move their countries out of the recession. The IMF predicts a growth path of 5.1% for low-income countries and 6.3% for emerging market and developing economies in 2021.[24]

Beyond the pandemic, we expect to see high government debt burdens, limited fiscal space, as well as more fragile economic systems and financial markets. The OECD estimates that private finance to developing countries has dropped by US$700 billion in 2020.[25] The World Bank warns that additional financing needs for developing countries will be high in the short to medium term. Private sector financing gaps are, therefore, expected to increase, while access to the capital market by low-income and low-middle-income countries remains uncertain.

23 World bank (2020). World Bank Group COVID-19 Crisis Response Approach Paper: Saving Lives, Scaling-up Impact and Getting Bank on Track.

24 International Monetary Fund (January 2021). World Economic Outlook Update.

25 OECD (2020). Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet.

To prepare for the increased economic and operational uncertainty in the coming years, FMO has developed several scenarios to assess the potential COVID-19 effects on FMO's balance sheet, production, costs, and capitalization. The losses incurred in 2020, our internal focus on regulatory compliance and the lingering effects of the COVID-19 pandemic will limit FMO's capacity in 2021. Nevertheless, we will focus on supporting current customers through the crisis and following recovery period. Our financial projections for this financial year are relatively positive. FMO has a long-term strategy to invest and hold its equity portfolio. We have observed that financial markets stabilized in the second half of 2020. Based on this development, we believe that part of the valuation losses will be recovered in 2021. In the fourth quarter of 2020, ratings of the countries in which FMO operates have improved, but we expect impairment levels for our loan portfolio to be higher due to the enduring financial effects of COVID-19. FMO's financial capacity beyond 2021 will depend on the severity and duration of the economic recession and its effect on our customers and portfolio quality.

The UK exited the EU on 31 January 2020. On 30 December 2020, the EU and the UK signed the Trade and Cooperation Agreement (TCA). FMO was well-prepared for the Brexit. Legal templates were updated and financial services moved from UK banks to EU entities. However, the TCA does not cover the provision of financial services. For relevant services, such as central clearing of swaps, operational changes may still be required, depending on further agreements in this area between the EU and the UK. The expectation, however, remains that the impact of Brexit on the financial results of FMO is not significant.

Higher impact portfolio

COVID-19 has slowed progress towards the Sustainable Development Goals. The deceleration in economic activity has caused per capita income to decrease in more than 90 percent of emerging markets and developing economies. The World Bank estimates that more than 100 million people have been pushed into extreme poverty since the start of the pandemic.[26] We will strive to further anchor our contribution to the SDGs in our new 2030 strategy that we will start to develop in 2021.

Knowing what we know now and keeping in mind the uncertain outlook ahead, we have lowered our 2021 impact ambitions compared to those set for 2020. For 2021, we decreased our portfolio target for FMO to €8.8 billion by year end, significantly below our 2020 target of €9.8 billion that was set before the pandemic. This is the result of lowering the target for FMO new investments from €2.2 billion in 2020 to €1.6 billion in 2021 as well as lower realized new investments at the end of 2020.

We are, however, resolved to continue to reduce inequalities within and between countries through our investments (SDG 10). In 2021, we aim to make €596 million in new Reducing Inequality-labelled new investments and plan to increase the share of the RI-labelled committed portfolio to 31% (or €4 billion). Moreover, as the crisis has unevenly affected women[27], we will continue our efforts in gender financing to better support women's economic empowerment.

We continue to contribute to SDG 13 by aligning our portfolio with a 1.5° pathway, reducing our portfolio emissions and building a portfolio of investments to deliver innovative solutions to clean energy and negative emissions. We plan to invest €592 million in green projects and project that 34% of our committed portfolio will be labelled green by year end. We plan to realize this by investing in forestry and other climate mitigation projects through, for instance, the Mobilizing Finance for Forests (MFF) Program that FMO manages on behalf of the UK government.

With the rollout of our new Sustainability Information System, in 2021, we will be better positioned to track the impact of our investments and monitor our customers' ESG improvements. Despite ongoing challenges to our day-to-day investment processes in the beginning of 2021, we aim to ensure more than 90% of ESG risks are managed at an adequate level.

26 World Bank Group (2021). Global Economic Prospects.

27 UN Women (2020). Explainer: How COVID-19 impacts women and girls.

Deeper relationships

The SDG financing gap grew by 70% in the past year.[28] More than ever this calls for a deepening of our relationships with investors, peers, impact investors and other stakeholders to address global challenges and mobilize private capital. Our 2021 mobilization target of €2,624 million is lower than 2020, however, due to unfavorable economic conditions and increased risk aversion in the private capital market.

We will continue to provide financial and non-financial support to our customers to help them withstand the economic impacts of the pandemic, virtually and through cooperation with our partners. Dutch business opportunities in developing countries through close cooperation with Invest International, which will be established as an independent entity in the course of 2021.

Through ongoing improvements in our impact measurement and reporting capabilities we aim to become more transparent about and accountable for the contributions of our investments to the SDGs. We will do this by working with our fellow DFIs to harmonize impact measurement, for example through the Joint Impact Model and aligned gender indicators. We will also contribute to The Netherlands Advisory Board on Impact Investing to raise awareness of and share best practices about responsible investing.

We are also aware that since the onset of the pandemic, civil space has shrunk further and conditions for democracy and human rights have grown worse in 80 countries.[29] This year's materiality assessment underlines the importance our stakeholders attach to how we uphold and report on human rights. To improve in this area, we will continue our engagement with our civil society and knowledge community stakeholders, seeking their guidance and feedback on how to improve our performance.

Higher productivity

The financial industry is facing increasing regulatory requirements and supervisory scrutiny. We will step up efforts to ensure full compliance with the Wwft and Sanctions Law by the end of 2021. This includes the remediation of approximately 1,000 customer files. We will prepare for FMO's compliance with the EU Sustainable Finance plan that will come into effect in 2021. We will also get ready for the discontinuation of the LIBOR after 2021. As the reform is an ongoing process, FMO is monitoring the markets to gradually decrease the uncertainties about the transition, process and timing. We have a robust action plan in place that outlines what we have to do and how we will communicate with our customers. The reform will lead to more transaction-based and more robust benchmarks. The focus on regulatory compliance limits our capacity to take on new customers in the first half of 2021.

We will further strengthen our internal governance structure. In 2021, we expect to welcome a new CEO and extend our Management Board. Employee engagement, wellbeing and the quality of our interactions will continue to be a focus. We will continue to harness the diversity of our workforce, further embed our values and behaviors, ensure equal opportunities and build a more inclusive workplace. The recently established Diversity and Inclusion Advisory Board will support the organization in driving the diversity and inclusion agenda. Furthermore, we will organize training and dialogue sessions for all employees focused on quality of interactions, wellbeing and FMO's values and behaviors.

28 OECD (2020). Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet.

29 Freedom House (2020). Democracy under lockdown: The Impact of COVID-19 on the Global Struggle for Freedom.

Steward Redqueen, wind in the sails of FMO

Steward Redqueen is a specialized consultancy firm advising organizations on impact and sustainability. FMO has worked with Steward Redqueen for over 20 years on a wide range of projects, starting with the development and implementation of our first Sustainability Policy in 2000.

Sabine Dankbaar

Director of Steward Redqueen

In 2020, our partnership bore fruit again in the form of the Joint Impact Model and an updated ESG Toolkit for Private Equity Fund Managers. Sabine Dankbaar, Director of Steward Redqueen: "We put wind in the sails of development banks. By providing advice, trainings and tools we aim to empower FMO to put its impact strategy into practice."

Over the past two years, the consultants of Steward Redqueen worked on the Joint Impact Model (JIM), which launched in August 2020. "Because everyone in the impact investing community was using slightly different methods to measure their impact, it was hard to benchmark and track progress. Results were simply not comparable. That is why we brought together FMO, CDC and Proparco to start working on a harmonized model," says Dankbaar. The JIM helps to gain insight and measure and monitor what impact is achieved with investments. This helps in better managing and therefore improving the impact created.

Starting with a small "coalition of the willing" was crucial to the success of the JIM. Dankbaar notes: "We were lucky to find a few parties who, like FMO, were really committed and had resources available to make the changes needed. It is quite challenging to develop a model that does justice to the differences between organizations, their types of investments and focus areas. In the harmonization process, everyone needs to make compromises. For example, FMO had a different way of measuring jobs for investments in financial intermediaries. Adopting the JIM methodology led to a downward revision of FMO's results." Since the initial steps, the founding members have gradually brought in new organizations to the JIM. Now that the model is publicly available, it is gratefully used: over 30 organizations have already created an account, and many others have also shown interest.

Because the JIM is a collaboration between various international organizations, the pandemic did not slow down progress. "We already had experience with digitally coordinating appointments and meetings. Although it is more fun to be able to celebrate milestones face-to-face, it has not hindered us in our collaboration", says Dankbaar.

"What I like about working with FMO is that it is a genuine partnership. We do not only work for you as a client, but also explore new routes together to make a direct contribution to the wider impact community. As a relatively large player, you influence the industry. In that sense you are a real driver for change. I hope we can continue to explore how to leverage our joint knowledge even more to help that industry forwards."

Our impact goes beyond our investments. To embrace our mission fully, we are committed to doing business in a responsible and sustainable way, guided by global standards and guidelines. For an overview of the regulations and core reporting standards and guidelines we follow, please refer to the chapter How we report.

Transparency and accountability

Since 2019, FMO committed to two initiatives that foster transparency and accountability of our investment practices related to climate and impact. FMO became a signatory to the Operating Principles for Impact Management and reports in line with the recommendations provided by the Task Force on Climate-Related Financial Disclosures (TCFD).

Operating Principles for Impact Management

In 2019, FMO became a signatory to and advisory board member of the Operating Principles for Impact Management, a global initiative led by the IFC to increase the transparency and accountability of impact investing. The Principles provide a reference point against which the impact management systems of funds and institutions may be assessed. It evaluates impact performance against nine principles around strategic intent, origination & structuring, portfolio management, impact at exit, and disclosure.

FMO already applies most of these principles. Since 2014, our corporate strategy has been aligned with the SDGs and structured along a set of impact goals that are cascaded down to the different investment teams. All our investments need to demonstrate additionality and must adhere to strict environmental and social standards. FMO is also one of the few DFIs to apply attribution (share of financing) to its impact results. In 2019, we strengthened our impact measurement and processes to align more fully with the Principles, through an impact tracking system organized around impact indicators to monitor expected impact and actual performance of each investment.

In 2020, FMO continued operationalizing the changes introduced in 2019. For the first time, we also reported publicly how FMO's impact management systems, policies and practices, and investment services are managed in line with the Principles, which was verified by a third party. Our disclosure and the limited assurance report are available on our website.

Task Force on Climate-Related Financial Disclosures

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate action is one of the key pillars of our 2025 strategy. FMO acknowledges the need to demonstrate its responsibility and foresight in considering climate issues. This goes beyond assessing the impact of our activities on the environment as climate change may affect customers vulnerable to the material consequences of and the transition to a low-carbon economy. We strongly believe that improving management of climate-related risks and opportunities is a journey and we continuously improve our practices. Since 2019, we report on our approach to climate following the recommendations provided by the TCFD.

Governance. Climate is an integral part of our mission, vision and business strategy. Having oversight on FMO's strategy and performance, FMO's Management Board is responsible for key decisions related to climate, such as revising the strategy or setting ambitions. Furthermore, a Supervisory Board Impact Committee is in place that oversees impact-related topics, including climate.

FMO recognizes it is important to integrate climate change considerations into its operations. Climate-related risks and opportunities are covered across various functions. This ranges from strategy and investment teams preparing business plans to impact teams advising on definitions, policy, and position statements, and monitoring and reporting on performance.

Strategy. In FMO's 2025 Strategy, climate action has been identified as one of the three top-line Sustainable Development Goals (SDGs) to which FMO can contribute. In practice, this means pursuing a portfolio that delivers positive outcomes on climate mitigation and adaptation. This is aligned with FMO's Sustainability Policy, published in 2017, which states FMO aims to contribute to financing the transition to a green economy in line with the Paris Agreement.

Climate change poses risks to the economies and markets in which we operate. Our customers' performance can be impacted by physical risks, such as extreme weather, or policy, legal, technology, market and transition risks arising from the shift to a low-carbon and climate-resilient economy. While this may present investment and business risks for FMO, it also creates opportunities to help customers become more resource and energy efficient, reduce GHG emissions and transition to low-carbon solutions. We continuously assess how this may affect our business over the short, medium, and long term, but our strategy already considers:

- Adapting our portfolio: To reduce climate risks and seize opportunities, we aim to align with a 1.5-degree pathway by growing our green portfolio, targeting high impact sub-sectors such as forestry, and specific exclusions of high-emitting projects focusing on, for example, coal and other fossil fuels. We finance green projects in the energy and agricultural sector, provide green credit lines to financial institutions, contribute to green funds and issue green bonds. We further aim to improve the GHG efficiency of our portfolio and finance carbon negative transactions. We continue to refine our strategy to comply with the requirements of the Dutch Climate Agreement;
- Mobilizing climate capital: FMO blends and mobilizes climate funds, for example via Climate Investor One, ElectriFI, and the Dutch Fund for Climate and Development. We are also increasing the climate focus in AEF and Building Prospects, and climate is part of the investment strategy of three funds advised on by FMO Investment Management;
- Sectoral engagement: We are transparent about our approach to climate and engage other organizations on this topic. As an active member of the Partnership for Carbon Accounting Financials, FMO seeks to create an open-source global carbon accounting standard. We also cooperate with other bilateral and multilateral development banks to harmonize GHG accounting and improve our climate risks and opportunities management. FMO and the Dutch financial sector have pledged to report the footprint of relevant assets as of 2020 and set reduction targets from 2022 onwards through the Dutch Climate Agreement.

Risk management. In 2019, FMO's risk taxonomy and risk appetite framework were updated to include ESG risk as a risk type with a defined appetite. Additionally, climate change was explicitly added as an external causal factor, and is assessed in FMO's Internal Capital Adequacy Assessment Process (ICAAP). Driven by recent publications by the DNB and the European Central Bank, FMO is in the process of better integrating climate-related risks into its strategy, risk management framework, and disclosures:

- Since 2016, with our Position Statement on Coal and Mining, we decided to not directly finance any coal-based power generation and/or coal mining, and limit our indirect exposure. In 2020, we went one step further and published a draft Position Statement on Phasing out Fossil Fuels in Direct Investments. Herein we commit to not engage in direct financing of exploration and extraction of fossil fuels, Heavy Fuel Oil/Life Cycle Oil projects/transmission, as well as production, storage and transportation of fossil fuels for non-power generation, and set socio-economic transition criteria for gas-based power generation, distributed energy and transmission & distribution. This is in line with the climate statement made by EDFIs in November 2020.
- For all investments, we identify, assess and monitor ESG risks through our risk, compliance and operational processes. As climate change risks are becoming more prominent, we discuss how to improve mitigation and resilience with our customers. In case of agriculture projects, for example, climate risk consideration is inherent to our ESG assessment (e.g. impact on ecosystems and water resources, soil cover or micro-dripping for adaptation). This includes biodiversity assessments. FMO also is a member of the Partnership for Biodiversity Accounting for financials to improve measurement of biodiversity risk and impacts. We are currently working on formally integrating climate risk considerations at contracting and monitoring. For instance, the assessment of physical risks and exposure in energy and FI projects will be formalized in our due diligence process. Such discussions will also be held in the boardroom of our customers. FMO can still improve the way it quantifies risks, but we believe that closer relationships with the customers will raise awareness and allow us to manage risks together;

- Managing opportunities: While discussing climate-related risks with our customers, we also explore ways to create new opportunities. Moreover, we identify Green-labelled investments and steer our portfolio towards a higher share of such transactions. We set up a process based on our Green definition and eligibility criteria, and internal verification and approval to obtain the label. Green performance at portfolio level is monitored monthly.

Metrics and targets. In line with our ambition to enhance green investments, we track climate-related metrics. The results of the following metrics are disclosed in the Performance chapter:

- Green-labelled investments: We steer our portfolio towards SDG 13. In 2020, we set an annual target on Green-labelled investments of at least 34% of annual production to influence customer selection, project preparation and investment decisions;
- Avoided GHG emissions: Since 2015, FMO measures its avoided emissions to reflect its activities in transitioning towards a low-carbon economy. In 2020, FMO changed its methodology to align with the new PCAF Global Standard;
- Absolute emissions from FMO's own operations and FMO investments: In the past, we reported on FMO's own GHG emissions scope 1 and 2, as well as part of scope 3 emissions related to staff travel. However, as a bank, the largest footprint lies within our portfolio. In 2020, we disclose such information for the first time. As part of the Joint Impact Model, a GHG accounting approach and tooling was developed to measure absolute emissions from our investments, which we plan to use for aligning our portfolio with the 1.5-degree pathway. Our methodology has been aligned as much as possible with the new PCAF Global Standard;
- Sequestered emissions: In 2020, together with CDC, FinnFund and Swedfund FMO developed the Forest Carbon Sequestration tool (FRESCOS) in order to measure carbon emissions and removals of forestry and agroforestry projects.

Next steps. Together with EDFI members, we committed to adopting the recommendations of the TCFD and further embed climate risk management at every level of FMO. In 2021, a cross-departmental project will start to build a framework to better embed climate-related and ESG risks into FMO's risk framework. In the coming years, we aim to formalize the management of climate-related issues in line with TCFD's and ECB's expectations.

Responsible business

We engage in several initiatives focused on developing a common approach to E&S and impact, resulting in more responsible business practices across the industry.

UN Principles for Responsible Investment

Signatory of:

More than 2,000 organizations, representing over US$80 trillion in assets, have signed the PRI. This initiative aims to develop a sustainable global financial system by defining responsible investment as a strategy and to incorporate ESG factors into investment and ownership decisions.

As a signatory, FMO has applied PRI's six principles since 2011. This entailed incorporating ESG into investment practices (Principle 1 and 2), disclosing on ESG issues (Principle 3), supporting acceptance and effective implementation of the principles (Principle 4 and 5), and reporting on progress (Principle 6). Our performance significantly improved across the years and for two consecutive years, in 2019 and 2020, we received the highest score (A+) across the board. Our transparency report is available on the PRI website.

EDFI Harmonization

EDFI, the association of European Development Finance Institutions, launched the Harmonization Initiative on Responsible Financing and Impact Measurement in 2019. This is a multi-year program to harmonize approaches to economic and social impact and share E&S best practices. By making the SDG contributions of our customers measurable and comparable across the industry, we can be held accountable for progress and communicate it more clearly to our stakeholders. EDFI's harmonization focuses on key priority topics: jobs (SDG 8), climate action (SDG 13), gender equality (SDG 5), reduced inequality (SDG 10), and partnerships (SDG 17).

In 2020, FMO was involved in the following harmonization activities:

- SDG 8: Together with Steward Redqueen and other partners, FMO launched the harmonized Joint Impact Model (JIM) in 2020, an input-output model that estimates indirect jobs and GHG emissions through financed projects. The first results were reported in FMO's 2020 interim report. The year end results are provided in the Performance on our strategy chapter. A more detailed description of the JIM is available on FMO's website.
- SDG 8: EDFI also initiated a harmonization effort around how to measure quality of jobs (e.g. decent jobs, living wages).
- SDG 13: EDFI published a Joint Statement on Climate and Energy Finance. This lays out a common ambition to reduce GHG emissions without compromising development impact. Through this statement, EDFIs commit to: align all new financing with the objectives of the Paris Agreement by 2022 and transition to net-zero GHG emissions by 2050; prohibit new coal & fuel oil financing and limit other fossil fuel financing to Paris-aligned projects until general exclusion in 2030; set ambitious targets on climate finance and mobilization; assist customers in climate adaptation and the transition to a low-carbon economy; embed climate action and climate risk management; report on climate-related financial risk and adopt the recommendations of the TCFD.

2X Challenge

In 2019, FMO joined the 2X Challenge, which was launched in 2018 by DFIs from the G7 countries. The initiative allows for setting financial ambitions among DFIs and collaboration with various stakeholders towards female empowerment. It is also a step towards standardizing reporting on gender investments in emerging markets. Since joining, FMO has actively engaged with investors and customers on the topic of gender equality.

The 2X Challenge criteria and metrics have been harmonized with Global Impact Investing Network's IRIS+ system and are in the process of being aligned with Harmonized Indicators for Private Sector Operations. The 2X Challenge is expanding and has set an ambitious target of mobilizing US$15 billion of capital towards female empowerment by 2022.

Other engagements

We continue to engage with peers in the financial sector on ESG, human and labor rights, impact, environment, and responsible business through several long-lasting commitments. While some are global commitments, others are regional, national or specific to one topic, such as the African Infrastructure Development Association, the Nigerian Sustainable Banking Principles, the Kenya Green Bonds Program, the Mongolia Sustainable Finance initiative, and the Global Off-Grid Lighting Association. The next table summarizes these and other engagements.

	Equator Principles We have been implementing the Equator Principles (EP) since 2006. This risk management framework provides financial institutions with a minimum standard for due diligence and monitoring to determine, assess and manage environmental and social risks in projects. Our annual EP report is available online.	Signatory
	IFC Performance Standards Our E&S approach is guided by the IFC Performance Standards of Environmental & Social Sustainability. This framework helps us understand, avoid and mitigate E&S risks and impacts, for example through stakeholder engagement and disclosure obligations of the customer in relation to project-level activities.	Adopter
	OECD Guidelines We follow OECD Guidelines on responsible business conduct, notably human rights, labor rights and the environment.	Adopter
	UN Guiding Principles on Business and Human Rights We integrate the set of guidelines defined by the UN for states and companies to prevent, address and remedy human rights abuses in business operations.	Adopter
	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

FMO is a signatory of the Principles for Responsible Banking.

Signatory

Global Impact Investing Network

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

Member

Sustainable Development Goals Charter

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

Signatory

Impact Management Project

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

Member

Natural Capital Finance Alliance

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

Signatory

UNEP FI / EBF Working Group on Banking and Taxonomy

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

Member

Dutch Climate Accord

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

Signatory

Mainstreaming climate action in financial institutions

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.

Signatory

Platform for Carbon Accounting Financials

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

Signatory

NpM Platform for Inclusive Finance

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.

Member

Consultative Group to Assist the Poor

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

Member

European Microfinance Platform

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 We are a member of the global EMPEA association. This aims to catalyze the development of private equity and venture capital industries in emerging markets through research, conferences, networking, and advocacy.	Member
	Corporate Governance Development Framework We adopted the Corporate Governance Development Framework as a common approach to corporate governance risks and opportunities in DFI investment operations.	Adopter
	Financial Action Task Force We use the FATF framework to combat money laundering and terrorism financing, as well as the proliferation of weapons of mass destruction.	Adopter
	For our own operations, we maintain the following standards: - The Gold Standard	Signatory

IN CONTROL STATEMENT

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

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

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

The Management Board regularly considers the design and effectiveness of FMO's internal risk management and control systems (taking into account the approved risk appetite) and discusses all related significant aspects with senior management. The results of the Management Board's monitoring of FMO's internal risk management and control system – including significant changes and planned major improvements – and the defined risk appetite are discussed with FMO's Audit & Risk Committee, which reports these to the Supervisory Board.

Based on our monitoring of the company's internal risk management and control systems, and cognizant of their inherent limitations described below, we have concluded that FMO is in compliance with the requirements of best practices 1.4.2 and 1.4.3 of the Dutch Corporate Governance Code. The Management Board makes the following statement:

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

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

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

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

We note that the proper design and implementation of internal risk management and control systems significantly reduces, but cannot fully eliminate, the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees or others, management overriding controls, or the occurrence of unforeseeable circumstances.

Another limiting factor is the need to consider the relative costs and benefits of risk responses. Properly designed and implemented internal risk management and control systems will therefore provide reasonable, but not absolute, assurance that FMO will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business.

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

- Based on a newly implemented Financial Economic Crime framework & Know Your Customer system and organization, we are now accelerating file remediation to comply with regulatory requirements;
- Current and upcoming regulations put pressure on FMO and require significant attention and effort from its resources. New and changed regulations are being monitored on different levels and are being consolidated under a newly established regulatory monitoring framework in 2021;
- Data quality issues remain an attention point, although the implementation of the new Data Warehouse has improved the situation. It will require continuous efforts in order to further improve the timely availability, consistency, granularity and quality of data throughout the organization;
- FMO is in the process of further strengthening its internal control framework for front-to-end processes. An increase of the level of maturity of internal controls has been established in 2020. The gradual implementation of the Control Testing process is on the agenda for 2021;
- As FMO has been adding more and complex programs with (relatively) new donors like the Green Climate Fund, the European Commission and other investors, an improved risk & control system is being implemented to monitor and steer on the progress of the programs and to monitor the quality of reporting on these programs;
- As FMO faces the consequences of the COVID-19 pandemic, in combination with internal culture related areas of improvement, much attention is given to the well-being and work pressure of FMO staff by means of Working-From-Home facilitation and strengthening of the FMO- wide culture.

Responsibility Statement

We have committed to ensuring, to the best of our abilities, that this report was prepared and is presented in accordance with the Integrated Reporting framework and that the integrity of all information presented can be assured. In accordance with article 5:25c sub 2 part c of the Dutch Financial Supervision Act (Wft), we state that, to the best of our knowledge:

- The annual accounts give a true and fair view of the assets, liabilities, financial position and profits of FMO and its consolidated companies;
- The annual report gives a true and fair view of the position on the balance sheet date and developments during the 2020 financial year of FMO and its consolidated companies; and
- The annual report describes the material risks that FMO faces.

The Hague, March 19, 2021

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

03 Report of the Supervisory Board


JCB
JCB

REPORT OF THE SUPERVISORY BOARD

Marked by change and transition, the year 2020 will stand out in history for quite some time. The COVID-19 pandemic has presented the world a new reality that also greatly influenced FMO and the work and circumstances of its customers.

The economic climate of the countries in which FMO operates have been severely impacted by national lockdown measures, albeit some countries more than others. FMO has had to adapt to this altering business environment, while also having to adjust to working from home and relying mostly on online communication. Thanks to FMO's highly professional staff the organization reacted swiftly and strongly to these changes. FMO kept in close contact with its customers to understand what they needed to overcome the current crisis and support their communities. This included providing flexibility on loan terms, debt payment deferrals and emergency liquidity, although demand for the latter was lower than anticipated. In addition, FMO has offered capacity development to equip customers with the critical knowledge, connections, and leadership they need to weather the social and economic implications of the crisis. In the recovery phase of the pandemic FMO will be equally important for emerging markets, providing much needed capital while contributing towards reaching the SDGs, building back greener and more equal.

In the changing regulatory environment FMO has intensified its work in the prevention of financial economic crime. This has become increasingly anchored within the organization, essential to the contribution to local prosperity. Sustainable and responsible investments can only exist if customers and investees are who they say they are and do what they say they do. Better IT systems are now in place to support FMO's staff in FEC and KYC remediation, of which the responsibility partly has been transferred to the investment officers, as they have the primary contact with the customers and investees. The fact that investments made by development banks are often seen as a stamp of approval by third parties, only increases FMO's sense of responsibility in being fully compliant to the FEC and KYC requirements.

In addition to the fallout of the pandemic, FMO also experienced a challenging time internally. During 2020, we focused on the alignment of FMO's working procedures with the broader set of societal demands that FMO is facing. In June, Peter van Mierlo decided to step down as CEO of FMO. We value the open and constructive way that the Management Board, led by Peter van Mierlo until June 2020 and subsequently by Linda Broekhuizen, has interacted with us. We also valued Peter's professional experience that he brought to FMO.

It became clear from the dialogue processes that there was a need within the organization for improved internal connection, starting with leadership. Establishing improved engagement is an intense effort under normal circumstances, but even more so when much needed face-to-face contact is not possible. The Management Board continues to invest a lot of energy in this process, and initial outcomes are encouraging.

As Supervisory Board we focused on monitoring the general sentiment within the organization. Through the organization of Open Dialogue Sessions, we encouraged free exchange of views between FMO staff and SB members. We issued open letters to all staff sharing our views and insights. Furthermore, we intensified our exchanges with the Works Council and, through the Works Council, involved FMO staff in defining the search profile for the new CEO. The Supervisory Board ushered in and supervised an external avenue to provide additional follow-up for all employees as desired. Last but not least, the selection process for a new CEO is well underway and will have an outcome in the first part of 2021.

During this extraordinary year – in which FMO also celebrated its 50th anniversary – the relationship with the Management Board was productive and forward-looking. We intensified our meeting frequency to act as a sounding board and to share our views. Our discussions involved all topics above and more. Apart from the organization of and progress in the internal dialogue, the most dominant topics on the agenda were, the impact of COVID-19 on FMO's balance sheet and the consequences for the operations of the organization; the procedure of choosing a new CEO; the implementation of a new governance structure, the discontinuation of the executive committee and the expansion of the Management Board from three to five members.

Although the vaccine offers light at the end of the tunnel, the degree to which the pandemic will influence the year ahead is still to be seen. For FMO we anticipate a year of stabilization. FMO's balance sheet has stayed reasonably robust despite the bleak outlook at the beginning of the pandemic. New ways of carrying out virtual due diligence are developing at speed, possibly combined with live visits to new and existing customers. Pendant on the approval in the Senate of the Dutch Parliament, FMO's NL Business department will become part of the new organization Invest International that will be partly owned by FMO. And we expect to welcome a new CEO soon. He or she will have the important task of guiding FMO toward its 2030 agenda, and in the shorter term in contributing to a sustainable rebuild after the pandemic: empowering entrepreneurs in a time when it is needed most and improving the lives of people where it is needed most.

Corporate governance

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

Composition of the Supervisory Board

At year end 2020, the Supervisory Board was comprised of three male and three female members. The Management Board consisted of two female and one male member. FMO aims to have a balanced composition of the different boards in terms of gender, experience, age, professional background and nationality. Further personal details on the members of the Supervisory Board can be found in the section Members of the Supervisory Board.

	Supervisory Board	Audit & Risk Committee	Selection, Appointment & Remuneration Committee	Impact Committee
P. Vellinga (Chairman until 23 April 2020)	•		•	
A.E.J.M. Schaapveld (SB member until 23 April 2020)	•	•		
D.J. van den Berg (Chairman (a.i.) as of 23 April 2020)	•		•	•
J.V. Timmermans	•	•		
T. Menssen	•	•		•
D.K. Agble (as of 23 April 2020)	•	•		
M. Demmers (as of 23 April 2020)	•		•	•
R.P.F. van Haeringen (as of 23 April 2020)	•		•	•

Permanent education

In this difficult year, the Supervisory Board held its Lifelong Learning program in a simpler form and by means of virtual sessions. This included several subjects required by the Dutch Banking Code. The Supervisory Board focused on relevant topics such as various aspects of the portfolio pre and post-COVID-19, Compliance, topics related to the KYC remediation and FEC enhancement.

Evaluation

During the year several meetings between Supervisory Board and Management Board members took place to discuss the Management Board composition and to monitor its performance. The Management Board prepared a self-assessment and a team assessment of its functioning in 2020. The Supervisory Board evaluated the individual Management Board members by means of separate interviews that were conducted by two SB members. During those meetings, the self-assessments and the 2020 and 2021 objectives and targets were discussed, as well as the collaboration within the current MB setting. The conclusions from these meetings will be carried forward into the 2021 team and personal goals. The Supervisory Board discussed the outcomes of the evaluation in a concluding session without the Management Board present.

The Banking Code requires an external evaluator to conduct the Supervisory Board evaluation once every three years. This was done over the year 2018. The Supervisory Board evaluated its functioning in the new setting in 2020 by means of a self-assessment questionnaire and discussed the outcome in a separate session. The functioning of the SB committees and the functioning of the individual members were part of the evaluation. It was found that the SB functioned according to what can be expected in its new setting. The composition of the Board was evaluated as sufficiently diverse and covering the range of expertise's necessary for adequate supervision. However, also due to the events of last year, the SB expressed a need for a re-focus on the longer-term strategic challenges of FMO. Regarding the operations of FMO, the SB will more closely monitor the IT-policies of FMO, as well as the design and outcomes of its HR-function. Regarding the SB's own organization of work, it wants to develop a better sense of the daily operations and the general work culture within FMO. The energy spent on permanent education will be invested in keeping our knowledge and understanding up to date regarding the complex environment in which FMO operates. Suggestions made by the members will be dealt with adequately.

Appointments and reappointments

At our first virtual Annual General Meeting of Shareholders, in April, two Supervisory Board members retired from their roles: Pier Vellinga (Chairman) and Alexandra Schaapveld. We thank them for their contribution during the past 12 and 8 years, respectively. At the same time, we welcomed three new members: Reintje van Haeringen, Marjolein Demmers and Dugald Agble. Reintje van Haeringen brings the required in depth experience with project activities in emerging countries, NGOs, Human Rights and the Sustainable Development Goals. Marjolein Demmers fulfills the corporate social responsibility and sustainability profile. And, Dugald Agble brings the required financial and economic expertise and experience in financial services-/(impact)investment or development finance. In addition, Dirk Jan van den Berg and Thessa Menssen were reappointed for another term of four years. Dirk Jan van den Berg and Koos Timmermans have assumed the roles of Chairman and Vice-Chairman, respectively.

Meetings of the Supervisory Board

During 2020, the Supervisory Board held five regular meetings. As of mid-June the Supervisory Board decided to meet on a weekly or bi-weekly basis when the Management Board went down to two members after the departure of the CEO. At that time, it was also clear that the pandemic was long-lasting and would have an impact on FMO's customers and FMO's own results that required close monitoring. Topics that were discussed included: the impact of COVID-19, the nomination of three new SB members and reappointments of two SB members, the departure of the former CEO and ad interim appointments to the Management Board, the Strategy 2021-2024, the KYC remediation and FEC enhancement, FMO's participation in Invest International and the Business Plan 2021. Moreover, a Special Committee was installed, consisting of two SB members, which met biweekly with the MB in a more informal way, to provide support and advice whenever necessary.

Committee activities

The Audit and Risk Committee (ARC) supervises and advises on FMO's financial position. It monitors and offers expertise on issues such as our risk management policy, internal and external auditing systems and compliance with legislation and external and internal regulations. One of its key tasks is to monitor the performance of external auditors. The ARC met three times in 2020. These meetings are attended by the ARC members, the CEO, the CRFO, the Director Finance, the Director Risk, the Director Internal Audit and the external auditor. In 2020, the ARC discussed, among others, yearly and half yearly reporting, risk appetite reports, the risk appetite framework, internal and external audit plans and reporting, capital and liquidity adequacy statements and the status of the Know Your Customer and FEC enhancement project. The following key audit matters were discussed with the external auditor: IFRS 9 impairment of loans to the private sector, valuation of equity investments at fair value, reliability and continuity of the information technology and systems, and Green-labelled new investments. The ARC requested more information on - among others - Non-Performing Loans due to the effects of the pandemic, a progress update on the integrated control framework and an update on the progress of the look-through approach.

The main task of the Selection, Appointment and Remuneration Committee is to advise on the proposals on the appointment and re-appointment of Supervisory and Management Board members. Other tasks include monitoring the remuneration policy, preparing proposed adjustments and giving advice on the remuneration of individual Management Board members. The Selection, Appointment and Remuneration Committee met three times. In 2020, it discussed, among others, the nomination of three new Supervisory Board members, the profile of and the search for the new CEO and the interim appointments of the CEO ad interim and the CIO ad interim.

The Impact Committee assists the Supervisory Board in overseeing the quality and integrity of FMO's statements regarding development Impact. The Impact Committee, among others, prepares the decision-making (and or the advice) of the Supervisory Board around FMO's strategy (including policies and targets) around Impact and ESG. The Impact Committee was established in 2019 and held four meetings in 2020. Throughout the year, it discussed current impact and ESG policies, impact and ESG targets and steering, harmonization of development impact measurement methodologies, the external evaluation of FMO and met with the three panel members of the Independent Complaints Mechanism to discuss complaints and recommendations. The Impact Committee requested, among others, documentation on the outcome of the policy meetings FMO had with the Ministry of Foreign Affairs in relation to the strategic discussions on impact and fragile states. Furthermore, it held a specific meeting to pre-discuss the 2021-2024 Strategy from an impact and ESG perspective.

	Regular SB Meeting	Extraordinary SB Meetings (on availability basis)	Audit and Risk Committee	Selection, Appointment and Remuneration Committee	Impact Committee	Lifelong Learning
P. Vellinga (SB member until April 2020)	2 of 2			1 of 1		0 of 0
A.E.J.M. Schaapveld (SB member until April 2020)	2 of 2		1 of 1			0 of 0
D.J. van den Berg	4 of 5	27 of 30		2 of 2	1 of 1 (member until April 2020)	0 of 2
J. V. Timmermans	5 of 5	27 of 30	3 of 3			2 of 2
T. Menssen	5 of 5	25 of 30	3 of 3		4 of 4	2 of 2
D.K. Agble	5 of 5 (2 as guest)	30 of 30	3 of 3 (1 as guest)			2 of 2
M. Demmers	5 of 5 (2 as guest)	25 of 30		1 of 1 (member as of April 2020)	2 of 3 (member as of April 2020)	2 of 2
R.P.F. van Haeringen	5 of 5 (2 as guest)	22 of 30		1 of 1 (member as of April 2020)	3 of 3 (member as of April 2020)	2 of 2

Independence, conflicts of interest and governance

The Supervisory Board is of the opinion that all of its members are independent, as meant by Best Practice Provisions 2.1.7 up to and including 2.1.9 of the Corporate Governance Code. No direct, indirect or formal conflicts of interest were identified in 2020. FMO has specific regulations concerning private investments. Compliance by Supervisory Board members, Management Board members and all other employees with FMO's regulations on private investments is addressed regularly.

Culture, including compliance

The Supervisory Board ensured that the compliance function is safeguarded within the Management Board and the Supervisory Board. In 2020, the Supervisory Board put even more emphasis on supervising the improvement of KYC procedures. The Supervisory Board is updated in writing on compliance at every regular meeting. The Chairman of the Supervisory Board regularly meets with the Compliance Manager during the year and discusses issues where relevant.

The Supervisory Board encouraged free exchange of views through holding Open Dialogue Sessions with FMO staff during the second half of the year. In principle, two Supervisory Board members took part in each session. The Supervisory Board discussed grievances procedures and had these amended where necessary. The Supervisory Board regularly interacts with the Works Council.

Proposals and recommendations to the Annual General Meeting

Having stated all of the above, the Supervisory Board endorses the report of the Management Board. We propose that the AGM adopt the 2020 Annual Accounts audited by EY Accountants LLP. In accordance with Article 6 (2) of the State-FMO Agreement of November 16, 1998 and the current dividend policy, we propose that the AGM approve the allocation of €205 million net loss (2019: €120 million net profit) as follows: €6.1 million to the other reserves and the remaining net loss to the contractual reserve. Regarding the 2019 results, the General Meeting of Shareholders - at the proposal of the Supervisory Board and Management Board - allocated the distributable part of the profit of €2.7 million to the contractual reserve, however, we propose to allocate this amount to the other reserves, based on more insights. We recommend that the AGM adopt our proposals.

The Supervisory Board will inform its shareholders on the status of the search for a new CEO.

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

Members of the Supervisory Board

SB members on 31 December 2020

Dirk Jan van den Berg (Chairman)

Koos Timmermans

Thessa Menssen

Dugald Agble

Marjolein Demmers

Reintje van Haeringen

D.J. (Dirk Jan) van den Berg, Chairman	J.V. (Koos) Timmermans	T. (Thessa) Menssen
Dutch, 1953, male	Dutch, 1960, male	Dutch, 1967, female
Appointment in current position: 2020 - 2024	Appointment in current position: 2017 - 2021	Appointment in current position: 2016 - 2020
Principal position: 1. Chair of the Association of Health Insurance Companies in the Netherlands (Zorgverzekeraars Nederland) - as of February 2020 2. Chair of the Executive Board of Sanquin Blood Supply - until February 2020	Other positions: Chairman of the Supervisory Board of Stadsherstel	
Other positions: 1. Member of the Supervisory Board of Air France KLM 2. Vice-Chairman of the Supervisory Board of Gasunie 3. Member of the Governing Board of the European Institute for Innovation and Technology 4. Chair (non-executive) of the Board of TRADESPARENT BV: TP BV 5. Member of the 'Centrale Plancommissie' which has an advisory role for the Netherlands Bureau for Economic Policy Analysis (CPB) - until February 2020 6. President of the Atlantic Committee Netherlands 7. Chair of the Supervisory Board of the Dutch Research Council (NWO)		Other positions: 1. Supervisory Board member Post NL 2. Supervisory Board member of the Scheepvaartmusem (National Maritime Museum) 3. Supervisory Board member of the Kröller Müller museum 4. Supervisory Board member Alliander 5. Supervisory Board member Ecorys 6. Supervisory Board member Ordina - as of June 2020

D.K. (Dugald) Agble	M. (Marjolein) Demmers	R.P.F. (Reintje) van Haeringen
British, Ghanian, 1970, male	Dutch, 1967, female	Dutch, 1963, female
Appointment in current position: 2020 - 2024	Appointment in current position: 2020 - 2024	Appointment in current position: 2020 - 2024
Principle position: 1. CEO, Black Volta Ventures (UK) Limited 2. CEO, Black Volta Limited	Principle position: Director/CEO of Dutch environmental NGO "Natuur & Milieu"	Principal position: CEO CARE Nederland
	Other positions: 1. Member of the Council for environment and infrastructure - until August 2020 2. Member of the Supervisory Board of DRIFT (research, consultancy and education in transitions) 3. Board member of SKAO (Schemabeheerder CO2-prestatieladder) 4. Member of the Strategic Advisory Council of TNO SA&P (Strategic Advisory & Policy) 5. Member of the Supervisory Board of AquaMinerals (Reuse of recovered materials of the water sector) 6. Member of SPIL (Sustainable Pension Investments Lab) 7. Member of Sustainability Board Van Oord 8. Member of Advisory Council Environmental Sciences Group (ESG), WUR - as of October 2020 9. Member of Advisory Council of Stichting Sustainable Industry Lab, UU - as of November 2020	Other positions: 1. Board member of the Dutch Coalition for Humanitarian Innovation (DCHI) 2. Board member of the 'Samenwerkende Hulp Organisaties' (SHO/Giro555) 3. Member of the CEO Meeting of the Dutch Relief Alliance

SB members until 23 April 2020

P. (Pier) Vellinga, Chairman	A.E.J.M. (Alexandra) Schaapveld
Dutch, 1950, male	Dutch, 1958, female
Appointment in current position: 2008 - 23 April 2020	Appointment in current position: 2012 - until April 2020
Other positions: 1. Director Climate and Water at the Wadden Academy 2. Chairman of the Board of URGENDA, the Netherlands platform for the promotion of sustainability in business practices, until June 2019 3. Member of the Board of the Climate Adaption Services Foundation 4. Member of the Advisory Council of the Hogeschool Van Hall Latenstein, until October 2019 5. Chair of the Foundation True Animal Protein Price Coalition, TAPPc, started 2019 6. Chair of the Foundation Obligatiehouders MisterGreen, started end december 2019 7. Chair of the Supervisory Council of the Foundation Celebrating Diversity / King of the Meadows	Other positions: 1. Non-Executive Director at Société Générale S.A., France 2. Non-Executive Director of Bumi Armada Berhad, Malaysia 3. Supervisory Board Member Vallourec S.A., France

Good corporate governance at FMO is crucial for two reasons. First, as a public-private development bank, our own governance, structure and reporting lines must be both sound and transparent. Second, in order to carry out our mission we should set a high standard of corporate governance ourselves.

Articles of association

FMO's articles of association were last amended in 2009, the year in which the first version of the Dutch Corporate Governance Code came into effect. FMO's bylaws were updated in 2013 and the bylaws of the Impact Committee were prepared in 2019.

Governance structure

FMO's corporate governance structure is based on the premise that FMO is a long-term partnership of stakeholders who, directly or indirectly, influence or are influenced by the achievement of our objectives. Stakeholders include customers, the Dutch government, shareholders and other providers of capital, employees, NGOs and local communities in the countries where we work, as well as partners.

FMO is expected to take the interests of all stakeholders into account at all times. In governance terms, this expectation is expressed through the responsibilities and accountability of the Management Board and Supervisory Board with regards to our shareholders and other stakeholders.

The Management Board of our bank consists of the Chief Executive Officer, the Chief Risk & Finance Officer and the Chief Investment Officer. They were formally responsible for the management of our bank and were appointed by the Supervisory Board.

F. (Fatoumata) Bouaré	L.G. (Linda) Broekhuizen	H. (Huib-Jan) de Ruijter
Chief Risk & Finance Officer	Chief Executive Officer a.i.	Chief Investment Officer a.i.
Ivorian (Ivory Coast), 1966, female	Dutch, 1968, female	Dutch, 1976, male
Appointment in current position 2017-2021	Appointment in MB position: 2014-2018, 2018-2022	Temporary appointment: 2020
Other positions: No other positions.	Other positions: 1. Member of the Board of Directors of EDFI (association of bilateral European Development Finance Institutions) 2. Member of the Appeals Committee of the Foundation for Banking Ethics Enforcement and member of the Appeals Committee of DSI 3. Supervisory Board member of the Netherlands Council for Trade promotion (NCH) 4. Supervisory Board member Royal Institute of the Tropics (KIT) 5. Member of the Development Cooperation Committee of the Dutch Advisory Council on International Affairs (COS / AIV) 6. Member of the Advisory committee for Guarantee Program SME credits (Ministry of Economic Affairs and Climate) 7. MB member Stichting Netherlands Advisor Board on Impact Investing (NAB)	Other positions: No other positions.

During 2020 it was deemed best to abolish the 10-person Executive Committee (ExCo), which was responsible for the day-to-day management of the company between 1 January 2020 until 1 August 2020. The ExCo consisted of the members of the Management Board, the Director Debt, the Director Finance, Impact & Data, the Director Human Resources, the Director Impact & ESG, the Director Partnerships for Impact and the Director Stakeholders, Strategy & Knowledge Management. Establishing the ExCo was a response to the growing pace of change in our markets, the growth of our organization and the need to engage more actively with a larger number of stakeholders. These issues remain and the Supervisory Board and the Management Board have been looking into expanding the Management Board from three to five persons.

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

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

Organizational chart

Huib-Jan de Ruijter
Chief Investment Officer a.i.

- **Marnix Monsfort**
  Director a.i | Financial Institutions
- **Huub Cornelissen**
  Director | Energy
- **Pieternel Boogaard**
  Director | Agribusiness, Food & Water
- **Jaap Reinking**
  Director | Private Equity
- **Idsert Boersma**
  Director | Partnerships for Impact
- **Jorim Schraven**
  Director | Impact & ESG
- **Steven Duyverman**
  Senior manager a.i. | Know Your Customer/KYC
- **Janet Nieboer**
  Director | NL Business/NedLinx
- **Yvonne Bakkum**
  Manager | FMO Investment Management

Linda Broekhuizen
Chief Executive Officer a.i.

- **Catharina Oosterbaan**
  Corporate Secretary
- **David Wyatt**
  Director (up until 31 March 2021) | Business Projects
- **Anke Teirlinck**
  Senior Executive Assistant | MB Secretariat
- **Anneloes Roeleveld**
  Manager | Corporate Communications
- **Yvonne Bol**
  Manager | Corporate Legal & Tax
- **David Wyatt**
  Director (as of 1 April 2021) | Stakeholders, Strategy and Knowledge Management
- **Danny Klappe**
  Director | Human Resources
- **Friso Schellekens**
  Director | Internal Audit

Fatoumata Bouaré
Chief Risk & Finance Officer

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

Risk management framework

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

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

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

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

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

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

Aligned remuneration policies

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

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

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

The remuneration policy for the Management Board will be reviewed periodically (every three to four years) and amendments will be subject to approval of the AGM. During the April 2020 AGM, no amendments to the remuneration policy were proposed or approved.

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

The ratio between the remuneration of our CEO a.i. (being the highest-paid individual) and the median of all other colleagues (including the other Management Board members) in December 2020 was 3.5 (2019: 3.5). Compared to the financial sector in The Netherlands this ratio is relatively low.

In April 2020, FMO conducted quantitative research to compare men's and women's salaries, correcting for part-time work, salary scale, age, and tenure to have a fair comparison. The outcome of this (multiple linear regression) analysis on gender pay differences (gender pay gap analysis) showed that, at a 5% significance level, there is no sufficient evidence to support the claim that at FMO for equal work the salaries of women are significantly different from the salaries of men. Therefore, it is fair to claim that FMO awards women and men equally for similar work (SDG 5: Gender Equality).

Independent complaints mechanism

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

Corporate governance codes

FMO abides by two governance codes: the Dutch Corporate Governance Code and the Dutch Banking Code.

The Dutch Corporate Governance Code ('the Code') only applies to organizations whose shares are listed on a regulated market. As a non-listed bank, FMO is not required to adhere to the Code, but we have chosen to do so, nonetheless. The Supervisory Board and the Management Board fully endorse the basic principle on which the Code is based, namely that the company is a long-term partnership of our various stakeholders. In 2014, FMO published a policy specifically regarding bilateral contacts with our shareholders, which is provisioned by the Code and is available on our website.

We comply with the Banking Code or will otherwise explain in a document where and how we diverge from the Banking Code, including concrete examples. This document can be found on our website.

FMO promotes diversity at all levels, including the Management Board and Supervisory Board. As principle 2.1.5 of the Code requires, FMO has diversity policies, which have been applied to the profiles of the Supervisory Board and the Management Board. Our aim is to have well-balanced boards, which are up to their task and can come to good solutions, while considering the members' different perspectives, backgrounds and experiences. The Management Board has one African member, Fatoumata Bouaré. The Supervisory Board also has one non-Dutch member, Dugald Agble, who has the Ghanaian and British nationality. The Supervisory Board consisted of 50% men and 50% women after the appointment of three new Supervisory Board members in April 2020. The Management Board, when at full capacity, consisted of 33% men and 67% women. In both boards, the ages of the members are well distributed, and knowledge and experience comply with the applicable matrices.

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

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

BPP 2.2.2: This provision refers to reappointment of Supervisory Board members. The third term of four years, as meant in the previous version of the Corporate Governance Code, is split into two terms of two years in the current version of the Corporate Governance Code. Section 2.7 of the Supervisory Board Standing Rules, which deals with reappointments and the duration thereof, will be amended accordingly at the next revision. As of 23 April 2020, none of the Supervisory Board members exceeded the eight year term.

BPP 2.2.4: This provision requires a written (separate) succession plan, which focuses on knowledge, experience and diversity. At FMO, knowledge, experience and diversity are included in the profiles of the Supervisory Board and the Management Board. Succession and knowledge are regularly discussed in meetings of among others the Selection, Appointment and Remuneration Committee. The Supervisory Board retirement schedule is placed on the website. Therefore, there is no separate plan. In April 2020, the Supervisory Board came to full strength and consisted of six members again.

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

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

BPP 4.1.4: The explanation of the agenda of the AGM is not published on FMO's website, since this document is sent to all shareholders of FMO.

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

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

BPP 4.3.3: This provision does not apply, as this provision refers to a legal entity that does not apply a so-called 'structuurregime'. FMO is a so-called 'structuur' legal entity as defined in paragraph 2.4.6 of the Dutch Civil Code.

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

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

BPP 4.4.1 – 4.1.8: These provisions concern the issuing of depositary receipts for shares. There is no such requirement at FMO, apart from the articles of association, which lay down that the company is not permitted to cooperate in issuing depositary receipts of shares.

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

FMO Investment Management BV

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

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

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

As a Development Finance Institution, we engage with our stakeholders on a regular basis to gauge whether we are meeting their expectations. Every 2-3 years we carry out a materiality assessment to identify topics that may affect our business and/or our stakeholders and that should inform our strategy, targets and reporting. Through stakeholder dialogue we keep an ear to the ground to better understand their views on these topics and how they may change over time.

Materiality assessment

In 2020, we conducted an online survey and follow-up sessions with several focus groups. In total, we gathered input from 203 internal and external respondents. Based on past experiences and current trends, we modified our materiality assessment approach. Building on the GRI materiality principles, our goal was to determine how stakeholders rate FMO's performance on its material topics, to identify any new material topics and to gain a better understanding of what they expect from us with respect to reporting.

FMO's performance on material topics

In determining how our stakeholders rate our performance we have assumed that most of our material topics are embedded in our current strategy and value creation model. They reflect the areas through which we create impact and form the basis of engagement with our stakeholders. How we perform on these topics influences how they perceive us. We asked survey participants to rate our performance per topic on a scale of 1 (terrible) to 5 (very good). A lower rating suggests FMO needs to improve on its overall performance or in its communication in that area.

The following heat map depicts how each stakeholder group has rated FMO on the material topics. As we seek to create value for all our stakeholders, all groups were equally weighted in our analysis[1]. Our overall score was 3.7, above average but suggesting room for improvement. This is also where we set the threshold, at 3.7 or lower, to determine the topics needing more attention. Most notably, these include our core impact themes like 'reducing inequality', 'empowering women', 'supporting human rights' and 'climate action' as well as the way we measure impact. Our performance on 'investing in innovation' received low ratings across all stakeholder groups[2]. For some topics we believe we can better inform our stakeholders by illustrating ongoing efforts or planned initiatives. We try to do that as much as possible in this year's annual report. An overview of the content provided on each material topic is outlined in the connectivity table. Other topics require further reflection and follow-up discussions with our stakeholders.

New material topics

To identify emerging topics, we asked our stakeholders to list the key risks and opportunities they believe are important for FMO's value creation or for society at large. We then asked respondents to rank these in order of importance. In our analysis, we grouped the answers into broader risk and opportunity categories. Topics in the top five, as outlined in the following table, require further attention. This holds true for topics that are completely new as well as for those that are established. For instance, a topic that receives a relatively good performance score can still be flagged by stakeholders as a major risk, indicating the importance they attach to that topic.

	Opportunity	Average	Risk	Average
1	Focus on climate through sustainable investments (e.g. clean energy, forestry, sustainable agriculture, biodiversity, clean water)	24.4%	Investment risks	14.8%
2	Technological development, innovation & venture capital	9.3%	Effects of pandemic	14.1%
3	Supporting economic recovery after pandemic	8.4%	Climate change	14.0%
4	Invest in new & emerging markets (focus on Africa)	8.3%	Economic instability & financial crisis	8.0%
5	Impact investing & measurement (incl. standard development)	7.4%	Country risks	7.4%

It is not surprising that 'investment risks' and 'effects of the pandemic' as well as 'economic instability' are among the most frequently mentioned risks. At the same time, respondents also believe the pandemic offers an opportunity for FMO to step in at a time when the need is greatest. 'Effects of the pandemic' and the resulting 'economic instability' are the only new material topics we identified. We could match the rest of the topics to our material topics list. 'Investment risks' and 'Country risks' fall within the topic of 'FMO's financial sustainability & risk appetite'. This topic receives a performance score above the threshold. However, because of the risks our stakeholders identified, it is added to the list of issues we need to focus more on in the months ahead.

Transparency and quality of our disclosure

The outcome of the materiality assessment informs the focus of our reporting so that we meet our stakeholders' informational needs. Our stakeholders were asked to indicate how satisfied they were with the quality and transparency of our reporting and were asked to provide suggestions for improvement.

FMO received a total average score of 3.8 on transparency and quality for our reporting, which is satisfactory. However, there is room for improvement through formal reporting or other communication channels. In addition to requesting less formal communication, respondents reiterated the need to improve impact measurement and reporting at a more granular level. Specifically, on how we achieve positive change through better measurement, storytelling and showcasing on-the-ground impact.

Next steps

Based on the performance rating and the top risks and opportunities, we identified the following nine topics that need more attention:

- Combating climate change and its impacts
- COVID-19 effects / supporting economic recovery
- Measuring impact & learning from evaluations
- Investing in innovation
- Reducing inequality (incl. investing in new & emerging markets (focus on Africa))
- Supporting customers to safeguard human rights
- Supporting women's economic empowerment
- Ensure employee engagement, health & well-being
- Maintaining financial sustainability and risk appetite of FMO (incl. investment & country risks)

This modified approach provides guidance for further engagement and improvement. Some of these topics were identified as being most material in previous assessments. Three topics have gained in importance: 'measuring impact & learning from evaluations', 'investing in innovation' and 'internal organization & culture'. One new topic has been added to the list: 'effects of the pandemic'.

As the materiality assessment was carried out towards the end of 2020, this annual report does not yet address all of these findings. We need more time to gather the information and report on some topics. Moreover, we will need to dive deeper into these areas with our stakeholders to better understand where we can improve. The outcomes of this assessment will inform our strategic decision-making and will guide our reporting efforts in the years to come.

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

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

Stakeholder dialogue

FMO's decisions affect others and vice versa. We discuss key matters with a diverse set of stakeholders and factor the outcomes into our decision-making, strategy and reporting. We have identified our key stakeholders based on their (economic) relationship with FMO, their interest in and influence on FMO, the extent to which they are affected by FMO's activities as well as the potential for sharing knowledge. We explain how we have engaged with each stakeholder group and the topics that were discussed. FMO also takes part in several business and impact initiatives to promote sustainable development and responsible business across the globe. Please refer to Our Commitments for an overview of our main engagements.

State of the Netherlands and other shareholders

FMO was founded as a public-private partnership with 51% of shares held by the State of the Netherlands. Our mandate is to promote private sector development in developing countries, which is in line with the Dutch government's policy on foreign trade and development cooperation. The Dutch government provides a guarantee on our financial commitments and entrusts FMO with the management of several government funds that have a strong synergy with FMO's overall strategy.

The Management Board (MB) regularly discusses performance on our strategy with the government. Key topics discussed in 2020 include:

- Customer support in response to COVID-19 and the impact of the pandemic on land rights;
- The Joint Agenda between FMO and the Government, including FMO's involvement in fragile states, ESG and stakeholder engagement, as well as additionality and mobilization;
- FMO advice on the Dutch Africa Strategy;
- Our draft position statement on phasing out fossil fuels from direct investments;
- Revision of the Criteria Memorandum – an agreement between FMO and the Government covering criteria used for investment decisions, looking at countries, sectors, ESG and additionality.

In addition, we engage with our network of Dutch embassies in the countries in which we operate for contextual analysis, guidance and information sharing.

The remaining 49% of our shareholders' capital is provided by commercial banks, trade unions and other private sector parties. Our shareholders lay the foundation for FMO's financial sustainability. We engage with our minority shareholders mainly through the Annual General Meeting. Important topics discussed included FMO's financial and risk management, development impact and accountability of our activities.

Supervisor and regulator

The DNB supervises FMO to ensure we comply with banking regulations and manage risks in line with our risk appetite. The main topic in 2020 was FMO's responsibility for preventing financial and economic crime. In 2020, DNB conducted an on-site inspection to determine our progress towards complying with the Wwft. DNB concluded that FMO was on the right track, but that progress was not fast enough. As a result, FMO and DNB agreed on a deadline to ensure full compliance with the Wwft and Sanctions Law by the end of 2021.

Customers

Our customers consist of companies, financial institutions, private equity fund managers, and agribusiness and energy project developers in developing countries. Through their business activities, they have an impact on the economy and local communities. We support our customers to realize positive impact by providing finance and ESG support.

FMO investment staff as well as our MB are in close contact with customers. In 2020, due to the pandemic, our annual face-to-face meetings with customers were conducted virtually. Not surprisingly, the main topic of conversation was how FMO could support customers through these difficult times. Each year, we also send out a customer satisfaction survey.

Employees

Our employees and management contribute to the realization of FMO's objectives. Directors and managers are involved in the annual strategy review to ensure we continue to realize our mission. Employees expect a fair salary, a safe and motivating work environment and equal opportunities for professional development.

During 2020, the MB regularly connected with FMO employees via virtual all-staff meetings and dialogue sessions held in smaller groups. The MB also attended the scheduled meetings with the Works Council. The main topics discussed were building trust, employee well-being while working from home during the pandemic and how to create an inclusive organization.

Investors

Investors include FMO's bondholders as well as public and private investment partners. We offer investors access to our expertise on responsible investing in emerging markets. Institutional and private investors are interested in the risk-return profile of their investments and the development impact created through them. Therefore, we provide regular financial and impact reports. Our investors expect FMO to be responsible, transparent, and accountable. We have demonstrated this by obtaining the highest ESG risk rating in the banking industry (966 banks) and in the total population assessed ('Global Universe'=12,781) by Sustainalytics, and by receiving the highest score (A+) on the UN Principles for Responsible Investment (UNPRI).

FMO frequently meets with its private investors. However, in 2020, this was less frequent due to the cancellation of several conferences and roadshows. The attention from investors this past year has been on the impact of COVID-19 on FMO's investment portfolio and how we have dealt with the situation. Our response to the pandemic has been communicated through the website and several virtual meetings with investors.

Our public investment partners include the Dutch state, the European Commission and the Green Climate Fund. In 2020, the focus of cooperation was on support for COVID-19-affected entrepreneurs.

Local communities, non-governmental organizations and customers of customers

Our customers are responsible for engaging with local stakeholders, to prevent harm and to maintain support for their activities. Local communities expect FMO to require customers to comply with international standards and monitor how they do. The IFC Performance Standards, for instance, requires our customers to engage with local stakeholders, set-up of grievance mechanisms and take effective remediating actions.

We engage with non governmental organizations (NGOs) that represent local environmental and human rights advocates and engage with knowledge centers and whistle blowers in the banking industry. NGOs have expressed a need for FMO to better explain how we ensure our customers safeguard human rights, natural resources and critical ecosystems. Moreover, NGOs have asked us to be more closely involved with local communities prior to making an investment decision. FMO engages with NGOs throughout our investment process when we need expertise on human rights in local contexts. With a few NGOs based in The Netherlands we have scheduled quarterly meetings to discuss a wide array of topics. The MB also engages with these selected NGOs. During 2020 the main topics discussed were:

- Our COVID-19 response and how this has helped our customers and the environment in which they operate.
- Through a report of the International Accountability Project and Fundeps, several NGOs asked us to improve our disclosure practice. They asked us to add project status information and a reference to the Independent Complaints Mechanism to the World Map on our website. FMO is working on this. Moreover, NGOs asked us to disclose more E&S information per individual customer and project. This supports communities' right to seek, receive and impart information as equal partners in development. Whereas FMO fully acknowledges this right, we responded that we believe that project specific E&S disclosure and community engagement should take place through our customers. In line with IFC Performance Standards, FMO aims to empower both communities and customers to do so.

- Our draft position statement on phasing out fossil fuels from direct investments that was open for consultation. Feedback was generally positive and gives us confidence that we are moving in the right direction. We are currently processing this feedback.

Dutch Banks

FMO was a signatory of the Dutch Banking Sector Agreement on international responsible business conduct regarding human rights, which focused on the implementation of the OECD Guidelines for Multinational Enterprises and the UNGPs. This covenant formed an agreement between a coalition of banks, the Dutch Banking Association (NVB), trade unions, civil society organizations, and the Dutch Government that was operational until the end of 2019. Since then, an independent committee has been monitoring the progress made by the adhering banks. FMO remains committed to improving its standards and continues to collaborate with other Covenant parties. In 2020, FMO completed the self-assessment for the final report of the independent committee. Furthermore, it collaborated with the NVB and other Dutch banks to follow up on the Dutch Banking Sector Agreement. An outcome of these discussions led to a letter from the NVB, on behalf of all Dutch banks, to the Dutch Parliament to communicate its support towards introducing new legislation on mandatory due diligence in the EU.

Development Finance Institutions & Knowledge Partners

Partner development finance institutions and multilateral development banks co-finance with us and deliver valuable local knowledge about the markets in which we operate. We share knowledge with our peers and work on harmonizing impact measurement and ESG. FMO plays a leading role in EDFI's Harmonization Initiative. In 2020, EDFI's focus was on developing a joint response to the COVID-19 pandemic in support of our customers. An example of this effort was the EDFI joint approach to debt payment deferrals.

We also continue to engage and learn from other knowledge partners including universities, NGOs, and independent consultants. Each year, FMO commissions studies that assess the impact of our products and services. We established an Independent Advisory Evaluation Panel, consisting of academic and other specialists in the field of evaluation, to help us safeguard the quality and effectiveness of these studies. The Panel convenes every quarter with FMO’s evaluation specialists, investment staff and independent consultants to critically assess the set-up, progress, conclusions and recommendations of external studies.

In the agri-food domain, we partner with the UN Food and Agriculture Organization (FAO) which has enabled us to connect knowledge and innovation to market opportunities for more impact. In 2020, FMO partnered with FAO to support the growth of agricultural SME finance in Kenya.

HOW WE REPORT

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

Legal entity

This report covers the activities of Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), FMO Investment Management B.V. (FMO IM), NedLinx B.V. and FMO's intermediate holding subsidiaries: Nuevo Banco Comercial Holding B.V., Asia Participations B.V., and FMO Medu II Investment Trust Ltd.

FMO also manages funds for the Dutch government – MASSIF, Building Prospects, and the Access to Energy Fund – and executes on the Capacity Development subsidy scheme. Moreover, FMO partners with SNV Netherlands Development Organization, World Wide Fund for Nature and Climate Fund Managers to manage the Dutch Fund for Climate and Development (DFCD) on behalf of the Dutch government.

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

Reporting policy

The period covered by this report is the calendar year 2020. The publication date of the previous annual report was March 25, 2020. There have been no significant changes to our legal structure, activities, or policies in the course of 2020 that would require a restatement of information. The method for measuring new investments mobilized funds has been adjusted: In 2019 the new investments mobilized funds included participations that were on FMO's own books in earlier years and sold on to other investors in the reporting year. From 2020 these are excluded. Comparative figures have been adjusted accordingly: New investments mobilized funds 2019 from €868 million to €722 million, Green investments 2019 from €961 million to €861 million and RI investments 2019 from €798 million to €784 million. Also, the method for measuring ESG performance and the model for estimating the number of jobs supported have changed compared to 2019. Both changes are explained in chapter Performance on our strategy.

The figures and percentages in this annual report (not the annual accounts) include the figures for FMO and its subsidiaries as well as those of the FMO-managed government funds, unless explicitly stated. The assets advised on by FMO IM for third parties are not included in this annual report.

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

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

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

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

Standards and reporting guidelines

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

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

The European Parliament has adopted an EU directive that requires eligible organizations and all banks to disclose non-financial and diversity information from the end of 2016. We have incorporated the elements of this directive in this report. Please refer to the reference table (annualreport.fmo.nl) to find the relevant information.

Since 2019, we report on our approach to climate following the recommendations provided by the Task Force on Climate-Related Financial Disclosures (TCFD). Please refer to chapter Our Commitments.

Reporting governance

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

External assurance

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

Joint Impact Model

The Joint Impact Model (JIM) is the successor of FMO's impact model which was introduced in 2015. Since early 2019, FMO and Steward Redqueen, together with other strategic partners, have worked on the harmonization of the underlying methodology and the inputs required. A full methodological description is available on FMO's website. We use the Joint Impact Model to estimate the number of jobs supported through our investment portfolio and the financed absolute GHG emissions.

Limitations of the model

The impact model allows quantifying the wider impact of investing in various economic regions and sectors, both directly and through financial institutions and funds. The model makes use of data from international statistical sources and investment-specific information which we obtain from our customers' annual accounts. The impact model is an economic input-output model, which enables the model to trace product and money flows through an economy. However, it is also important to point out the limitations of this methodology:

1. Estimates of indirect impact are based on industry averages (via input/output tables). In reality indirect effects will be different at the individual company level due to differences in individual company characteristics. As a result, model outcomes become less accurate for smaller numbers of investments.
2. Estimates are based on historical relations, while the methodology is based on the most recent (macro) economic data available.
3. FMO's investments are treated as investments from any other lender and it has been assumed that FMO's financial support does not affect the relations of sectors within an economy.
4. Given that the analysis is conducted for a specific moment in time, it does not take into account any structural changes in the economy (e.g. increased productivity).

Taking the limitations of the model into account, we use the results only on the portfolio (and sub portfolio) level. In addition, we perform activities to provide insight in ex-post development effects, such as monitoring of direct effects, sector evaluations, effectiveness studies and impact evaluations. Find more information on how we measure impact and the Joint Impact Model Methodology on our website: How we measure impact - FMO.

JIM attribution rules

FMO provides part of the capital a company needs, and hence other investors likely contribute to a company's business as well (either by providing capital or advice). Furthermore, external circumstances such as changing market conditions, climate change and technological developments may also influence the business. This raises the question of attribution: 'which portion of results of an invested company or portfolio of companies is due to the activities of an investor, taking into account other investors and additional factors that may have influenced the achievement of the results'? The JIM takes a pragmatic approach to this attribution question and applies prorating to attribute part of the impact to the investor's intervention: attribution is based on the share of FMO's net carrying value (loan or equity) in a customer's assets.

Other reporting definitions

We have aligned our indicator definitions with internationally harmonized definitions if these are available. Below we have included the definitions of the reported indicators, insofar as they were not included in chapter Our Performance.

Customer satisfaction and Net Promoter Score

Customer satisfaction shows how satisfied customers are with the services FMO offers on a scale of 1 to 10. The customer satisfaction score is calculated as the average of the scores given by respondents and expressed as an absolute number between 1 and 10.

Net Promoter Score shows the extent to which customers would recommend FMO to others. The customer is regarded as 'promoter', 'passive' or as 'detractor'. The NPS is calculated by subtracting the percentage of 'detractors' from the percentage of 'promoters'. The score is expressed as an absolute number between -100 and +100.

The scores for 2020 are based on 118 responses from customers that participated in a customer satisfaction survey held in December 2020 and closed in January 2021.

Direct Jobs

Direct jobs are defined following the HIPSO definition as the "number of full-time equivalent employees as per local definition working for the client company or project". This includes directly hired individuals and individuals hired through third-party agencies as long as those individuals provide on-site services related to the operations of the customer company. Also, this includes full-time equivalent worked by seasonal, contractual and part-time employees.

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

Corporate Governance risk categorization

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

Corporate Governance performance tracking

The CG officer or the investment officer assesses the maturity of the corporate governance of a customer, based on five CG attributes in a predefined tracking sheet: 1. Commitment to CG; 2. Structure and functioning of the Board of Directors; 3. Control environment and processes; 4. Transparency and disclosure; and 5. Shareholder rights. These CG attributes originate from the methodology of the DFI Corporate Governance Framework. Subsequently, the officer assesses whether the maturity level (basic, emerging, or developed) is adequate for the specifics of the company and its context. The conclusion on the adequacy of the corporate governance considers the size, risks, and complexity of the company, country context and (absence of) strong CG regulations, as well as the track-record with FMO. If the CG maturity is considered inadequate, FMO agrees on a CG action plan with the customer.

In September 2020, with the introduction of our new Sustainability Information System (SIS), the tracking sheet has been integrated in this application, including supporting approval workflows. Investment teams complete the tracking sheet after due diligence and the assessment is included in the Financing Proposal to support investment decisions. The CG adequacy assessment gets evaluated again during annual review and when significant changes occur. The Credit Department reviews and approves the CG tracking sheet as part of the transaction approval.

E&S risk categorization

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

E&S performance tracking

To monitor the E&S performance of our high risk customers we use predefined tracking sheets structured around the IFC Performance Standards and international best practices. Our E&S specialists assess customers' exposure to applicable risks (low, medium, high) and subsequently their performance in terms of mitigating such risks. Up until August, three levels were used (green = acceptable, amber = insufficient, red = unmanaged). In September, with the introduction of our new SIS, the metric has

been extended to five elements: exemplary, good, satisfactory, caution and unacceptable. E&S specialists update the scoring after due diligence and the assessment is included in the Financing Proposal to support investment decisions. The score gets evaluated again during annual review and when significant changes occur. Before contracting, an independent validation of the information is carried out by an E&S specialist in the Credit Department.

E&S Management gaps table

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

Employee statistics

- Total number of (internal) employees: The total number of employees (with a definite or indefinite employment contract with FMO N.V.) at the last day of the reporting period, minus the employees leaving the organization as per the that same day. Interns are not included.
- Employees in senior and middle management: Number of employees in a management position including Management Board member, Director, Manager at the end of the reporting period, excluding the incumbents in these positions leaving FMO per the last day of the reporting period. Note: ad interim Directors and Managers roles are included.
- Number of new joiners: Number of new joiners during the reporting period, being between the last day of the previous reporting period and the last day of the actual reporting period. Note: employees joining and leaving in the same reporting period are included as new joiners and as leavers.
- Number of leavers: Number of leavers between the last day of the previous reporting period and the last day of the actual reporting period. Note: employees joining and leaving in the same reporting period are included as new joiners and as leavers.
- Net growth percentage: Number of new joiners minus number of leavers divided by starting balance of the total head count in the reporting period.
- Staff turnover: Number of departures during the reporting period divided by the starting balance of total head count of the reporting period.
- Share of bonus amount paid in the period: Percentage of total bonus amount paid out to female and male employees related to the performance review over the previous year (payments made in March of the reporting year).
- Promotion ratio in the period: Promotion in this context is defined as progression to a higher salary scale, either based on the latest appraisal or during the period e.g. as the result of an appointment in a different role based on an internal vacancy process.
- Employee engagement: Engagement score based on latest employee engagement survey (September 2020) sent to all employees with a minimum of 3 months in service.
- Number of internal FTEs: Sum of the related Full Time Equivalents (as contractually agreed) of all internal employees.
- Percentage non-Dutch employees: Total number of employees with a different nationality from the Dutch nationality divided by the total number of employees.
- Number of nationalities: Total number of different nationalities of employees in service of FMO N.V. as registered based on employees' passports when joining FMO. Note: if an employee has more nationalities among which the Dutch nationality, the Dutch nationality will apply.
- Absenteeism: Percentage of total sick leave (short, medium and long term sick leave) calculated as total number of sick leave days divided by the sum of work days.
- Number of external employees: Total number of people working for FMO as 'Temporary External' on an agreement not being an employment contract with FMO N.V.

Green investments

Definition

Green-labelled investments contribute to climate mitigation, climate adaptation or other footprint reduction (water, waste, biodiversity). Green labels are applied ex-ante for the new commitments in a running year. Please note that we apply the labels to new commitments, but that these are referred to as investments throughout the report. To facilitate steering on SDG 13 through our Green label, we set an annual target on ‘Green’ as a percentage of new commitments that influences customer selection,

project preparation and investment decisions. FMO's Green criteria for climate mitigation and climate adaptation are in line with the IDFC - MDB list of Green investments. FMO Green definition also recognizes activities that do not directly target climate change mitigation or adaptation yet have a positive impact on the environment including water treatment, waste management and biodiversity conservation ('other footprint reduction').

All Green labelled investments need to comply with two underlying Green principles by default, namely 1) Green investments should contribute to a genuine improvement beyond the local regulatory requirements; and 2) Green investments should not contribute to a long-term lock-in of high carbon infrastructure. Based on these principles, FMO has defined a non-exhaustive list of pre-approved eligible activities such as making, installing, distributing or financing renewable energy projects/products and agriculture in line with certain certification schemes. Improvements that are not included on this list, may still be found eligible if they meet the Green principles. In these cases, a minimum threshold of 20% improvement against a baseline needs to be substantiated. For example:

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

Approval process

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

Scope

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

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

Human rights due diligence indicator

The total number of significant investment agreements in FMO's portfolio for which E&S due diligence including human rights was performed, or human rights clauses were included in the contract. This includes high E&S risk customers in our portfolio per 31 December 2020 with an approved E&S Tracker.

New admissible complaints received

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

Reducing Inequalities investments

Definition

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

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

- Microfinance;
- Agricultural SME lending;
- Smallholder finance;
- Agribusinesses working with smallholders;
- Youth finance;
- Off-grid power;
- Innovative solutions for the 'Base of the Pyramid';
- Women-owned SME lending;
- Other inclusive business investments targeting female end-beneficiaries.

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

Approval process

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

For the inclusive business sub-label, a request through the labels tab in Impact Card is always required. A deal team submits a request via Impact Card, after which Credit receives an email notification. Credit assesses the request for the relevant labels and decides whether the labels are granted. If the (sub)label is likely to be granted but more evidence is needed at a later stage (e.g. evidence of a use of funds clause in the contract), the label request can be conditionally approved. Credit archives the Green and Reducing Inequalities Labels tab and informs the deal team about the outcome of the assessment. Information on the Green and Reducing Inequalities status of the proposed transaction is to be included in the CIP and FP.

Scope

Refer to scope Green investments.

Baynouna Solar Energy Company in Jordan
Completed in 2020, Baynouna is the largest single solar energy project in Jordan.

07

Consolidated Annual Accounts

Consolidated balance sheet

As at 31 December 2020

	Notes	2020	2019
Assets			
Banks	(1)	46,775	64,626
Current accounts with State funds and other programs	(2)	678	1,194
Short-term deposits	(3)		
-of which: Amortized cost		994,814	446,708
-of which: Fair value through profit or loss		302,547	926,769
Other receivables	(4)	17,370	25,824
Interest-bearing securities	(5)		
-of which: Amortized cost		371,076	350,237
Derivative financial instruments	(6)	462,269	301,237
Loans to the private sector	(7)		
-of which: Amortized cost		4,172,748	4,334,109
-of which: Fair value through profit or loss		585,716	696,513
Equity investments	(9)		
-of which: Fair value through OCI		115,504	122,921
-of which: Fair value through profit or loss		1,688,437	1,756,644
Investments in associates	(10)	179,955	285,867
Current tax receivables	(30)	-	46,484
Property, plant and equipment	(11)	29,504	28,289
Intangible assets	(12)	20,867	17,585
Deferred income tax assets	(30)	9,847	6,986
Total assets		**8,998,107**	**9,411,993**
Liabilities			
Short-term credits	(13)	341,199	94,339
Current accounts with State funds and other programs	(14)	214	2,832
Derivative financial instruments	(6)	129,592	257,171
Debentures and notes	(15)	5,485,949	5,808,182
Current tax liabilities	(30)	3,863	-
Wage tax liabilities		429	412
Accrued liabilities	(16)	42,203	22,983
Other liabilities	(17)	26,704	43,959
Provisions	(18)	66,190	49,440
Deferred income tax liabilities	(30)	5,063	5,638
Total liabilities		**6,101,406**	**6,284,956**
Shareholders' equity			
Share capital		9,076	9,076
Share premium reserve		29,272	29,272
Contractual reserve		2,180,172	2,379,350
Development fund		657,981	657,981
Fair value reserve		26,200	33,082
Actuarial result pensions		-17,156	-13,974
Translation reserve		-17,727	-2,742
Other reserves		32,162	32,162
Undistributed result		-3,347	2,707
Shareholders' equity (parent)		**2,896,633**	**3,126,914**
Non-controlling interests		68	123
Total shareholders' equity		**2,896,701**	**3,127,037**
Total liabilities and shareholders' equity	**(19)**	**8,998,107**	**9,411,993**
Contingent assets and liabilities:			
- Encumbered funds (single resolution fund)	(31)	832	389
- Effective guarantees issued	(31)	66,009	98,370
Effective guarantees received	(31)	-233,679	-211,194
Irrevocable facilities	(31)	1,549,869	1,782,882

Consolidated profit and loss account

For the year ended 31 December 2020

	Notes	2020	2019
Income			
Interest income from financial instruments measured at AC		321,862	322,735
Interest income from financial instruments measured at FVPL[1]		1,771	53,524
Interest expenses from financial instruments measured at AC		-120,828	-136,573
Interest expenses from financial instruments measured at FVPL		38,351	-24,283
Interest expenses on leases		-168	-185
Net interest income	**(20)**	**240,988**	**215,218**
Dividend income	(21)	32,908	29,645
Results from equity investments	(22)	-210,844	73,277
Total results from equity investments		**-177,936**	**102,922**
Fee and commission income		7,393	7,212
Fee and commission expense		-3,794	-11,226
Net fee and commission income	**(23)**	**3,599**	**-4,014**
Results from financial transactions	(24)	-10,808	-20,000
Remuneration for services rendered	(25)	29,936	30,061
Gains and losses due to derecognition	(26)	2,000	3,916
Other operating income	(27)	293	1,695
Total other income		**21,421**	**15,672**
Total income		**88,072**	**329,798**
Operating expenses			
Staff costs	(28)	-101,193	-90,250
Administrative expenses	(29)	-30,038	-32,195
Depreciation and impairment of PP&E + intangible assets	(11), (12)	-12,665	-7,809
Other operating expenses		-254	-165
Total operating expenses		**-144,150**	**-130,419**
Impairments on			
Interest-bearing securities	(5)	-36	-5
Loans	(7),(8)	-76,406	-91,038
Loan commitments	(31)	877	-1,849
Guarantees issued	(31)	-2,817	964
Total impairments		**-78,382**	**-91,928**
Results on associates			
Share in the result of associates		-66,416	11,077
Total result on associates		**-66,416**	**11,077**
Profit/(loss) before taxation		**-200,876**	**118,528**
Income tax	(30)	-4,391	1,884
Net profit/(loss)		**-205,267**	**120,412**
Net profit/(loss) attributable to			
Owners of the parent company		-205,232	120,363
Non controlling interest		-35	49
Net profit/(loss)		**-205,267**	**120,412**

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

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Notes	2020	2019
Net profit/(loss)		**-205,267**	**120,412**
Other comprehensive income			
Share of other comprehensive income of associates due to exchange differences		-14,985	4,016
Income tax effect		-	-
Items to be reclassified to profit and loss	**(32)**	**-14,985**	**4,016**
Fair value reserve of equity instruments at FVOCI		-7,458	18,146
Actuarial gains/losses on defined benefit plans	(18)	-5,027	8,722
Income tax effect		2,421	-4,410
Items not reclassified to profit and loss	**(32)**	**-10,064**	**22,458**
Total other comprehensive income, net of tax		**-25,049**	**26,474**
Total comprehensive income		**-230,316**	**146,886**
Total comprehensive income attributable to:			
Owners of the parent company		-230,281	146,837
Non-controlling interests		-35	49
Total comprehensive income		**-230,316**	**146,886**

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2020

	Share capital	Share premium reserve	Contractual reserve	Development fund	Fair value reserve	Actuarial result pensions	Translation reserve	Other reserves	Undistributed result	Non-controlling interests	Total
Restated Balance at December 31, 2018	**9,076**	**29,272**	**2,261,694**	**657,981**	**17,773**	**-21,123**	**-6,758**	**32,162**	**3,570**	**161**	**2,983,808**
Adjustments from adoption of IFRS 16 (net of tax)	-	-	-	-	-	-	-	-	-	-	-
Balance at January 1, 2019	**9,076**	**29,272**	**2,261,694**	**657,981**	**17,773**	**-21,123**	**-6,758**	**32,162**	**3,570**	**161**	**2,983,808**
Exchange differences on associates and subsidiaries	-	-	-	-	-	-	4,016	-	-	-	4,016
Fair value reserve of equity instruments at FVOCI	-	-	-	-	18,146	-	-	-	-	-	18,146
Actuarial gains/losses on defined benefit plans	-	-	-	-	-	8,722	-	-	-	-	8,722
Income tax effect other comprehensive income	-	-	-	-	-2,837	-1,573	-	-	-	-	-4,410
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**15,309**	**7,149**	**4,016**	**-**	**-**	**-**	**26,474**
Changes in subsidiary											
Equis DFI Feeder L.P.[2]	-	-	-	-	-	-	-	-	-	-87	-87
Net profit[1]	-	-	117,656	-	-	-	-	-	2,707	49	120,412
Dividends	-	-	-	-	-	-	-	-	-3,570	-	-3,570
Balance at December 31, 2019	**9,076**	**29,272**	**2,379,350**	**657,981**	**33,082**	**-13,974**	**-2,742**	**32,162**	**2,707**	**123**	**3,127,037**
Exchange differences on translating associates	-	-	-	-	-	-	-14,985	-	-	-	-14,985
Fair value reserve of equity instruments at FVOCI	-	-	-	-	-7,458	-	-	-	-	-	-7,458
Actuarial gains/ losses on defined benefit plans	-	-	-	-	-	-5,027	-	-	-	-	-5,027
Income tax effect other comprehensive income	-	-	-	-	576	1,845	-	-	-	-	2,421
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**-6,882**	**-3,182**	**-14,985**	**-**	**-**	**-**	**-25,049**
Changes in subsidiary											
Equis DFI Feeder L.P.[2]	-	-	-	-	-	-	-	-	-	-20	-20
Net profit /(loss)[1]	-	-	-199,178	-	-	-	-	-	-6,054	-35	-205,267
Dividend declared	-	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2020	**9,076**	**29,272**	**2,180,172**	**657,981**	**26,200**	**-17,156**	**-17,727**	**32,162**	**-3,347**	**68**	**2,896,701**

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

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

Consolidated statement of cash flows

For the year ended 31 December 2020

	Notes	2020	2019
Operational activities			
Net profit/(loss)		-205,267	120,412
Adjustment for non-cash items:			
- Result of associates		66,416	-11,077
- Unrealised (gains) losses arising from changes in fair value[1]		192,831	-11,945
- Unrealised (gains) losses arising from changes in foreign exchange rates		218,830	-44,166
- Unrealised (gains) losses arising from other changes[2]		-11,274	19,858
- Amortization of premiums/discounts debentures and notes		8,488	4,923
- Impairments		78,382	91,928
- Depreciation and impairment of PP&E and intangible assets	(11),(12)	12,665	7,809
- Income tax expense/(gain)		4,391	-1,884
Changes in:			
- Income taxes payable / receivable		46,484	-20,153
- Loans		-222,271	-344,923
- Equity investments		-117,423	-207,420
- Other assets and liabilities[3]		10,919	79,215
- Short-term deposits > 3 months[3]		-76,116	283,929
- Short-term credits[3]		239,794	18,400
Net cash flow from operational activities	**(33)**	**246,849**	**-15,094**
Investment activities			
Purchase of interest-bearing securities	(4)	-104,234	-
Redemption of interest-bearing securities	(4)	77,463	54,505
Investments in PP&E and intangible fixed assets	(11),(12)	-13,758	-20,970
Disinvestments in PP&E and intangible fixed assets	(11),(12)	2,563	254
Investments in Associates	(10)	-13,977	-58,075
Disinvestments in Associates	(10)	20,779	2,840
Net cash flow from investment activities	**(34)**	**-31,164**	**-21,446**
Financing activities			
Proceeds from issuance of debt securities, debentures and notes	(15)	1,180,466	1,704,123
Redemption of debt securities, debentures and notes	(15)	-1,376,328	-1,142,217
Lease payments	(11)	-3,402	-3,393
Dividend paid		-	-3,570
Net cash flow from financing activities	**(35)**	**-199,264**	**554,943**
Net cash flow		**16,421**	**518,403**
Cash and cash equivalents			
Net foreign exchange difference		-110,388	15,091
Banks and short term deposits at January 1		1,438,103	904,609
Banks and short term deposits at December 31	(36)	1,344,136	1,438,103
Total cash flow		**16,421**	**518,403**
Operational cash flows from interest and dividends			
Interest received		326,523	350,697
Interest paid		-82,478	-161,040
Dividend received		32,908	29,645
Interest paid for lease liabilities		-168	-185

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

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

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

Accounting policies

Corporate information

The 2020 financial statements of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereafter referred to as 'FMO' or 'the company') were prepared by the members of the Management Board and signed by all members of the Management Board and the Supervisory Board on March 19, 2021 and will be submitted for adoption in the General Meeting of Shareholders on April 22, 2021.

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

Financing and investing activities

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

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

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

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

FMO also stimulates Dutch investments in emerging markets. Apart from focusing on Dutch SME companies investing abroad, FMO supports mid-sized corporates, seeking trade finance or engaging in consortia finance for development of large infrastructure projects in our markets.

Commercial fund management

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

Services in relation to government and public funding

Apart from financing activities from its own resources, FMO provides loans, guarantees and equity capital from government funding, within the conditions and objectives stipulated in the agreements. The funding consist of subsidies provided under the General Administrative Law Act regarding MASSIF, Access to Energy Fund (AEF), Building Prospects, Capacity Development Program (CD), Partnership Development Fund (PDF), Development Accelerator (DA), Fund Emerging Markets for Developing Countries (also called FOM-OS) and Dutch Fund for Climate and Development (DFCD)

FMO incurs a risk in MASSIF as it has an equity share of 2.16% (2019: 2.17%). With respect to the remaining interest in MASSIF, and the full risk in the other government funds, FMO has a contractual right and obligation to settle the results arising from the funds' activities with the Dutch Government. The economic risks related to these funds are predominantly taken by the Dutch Government, and FMO has limited power over policy issues regarding these funds. FMO receives a remuneration fees for managing these funds. Therefore, with the exception of FMO's equity share in MASSIF, the funds' assets, results and liabilities are not included in the annual accounts. The segment information paragraph provides more detail on the loans and equity investments managed for the risk of the Dutch Government.

The European Development Financial Institutions (EDFI) Management Company (of which FMO is one of the shareholders together with the other EDFIs) was established in Brussels to manage European Commission (EC) funding for the Electri-FI global facility. In 2018, the Agri-FI investment facility as well as the Electri-FI Country Windows investment facility have been added. FMO, as accredited entity for the EC, acts as delegatee (contractee) for the EC and has sub-delegated all operational activities related to Electri-FI/Agri-FI and Electri-FI Country Windows to the EDFIMC.

FMO has received funds from the EU, USAID and the Dutch Government with the purpose to invest directly in Climate Investor One, a facility raised by FMO and managed by Climate Fund Managers (CFM). Climate Investor One (CIO) is a blended finance, capital-recycling facility mandated with delivering renewable energy infrastructure projects in emerging markets through its contribution to each phase of a projects lifecycle. Climate Investor One will create sustainable positive impact on the environment and communities of developing countries.

In December 2018, the EC approved up to €75 million in guarantees and signed the contract for risk sharing facility NASIRA. The facility uses guarantees to allow banks to on-lend to underserved entrepreneurs within the European neighborhood and Sub-Saharan Africa. It targets portfolios consisting of loans of young, female and migrant entrepreneurs including refugees, returnees and internally displaced people. The goal of these guarantees is to allow local banks to provide loans to groups they perceive as too risky. Risk sharing reduces the perceived and real risks of lending to vulnerable and underserved parts of the population and enables financing for people who want to grow their business. Following the COVID - 19 outbreak, the EC together with FMO scaled up the NASIRA financial guarantee to support small COVID-19 affected entrepreneurs in Africa and EU Neighborhood. The measures are a joint response and include a top-up of €25 million from the European Fund for Sustainable Development and an expansion in scope to support COVID-19 affected entrepreneurs.

In November 2019, FMO and the European Commission (EC) signed the guarantee agreement for the FMO Ventures Program. The EC has provided €40 million in guarantees to FMO's innovative early-stage investment program. FMO Ventures Program will contribute to FMO's ambition to further strengthen the focus on early-stage investments that deploy an innovative, technology-enabled business model. Such start-ups, often led by young entrepreneurs, have high developmental impact in our markets. The program will aim to invest a total of €200 million in both fund and direct investments in Africa, the European Neighborhood and Asia (excluding China). The direct investments will focus on start and scale-ups in AgriTech, Energy Access, and FinTech. Next to equity investments, the Program will also have a dedicated technical assistance program, for which the EC is providing €6.5 million, that will seek to support investees of FMO Ventures Program and will promote the development of local Venture Capital ecosystems in emerging markets in general.

Significant accounting policies

Basis of preparation

The consolidated annual accounts (the 'annual accounts') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union and with Part 9 of Book 2 of the Dutch Civil Code for the financial period ended on December 31, 2020. These annual accounts are based on the 'going concern' principle.

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

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

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

Group accounting and consolidation

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

The company accounts of FMO and the company accounts of the subsidiaries Nuevo Banco Comercial Holding B.V., Asia Participations B.V., FMO Investment Management B.V., FMO Medu II Investment Trust Ltd., Equis DFI Feeder L.P. and Nedlinx B.V. are consolidated in these financial statements.

Fiscal Unity

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

Adoption of new standards, interpretations and amendments

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

Amendments to the Conceptual Framework for Financial Reporting

On March 28, 2018 the 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. The main improvements in the revised Conceptual Framework include the introduction of concepts for measurement bases and presentation & disclosure, guidance for recognition and derecognition of assets and liabilities. In addition definitions of an asset & liability and the criteria for recognition have been updated. These amendments are effective from January 1, 2020 and have no impact on FMO's existing accounting policies.

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 FMO 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.

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 FMO judges to be material to the primary users of its financial statements.

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. FMO did not apply any the reliefs related to hedge accounting.

Refer to note 6 'Derivative financial instruments and hedge accounting' for disclosure of hedging instruments as per December 31, 2020 that are used in hedge accounting relationships. In January 2019, FMO started the IBOR project with an expected end date of December 2021. In 2020, FMO successfully performed the transition for EUR and USD centrally cleared swaps. The amount for cash compensation was limited.

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 30 June 2021.

The amendment was effective from 1 June 2020. FMO has not made use of any rent concessions.

Issued but not yet adopted standards

Other significant standards issued, but not yet endorsed by the European Union and not yet effective up to the date of issuance of FMO's Annual Report 2020, are listed below.

IFRS 17 Insurance Contracts

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

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

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

Amendments to IFRS 3 - Reference to the Conceptual Framework

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

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

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

Amendments to IAS 37 - Onerous Contracts

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

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

These amendments, mandatory and effective from 1 January 2021, provide reliefs and practical expedients on issues that affect financial reporting when an existing interest rate benchmark is replaced with an RFR. No early adoption of Phase 2 amendments is implemented by FMO. The retirement of libor rates in second half of 2021 will impact the valuations of loans to private sectors and debentures and notes. 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. Limited impact is expected related for hedge accounting and IFRS 16 leases.

FMO is preparing to originate new loans, trade derivatives and originate funding with new reference rates as from fourth quarter of 2021. FMO will use the SOFR as the new reference rate. Transition of existing loans and existing derivatives to new reference rate is planned from 2022 onwards and is expected to last till first half year of 2023. USD libor is applied currently in around 45% of the total loan portfolio, 50% of the derivatives and about 10% of our funding portfolio.

Annual Improvements 2018-2020

Subsidiary as a First-Time Adopter (IFRS 1)

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

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

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

Lease Incentives (IFRS 16)

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

Significant estimates, assumptions and judgments

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

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

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

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

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, FMO 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 €2 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 release in stage 1 ECL allowances as per year end 2020 of €6 million, and an increase in stage 2 loans of €39 million. The total increase in the ECL stage 1 and stage 2 provision is €35 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 Consolidated Annual Accounts are stated in euros, which is the presentation and functional currency of FMO. All amounts are denominated in thousands of euros unless stated otherwise. In accordance with IAS 21, foreign currency transactions are translated to euro at the exchange rate prevailing on the date of the transaction. At the balance sheet date, monetary assets and liabilities are reported using the closing exchange rate. Non-monetary assets that are not measured at cost denominated in foreign currencies are reported using the exchange rate that existed when fair values were determined.

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

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

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

Offsetting financial instruments

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

Fair value of financial instruments

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

Amortized cost and gross carrying amount

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

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

Assets

Financial assets - classification

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

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

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

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

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

Derivatives are mandatorily held at FVPL.

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

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

Business model assessment

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

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

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

Contractual cash flow assessment

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

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

Reclassification

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

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

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

Interest bearing Securities

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

Loans to private sector

Loans originated by FMO include:

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

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

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

Equity Investments

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

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

Investments in associates

Measurement and criteria

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

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

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

Impairment of investments in associates

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

Property plant and equipment

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

Furniture and leasehold improvements

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

Depreciation of furniture and leasehold improvements

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

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

IFRS 16 leases: right-of-use assets and lease liabilities

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

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

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

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

Intangible assets

Software products

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

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

Amortization and impairment

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

Financial assets – Impairment

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

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

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

Impairment stages loans to the private sector

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

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

ECL measurement

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

ECL measurement Stage 1 and Stage 2

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

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

Macro economic scenarios in PD estimates

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

The three scenarios applied are:

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

ECL measurement Stage 3

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

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

Staging criteria and triggers

Financial instruments classified as low credit risk

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

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

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

Significant increase in credit risk (Stage 2)

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

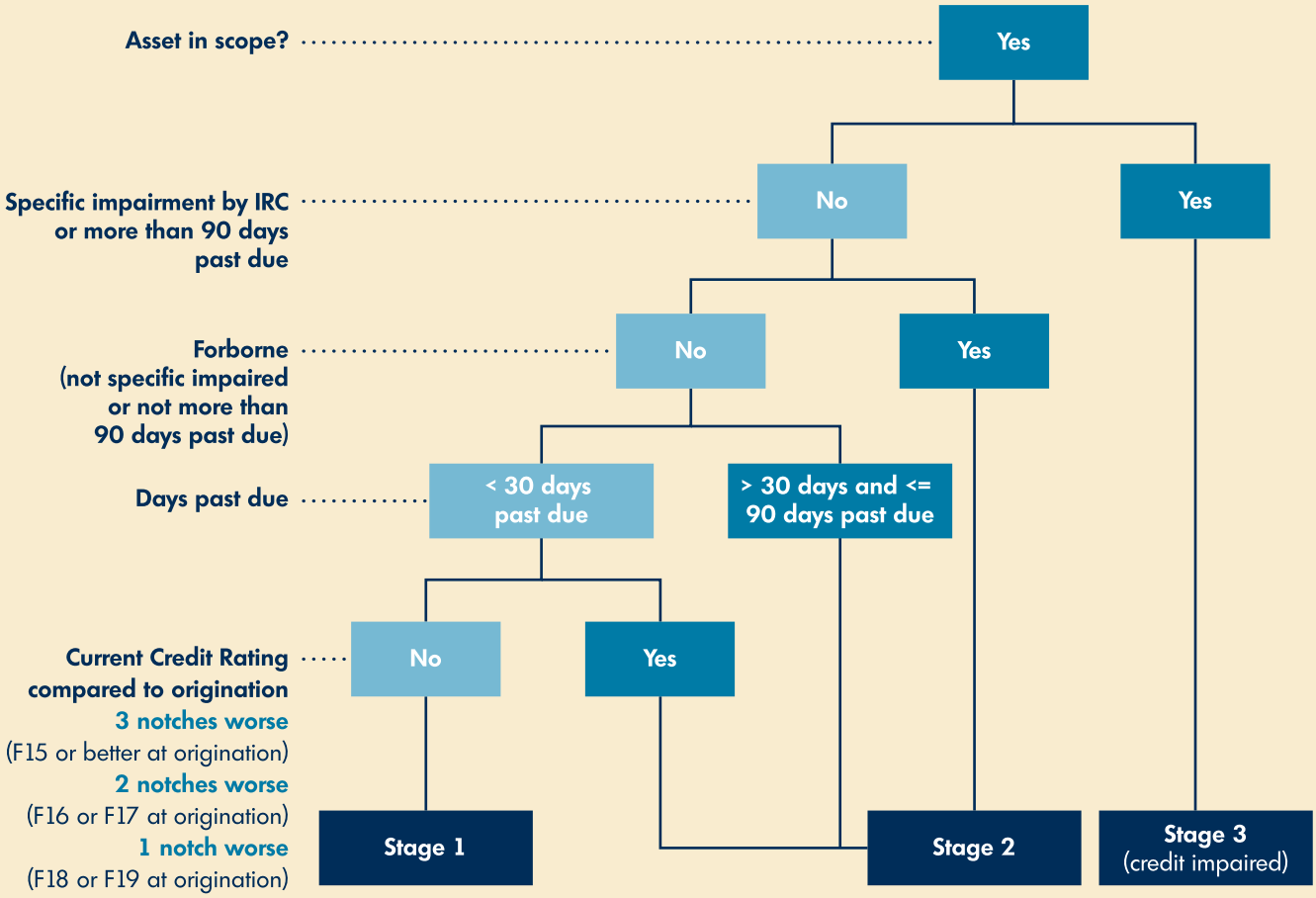
- The change in internal credit risk grade with a certain number of notches (see diagram below) compared to the internal rating at origination;
- The fact that the financial asset is 30 days past due or more on any material obligation to FMO, including fees and excluding on charge expenses (unless reasonable information and supportable information is available demonstrating that the client can service its debt);
- The application of forbearance (refer to section 'Modification of financial assets').

Definition of default - Stage 3 financial assets

A financial asset is considered in default when any of the following occurs:

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

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



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

Internal rating	Indicative external S&P 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 zone 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 FMO. There are no automatic triggers, which would lead to a write-off of the loan; specific impaired loans are assessed on individual basis depending on their circumstances. Generally when the impairment percentage exceeds 95%, the IRC is advised to consider a write - off.

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

Modification of financial assets

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

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

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

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

Modification of contractual terms versus forbearance

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

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

Derivative instruments

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

Embedded derivatives

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

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

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

Treasury derivatives

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

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

Definition Fair value hedges

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

Hedge Accounting

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

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

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

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

- There is an economic relationship between the hedged item and the hedging instrument, Economic relationship means that the hedging instrument and the hedged item must be expected to move in opposite directions as a result of a change in the hedged risk;
- The effect of credit risk does not dominate the value changes that result from that economic relationship. In other words, credit risk that can arise on both the hedging instrument and the hedged item in the form of counterparty’s credit risk or the entity’s own credit risk does not have a very significant effect on the fair value of the hedged item or the hedging instrument;

- The critical terms of the hedged item and hedging instrument have a match. In case the critical terms of the hedge do not match, the hedge ratio is assessed. The hedge ratio defined as the ratio between the amount of hedged item and the amount of hedging instrument shall not reflect an imbalance that would create hedge ineffectiveness. For a perfectly match of the underlying of the hedging instrument with the designated hedged risk, the hedge ratio would be 1:1 or less. The level of the hedge will be discussed by Treasury and Risk Management.

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

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

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

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

For more details on hedge accounting we refer to Note 'Derivative financial instruments and hedge accounting'.

Guarantees

Issued financial guarantee contracts are measured at the higher of

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

FMO applies the same methodology as loans to private sector for measurement of ECL allowance of guarantees. Refer to chapter 'Financial assets - impairment' in this section. Provisions resulting from guarantees are included in line item "Provisions" on the balance sheet.

Financial liabilities

Debentures and notes

Debentures and notes consist of medium-term notes under FMO’s Debt Issuance Programme or other public issues. Furthermore a subordinated note is also included in the Debentures and Notes. Under IFRS this note is classified as financial liability, but for regulatory purposes it is considered as Tier 2 capital.

Debentures and notes can be divided into:

- Notes qualifying for hedge accounting (measured at AC and adjusted for the fair value of the hedged risk);
- Notes that do not qualify for hedge accounting (valued at AC).

Debentures and notes measured at amortized cost

Debentures and notes are initially measured at cost, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is AC, using the effective interest rate method to amortize the cost at inception to the redemption value over the life of the debt.

Debentures and notes eligible for hedge accounting

When hedge accounting is applied to debentures and notes, the carrying value of debt issued is adjusted for changes in fair value related to the hedged risk. The fair value changes are recorded in the profit and loss account. Further reference is made to sections 'Derivative instruments' and 'Hedge accounting' of this chapter.

Provisions

Provisions are recognized when:

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

A provision is made for the liability for retirement benefits, loan commitments, guarantees, legal events and severance arrangements. Further reference is made to section 'Retirement benefits'.

Retirement benefits

FMO provides all employees with retirement benefits that are categorized as a defined benefit. A defined benefit plan is a pension plan defining the amount of pension benefit to be provided, as a function of one or more factors such as age, years of service or compensation.

This scheme is funded through payments to an insurance company determined by periodic actuarial calculations. The principal actuarial assumptions are set out in Note 18. All actuarial gains and losses are reported in shareholders' equity, net of applicable income taxes and are permanently excluded from profit and loss.

The net defined benefit liability or asset is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for unrecognized actuarial gains/losses and past service costs. Independent actuaries perform an annual calculation of the defined benefit obligation using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using, in accordance with IAS 19, interest rates of high-quality corporate bonds, which have terms to maturity approximating the terms of the related liability. FMO has a contract with a well-established insurer, in which all nominal pension obligations are guaranteed and the downside risk of pension assets is mitigated.

When the fair value of the plan's assets exceeds the present value of the defined benefit obligations, a gain (asset) is recognized if this difference can be fully recovered through refunds or reductions in future contributions. No gain or loss is recognized solely as a result of an actuarial gain or loss, or past service cost, in the current period.

FMO recognizes the following changes in the net defined benefit obligations under staff costs:

- Service costs comprising current service costs, past-service costs (like gains and losses on curtailments and plan amendments);
- Net interest expense or income.

Past-service costs are recognized in profit and loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that FMO recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Taxation

Income tax profits is based on the applicable tax laws in each jurisdiction and recognized as an expense in the period in which profits arise. The tax effects of income tax losses, available for carry-forward, are recognized as a deferred tax asset if it is probable that future taxable profit will be available against which those losses can be utilized. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods using the liability method. Deferred tax assets are recognized for temporary differences, resulting in deductible amounts in future periods, but only when it is probable that sufficient taxable profits will be available against which these differences can be utilized.

The main temporary differences arise from the post-retirement benefits provision and the fair value movements on equity investments accounted for at FVOCI.

Shareholders' equity

Contractual reserve

The contractual reserve consists of the cumulative part of the annual net results that FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998. This reserve cannot be freely distributed.

Development fund

This special purpose reserve contains the allocations of risk capital provided by the Dutch Government to finance the portfolio of loans and equity investments.

Fair value reserve

The fair value reserve includes gains and losses of equity investments designated as at FVOCI. Gains and losses on such equity investments are never reclassified to profit or loss. Cumulative gains and losses recognized in this reserve are transferred to "Other reserves" on disposal of an investment.

Translation reserve

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

Actuarial result pensions

The unrealized actuarial gains and losses related to the defined benefit plans are included in the "Actuarial result pensions". The movements in this reserve are not reclassified to the profit and loss account.

Other reserves

The other reserves include the cumulative distributable net profits. Dividends are deducted from other reserves in the period in which they are declared.

Undistributed result

The undistributed result consists of the part of the annual result that FMO is not obliged to distribute under the Agreement Dutch State-FMO of November 16, 1998.

Non-controlling interests

The non-controlling interest is related to the investment in Equis DFI Feeder L.P. held by other investors.

Profit and loss

Net interest income: interest income and interest expenses

Interest income and interest expenses from financial instruments measured at AC are recognized in the profit and loss account for all interest-bearing financial instruments on an accrual basis using the 'effective interest' method based on the fair value at inception. Interest income and interest expenses also include amortized discounts, premiums on financial instruments and interest related to derivatives. When a financial asset measured at AC is credit-impaired and regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net AC of the financial asset. If the financial asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

Interest income and interest expenses from financial instruments measured at FVPL reflect fair value gains and losses mainly related to the derivatives portfolio. Moreover, interest income from loans measured at FVPL are also recognized under 'Interest income from financial instruments measured at FVPL'.

Furthermore, interest expenses on IFRS 16 leases are recognized under the interest expenses separately

Fee and commission income and expense

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

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

Dividend income

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

Results from equity investments

Gains and losses in valuation of FMO's equity investment portfolio are recognized under "Results from equity investments". These gains and losses include foreign exchange results of equity investments which are measured at fair value. As mentioned earlier, the foreign exchange results for equity investments, measured at fair value through OCI are recognized in the Shareholder's equity.

Results from financial transactions

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

Remuneration for services rendered

Remuneration for services rendered relate to fees which FMO receives from the Dutch Government to manage subsidized programs on behalf of the Dutch Government. These fees are recognized in line with the periods the subsidized programs are managed out and as stated in the terms and conditions as agreed with the Dutch Government.

Other operating income

Other operating income relates to any other income which is not related to loans to private sector, equity investments and treasury instruments and mainly includes income related to interest on corporate tax profit.

Impairments

Financial assets of FMO and off-balance items are subject to impairments. For impairment methodologies and criteria, reference is made to relevant 'Financial Assets' paragraph in this section above.

Segment Reporting

The operating segments are reported in a manner consistent with internal reporting to FMO's chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board. FMO has decided to present its operating segments based on servicing units instead of strategic sector to be more aligned with internal reporting towards the Management Board. Reference is made to the section 'Segment Information' for more details on operating segments

Notes to the consolidated annual accounts

Notes to the consolidated balance sheet: assets

1. Banks

	2020	2019
Banks	46,775	64,626
Balance at December 31	**46,775**	**64,626**

The cash on bank accounts can be freely disposed of.

2. Current accounts with State funds and other programs (assets)

	2020	2019
Current account EIB	231	230
Current account Access to Energy Fund	-	568
Current account Land Use Facility	447	396
Balance at December 31	**678**	**1,194**

Current accounts can be freely disposed of.

3. Short-term deposits

	2020	2019
Collateral delivered (related to derivative financial instruments)	59,128	95,176
Dutch central bank	932,747	350,122
Mandatory reserve deposit with Dutch central bank	2,939	1,410
Call Deposits	-	-
Short term deposits measured at AC	**994,814**	**446,708**
Commercial paper	159,425	796,725
Money market funds	143,122	130,044
Short term deposits measured at FVPL	**302,547**	**926,769**
Balance at December 31	**1,297,361**	**1,373,477**

Mandatory reserve deposits are not available for use in FMO's day-to-day operations.

Fair value results on money market funds and commercial paper portfolio recorded in the profit and loss amounts to a loss of €59k (2019: €32k loss). The amount attributable to change in credit risk is limited.

Short term deposits have a maturity of less than three months.

4. Other receivables

	2020	2019
Receivables related to equity disposals	1,504	7,508
Taxes and social premiums	703	1,037
To be declared on State guaranteed loans	2,428	3,264
Transaction fee receivables and prepayments	12,735	14,015
Balance at December 31	**17,370**	**25,824**

5. Interest-bearing securities

This portfolio contains marketable bonds with fixed interest rates. All interest-bearing securities (credit quality of AA+ or higher) are classified as Stage 1. An amount of €101k (2019: €68k) is calculated for the ECL as per December 31, 2020.

	2020	2019
Bonds (listed)	371,076	350,237
Balance at December 31	**371,076**	**350,237**

All interest-bearing securities are classified as amortized cost. The movements can be summarized as follows:

	2020	2019
Balance at January 1	350,237	402,380
Amortization premiums/discounts	4,075	33
Purchases	104,234	-
Redemptions	-77,463	-54,505
Changes in ECL allowances	-36	-5
Changes in accrued income	-1,183	-231
Exchange rate differences	-8,788	2,565
Balance at December 31	**371,076**	**350,237**

6. Derivative financial instruments and hedge accounting

Use of derivatives and hedge accounting

Derivatives are held for both economic hedging purposes and for hedge accounting. FMO uses derivatives for hedging purposes in the management of its asset and liability portfolios and structural risk positions. These risks are hedged with interest rate swaps, cross currency swaps and cross currency interest rate swaps. The objective of hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The objective of FMO hedging activities is to optimize the overall cost to the bank of accessing debt capital markets and to mitigate the risk which would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS hedge accounting rules.

Derivatives that qualify for hedge accounting under IFRS are classified and accounted for in accordance with the nature of the instrument hedged and the type of IFRS hedge model that is applicable. FMO applies fair value hedge accounting to the funding portfolio with interest rate swaps as hedging instruments. To qualify for hedge accounting under IFRS, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the statement of profit or loss and recorded under the line results from financial transactions. If hedge accounting is applied under IFRS, it is possible that during the hedge a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the statement of profit or loss may be higher than would be expected from an economic point of view. With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of these instruments is indicative of the nominal value of transactions outstanding at the balance sheet date; how-ever they do not represent amounts at risk.

For the year ended December 31, 2020, FMO recognized net gain for €2.9 million for hedge ineffectiveness on the micro fair value hedges (2019: €0.3 million net gain). The profit on the hedging instruments amounts to €72.4 million (2019: €46.7 million gain). The loss on hedged items attributable to the hedged risk amounts to €69.6 million (2019: €46.4 million loss). The result is mainly attributed to lower USD average libor rates.

Micro fair value hedge accounting

FMO only applies micro-hedging strategy, hence at hedge inception the test is conducted. FMO's micro fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. Gains and losses on derivatives designated under fair value hedge accounting and hedged items are recognized in the statement of profit or loss.

The amounts relating to derivatives designated as fair value hedging instruments and hedge ineffectiveness were as follows:

		Carrying amount				
December 31, 2020	**Notional amount**	**Assets**	**Liabilities**	**Change in fair value used for calculating hedge ineffectiveness**	**Ineffectiveness recorded in profit or loss**	**Line item in P&L that includes hedge ineffectiveness**
Interest rate swaps	3,792,072	207,289	364	72,346	2,776	Results from financial transactions
December 31, 2019						
Interest rate swaps	3,653,162	144,061	12,724	46,692	317	Results from financial transactions

The amounts relating to items designated as hedged items were as follows:

December 31, 2020	**Carrying amount of the hedged item**	**Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item**			
Balance sheet line item	**Liabilities**	**Assets**	**Liabilities**	**Change in fair value used for calculating hedge ineffectiveness**	**Accumulated amount remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses**
Debentures and notes	4,015,469	-	-	-69,571	-
December 31, 2019					
Debentures and notes	3,773,180	-	-	-46,375	-

Hedge of debentures and notes December 31, 2020			**Maturity**		
Risk category (interest rate)	**Less than 1 month**	**1-3 months**	**3 months - 1 year**	**1-5 years**	**more than 5 years**
Nominal amount (in millions of euro)	-	-	47.7	2,350.2	1,394.2
Average fixed interest rate (%)	-	-	2.7	1.5	0.9
Hedge of debentures and notes December 31, 2019					
Nominal amount (in millions of euro)	-	-	675.0	2,245.4	732.7
Average fixed interest rate (%)	-	-	0.5	1.3	2.6

Derivatives other than hedge accounting instruments

The following table summarizes the notional amounts and the fair values of the 'derivatives other than hedge accounting instruments'. These derivatives are held to reduce interest rate risks and currency risks but do not meet the specified criteria to apply hedge accounting at reporting period. The following table also includes derivatives related to the asset portfolio.

December 31, 2020		Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedge accounting instruments:				
·	Currency swaps	99,773	50	1,570
·	Interest rate swaps	697,241	10,091	24,182
·	Cross-currency interest rate swaps	3,306,196	240,798	101,782
Subtotal		**4,103,210**	**250,939**	**127,534**
Derivatives related to asset portfolio		-	4,041	1,694
Total derivative assets (/liabilities) other than hedge accounting instruments		**4,103,210**	**254,980**	**129,228**

December 31, 2019		Notional amounts	Fair value assets	Fair value liabilities
Derivatives other than hedge accounting instruments:				
·	Currency swaps	324,015	428	869
·	Interest rate swaps	1,745,060	34,159	44,255
·	Cross-currency interest rate swaps	3,061,803	116,801	197,625
Subtotal		**5,130,878**	**151,388**	**242,749**
Derivatives related to asset portfolio		-	5,789	1,698
Total derivative assets (/liabilities) other than hedge accounting instruments		**5,130,878**	**157,177**	**244,447**

7. Loans to the private sector

These loans to the private sector include:

- Loans to the private sector in developing countries are for the account and risk of FMO;
- Loans in developing countries which are individually guaranteed by the Dutch Government for 80% to 95% or other financial guarantors. Any losses will be compensated by the guarantors up to the guaranteed amount. Refer to our Credit Risk Management Chapter for details of these guarantees received.

The movements of these loans can be summarized as follows:

	Loans measured at AC	Loans measured at FVPL	Total 2020
Balance at January 1, 2020	4,574,050	696,513	5,270,563
Disbursements	1,286,275	25,360	1,311,635
Loan Consolidation[1]	12,574	-322	12,252
Interest Capitalization[1]	5,074	8,808	13,882
Conversion from loan to equity	-	-	-
Part sold[1]	-143,291	-4,793	-148,084
Repayments	-882,127	-85,287	-967,414
Write-offs / disposals	-62,673	-1,610	-64,283
Derecognized and/or restructured loans	1,325	29	1,354
Changes in amortizable fees	3,144	-	3,144
Changes in fair value	-	-7,486	-7,486
Changes in accrued income	6,900	-1,981	4,919
Exchange rate differences	-395,282	-43,515	-438,797
Balance at December 31, 2020	**4,405,969**	**585,716**	**4,991,685**
Impairment	-233,221	-	-233,221
Total balance at December 31, 2020	**4,172,748**	**585,716**	**4,758,464**

1 New categories to the movement table have been added as per December 2020 for reconciliation purposes with cashflow statement and for improved presentation. Presentation according to these categories do not change the the balances for current and prior year. Presentation change does not relate to misstatements. For better understanding, comparative figures have been adjusted.

	Loans measured at AC	Loans measured at FVPL	Total 2019
Balance at January 1, 2019	4,240,526	685,799	4,926,325
Disbursements	1,110,744	139,163	1,249,907
Loan Consolidation	299	4,342	4,641
Interest Capitalization	1,271	8,080	9,351
Reclassification Loans versus Equity	-5,458	-11,154	-16,612
Part sold	-82,175	-4,389	-86,564
Repayments	-761,159	-113,463	-874,622
Write-offs / disposals	-7,638	-10,500	-18,138
Restructuring- Gain/Loss	40,432	-	40,432
Changes in amortizable fees	-4,618	-44	-4,662
Changes in fair value		-10,819	-10,819
Changes in accrued income	-140	-1,708	-1,848
Exchange rate differences	41,966	11,206	53,172
Gross carrying amount at December 31, 2019	**4,574,050**	**696,513**	**5,270,563**
Impairment	-239,941	-	-239,941
Total balance at December 31, 2019	**4,334,109**	**696,513**	**5,030,622**

The contractual amount of assets that were written off during the period are still subject to enforcement activity.

The following tables summarize the loans segmented by sector and areas of geography.

Loans segmented by sector		**2020**				
	Stage 1	**Stage 2**	**Stage 3**	**Fair value**	**Total 2020**	**2019**
Financial Institutions	1,491,118	336,364	23,890	212,729	2,064,101	2,156,825
Energy	1,008,764	250,165	70,369	115,014	1,444,312	1,574,232
Agribusiness	542,220	73,915	17,894	119,433	753,462	673,751
Multi-Sector Fund Investments	15,171	5,764	-	40,047	60,982	68,885
Infrastructure, Manufacturing and Services	191,865	102,284	42,965	98,493	435,607	556,929
Total balance at December 31	**3,249,138**	**768,492**	**155,118**	**585,716**	**4,758,464**	**5,030,622**

Loans segmented by geographical area		**2020**				
	Stage 1	**Stage 2**	**Stage 3**	**Fair value**	**Total 2020**	**2019**
Africa	911,401	177,169	18,661	145,095	1,252,326	1,337,186
Asia	706,644	83,678	40,925	165,708	996,955	1,028,803
Latin America & the Carribbean	694,880	334,639	67,493	66,768	1,163,780	1,258,799
Europe & Central Asia	776,409	129,801	28,039	142,426	1,076,675	1,173,576
Non - region specific	159,804	43,205	-	65,719	268,728	232,258
Total balance at December 31	**3,249,138**	**768,492**	**155,118**	**585,716**	**4,758,464**	**5,030,622**

Loans to private sector - other information	**2020**	**2019**
Gross amount of loans to companies in which FMO has equity investments	202,327	187,944
Gross amount of subordinated loans	272,588	273,685

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

Changes in Loans to the private sector at AC in 2020	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
At January 1, 2020	3,666,093	-32,524	527,065	-25,227	380,892	-182,190	4,574,050	-239,941
Additions	1,199,867	-15,555	98,982	-9,513	-	-	1,298,849	-25,068
Exposure derecognised or matured/lapsed (excluding write offs)	-833,313	7,360	-150,523	3,838	-41,582	6,009	-1,025,418	17,207
Transfers to Stage 1	60,029	-1,257	-60,029	1,257	-	-	-	-
Transfers to Stage 2	-476,239	5,734	521,281	-9,520	-45,042	3,786	-	-
Transfers to Stage 3	-41,592	593	-46,441	4,600	88,033	-5,193	-	-
Modifications of financial assets (including derecognition)	1,541	-	1,209	-	3,649	-1,751	6,399	-1,751
Changes in risk profile not related to transfers	-	-8,849	-	-16,917	-	-42,305	-	-68,071
Amounts written off/ disposals	-	-	-	-	-62,673	62,673	-62,673	62,673
Changes in amortizable fees	1,549	-	984	-	611	-	3,144	-
Changes in accrued income	3,268	-	-101	-	3,733	-	6,900	-
Foreign exchange adjustments	-291,457	3,890	-78,065	5,612	-25,760	12,228	-395,282	21,730
At December 31, 2020	**3,289,746**	**-40,608**	**814,362**	**-45,870**	**301,861**	**-146,743**	**4,405,969**	**-233,221**

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	3,519,157	-30,582	442,675	-16,765	278,694	-108,157	4,240,526	-155,504
Additions	964,726	-10,171	57,879	-5,534	11,232	-1,166	1,033,837	-16,871
Exposure derecognised or matured/lapsed (excluding write offs)	-616,324	1,606	-94,149	408	-47,850	6,874	-758,323	8,888
Transfers to Stage 1	41,421	-3,933	-41,421	3,933	-	-	-	-
Transfers to Stage 2	-205,110	2,401	205,110	-2,401	-	-	-	-
Transfers to Stage 3	-69,765	1,042	-50,486	2,858	120,251	-3,900	-	-
Modifications of financial assets (including derecognition)	-597	-	159	-	27,849	-11,938	27,411	-11,938
Changes in risk profile not related to transfers		7,570		-7,539	-	-69,655	-	-69,624
Amounts written off/ disposals	-	-	-	-	-7,640	7,640	-7,640	7,640
Changes in amortizable fees	-5,441	-	31	-	792	-	-4,618	-
Changes in accrued income	4,753	-	4,619	-	-8,476	-	896	-
Foreign exchange adjustments	33,273	-457	2,648	-187	6,040	-1,888	41,961	-2,532
At December 31, 2019	**3,666,093**	**-32,524**	**527,065**	**-25,227**	**380,892**	**-182,190**	**4,574,050**	**-239,941**

Total impairments on loans in the consolidated profit and loss account

	2020	2019
Additions and reversals loans FMO portfolio	-79,683	-96,121
Guaranteed part additions and reversals loans guaranteed by the State	604	3,237
Recoveries (writen - off loans)	2,674	1,846
Balance at December 31	**-76,405**	**-91,038**

8. ECL allowances - assessment

FMO calculates ECL allowances for Interest bearing Securities, Loans at private sector at AC (including off balance loan commitments) and Guarantees Given to customers. The movement in ECL allowances for each of these items is presented in their relevant notes.

To demonstrate the sensitivity of the SICR criteria, the tables below presents the distribution of stage 2 impairments by the criteria that triggered the migration to stage 2 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	Guarantees	Loan Commitments	Total
More than 30 days past due	-	-	-	-
Forbearance	-11,785	-	-886	-12,671
Deterioration in credit risk rating	-34,085	-2,630	-862	-37,577
Total	**-45,870**	**-2,630**	**-1,748**	**-50,248**

December 31, 2019

ECL allowance Stage 2 - Trigger assessment	Loans to private Sector	Guarantees	Loan Commitments	Total
More than 30 days past due	-43	-	-853	-896
Forbearance	-5,646	-	-525	-6,171
Deterioration in credit risk rating	-19,538	-483	-1,709	-21,730
Total	**-25,227**	**-483**	**-3,087**	**-28,797**

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

IMF GDP % Growth Forecasts (the figures are based on the latest forecast in October 2020)	2020	2021
Turkey	-4.99	5.00
India	-10.29	8.80
Georgia	-5.00	4.99
Argentina	-11.78	4.89
Nigeria	-4.28	1.70
Uganda	-0.29	4.93
Bangladesh	3.80	4.40
Ghana	0.93	4.20
Armenia	-4.46	3.55
Costa Rica	-5.50	2.30

The following tables outline the impact of multiple scenarios on the ECL allowance. Given the developments due to COVID -19 in 2020 leading to modified macroeconomic forecasts, the probabilities of macroeconomic scenarios (making point-in-time adjusted probability of default) were updated using the data provided by the International Monetary Fund (IMF).

December 31, 2020	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector[1)]	Guarantees	Bonds and Cash	Total
ECL Scenario:						
Upside	204,023	2%	4,021	58	2	4,080
Base case	242,737	50%	119,065	2,252	51	121,368
Downside	296,666	48%	139,413	2,938	49	142,400
Total			**262,499**	**5,248**	**102**	**267,849**

1 Loans to private sector in this table include amounts related to ECL allowances for off balance loan commitments (refer to note 31)

December 31, 2019	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector[1)]	Guarantees	Bonds and Cash	Total
ECL Scenario:						
Upside	222,318	5%	11,035	77	4	11,116
Base case	248,376	50%	123,107	1,046	35	124,188
Downside	288,068	45%	128,199	1,401	31	129,631
Total			**262,341**	**2,524**	**70**	**264,935**

1 Loans to private sector in this table include amounts related to ECL allowances for off balance loan commitments (refer to note 31

Refer to the 'Accounting policies' chapter on macro-economic scenarios on PD estimates.

9. Equity investments

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

	Equity measured at FVOCI	Equity measured at FVPL	Total 2020
Total balance at January 1, 2020	122,921	1,756,644	1,879,565
Purchases and contributions	40	230,366	230,406
Conversion of loans to equity	-	-	-
Conversion Associate/FVPL	-	17,066	17,066
Return of Capital (including sales)	-	-112,982	-112,982
Changes in fair value	-7,457	-202,657	-210,114
Total balance at December 31, 2020	**115,504**	**1,688,437**	**1,803,941**

	Equity measured at FVOCI	Equity measured at FVPL	2019
Total balance at January 1, 2019	77,553	1,504,427	1,581,980
Purchases and contributions	27,223	269,321	296,544
Conversion of loans to equity	-	11,312	11,312
Return of Capital (including sales)	-	-103,354	-103,354
Changes in fair value	18,145	74,938	93,083
Total balance at December 31, 2019	**122,921**	**1,756,644**	**1,879,565**

The following table summarizes the equity investments segmented by sector:

	2020	2019
Financial Institutions	459,922	480,936
Energy	271,626	265,709
Agribusiness	119,132	122,670
Multi-Sector Fund Investments	635,006	678,424
Infrastructure, Manufacturing and Services	318,255	331,826
Net balance at December 31	**1,803,941**	**1,879,565**

FMO has designated the investments shown in the following table as equity investments at FVOCI. The FVOCI designation was made because the investments are expected to be held for long-term strategic purposes.

	Fair value at December 31, 2020	Dividend income recognized during 2020	Fair value at December 31, 2019	Dividend income recognized during 2019
TCX Investment Company	27,552	-	29,276	-
The Currency Exchanged Fund N.V.	78,153	-	83,050	-
Seed Capital	9,759	-	10,595	-
EDFI Management Company	40	-	-	-
Balance at December 31	**115,504**	**-**	**122,921**	**-**

None of these strategic investments were disposed of during 2020, and there were no transfers of any cumulative gain or loss within equity relating to these investments. In 2020, FMO invested in EDFI Management Company.

10. Investments in associates

The movements in the carrying amounts of the associates are summarized in the following table.

	2,020	2,019
Net balance at January 1	285,867	215,539
Purchases and contributions	13,977	58,075
Conversion from loans to equity	-	-
Conversion Associates/FVPL	-17,066	-
Return of capital (including sales)	-20,779	-2,840
Share in net results	-66,416	11,077
Exchange rate differences	-15,628	4,016
Net balance at December 31	**179,955**	**285,867**

All investments in associates from FMO are measured based on the equity accounting method.

Arise B.V. is a private limited liability company incorporated in the Netherlands whose statutory seat is registered at Croeselaan 18, 3521 CB Utrecht, the Netherlands and registered in the Dutch commercial register under number 64756394. FMO's share and voting rights in Arise B.V. is 27%.

In 2016 FMO signed an agreement to set up an investment vehicle, Arise B.V., together with Norfund and Rabobank. This investment vehicle is set up to invest in African financial institutions. FMO's initial commitment amounts to US$211 million. As of 31 December 2020 our remaining commitment towards Arise B.V. amounts to US$36 million.

The following table summarizes the associates segmented by sector.

	2020	2019
Financial Institutions	158,083	241,354
Energy	16,732	37,789
Multi-Sector Fund Investments	5,140	6,724
Net balance at December 31	**179,955**	**285,867**

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

	Arise B.V.	Other associates
Total assets	218,126	30,213
Total liabilities	4,265	2,893
Total income	123	7,976
Total profit/loss	3,103	1,775

11. Property, plant and equipment

Property, plant and equipment (PP&E) includes tangible assets which are used by FMO. These assets include buildings, office equipment and vehicles which are rented by FMO from third parties. These leases have been recognized on the balance sheet following the implementation of IFRS 16.

Furthermore, PPE includes furniture owned by FMO and expenses related to leasehold improvements.

	Furniture	Leasehold improvement	Right-of-use assets	Total
Cost at December 31, 2019	9,653	3,972	26,717	40,342
Accumulated amortization at December 31, 2019	-8,711	-49	-3,293	-12,053
Balance at December 31, 2019	**942**	**3,923**	**23,424**	**28,289**
Carrying amount at January 1, 2020	942	3,923	23,424	28,289
Investments	127	4,962	640	5,729
Depreciation	-315	-415	-3,299	-4,029
Disposals	-1,283	-241	-	-1,524
Accumulated depreciation on disposals	984	55	-	1,039
Balance at December 31, 2020	**455**	**8,284**	**20,765**	**29,504**
Cost at December 31, 2020	8,497	8,695	27,357	44,549
Accumulated amortization at December 31, 2020	-8,042	-411	-6,592	-15,045
Balance at December 31, 2020	**455**	**8,284**	**20,765**	**29,504**

Right-of-use assets consists of operational leases and include building, vehicles and office equipment.

	Buildings	Office equipment	Vehicles	Total right-of-use assets	Lease liabilities
January 1, 2019	13,121	466	1,766	15,353	15,353
Additions	10,285	268	811	11,364	11,364
Depreciation	-2,346	-132	-815	-3,293	-
Finance costs	-	-	-	-	185
Payments	-	-	-	-	-3,393
December 31, 2019	**21,060**	**602**	**1,762**	**23,424**	**23,509**
Additions	80	-	1,113	641	641
Disposals	-503	-	-49	-	-
Depreciation	-2,327	-127	-845	-3,299	-
Finance costs	-	-	-	-	168
Payments	-	-	-	-	-3,402
December 31, 2020	**18,310**	**475**	**1,981**	**20,766**	**20,916**

The following table presents the maturity breakdown of the leases

December 31, 2020	< 1 year	1-5 years	>5 years	Total
Buildings	2,283	9,145	7,017	18,445
Office Equipment	127	325	26	478
Vehicles	672	1,321	-	1,993
Total	**3,082**	**10,791**	**7,043**	**20,916**

December 31, 2019	< 1 year	1-5 years	>5 years	Total
Buildings	2,316	9,305	9,516	21,137
Office Equipment	125	396	82	603
Vehicles	739	1,030	-	1,769
Total	**3,180**	**10,731**	**9,598**	**23,509**

12. Intangible assets

Intangible assets include expenditures associated with identifiable and unique software products or internally developed software, controlled by FMO. For internally developed software, only expenses related to development phase are capitalized. Expenses related to research phase are immediately recognized in the P&L under 'Temporary Staff Expenses'.

	ICT software	Internally developed software	Total
Cost at December 31, 2019	6,152	24,069	30,221
Accumulated amortization at December 31, 2019	-4,096	-8,540	-12,636
Balance at December 31, 2019	**2,056**	**15,529**	**17,585**
Carrying amount at January 1, 2020	2,056	15,529	17,585
Investments	517	10,914	11,431
Amortization	-907	-4,786	-5,693
Impairment/disposals	-1,046	-6,866	-7,912
Accumulated depreciation on disposals	898	4,558	5,456
Balance at December 31, 2020	**1,518**	**19,349**	**20,867**
Cost at December 31, 2020	5,622	28,116	33,738
Accumulated amortization at December 31, 2020	-4,104	-8,767	-12,871
Balance at December 31, 2020	**1,518**	**19,349**	**20,867**

Impairment relates to software which is not in use anymore.

Notes to the consolidated balance sheet: liabilities

13. Short-term credits

	2020	2019
Collateral received (related to derivative financial instruments)	341,199	94,339
Balance at December 31	**341,199**	**94,339**

Short-term credits reflect the cash collateral received for derivative contracts we held with positive value. Refer also to the section 'Counterparty credit risk' in the Risk Management chapter.

14. Current accounts with State funds and other programs (liability)

	2020	2019
Current account MASSIF	106	110
Current account Building Prospects	23	1,117
Current account Access to Energy Fund	85	-
Current account Development Accelarator	-	1,592
Current account DFCD	-	13
Balance at December 31	**214**	**2,832**

15. Debentures and notes

The movements can be summarized as follows:

Debentures and notes includes issued debt instruments in various currencies under FMO's Debt Issuance Programmes. In addition, a subordinated note of €250 million is also included in the Debenture and Notes. Under IFRS this note is classified as financial liability, but for regulatory purposes it is considered as Tier 2 capital. This note was issued on July 15, 2020 with a maturity date of January 15, 2031. The note is issued at 99.764% of the aggregated nominal amount at a fixed coupon rate of 0.625%. The note is non-convertible and can be called on first call date after five years till July 15, 2026.

	2020	2019
Balance at January 1	5,808,182	5,139,881
Amortization of premiums/discounts	8,488	4,923
Proceeds from issuance	1,180,466	1,704,123
Redemptions	-1,376,328	-1,142,217
Changes in fair value	69,571	46,375
Changes in accrued expense	864	18,007
Exchange rate differences	-205,294	37,090
Balance at December 31	**5,485,949**	**5,808,182**

Line item 'changes in fair value' represents the fair value changes attributable to the hedge risk in connection with the debentures and notes used for hedge accounting purposes.

The following table summarizes the carrying value of the debentures and notes.

	2020	2019
Debentures and notes under hedge accounting	4,015,469	3,773,180
Debentures and notes valued at AC	1,470,480	2,035,002
Balance at December 31	**5,485,949**	**5,808,182**

The nominal amounts of the debentures and notes are as follows:

	2020	2019
Debentures and notes under hedge accounting	3,823,783	3,646,496
Debentures and notes valued at AC	1,450,634	2,011,031
Balance at December 31	**5,274,417**	**5,657,527**

16. Accrued liabilities

	2020	2019
Personnel payables	2,423	1,621
Tax refund credits	5,840	5,581
Accrued costs	10,552	7,220
Payables to third parties	23,388	8,561
Balance at December 31	**42,203**	**22,983**

17. Other liabilities

	2020	2019
Costs related to guarantees	751	279
Payments to third parties	68	14,774
Lease liabilities	20,916	23,509
Other liabilities	4,969	5,397
Total other liabilities	**26,704**	**43,959**

Lease liabilities arise from IFRS 16 leases. For a breakdown of the lease liabilities, reference is made to Note 'Property, Plant and Equipment'

18. Provisions

The amounts recognized in the balance sheet are as follows.

	2020	2019
Pension schemes	49,126	39,588
Allowance for loan commitments	8,771	6,274
Allowance for guarantees	642	2,092
Other provisions	7,651	1,486
Balance at December 31	**66,190**	**49,440**

The movements in allowance for loan commitments and liabilities for guarantees are set out in 'Off - balance sheet information' section.

Pension schemes

FMO's pension schemes cover all its employees. The pension schemes are defined benefit plans and are mostly based on average-pay-schemes. FMO has a contract with a well established insurer, in which all nominal pension obligations are guaranteed.

The amounts recognized in the balance sheet are as follows:

	2020	2019
Present value of funded defined benefit obligations	314,839	270,013
Fair value of plan assets	-265,713	-230,425
Liability in the balance sheet	**49,126**	**39,588**

The movements in the present value of the defined benefit obligations can be summarized as follows:

	2020	2019
Present value at January 1	270,013	220,941
Service cost	17,915	13,287
Interest cost	2,550	4,882
Actuarial (gains)/losses due to changes in financial assumptions	28,830	39,740
Actuarial (gains)/losses due to changes in demographic assumptions	-7,020	-10,767
Actuarial (gains)/losses due to experience assumptions	6,229	5,070
Benefits paid	-3,678	-3,140
Present value at December 31	**314,839**	**270,013**

The movements in the fair value of plan assets can be summarized as follows:

	2020	2019
Fair value at January 1	-230,425	-175,065
Expected return on plan assets	-2,167	-3,877
Employer contribution	-12,319	-10,540
Plan participants' contributions	-1,468	-1,318
Actuarial (gains)/losses due to changes in financial assumptions	-23,511	-45,491
Actuarial (gains)/losses due to changes in demographic assumptions	5,134	-
Actuarial (gains)/losses due to experience assumptions	-4,635	2,726
Benefits paid	3,678	3,140
Fair value at December 31	**-265,713**	**-230,425**

The actuarial loss on the pension liability amounts to €5,027k (2019: €8,722k gain) and is mainly due decline of the discount rate.

No direct asset allocation is held in relation to the new pension insurance contract. Therefore, the fair value of the plan assets can no longer be determined based on a certain asset allocation. Due to this, paragraph 115 of IAS 19 has been applied in estimating the fair value of plan assets based on accrued pension rights and actuarial rates.

The movement in the liability recognized in the balance sheet is as follows:

	2020	2019
Balance at January 1	39,588	45,876
Annual expense	17,532	13,729
Contributions paid	-13,021	-11,295
Actuarial gains/losses	5,027	-8,722
Balance at December 31	**49,126**	**39,588**

The amounts recognized in the profit and loss account as net periodic pension cost are as follows:

	2020	2019
Current service cost	18,617	14,042
Net interest cost	383	1,005
Subtotal	**19,000**	**15,047**
Contribution by plan participants	-1,468	-1,318
Total annual expense	**17,532**	**13,729**

The principal assumptions used for the purpose of the actuarial valuations at year-end are as follows:

	2020 (%)	2019 (%)
Discount rate	0.8	1.2
Expected pension indexation for active participants	1.2	1.3
Expected pension indexation for inactive participants	0.3	0.3
Wage inflation	1.5	1.5
Future salary growth	0.8-4.3	0.7-4.0

The assumption for future salary growth is a range of percentages which are based on the age of individual employees. The pension indexation is conditional.

Significant actuarial assumptions are the discount rate, indexation for active participants and (general) wage inflation. Reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Increase (+0.5%)	Decrease (-0.5%)
Discount rate	-38,429	45,698
Increase indexation for active participants	5,640	-5,120
Future salary growth	808	-920

Other provisions

The other provisions mainly include legal provisions. Therefore to cover the additional expenses incurred for KYC file remediation project (refer to 'Compliance Risk' section in 'Risk Management' chapter), a provision of €6.3 million has been recorded as per December 2020.

	2020	2019
Balance at January 1	1,486	1,177
Addition	6,336	1,486
Release	-	-
Paid out	-171	-1,177
Balance at December 31	**7,651**	**1,486**

19. Shareholders' equity

Share capital

The authorized capital amounts to €45,380k, consisting of A shares of €22.69 each, which are held by the Dutch Government, and B shares of €22.69 each as well, which are for held by commercial banks and private investors. The Dutch Government holds 51% of the total shares of FMO, while commercial banks and private investors hold the remaining 49%. The voting rights for A shares and B shares are equal. In addition, the equity of the company comprises of three reserves, which result from the Agreement State-FMO of November 16, 1998. These are the share premium reserve, the development fund and the contractual reserve. As long as the company continues its activities, these reserves are not available to the shareholders. Upon liquidation of FMO these reserves fall to the Dutch Government, after settlement of the contractual return to the shareholders.

	2020	2019
AUTHORIZED SHARE CAPITAL		
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
Balance at December 31	**45,380**	**45,380**

ISSUED AND PAID-UP SHARE CAPITAL		
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
Balance at December 31	**9,076**	**9,076**

Share premium reserve

Share premium reserve is sole contributed by Shareholders of A shares on the transfer to the company of investments administrated on behalf of the Dutch Government at the time of the financial restructuring and amounts to €29,272k (2019: €29,272k).

Contractual reserve

The addition relates to that part of the annual profit that FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998 (see section 'additional information').

Development fund

This special purpose reserve contains the allocation of risk capital provided by the Dutch Government to finance the portfolio of loans and equity investments.

Fair value reserve

Total fair value reserve

	2020	2019
Balance at January 1	33,082	17,773
Total other comprehensive income (net of tax)	-6,882	15,309
Balance at December 31	**26,200**	**33,082**

Actuarial result pensions

Actuarial gains/losses on defined benefit plans

	2020	2019
Balance at January 1	-13,974	-21,123
Gains/losses during the period	-3,182	7,149
Balance at December 31	**-17,156**	**-13,974**

Translation reserve

Translation reserve	2020	2019
Balance at January 1	-2,742	-6,758
Change	-14,985	4,016
Balance at December 31	**-17,727**	**-2,742**

Other reserves

Other reserves	2020	2019
Balance at January 1	32,162	32,162
Dividend	-	-
Balance at December 31	**32,162**	**32,162**

Non-controlling interests

Equis DFI Feeder L.P.	2020	2019
Balance at January 1	123	161
Fair value changes	-20	-99
Changes in subsidiary	-	12
Share in net profit	-35	49
Balance at December 31	**68**	**123**

Notes to the consolidated profit and loss account

20. Net interest income

Interest income

	2020	2019
Interest on loans measured at AC	319,185	319,440
Interest on interest-bearing securities	2,677	3,295
Total interest income from financial instruments measured at AC	**321,862**	**322,735**
Interest on loans measured at FVPL	43,503	56,264
Interest on short-term deposits	4,910	29,419
Interest on derivatives related to asset portfolio	-46,642	-32,159
Total interest income from financial instruments measured at FVPL	**1,771**	**53,524**
Total interest income	**323,633**	**376,259**

Included in the interest income on loans is €25,694k (2019: €20,685k) related to Stage 3 loans (adjusted on basis of net carrying amount).

Interest expense

	2020	2019
Interest on debentures and notes hedged	-52,846	-46,336
Interest on debentures and notes not hedged	-64,161	-88,236
Interest on short-term credits	-374	-550
Interest expenses related to banks (assets)[1]	-3,447	-1,451
Total interest expense from financial instruments measured at AC	**-120,828**	**-136,573**
Interest on derivatives related to funding portfolio	38,351	-24,283
Total interest expense from financial instruments measured at FVPL	**38,351**	**-24,283**
Interest on leases	-168	-185
Total interest expense	**-82,645**	**-161,041**

1 Interest expense is related to Cash and balances held at Central Bank. Overnight deposit rates at central banks are negative in the Eurozone, implying interest expense on assets.

21. Dividend income

	2020	2019
Dividend income direct investments	27,698	25,606
Dividend income fund investments	5,210	4,039
Total dividend income	**32,908**	**29,645**

22. Results from equity investments

	2020	2019
Results from equity investments:		
Unrealized results from capital results	-84,290	50,062
Unrealized results from FX conversions - capital results	98	776
Unrealized results from FX conversions - cost price	-118,447	24,100
Net unrealized results	**-202,639**	**74,938**
Results from sales, distributions:		
Realized results	2,785	10,000
Release unrealized results	-10,990	-11,661
Net results from sales, distributions and write-offs	**-8,205**	**-1,661**
Total results from equity investments	**-210,844**	**73,277**

23. Net fee and commission income

	2020	2019
Prepayment fees	1,140	859
Fees for FVPL loans	-95	641
Administration fees	3,550	2,321
Other fees (like arrangement, cancellation and waiver fees)	2,798	3,391
Total fee and commission income	**7,393**	**7,212**
Custodian fees and charges for the early repayment of debt securities	-976	-1,107
Guarantee fees related to unfunded risk participants	-2,818	-10,119
Total fee and commission expense	**-3,794**	**-11,226**
Net fee and commission income	**3,599**	**-4,014**

24. Results from financial transactions

	2020	2019
Result on valuation of hedged items	-69,571	-46,375
Result on valuation of hedging instruments	72,346	46,692
Result on hedge accounting	**2,776**	**317**
Result on sale and valuation of derivatives not under hedge accounting	-12,606	-13,304
Result on sale and valuation of derivatives related to asset portfolio	-1,607	-2,005
Result on sale and valuation of loans at FVPL	-9,305	-12,961
Result on financial instruments mandatory at FVPL	**-23,518**	**-28,270**
Foreign exchange results	9,994	7,922
Other	-59	31
Total result from financial transactions	**-10,808**	**-20,000**

Lower average USD libor interest rates and devaluation of the USD against EUR are the main factors driving the results from financial transactions.

25. Remuneration for services rendered

	2020	2019
Funds and programs managed on behalf of the State:		
- MASSIF	10,680	10,896
- Building Prospects	9,095	8,095
- Access to Energy Fund	2,988	2,216
- FOM OS	100	200
- Syndication fees, remuneration from directorships and others	7,073	8,654
Total remuneration for services rendered	**29,936**	**30,061**

Remuneration for managing funds and programs is assessed for market conformity and expressed in gross amounts. Related management expenses are included in operating expenses.

26. Gains and losses due to derecognition

Gains and losses due to derecognition arise from loans measured at amortized cost, where modification of contractual terms and conditions have been triggered due to financial difficulties. Refer to 'Modification of financial assets' section in the 'Accounting Policies'.

	2020	2019
Gains and losses due to derecognition	2,000	3,916

27. Other operating income

	2020	2019
Other operating income	293	1,695
Total other operating income	**293**	**1,695**

28. Staff costs

The number of FTEs at December 31, 2020 amounted to 599 (2019: 580 FTEs). All FTEs are employed in the Netherlands except for 3 FTEs, which are employed in foreign offices.

	2020	2019
Salaries	-57,267	-50,473
Social security costs	-6,788	-6,854
Pension costs	-17,532	-13,729
Temporaries	-18,245	-10,809
Travel and subsistence allowances	-924	-5,203
Other personnel expenses	-437	-3,182
Total staff costs	**-101,193**	**-90,250**

29. Administrative expenses

	2020	2019
IT expenses	-7,214	-6,421
Advisory costs	-12,186	-14,940
Other operational expenses	-10,638	-10,834
Total administrative expenses	**-30,038**	**-32,195**

These expenses consist primarily of services from third parties and other operational expenses. The remuneration paid to the Supervisory Board is included in these expenses. At December 31, 2020, the Supervisory Board consisted of six members (2019: six). The members of the Supervisory Board were paid a total remuneration of €127k (2019: €138k).

With reference to Section 2:382a(1) and (2) of the Netherlands Civil Code, the following fees for the financial year have been charged by Ernst & Young Accountants LLP (2019: Ernst & Young Accountants LLP) to the company and its subsidiaries.

Fee charged by auditors	2020	2019
Statutory audit of annual accounts	-802	-720
Other assurance services	-484	-490
Total	**-1,286**	**-1,210**

30. Income taxes

Income tax by type

	2020	2019
Current income taxes	-5,406	1,681
Deferred income taxes	1,015	203
Total income tax	**-4,391**	**1,884**

The reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

		2020	2019
Profit/(loss) before taxation		-200,875	118,528
Income taxes at statutory rate of 25% (2019: 25%)		50,219	-29,632
Increase/decrease resulting from:			
·	Settlement with local withholding taxes	5,427	716
·	Non-taxable income (participation exemption facility)	-59,799	29,189
·	Tax adjustments to prior periods	-205	1,681
·	Other	-33	-70
Total income tax		**-4,391**	**1,884**
Effective income tax rate		-2.2%	-1.6%

Current income tax

FMO received €44,941k (2019: €20,356k paid) from tax authorities. The remaining current income tax payable amounts to €3,863k (2019: €46,484k tax receivable). Per year end 2020 there were no unused tax losses and the unused tax credits amount to €0 (2019: €2,575k).

Deferred tax

FMO's deferred income tax assets and liabilities are summarized as follows:

	2020	2019
Deferred tax assets		
Pension provision	3,925	3,095
Actuarial gains and losses on defined benefit plans	5,718	3,872
Tax depreciation fixed assets	169	-
Operational leases	35	19
Total deferred tax assets	**9,847**	**6,986**
Deferred tax liabilities		
Fair value movements equity investments	-5,063	-5,638
Total deferred tax liabilities	**-5,063**	**-5,638**
Net balance at December 31	**4,784**	**1,348**

In 2019, the Dutch government announced initially that a lower corporate tax rate would be gradually implemented in the consecutive years. In 2020, the government withdrew this plan and as a consequence, FMO has changed the applicable tax rate to 25%.

Off-balance sheet information

31. Irrevocable and contingent liabilities

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

Furthermore, the contingencies include an irrevocable payment commitment (IPC) to the Single Resolution Board (SRB) in Brussels. In April 2016, the SRB provided credit institutions with the option to fulfill part of their obligation to pay the annual ex - ante contributions to the Single Resolution Fund (SRF) through IPCs.

Moreover, FMO receives guarantees from various guarantors, which participate in the risk FMO takes. For more details refer to section 'Credit Risk' within the Risk Management paragraph.

The outstanding amount for financial guarantees issued by FMO and amount of guarantees received by FMO is as follows:

	2020	2019
Contingent liabilities		
Encumbered funds (single resolution fund)	832	389
Effective guarantees issued	66,009	98,370
Less: provisions, amortizing fees	-5,256	-2,371
Total guarantees issued	**60,753**	**95,999**
Total contingent liabilities	**61,585**	**96,388**
Effective guarantees received	233,679	211,194
Total guarantees received	**233,679**	**211,194**

Nominal amounts for irrevocable facilities is as follows:

		2020	2019
Irrevocable facilities			
Contractual commitments for disbursements of:			
·	Loans	506,896	832,434
·	Grants	-	880
·	Equity investments and associates	711,599	647,789
·	Contractual commitments for financial guarantees given	331,374	301,779
Total irrevocable facilities		**1,549,869**	**1,782,882**

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

Movement financial guarantees[1] in 2020	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance
At January 1, 2020	311,775	-1,067	86,207	-483	2,167	-542	400,149	-2,092
Additions	113,050	-1,166	2,060	-193	-	-	115,110	-1,359
Exposures matured (excluding write-offs)	-52,735	244	-21,607	62	-1,947	487	-76,289	793
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-45,793	374	45,793	-374	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-317	-	-1,712	-	-	-	-2,029
Foreign exchange adjustments	-25,358	57	-6,841	70	-220	55	-32,419	182
At December 31, 2020	**300,939**	**-1,875**	**105,612**	**-2,630**	**-**	**-**	**406,551**	**-4,505**

1 Financial guarantees represent EUR 66,099 classified as contingent liabilities and EUR 340,451 classified as irrevocable facilities

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	339,120	-1,511	67,708	-297	2,401	-1,201	409,229	-3,009
Additions	131,775	-583	19,492	-270	-	-	151,267	-853
Exposures matured (excluding write-offs)	-159,120	299	-993	34	-234	-	-160,347	333
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	1,033	-	56	-	769	-	1,858
Foreign exchange adjustments	-	-305	-	-6	-	-110	-	-421
At December 31, 2019	**311,775**	**-1,067**	**86,207**	**-483**	**2,167**	**-542**	**400,149**	**-2,092**

The movement in nominal amounts for loan commitments and ECL allowances is as follows:

Movement of loan commitments in 2020	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
At January 1, 2020	685,149	-3,187	100,122	-3,087	4,849	-	790,120	-6,274
Additions	208,037	-1,841	1,850	-37	1,100	-20	210,987	-1,898
Exposures derecognised or matured (excluding write-offs)	-454,629	2,980	-38,867	1,196	-	-	-493,496	4,176
Transfers to Stage 1	1,732	-2	-1,732	2	-	-	-	-
Transfers to Stage 2	-1,489	15	1,489	-15	-	-	-	-
Transfers to Stage 3	-12,809	-	-	-	12,809	-	-	-
Changes to models and inputs used for ECL calculations	-	-1,418	-	-3	-	-	-	-1,421
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-47,001	293	-7,958	196	-398	20	-55,357	509
At December 31, 2020	**378,990**	**-3,160**	**54,904**	**-1,748**	**18,360**	**-**	**452,254**	**-4,908**

Movement of loan 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	624,659	-4,051	69,559	-434	11,674	-	705,892	-4,485
Additions	466,409	-2,361	3,901	-1,280	97	-	470,407	-3,641
Exposures derecognised or matured (excluding write-offs)	-362,051	2,851	-17,206	89	-6,922	-	-386,179	2,940
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-43,868	371	43,868	-371	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	43	-	-1,077	-	-	-	-1,034
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-40	-	-14	-	-	-	-54
At December 31, 2019	**685,149**	**-3,187**	**100,122**	**-3,087**	**4,849**	**-**	**790,120**	**-6,274**

Related party information

FMO defines the Dutch Government, FMO's subsidiaries, associates, the Management Board (MB) and Supervisory Board (SB) as related parties.

Dutch Government

The Dutch Government holds 51% of FMO's share capital. The remaining 49% is held by commercial banks and other private investors. In 2005 FMO received its last contribution to the development fund from the Dutch Government. FMO has a guarantee provision from the Government, which is detailed in section 'additional information'.

FMO stimulates the development of small and medium Dutch-sponsored enterprises in selected emerging markets through the 'Faciliteit Opkomende Markten'. This facility is a joint initiative with the Dutch government. The Dutch Government acts as a guarantor for 80% to 95% of the outstanding loans. As of 1 July 2016, the mandate of this facility has been transferred to the 'Rijksdienst voor Ondernemend Nederland' (RVO). After the transfer only existing loans in the portfolio and pipeline were serviced. These loans are included in the consolidated annual accounts under 'Loans to the private sector'.

FMO manages several government funds and programs at the risk and expense of the Dutch Government. Below is a description of the various funds and programs:

1. *MASSIF:* FMO manages the MASSIF fund on behalf of the Dutch Government. MASSIF reaches out to end-beneficiaries through financing local financial intermediaries and institutions that can contribute to their development. FMO has a 2.16% (2019: 2.17%) stake in this fund. For 2020, FMO received a fixed remuneration for services provided of €10,680 (2019:€10,896). In 2020, no transfers related to loan and equity investments were conducted from MASSIF to FMO. This is in line with the transfer policy, agreed with the Dutch government.

2. *Building Prospects:* Through this fund, FMO concentrates on the development of the social and economic infrastructure in least developed countries. FMO aims to stimulate private investors to invest in private or public-private infrastructure projects in these countries. By providing risk capital, Building Prospects decreases risk for other financiers. As a result, additional private funds are attracted. For 2020, FMO received a fixed remuneration for services rendered of €9,095 (2019: €8,095) in accordance with the subsidy order. In 2020, no loans and no private equity investments were transferred from Building Prospects to FMO.

3. *Access to Energy Fund (I and II):* The Access to Energy Fund is jointly initiated by the Dutch Government and FMO in 2007 to support private sector projects aimed at providing long-term access to energy services in Sub-Saharan Africa. Through this fund, FMO provides risk and concessional financing through equity, local currency loans, subordinated debt and grants to facilitate projects that generate, transmit or distribute sustainable energy. In 2017, the Access to Energy Fund II committed US$55.6 million to Climate Investor One, an investment vehicle with three interlinked funds that invest in projects during their whole lifetime. For 2020, FMO received a fixed remuneration for services rendered of €2,988 (2019: €2,216). In 2020, no loans and no private equity investments were transferred from the Access to Energy Fund to FMO.

4. *FOM OS* The program finances private sector companies with a strong focus on food security and water. For 2019, FMO received a fixed remuneration of €100 (2019: €200). The program has been closed for new commitments at the request of the Ministry of Foreign Trade and Development Corporation as per June 30, 2014.

5. Capacity Development Program: The Capacity Development Program invests in inclusive projects, focusing particularly on the themes of climate change and gender. For 2020, FMO received no remuneration for the services provided (2019: €0).

6. Partnership Development Facility: The Partnership Development Facility (PDF) was established in 2016 by the Dutch Government and FMO. The facility is open for early stage projects in the food, water and energy climate segments in countries that are relevant for the local and Dutch economy. The main themes of the facility are food security and climate adaptation. For 2020, FMO received no remuneration except travel costs and staff expenses.

7. Development Accelerator: The Development Accelerator (DA) was established in 2017 by the Dutch Government and FMO. The facility is open for early stage projects in the food, water, education, health, and climate segments in low- and middle-income countries. The goal is to contribute to sustainable cities, climate mitigation and adaptation in order to contribute to the achievement of the Sustainable Development Goals and strengthening opportunities for the Dutch business community. For 2020, FMO received no remuneration except travel costs and staff expenses.

8. *Dutch Fund for Climate and Development :* In 2019, the Dutch Government awarded a tender to manage the €160 million Dutch Fund for Climate and Development (DFCD) to the consortium of FMO, Stichting SNV Nederlandse Ontwikkelingsorganisatie (SNV), Stichting Het Wereld Natuur Fonds-Nederland (WWF), and Coöperatief Climate Fund Managers U.A. (through Climate Investor Two). FMO is the lead partner in the DFCD consortium and is responsible for the management of the DFCD's Land Use Facility. The Land Use Facility (LUF) provides growth financing, including equity, debt and grants, to companies active in agroforestry, sustainable land use and climate resilient food production. In 2020, the Dutch Government provided an additional 10,142 disbursement for the Land Use Facility, of which part has been deployed in 2020 (2019: an initial disbursement of €13,752).

In our role of program manager for the assets under management, we hold current account positions with State funds. The balances of those current account positions are disclosed under Note 2 and Note 14

A part of FMO's loan portfolio €9,385 (2019: €16,417) is funded under the FOM program from the Dutch Government and recognized in our consolidated balance sheet (under Loans to the private sector). The credit risk of these loans is covered by Dutch Government for 80%-95%. We refer to the section Guarantee provisions in the Agreement between the Dutch Government and FMO of November 16, 1998 in the section 'Additional Information'. The results due to addition and release of specific impairments follow the accounting policy for Loans to the private sector.

Subsidiaries

The consolidated subsidiaries Nuevo Banco Comercial Holding B.V., Asia Participations B.V., FMO Medu II Investment Trust Ltd. and Equis DFI Feeder L.P. are used for intermediate holding purposes. The subsidiary FMO Investment Management B.V. carries out portfolio management activities for third party investment funds which are invested in FMO's transactions in emerging and developing markets. Nedlinx B.V. has the focus on financing activities to Dutch SME companies investing abroad.

The transactions during the year are summarized in Note C of the Company balance sheet.

Associates

In line with our investment activities we hold stakes directly in private equity companies or indirectly via fund structures. Investments are treated as associates in case the applicable criteria in accordance with our accounting policies are met.

We refer to the significant accounting policies and Note 'Investments in associates' for transactions during the year.

Remuneration of the Management Board

General

FMO's remuneration policy for the Management Board aims to offer a competitive remuneration allowing to attract, motivate and retain capable directors with sufficient knowledge and experience in international development finance. The remuneration policy is aligned with the mission of FMO, the corporate values, the strategy, the risk appetite as well as with the expectations of the various stakeholders. The remuneration policy is based on a market median, composed of two equal proportions of a private benchmark (Dutch Financial sector) and a public benchmark, taking into account the principles as applied by the Dutch Government as majority shareholder of FMO.

Furthermore, the policy aims to be unambiguously and transparent and should never constitute an incentive for the conduct of directors that is aimed at their own interest, or for taking risks that do not fit within the mission and established strategy of the company, or that leads to 'rewarding' behavior of failing directors upon discharge.

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

The remuneration policy for the Management Board will be reviewed periodically (every 3-4 years) and amendments will be subject to approval of the AGM. During the AGM 2020 no amendments were made with respect to the remuneration policy.

Changes in Management Board

In June 2020, Peter van Mierlo stepped down as CEO and continued as Advisor to the Management Board until October 31, 2020.

As the Executive Committee (ExCo) members stepped down as of August 1, 2020 a new governance structure has been proposed for approval. The intention is to expand the Management Board from three to five members in total.

As of October 9, 2020 Linda Broekhuizen (CIO of FMO) was appointed as CEO, ad interim. Moreover, Huib-Jan de Ruijter (Director Financial Institutions at FMO) was appointed October 9, 2020 as CIO, ad interim. The compensation related to his appointment is aligned with the remuneration policy of the Management Board.

Remuneration package

The total remuneration consists of a fixed salary (including holiday allowance), a pension arrangement and other benefits. A summary of the employment arrangements and amounts constituting the total remuneration per Management Board member in 2020 are provided below.

Fixed salary remuneration

As per 1 January 2020 the maximum salary caps applicable to the Management Board members have increased with 2.5% (in conformity with the collective labour agreement, CLA Banks, of that date). During 2020 the fixed remuneration for the CEO was equal to the maximum cap of €289k per annum. For the other members of the Management Board this cap was to €246k and for Directors the salary cap was €217k (as per 1 January 2020).

Due to agreements made before the introduction of the current maximum remuneration levels, the salary of one member of the Management Board is currently above the applicable maximum salary. In the future only structural salary adjustments as indicated by the CLA Banks, will be applicable to the salary caps.

Management Board members have announced to take a 5% cut on their annual remuneration starting from January 1, 2021 considering the net loss of FMO for 2021. Moreover, no increase of remuneration will be applicable for Directors.

Variable compensation

Members of the senior management (Management Board members and Directors) and other members of the Identified staff are not entitled to any form of variable income (e.g. individual bonuses).

Pension arrangements

For pensionable salary up to the applicable threshold, which for 2020 amounted to €110k, a defined benefit, average-pay pension scheme applies with a conditional indexation arrangement. The nominal pension obligations are guaranteed by a pension insurer. The participant contribution consists of 3.5% of the actual pension base.

Effective from 1 January 2015, no pension is accrued for tax purposes for the proportion of income in excess of €110k (2020). In alignment with the general practice in the Netherlands, FMO has compensated the employees concerned for this diminution. At the end of 2020 two of the Management Board members (including the ad interim deputation appointments) received an individual fixed Allowance for retirement.

Other benefits

The other benefits consist accident and disability insurance, appropriate expense allowances and the use of a company car, NS business card or mobility allowance. The company has also taken out a directors' and officers' liability insurance on behalf of the Management Board members.

The members of the Management Board have no options, shares or loans related to the company. Acceptance of ancillary positions requires the explicit approval of the Supervisory Board.

Tenure

All members of the Management Board are appointed for a period of 4 years, which can be renewed. Mrs Broekhuizen is serving in her second term and has an employment contract for an indefinite period of time. Mrs Bouaré serves in her first term of appointment and has an employment contract for a definite period of time.

Remuneration ratio's

There are no employees at FMO who earn more than the CEO. In accordance with the GRI Standards, the ratio between the total fixed remuneration of the highest-paid individual, the CEO, and the median of the rest remained 0.29 (2019: 0.29). Or in other words the highest-paid individual received a total fixed remuneration of 3.5 times the amount paid to the Median of (the rest of) the total staff population. Compared to what is seen in the financial sector in the Netherlands this ratio is relatively low.

Remuneration of the Management Board

On December 31, 2020 the Management Board consisted of three statutory members (2019: three).The total remuneration of the Management Board in 2020 amounts to €1,064k (2019: €978k) and is specified as follows:

	Fixed remuneration	Allowance for retirement	Other short term employee benefits	Pension	Total 2020
Fatoumata Bouaré	246	-	22	31	299
Linda Broekhuizen [1)]	266	32	24	51	373
Huib-Jan de Ruijter [2)]	55	-	4	8	67
Peter van Mierlo [3)]	241	-	53	31	325
Total	**808**	**32**	**103**	**121**	**1,064**

1 Pro - rata until October 9, 2020 as CIO, thereafter Linda Broekhuizen was appointed as CEO ad interim. Due to arrangements made before applying maximum levels to MB's and directors' fixed remuneration, her salary is above the applied cap.

2 Pro - rata from October 9, 2020 - date when Huib - Jan Ruijter was appointed C.I.O. ad interim

3 Peter van Mierlo stepped down on June 11, 2020 as CEO and continued up to October 31, 2020 as advisor to the Management Board. The remuneration presented in the table entails the total remuneration as CEO and advisor. The remuneration related to the advisory role amounts to €168k (o/w: €132k relates to fixed remuneration)

	Fixed remuneration	Allowance for retirement	Other short term employee benefits	Pension	Total 2019
Fatoumata Bouaré	240	-	21	29	290
Linda Broekhuizen	253	32	24	43	352
Peter van Mierlo	282	-	19	35	336
Total	**775**	**32**	**64**	**107**	**978**

Except for pensions of €121k (2019: €107k) all components above are short term employee benefits.

Remuneration of Supervisory Board

The remuneration policy for the Supervisory Board will be reviewed periodically, taking into account the principles as applied by the Dutch Government as majority shareholder. Amendments will be subject to the approval of the AGM. The members of the Supervisory Board have no shares, options, or loans related to the company.

The annual remuneration of the members of the Supervisory Board is as follows:

	Remuneration member 2020 [1]	Committees 2020 [2]	Total 2020	Total 2019
Pier Vellinga[3]	7.6	1.0	8.6	32.2
Alexandra Schaapveld[4]	5.0	1.0	6.0	22.5
Farah Karimi[5]	-	-	-	10.0
Dirk-Jan van den Berg [6]	21.9	3.9	25.8	24.3
Koos Timmermans[7]	16.3	3.8	20.1	23.8
Thessa Menssen[8]	16.3	6.5	22.8	24.8
Dugald Agble[9]	11.2	1.9	13.1	-
Reintje van Haeringen[9]	11.2	4.5	15.7	-
Marjolein Demmers[9]	11.2	3.8	15.0	-
Total	**100.7**	**26.4**	**127.1**	**137.6**

1 As per January 1, 2020 the remuneration of SB has increased by 2.5%

2 As from July 1, 2019 an Impact Committee has been installed

3 Pier Vellinga resigned from the SB as per 23 April 2020, until then member of the SARC

4 Alexandra Schaapveld resigned from the SB as per 23 April 2020, until then member of the ARC

5 Farah Karimi stepped down as member of the SB as per June 11, 2019

6 Dirk Jan van den Berg was per 23 April 2020 appointed as Chair of the SB and member of the SARC

7 Koos Timmermens is the Chair of the ARC

8 Thessa Menssen is member of the ARC and since July 2019 the Chair or the Impact Committee

9 Dugald Agble, Marjolein Demmers and Reintje van Haeringen joined the SB as per 23 April 2020; Dugald Agble is member of the ARC; Marjolein Demmers and Reintje van Haeringen are both members of the Impact Committee; Reintje van Haeringen is Chair of the SARC; Marjolein Demmers is member of the SARC

Subsequent events

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 FMO.

Notes to the consolidated statement of comprehensive income

32. Other comprehensive income

Other comprehensive income	2020	2019
Items to be reclassified to profit and loss		
Exchange differences on translating foreign operations	-14,985	4,016
Income tax effect	-	-
Total to be reclassified to profit and loss	**-14,985**	**4,016**
Items not reclassified to profit and loss	**-**	
Fair value reserve of equity instruments at FVOCI:	-	
· Unrealized results during the year	1,247	17,498
· Foreign exchange results	-8,704	648
Total Fair value reserve of equity investments at FVOCI	-7,458	18,146
Actuarial gains/losses on defined benefit plans	-5,027	8,722
Income tax effect	2,421	-4,410
Total not reclassified to profit and loss	**-10,064**	**22,458**
Total other comprehensive income at December 31	**-25,049**	**26,474**

Tax effects relating to each component of other comprehensive income

Tax effects relating to each component of other comprehensive income

	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	-14,985	-	-14,985
Fair value reserve of equity instruments at FVOCI	-7,458	576	-6,882
Actuarial gains/losses on defined benefit plans	-5,027	1,845	-3,182
Balance at December 31, 2020	**-27,470**	**2,421**	**-25,049**

	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	4,016	-	4,016
Fair value reserve of equity instruments at FVOCI	18,146	-2,837	15,309
Actuarial gains/losses on defined benefit plans	8,722	-1,573	7,149
Balance at December 31, 2019	**30,885**	**-4,410**	**26,474**

Notes to the consolidated statement of cash flows

The consolidated cash flow statement shows the sources of liquidity that became available during the year and the application of this liquidity. The liquidity is measured by the balance sheet accounts 'banks' and 'short-term deposits'. The cash flows are broken down according to operational, investing and financing activities. The cash flow statement is prepared using the indirect method.

33. Net cash flow from operational activities

The net cash flow from operational activities includes the company's portfolio movements, such as loans to the private sector and under guarantee of the Dutch Government, equity investments, subsidiaries and associates. The net cash flow further includes the movements in working capital and current accounts with the State in regard to government funds and programs.

34. Net cash flow from investing activities

The net cash flow from investing activities includes the movements in the investment portfolio, such as the interest-bearing securities. The movements in PP&E assets are also included in the cash flow from investing activities.

35. Net cash flow from financing activities

The net cash flow from financing activities includes movements in the funding attracted from the capital market. Also included in the cash flow from financing activities are the additions to and reductions from the company's capital.

36. Banks and short term deposits

The balance as mentioned in the cash flow statement corresponds with the following items in the consolidated balance sheet:

Cash position maturity bucket < 3 months	**2020**	**2019**
Banks	46,775	64,626
Short term deposits measured at AC	994,814	446,708
Short term deposits measured at FVPL	302,547	926,769
-of which > 3 months	-	-
Banks and short term deposits < 3 months	**1,344,136**	**1,438,103**

Cash and cash equivalents include banks, short term deposits at AC and a part of short term deposits at FVPL, which consists of commercial paper with a maturity of less than three months. For breakdown of short term deposits, reference is made to Note 3.

Segment information

Segment reporting by operating segments

The Management Board sets performance targets, approves and monitors the budgets prepared by servicing units. Servicing units are not identical to the strategic sectors.

FMO's strategic sectors represent the economic sectors in which FMO operates. The three strategic sectors are Agribusiness Food & Water, Financial Institutions and Energy, which represent economic sectors. FMO's Management Board steers on the following six servicing units: Agribusiness, Food & Water, Financial Institutions and Energy, Private Equity, Partnership for impact and Other. In 2020, no transactions are identified which are reallocated to a different servicing unit.

FMO presents the results of the operating segments using a financial performance measure called underlying profit. Underlying profit excludes the EUR/USD currency effects related to the results from equity investments, since all fair value changes including currency effects are now recorded in the profit and loss account instead of shareholder's equity since the adoption of IFRS 9.

Underlying profit as presented below is an alternative performance measure. A reconciliation of the underlying net profit to the net profit as reported under the statement of profit and loss is performed in the table here below.

December 31, 2020	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Interest income	128,411	127,472	53,277	6,895	310	7,268	323,633
Interest expenses	-17,835	-21,258	-9,038	-24,035	-272	-10,207	-82,645
Net fee and commission income	1,146	2,058	117	636	-	-358	3,599
Dividend income	-	-	-	32,908	-	-	32,908
Results from equity investments	-	-	-	-92,502	-	-	-92,502
Results from financial transactions	-1,248	-3,786	-2,807	-3,371	-	404	-10,808
Remuneration for services rendered	4,849	5,616	3,928	8,648	6,731	164	29,936
Gains and losses due to derecognition	-	-	2,000	-	-	-	2,000
Other operating income	-	-	-	38	-	255	293
Total underlying income	**115,323**	**110,102**	**47,477**	**-70,783**	**6,769**	**-2,474**	**206,414**
Operating expenses	-33,703	-30,630	-26,050	-36,367	-10,206	-7,194	-144,150
Total operating expenses	**-33,703**	**-30,630**	**-26,050**	**-36,367**	**-10,206**	**-7,194**	**-144,150**
Impairments on loans and guarantees	-32,275	-35,301	-8,581	-2,111	14	-128	-78,382
Total impairments	**-32,275**	**-35,301**	**-8,581**	**-2,111**	**14**	**-128**	**-78,382**
Profit/(loss) before taxation	49,345	44,171	12,846	-109,261	-3,423	-9,796	-16,118
Share in results from associates	-	-	-	-66,416	-	-	-66,416
Taxation	-8,299	-7,429	-2,161	8,312	576	1,651	-7,350
Underlying net profit/(loss)	**41,046**	**36,742**	**10,685**	**-167,365**	**-2,847**	**-8,145**	**-89,884**
Currency effect equity investments	-	-	-	-115,383	-	-	-115,383
Net profit/(loss)	**41,046**	**36,742**	**10,685**	**-282,748**	**-2,847**	**-8,145**	**-205,267**

December 31, 2019	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Interest income	139,289	131,997	66,529	2,500	552	35,392	376,259
Interest expenses	-35,655	-40,961	-18,279	-39,410	-547	-26,189	-161,041
Net fee and commission income	2,339	-5,329	-1,042	768	-	-750	-4,014
Dividend income	-	-	-	29,645	-	-	29,645
Results from equity investments	-	-	-	48,402	-		48,402
Results from financial transactions	1,417	-8,793	-7,938	347	-	-5,033	-20,000
Remuneration for services rendered	6,493	5,406	2,850	8,470	6,643	199	30,061
Gains and losses due to recognition	1,569	2,383	-37	-	-	1	3,916
Other operating income	2,159	-	-	-	-	-464	1,695
Total underlying income	**117,611**	**84,703**	**42,083**	**50,722**	**6,648**	**3,156**	**304,923**
Operating expenses	-33,265	-27,881	-22,958	-30,434	-9,180	-6,701	-130,419
Total operating expenses	**-33,265**	**-27,881**	**-22,958**	**-30,434**	**-9,180**	**-6,701**	**-130,419**
Impairments on loans and guarantees	-3,298	-43,191	-42,880	-2,163	-39	-357	-91,928
Total impairments	**-3,298**	**-43,191**	**-42,880**	**-2,163**	**-39**	**-357**	**-91,928**
Profit/(loss) before taxation	81,048	13,631	-23,755	18,125	-2,571	-3,902	82,576
Share in results from associates	-	-	-	11,077	-	-	11,077
Taxation	-15,954	-2,683	4,676	14,660	506	768	1,973
Underlying net profit/(loss)	**65,094**	**10,948**	**-19,079**	**43,862**	**-2,065**	**-3,134**	**95,626**
Currency effect equity investments	-	-	-	24,786	-	-	24,786
Net profit	**65,094**	**10,948**	**-19,079**	**68,648**	**-2,065**	**-3,134**	**120,412**

Segment assets December 31, 2020	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Loans to the private sector	2,026,486	1,656,547	973,813	35,105	14,913	51,600	4,758,464
Equity investments and investments in associates	-	-	-	1,983,896	-	-	1,983,896
Other assets	677,988	554,220	325,802	675,484	4,989	17,264	2,255,747
Total assets	**2,704,474**	**2,210,767**	**1,299,615**	**2,694,485**	**19,902**	**68,864**	**8,998,107**
Contingent liabilities – Effective guarantees issued	22,953	43,056	-	-	-	-	66,009
Assets under management (loans and equity investments) managed for the risk of the state	157,327	173,442	136,136	457,885	-	-	924,790

Segment assets December 31, 2019	Financial Institutions	Energy	Agribusiness, Food & Water	Private Equity	Partnership for impact	Other	Total
Loans to the private sector	2,177,296	1,785,504	951,245	38,383	19,495	58,699	5,030,622
Equity investments and investments in associates	-	-	-	2,165,432	-	-	2,165,432
Other assets	670,472	549,824	292,924	678,639	6,003	18,077	2,215,939
Total assets	**2,847,768**	**2,335,328**	**1,244,169**	**2,882,454**	**25,498**	**76,776**	**9,411,993**
Contingent liabilities – Effective guarantees issued	50,545	47,825	-	-	-	-	98,370
Assets under management (loans and equity investments) managed for the risk of the state	164,548	229,816	143,551	429,057	-	5,363	972,335

Information about geographical areas

FMO operates in the following four geographical regions: Africa, Asia, Europe & Central Asia, Latin America & the Caribbean.

The following table shows the allocation of FMO's income based on the country risks arising from the geographical areas in which FMO invests. As FMO obtains revenues from customers in developing countries, no revenues are derived from FMO's country of domicile, the Netherlands.

December 31, 2020	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Results from debt products	72,435	49,826	64,929	52,440	4,957	244,587
Results from equity investments	-112,124	-36,514	-25,810	-7,405	3,917	-177,936
Share in results from associates	-56,921	-6,504	-	-	-2,991	-66,416
Other income	18,358	-14,755	7,954	5,089	4,775	21,421
Total income	**-78,252**	**-7,947**	**47,073**	**50,124**	**10,658**	**21,656**

December 31, 2019	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Results from debt products	59,487	39,879	58,506	45,693	7,639	211,204
Results from equity investments	35,774	41,350	14,101	14,709	-3,012	102,922
Share in results from associates	4,814	1,066	-	-31	5,228	11,077
Other income	14,467	-2,163	6,620	-6,627	3,375	15,672
Total income	**114,542**	**80,132**	**79,227**	**53,744**	**13,230**	**340,875**

Disaggregation of revenue

The following table sets out the disaggregation of the Remuneration for services rendered based on the primary geographical areas and strategic sector. The table also includes a reconciliation of the Remuneration of services rendered with FMO's operating segments.

	Operating segments						
December 31, 2020	**Financial Institutions**	**Energy**	**Agribusiness, Food & Water**	**Private Equity**	**Partnership for impact**	**Other**	**Total**
Primary geographical areas							
Africa	2,297	2,593	1,386	4,086	3,148	71	13,581
Asia	938	1,134	673	1,819	1,402	35	6,001
Latin America & Caribbean	432	494	331	653	503	13	2,426
Europe & Central Asia	779	810	741	1,066	821	28	4,245
Non-region specific	403	585	797	1,024	857	17	3,683
Total remuneration for services rendered	**4,849**	**5,616**	**3,928**	**8,648**	**6,731**	**164**	**29,936**

	Operating segments						
December 31, 2019	**Financial Institutions**	**Energy**	**Agribusiness, Food & Water**	**Private Equity**	**Partnership for impact**	**Other**	**Total**
Primary geographical areas							
Africa	2,344	2,940	1,531	3,924	2,623	115	13,477
Asia	1,609	1,123	689	1,811	1,514	34	6,780
Latin America & Caribbean	921	599	307	813	991	20	3,651
Europe & Central Asia	1,080	357	98	730	833	19	3,117
Non-region specific	539	387	225	1,192	682	11	3,036
Total remuneration for services rendered	**6,493**	**5,406**	**2,850**	**8,470**	**6,643**	**199**	**30,061**

Segment reporting of funds and programs managed for the risk of the Dutch Government and for other public funding

Funds managed for the risk of the Dutch Government and other public funding

Apart from financing from its own resources, FMO provides loans, guarantees and equity investments from special government funds, within the conditions and objectives of these programs. The funds consist of subsidies provided under the General Administrative Law Act and other official third parties. In case of MASSIF, FMO has an equity stake of 2.16% (2019: 2.17%). In section 'Related parties', the arrangements between the Dutch Government and FMO regarding these funds and programs is described in detail.

Furthermore, FMO provides guarantees and equity investments with resources obtained from other public organizations, such as the European Commission (EC). The mandate financing is conducted in line with conditions and objectives of these programs.

Loans and equity managed for the risk of the Dutch Government and other public funding

These loans and equity investments are managed for the risk of the Dutch government and other programs

	2020 Gross exposure	2019 Gross exposure
Loans to private sector	524,576	538,855
Equity investments	423,591	446,836
Total	**948,167**	**985,691**

Loans managed for the risk of the Dutch Government and other public funding

The loan portfolio comprises the loans issued by the following funds.

	2020 Gross exposure	2019 Gross exposure
MASSIF	209,358	204,279
Building Prospects	258,302	274,175
Access to Energy Fund	52,196	54,900
FOM OS	1,394	5,501
Land Use Facility	3,326	-
Total	**524,576**	**538,855**

Equity investments managed for the risk of the Dutch Government and other public funding

The equity investments have been made by the following funds.

	2020 Gross exposure	2019 Gross exposure
MASSIF	243,359	250,167
Building Prospects	105,606	126,195
Access to Energy Fund	68,493	70,474
Land Use Facility	6,133	-
Total	**423,591**	**446,836**

Analysis of financial assets and liabilities by measurement basis

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

December 31, 2020	FVPL - mandatory	Fair value hedging instruments	FVOCI-equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
Financial assets measured at fair value						
Short-term deposits	302,547	-	-	994,814	-	1,297,361
Derivative financial instruments	254,980	207,289	-	-	-	462,269
Loans to the private sector	585,716	-	-	-	-	585,716
Equity investments	1,688,437	-	115,504	-	-	1,803,941
Total	**2,831,680**	**207,289**	**115,504**	**994,814**	**-**	**4,149,287**
Financial assets not measured at fair value						
Banks	-	-	-	46,775	-	46,775
Current accounts with state funds and other programs	-	-	-	678	-	678
Interest-bearing securities	-	-	-	371,076	-	371,076
Loans to the private sector	-	-	-	4,172,748	-	4,172,748
Current tax receivables	-	-	-	-	-	-
Other receivables	-	-	-	17,370	-	17,370
Total	**-**	**-**	**-**	**4,608,647**	**-**	**4,608,647**
Financial liabilities measured at fair value						
Derivative financial instruments	129,228	364	-	-	-	129,592
Total	**129,228**	**364**	**-**	**-**	**-**	**129,592**
Financial liabilities not measured at fair value						
Short-term credits	-	-	-	341,199	-	341,199
Debentures and notes	-	-	-	1,470,480	4,015,469	5,485,949
Current accounts with state funds and other programs	-	-	-	214	-	214
Accrued liabilities	-	-	-	429	-	429
Other liabilities	-	-	-	42,203	-	42,203
Total	**-**	**-**	**-**	**1,854,525**	**4,015,469**	**5,869,994**

December 31, 2019	FVPL - mandatory	Fair value hedging instruments	FVOCI-equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
Financial assets measured at fair value						
Short-term deposits	926,769	-	-	446,708	-	1,373,477
Derivative financial instruments	157,177	144,060	-	-	-	301,237
Loans to the private sector	696,513	-	-	-	-	696,513
Equity investments	1,756,644	-	122,921	-	-	1,879,565
Total	**3,537,103**	**144,060**	**122,921**	**446,708**	**-**	**4,250,792**
Financial assets not measured at fair value						
Banks	-	-	-	64,626	-	64,626
Current accounts with state funds and other programs	-	-	-	1,194	-	1,194
Interest-bearing securities	-	-	-	350,237	-	350,237
Loans to the private sector	-	-	-	4,334,109	-	4,334,109
Current tax receivables	-	-	-	46,484	-	46,484
Other receivables	-	-	-	25,824	-	25,824
Total	**-**	**-**	**-**	**4,822,474**	**-**	**4,822,474**
Financial liabilities measured at fair value						
Derivative financial instruments	244,447	12,724	-	-	-	257,171
Total	**244,447**	**12,724**	**-**	**-**	**-**	**257,171**
Financial liabilities not measured at fair value						
Short-term credits	-	-	-	94,339	-	94,339
Debentures and notes	-	-	-	2,035,002	3,773,180	5,808,182
Current accounts with state funds and other programs	-	-	-	2,832	-	2,832
Accrued liabilities	-	-	-	22,983	-	22,983
Other liabilities	-	-	-	43,959	-	43,959
Total	**-**	**-**	**-**	**2,199,115**	**3,773,180**	**5,972,295**

Fair value of financial assets and liabilities

Fair value hierarchy

All financial instruments for which fair value is recognized or disclosed are categorized within the fair value hierarchy, based on lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 – Valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable.

Valuation processes

For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, FMO uses the valuation processes to decide its valuation policies and procedures and analyze changes in fair value measurement from period to period.

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

Valuation techniques

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

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

1. Recent broker / price quotations;
2. Discounted cash flow models;
3. Option-pricing models.

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

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

FMO uses internal valuation models to value all (derivative) financial instruments. Due to model imperfections, there are initial differences between the transaction price and the calculated fair value. These differences are not recorded in the profit and loss at once, but are amortized over the remaining maturity of the transactions.

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

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

Financial assets-liabilities not measured at fair value	**2020**		**2019**	
At December 31	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Short term deposits at AC	994,814	994,814	446,708	446,708
Banks	46,775	46,775	64,626	64,626
Interest-bearing securities	371,076	381,443	350,237	355,823
Loans to the private sector at AC	4,172,748	4,312,599	4,334,109	4,533,256
Financial assets not measured at fair value	**5,585,412**	**5,735,630**	**5,195,681**	**5,400,413**
Short-term credits	341,199	341,199	94,339	94,339
Debentures and notes	5,485,949	5,512,880	5,808,182	5,791,673
Financial liabilities not measured at fair value	**5,827,148**	**5,854,079**	**5,902,521**	**5,886,012**

The valuation technique we use for the fair value determination of these financial instruments is the discounted cash-flow method. The discount rate we apply is a spread curve based on the average spread of the portfolio. The fair value calculation is mainly based on level 3 inputs.

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 mandatorily at FVPL				
Short-term deposits	302,547	-	-	302,547
Derivative financial instruments	-	458,228	4,041	462,269
Loans to the private sector	56,837	-	528,879	585,716
Equity investments	10,247	-	1,678,190	1,688,437
Financial assets at FVOCI				
Equity investments	-	-	115,504	115,504
Total financial assets at fair value	**369,631**	**458,228**	**2,326,614**	**3,154,473**
Financial liabilities mandatorily at FVPL				
Derivative financial instruments	-	131,286	-1,694	129,592
Total financial liabilities at fair value	**-**	**127,898**	**1,694**	**129,592**

December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets mandatorily at FVPL				
Short-term deposits	926,769	-	-	926,769
Derivative financial instruments	-	295,449	5,788	301,237
Loans to the private sector	66,647	-	629,866	696,513
Equity investments	7,726	-	1,748,918	1,756,644
Financial assets at FVOCI				
Equity investments	-	-	122,921	122,921
Total financial assets at fair value	**1,001,142**	**295,449**	**2,507,493**	**3,804,084**
Financial liabilities mandatorily at FVPL				
Derivative financial instruments	-	255,473	1,698	257,171
Total financial liabilities at fair value	**-**	**255,473**	**1,698**	**257,171**

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

Movements in financial instruments measured at fair value based on level 3	Derivative financial instruments	Loans to the private sector	Equity investments and associates	Total
Balance at December 31, 2018	4,624	670,605	1,556,952	2,232,181
Total gains or losses				
-In profit and loss (changes In fair value)	1,075	-20,359	45,509	26,225
-In other comprehensive income (changes in fair value)	-	-	17,496	17,496
Purchases /disbursements	-	101,268	296,294	397,562
Sales/repayments	-	-113,463	-85,734	-199,197
Write-offs	-	-10,498	-	-10,498
Accrued income	-	1,965	-	1,965
Exchange rate differences	89	10,845	18,461	29,395
Derecognition and/or restructuring FVPL versus AC	-	613	-	613
Conversion from loans to equity	-	-11,110	11,312	202
Transfers into level 3	-	-	19,275	19,275
Transfers out of level 3	-	-	-7,726	-7,726
Balance at December 31, 2019	**5,788**	**629,866**	**1,871,839**	**2,507,493**
Total gains or losses				
-In profit and loss (changes In fair value)	-1,457	-2,529	-85,404	-89,390
-In other comprehensive income (changes in fair value)	-	-	-7,458	-7,458
Purchases /disbursements	-	25,360	228,885	254,245
Sales/repayments	-	-90,080	-112,983	-203,063
Interest Capitalization		8,808	-	8,808
Write-offs	-	-1,610	-	-1,610
Accrued income	-	-1,953	-	-1,953
Exchange rate differences	-290	-38,690	-118,253	-157,233
Derecognition and/or restructuring FVPL versus AC	-	-293	-	-293
Conversion from loans to equity	-	-	-	-
Conversion Associate/FVPL	-	-	17,066	17,066
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
Balance at December 31, 2020	**4,041**	**528,879**	**1,793,694**	**2,326,614**

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	92,834	Discounted cash flow model	Based on client spread	A decrease/increase of the used spreads with 1% will result is a higher/lower fair value of approx €1m.
	175,254	ECL measurement	Based on client rating	An improvement / deterioration of the Client Rating with 1 notch will result in 1% increase/decrease
	57,548	Credit impairment	n/a	n/a
Debt Funds	203,243	Net Asset Value	n/a	n/a
Total	**528,879**			

Type of equity investment/ associate	Fair value at December 31, 2020	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity based on the significant unobservable inputs
Private equity fund investments	894,600	Net Asset Value	n/a	n/a
Private equity direct investments	79,727	Recent transactions	Based on at arm's length recent transactions	n/a
	426,525	Book multiples	1.0 – 3.0	A decrease/increase of the book multiple with 10% will result in a lower/ higher fair value of €43 million.
	253,490	Earning Multiples	Depends on several unobservable data such as EBITDA multiples (range 1.0 - 9,6)	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €275million.
	32,625	Discounted Cash Flow (DCF)	Based on discounted cash flows	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €3 million.
	93,772	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 €9 million.
	12,955	Firm offers	Based on offers received from external parties	n/a
Total	**1,793,694**			

Transfers between levels 1 and 2

There were no material transfers between levels 1 and 2.

Transfers from levels 1 and 2 to level 3

There were no material transfers between level 1 and 2 to level 3.

Risk management

This chapter provides an overview of FMO's risk governance and risk management approach. The sections describe the key risk domains relevant for FMO and developments throughout 2020. Together with the quantitative Pillar 3 disclosures - available on FMO's website - it constitutes FMO's Pillar 3 disclosure.

Risk governance

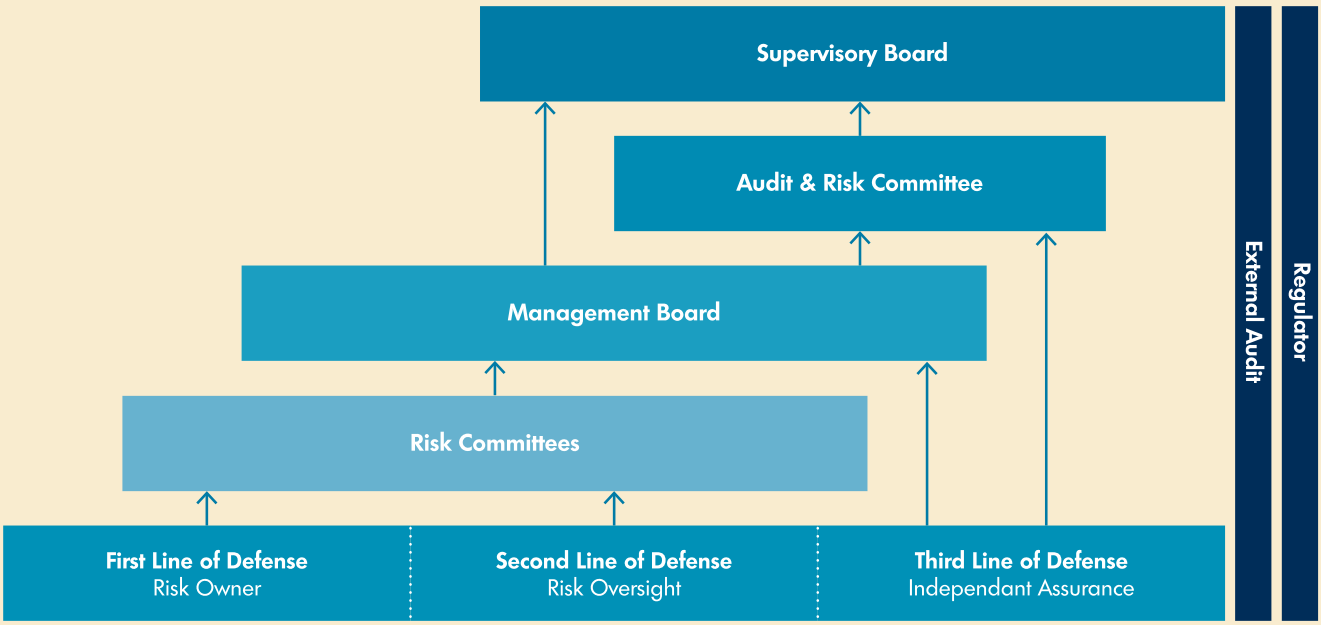
FMO defines risk as the effect of uncertainty on objectives. FMO has a comprehensive framework in place to manage and control risk, reflecting its banking license, state support agreement and a mandate to do business in high-risk countries. The purpose of FMO's risk management framework is to support the institution's ambitions while safeguarding its long-term sustainability. Risk management practices are integrated across the institution, from day-to-day activities to strategic planning, to ensure both compliance with relevant regulations and adherence with internal risk appetite. A sound risk management framework is required to preserve the institution's integrity, which is essential for fulfilling its mission and upholding good reputation. To accomplish these goals, employees are expected to fulfill their roles within the bank with integrity and care, and carefully consider the interests of all stakeholders.

The risk management framework is based on the principle of "three lines of defense", where the first line of defense (Investment Department and supporting functions) is being balanced by the second line of defense (Risk), and the third line (Internal Audit) that perform independent assessments whether risks are adequately managed.

FMO has a two-tier board structure in place, consisting of a Supervisory Board and a Management Board. The Supervisory Board (SB) appoints the members of the Management Board and supervises its activities. The SB advises the Management Board and approves the annual budget, the strategic development and the risk appetite. Each SB member has specific expertise in FMO's primary areas of operation. The SB members are appointed in the Annual Meeting of Shareholders.

The Management Board (MB) comprises of three statutory directors; the Chief Executive Officer (CEO), the Chief Investment Officer (CIO), and the Chief Risk and Finance Officer (CRFO). The MB is accountable for compliance with relevant legislation and regulations. FMO has the intention to expand the MB to five statutory directors: the Chief Executive Officer (CEO), two Chief Investment Officers (CIOs), the Chief Finance Officer (CFO) and the Chief Risk Officer (CRO).

The organizational structure is shown in the figure below.



The Management Board has established risk committees to assist it in fulfilling its oversight responsibilities regarding the risk appetite of FMO, the risk management framework and the governance structure that supports it. The main risk committees are shown in the figure and described below.

The Asset and Liability Committee (ALCO). The ALCO assists the MB by evaluating, monitoring and steering the financial risk profile of FMO in accordance with the risk appetite approved by the SB. The ALCO approves, monitors and evaluates policies, limits and procedures to manage the financial risk profile of FMO on a portfolio level, except for credit and equity risk related policies. The ALCO is responsible for overseeing FMO's capital and liquidity positions and defining possible interventions. The CRFO (Chair), Director Risk, Director Treasury, Director Credit, Legal & Special Operations (CLS) and two Directors from Investment departments are voting members of the ALCO.

The Financial Regulation Committee (FRC). The FRC- a sub-committee of the ALCO- ensures that FMO adheres to existing prudential and financial regulation and assesses impact of new developments on FMO's business strategy. The FRC for financial regulation is chaired by the Director Treasury, while the FRC for prudential regulation is chaired by the Director Risk. Members of the committees are senior representatives of Finance, Treasury and Risk.

The Accounting Policy Committee (APC). The APC ensures that FMO adheres to existing financial regulation and informs the ALCO on existing and future IFRS regulations. It discusses and approves new and updated accounting policies, facilitates the implementation process and analyses emerging accounting issues. The APC is a sub-committee of the ALCO.

The Operational Risk Committee (ORC). The ORC is mandated by the MB to evaluate, monitor and steer the operational risk profile of FMO in accordance with the risk appetite. The ORC approves policies and supporting standards and takes decisions in the context of the Product Approval and Review Process (PARP). The Committee is chaired by the CRFO.

The Investment Committee (IC). The IC is responsible for approving financing proposals and advising MB on transactions in terms of specific counterparty, product as well as country risk. The IC is chaired by the Director CLS and consists of senior representatives of Investment departments and CRFO departments. All financing proposals are accompanied by the advice of the Credit department. This department is responsible for credit risk assessment of both new transactions and the existing portfolio. Credit also has the authority to approve new transactions with small exposures.

The Investment Review Committee (IRC). The IRC is responsible for monitoring the portfolio asset quality and for reviewing financial exposures, which require specific attention, and decide on needed measures. The IRC also decides on specific loan impairments, approves credit risk and concentration risk policies and is responsible for internal credit rating models. It is chaired by the CRFO.

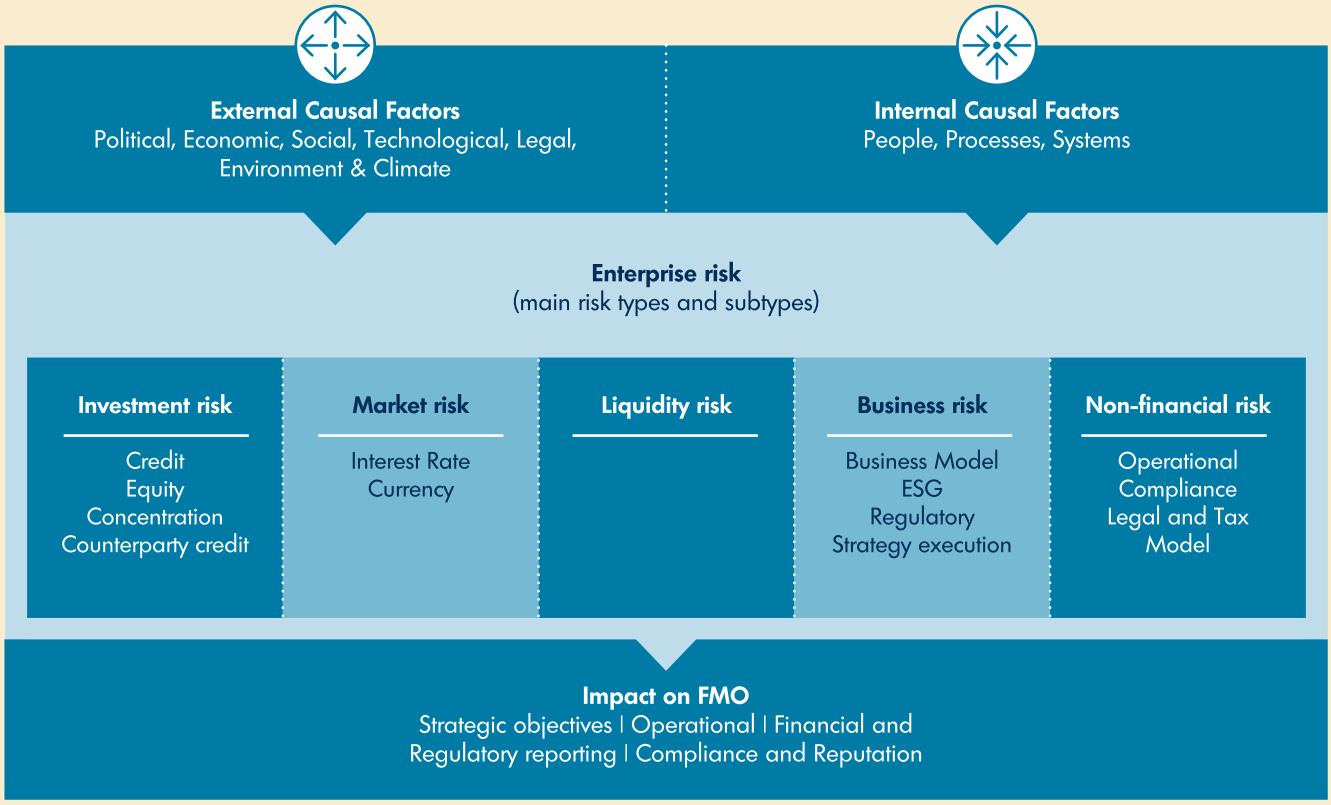
The Compliance Committee (CC). The CC is delegated by the MB to take decisions on compliance related matters and issues based on proposed solutions. The CC is chaired by the CRFO and is held in two different sessions that focus either on customer cases or on regular compliance topics. The former session is held on a monthly basis, while the latter meets at least four times per year. If it is required, the CC can escalate decisions to the MB. The CC is responsible for implementing developments, related projects, laws and regulations, policies and procedures related to compliance matters.

Risk appetite and taxonomy

The Risk Taxonomy defines the main risk types and risk subtypes FMO is exposed to in the pursuit of its objectives. This common set of risk categories, types and subtypes facilitates the structuring of other elements of the risk management framework, such as the Risk Appetite and Risk Policies.

The Risk Appetite defines appetite bandwidths, alert and tolerance levels for main risk types and subtypes. The Risk Appetite Framework (RAF) is reviewed by the Management Board and approved by the Supervisory Board on an annual basis. If necessary, it can be revised on a semi-annual basis, particularly in case of material developments or a change in the strategic goals.

The risk appetite, governance, and monitoring metrics for each risk domain are described in more detail in the sections below.



Developments

FMO is continuously improving its risk management and internal control framework. The structure of the framework is improving, with the alignment of risk-types, policies and responsibilities, in line with the principle of three lines of defense. FMO adopted the ORX (Operational Risk data eXchange Association) risk taxonomy to structure all non-financial risk types. New policies have been introduced and are under development. A roadmap aimed at further improvement of the maturity of internal control was approved by the Management Board. Centralized tooling was introduced to support Governance, Risk and Compliance processes.

Pillar 3 disclosure

FMO publishes the required Pillar 3 disclosures on an annual basis in conjunction with the publication of the Annual Report. Together these documents fulfill the Pillar 3 disclosure requirements of the Capital Requirements Directive (CRD) IV and V regulation.

Market discipline and transparency in the publication of solvency risks are important elements of the Basel III rules for Pillar 3. Central to these publications is information on the solvency and the risk profile of a bank, providing disclosures on such matters as its capital structure, capital adequacy, risk management, and risk measurement, in line with the objective of IFRS 9. The objective of FMO's disclosure policies is to ensure maximum transparency in a practical manner. The consolidation scope for prudential reporting is equal to the accounting scope for FMO. FMO was granted the Solo Waiver for prudential reporting based on Article 7 and therefore only reports figures related to CRR on a consolidated basis.

Capital Adequacy

Definition

Capital is central to a bank's ability to absorb unexpected losses and to be able to continue its operations. FMO aims to maintain a strong capital position that meets regulatory requirements and supports its AAA rating.

Risk appetite and governance

FMO maintains a strong capital position by means of an integrated capital adequacy planning and control framework. Capital adequacy metrics are calculated by Risk and regularly reviewed by the ALCO and senior management.

FMO uses both regulatory capital ratios and an internal economic capital ratio to determine its capital position. The regulatory ratios, the Total Capital Ratio and Common Equity Tier 1 (CET1) Ratio, are calculated based on the standardized approach of the Capital Requirements Regulation (CRR) and take credit, market, operational and credit valuation adjustment risks into account. The internal ratio (Economic Capital Ratio) is based on an economic capital model having credit risk as the most important element. Other risks in FMO's economic capital framework are operational, market, credit value adjustment, interest rate risk and reputation risk.

FMO has implemented a Capital Management Framework that aggregates all elements to manage FMO's current and future capital position in line with the RAF. The Capital Management Framework provides insights to FMO's management about the degree to which the strategy and capital position may be vulnerable to (unexpected) changes. These insights may require a management intervention to steer FMO's capital position against these unexpected events. Risk is responsible for flagging potential capital issues and proposing and quantifying possible interventions to ALCO.

Developments

FMO's Total Capital Ratio increased from 22.5% at year-end 2019 to 24.9% at year-end 2020, which is well above the SREP minimum and the other regulatory requirements. Given that FMO has no additional tier 1 and limited tier 2 capital, the Total Capital ratio is more restrictive than the CET-1 ratio. The outbreak of the COVID-19 crisis had a significant impact on FMO's economic result, mostly due to the depreciation of the fair valued equity portfolio. However, the resulting impact on capital ratios was offset by the USD depreciation that took place over 2020 and by the lower than expected portfolio growth. Furthermore, a positive impact on total eligible capital was provided by the replacement of the Tier 2 capital instrument of €175 million, that was called in December and replaced with an issuance of higher amount (€250 million).

Please refer to more details on the methodology used for calculating the capital ratios in the sections below. The Economic Capital Ratio, calculated based on total capital, increased from 14.7% to 14.9%. The increase is mainly the result of a decrease in capital requirements originating from foreign exchange risk and from a decline of the total balance sheet amount.

Regulatory capital

Under the CRR/CRD banks are required to hold sufficient capital to cover for the risks they face. FMO reports its capital ratio to the Dutch Central Bank (DNB) on a quarterly basis according to the standardized approach for all risk types. Per December 31, 2020, FMO's total available qualifying capital equals €2,908 million (2019: €2,929 million).

	December, 2020	December 31, 2019
IFRS shareholders' equity	2,896,636	3,126,914
Tier 2 capital	250,000	175,000
Regulatory adjustments:		
-Interim profit not included in CET 1 capital	-	-62,419
-Other adjustments (deducted from CET 1)	-171,239	-233,152
-Other adjustments (deducted from Tier 2)	-67,868	-77,285
Total capital	**2,907,529**	**2,929,058**
Of which Common Equity Tier 1 capital	2,725,398	2,831,343
Risk weighted assets	**11,685,685**	**12,994,098**
Of which:		
-Credit and counterparty risk	9,560,702	10,317,068
-Foreign exchange	1,574,772	2,115,779
-Operational risk	510,739	506,198
-Credit valuation adjustment	39,472	55,053
Total capital ratio	24.9%	22.5%
Common Equity Tier 1 ratio	23.3%	21.8%

Following specific provisions in the CRR, FMO is required to deduct from its regulatory capital significant and insignificant stakes for subordinated loans and (in)direct holdings of financial sector entities above certain thresholds. These thresholds correspond to approximately 10% of regulatory capital. Exposures below the 10% thresholds are risk weighted accordingly.

As part of the Supervisory Review and Evaluation Process (SREP), DNB sets the minimum capital requirements for credit institutions. For 2020, The Dutch Central Bank has set a prudential requirement for FMO in terms of total capital at 16.8% and CET1 of 13.3%. The total prudential requirement consists of the total SREP capital ratio (13.3%), the combined buffer requirement (2.5%) and a Pillar 2 Guidance (1%).

The combined buffer requirement applicable to FMO consists of the capital conservation buffer and the institution specific countercyclical buffer (currently insignificant). As of 2020, the capital conservation buffer was still recognized at 2.5%.

The Pillar 2 guidance (P2G) determines the adequate level of capital to be maintained above the existing capital requirements in order to have sufficient capital buffer to withstand stressed situations. The P2G is a non-binding requirement and no automatic restrictions on distributions of dividends or bonuses are imposed.

FMO's regulatory target capital ratio incorporates the fully phased-in capital requirement by DNB supplemented with

- (i) a management buffer, and
- (ii) a dynamic FX buffer. The dynamic FX buffer is in place to cover variations in the regulatory capital ratio following changes in the EUR/USD exchange rate that are not covered by the structural hedge. This structural hedge functions as a partial hedge against an adverse effect of the exchange rate on the regulatory capital ratios. Further information regarding the structural hedge is provided in the currency risk section.

In reaction to the COVID-19 pandemic, the Dutch Central Bank adopted several relief measures to provide temporary capital relief for banks if needed. FMO and other banks were temporarily allowed to operate below the level of capital defined by the Pillar 2 Guidance (P2G) and the capital conservation buffer. In addition, relief was provided in the composition of capital for Pillar 2 Requirements (P2R), since the P2R was no longer required to be composed entirely out of CET1 capital. This change in composition derived from CRD V was scheduled to take effect in January 2021, but was brought forward by supervisors.

Economic capital

Economic capital is calculated using a conservative confidence interval of 99.99%. This level is chosen to support a AAA rating. The economic capital model differs in two elements from the regulatory capital ratios. First, the EC model captures risks that are not covered under Pillar 1: reputational risk, interest rate risk in the banking book (IRRBB). Second, the EC model applies an internal model approach for credit risk resulting from FMO's emerging market loan portfolio. FMO invests in emerging markets, which results in a profile with higher credit risk exposure than generally applies to credit institutions in developed economies. The internal model is more risk sensitive, leading to a higher capital requirement than the standardized approach. The most important parameters for calculating credit risk capital requirements are the probability of default and loss given default calculated using FMO's internal credit risk rating. Please refer to the 'credit risk' section for more information regarding the internal credit risk rating system.

	Dec 31, 2020	Dec 31, 2019
Pillar 1		
Credit risk emerging market portfolio (99.99% interval)	1,390,721	1,459,620
Credit risk treasury portfolio	8,527	12,423
Market risk	125,982	169,262
Operational risk	40,859	40,496
Credit valuation adjustment	3,158	4,404
Total pillar 1	**1,569,247**	**1,686,205**
Pillar 2		
Interest rate risk in the banking book	74,331	76,467
Reputation risk	79,440	75,950
Economic capital (pillar 1 & 2)	**1,723,018**	**1,838,622**
Available capital		
Total Capital	3,122,513	3,279,807
Surplus provisioning (capped at 0.6% RWA)	82,384	91,153
Total available capital	**3,204,897**	**3,370,960**
EC - Risk weighted assets (internal model)	21,537,715	22,982,782
EC - Total capital ratio	**14.9%**	**14.7%**

Leverage ratio

The leverage ratio represents a non-risk-adjusted capital requirement. Since 2014, the CRR/CRD IV rules required that credit institutions calculate, monitor and report on their leverage ratios, defined as tier 1 capital as a percentage of FMO's total unweighted exposures. FMO's leverage ratio equals 27% (2019: 29%) which is far above the minimum requirement of 3% proposed by European authorities.

Financial Risk

Investment risk

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

Credit risk

Definition

Credit risk is defined as the risk that the bank will suffer an economic loss because a client fails to meet its obligations in accordance with agreed terms.

Risk appetite and governance

For FMO's emerging market loan portfolio, adverse changes in credit quality can occur due to specific client and product risk, or risks relating to the country in which the client conducts its business. The main source of credit risk arises from investments in emerging markets and off-balance instruments such as loan commitments and guarantees.

Credit Risk management is very important at FMO, both in the context of project selection and project monitoring. In this process, a set of investment criteria per sector and product is used that reflects minimum standards for the required financial strength of FMO's clients. This is further supported by credit risk models that are used for risk quantification, calculation expected credit loss allowance, and the determination of economic capital use per transaction. Funding decisions depend on the risk profile of the client and financing instrument. For credit monitoring, FMO's clients are subject to annual reviews at a minimum. FMO also monitors clients that are identified as Reason for Concern through a quarterly Watch List process to proactively manage loans before they become non-performing. For distressed assets, the Special Operations department actively manages workout and restructuring.

FMO has set internal appetite levels for non-performing loans and specific impairments on loans. If any of the metrics exceed the appetite levels, Credit will assess the underlying movements and analyze trends per sector, geography and any other parameter. Credit will also consider market developments and peer group benchmarks. Based on the analysis, Credit will propose mitigating measures to the IRC. If any of the indicators deteriorate further, Risk will be involved to assess to what extent the trend is threatening FMO's capital and liquidity ratios.

Developments

In 2020, the COVID-19 pandemic had a severe impact on emerging markets. It was also expected to significantly affect FMO's clients and loan portfolio. However, despite the crisis, FMO's Non-Performing Loans (NPLs) reduced from 9.8% to 9.1% during 2020. This reduction is a result of several factors, which includes calling on guarantees received for part of the NPL portfolio. FMO also wrote off some of its NPLs (€64 million in 2020) and new NPLs were limited. Considering the negative or uncertain economic outlook, it can still be expected that the crisis will affect the NPL levels going forward in 2021.

In March 2020, in response to the emerging COVID-19 pandemic, FMO concluded that a crisis override (considered an overlay, please refer to 'Management overlay' in Accounting policies section) 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 FMO 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 FMO's clients, FMO deemed it justified to maintain a crisis override. However, FMO 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 €34 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 €34 million increase in impairments, €31 million was due to the combined impact of rating changes without stage migration (€2 million release in stage 1 and €33 million increase in stage 2 impairments) and €3 million was due to the combined impact of rating changes with stage migration (€3 million release in stage 1 and €6 million increase in stage 2 impairments).

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

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.

Exposures and credit scoring

The following table shows FMO's total gross exposure to credit risk per year-end. The exposures, including derivatives, are shown gross, before impairments and the effect of mitigation using third-party guarantees, master netting, or collateral agreements. Regarding derivative financial instruments, only the ones with positive market values are presented. The maximum exposure to credit risk decreased during the year to €8.20 billion as of year-end 2020 (2019: €8.78 billion). There was an increase in short term deposits at the Dutch Central Bank accompanied by a decrease in FMO's credit exposure from loans to the private sector in emerging markets, which moved from €5.37 billion to €5.09 billion.

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.

Maximum exposure to credit risk, including derivatives	2020	2019
On-balance		
Banks	46,775	64,626
Current accounts with State funds and other programs	678	1,194
Short-term deposits		
-of which: Amortized cost	59,129	95,176
-of which: Fair value through profit or loss	302,547	926,769
Interest-bearing securities	371,178	350,305
Short-term deposits – Dutch central bank	935,685	351,532
Derivative financial instruments	462,269	301,237
Loans to the private sector		
-of which: Amortized cost	4,452,774	4,627,637
-of which: Fair value through profit or loss	634,260	742,888
Current tax receivables	-	50,484
Other receivables	17,370	25,824
Deferred income tax assets	9,847	6,986
Total on-balance	**7,292,512**	**7,544,658**
Off-balance		
Contingent liabilities (guarantees issued)	66,009	98,370
Irrevocable facilities	838,270	1,135,093
Total off-balance	**904,279**	**1,233,463**
Total credit risk exposure	**8,196,791**	**8,778,121**

In measuring the credit risk of the emerging market portfolio at client level, the main parameters used are the credit quality of the counterparties and the expected recovery ratio in case of defaults. Credit quality is measured by scoring clients on various financial and key performance indicators. FMO has a Customer Risk Rating (CRR) methodology. The model follows the EBA guidelines regarding the appropriate treatment of a Low Default Portfolio and uses an alternative for statistical validation to perform the risk assessment of the models when there is limited or no default data.

The CRR models are based on quantitative and qualitative factors and are different for respective client types. The models for Banks and Non-Banking Financial Institutions (NBFIs) use factors including the financial strength of the client, franchise value, and the market and regulatory environment. The model for Corporates uses factors including financial ratios, governance, and strategy. The Project Finance model uses factors focusing on the transaction characteristics, market conditions, political and legal environment, and financial strength of the borrower.

Based on these scores, FMO assigns ratings to each client on an internal scale from F1 (lowest risk) to F20 (default) representing the Probability of Default. This rating system is equivalent to the credit quality rating scale applied by Moody's and S&P. Likewise, the Loss Given Default is assigned by scoring various dimensions of the product specific risk and incorporating client characteristics. The probability of default and loss given default scores are also used as parameters in the IFRS9 expected credit loss model. Please refer to the section 'Significant accounting policies', for further details on the Expected Credit Loss (ECL) calculation methodology.

The majority of our gross loan portfolio (82%) remains in the F11 to F16 ratings categories. Overall, the credit quality of FMO's loan portfolio deteriorated in 2020, for the portion of the portfolio rated F17 or worse rising from 11% to 16%, and the portion of the portfolio rated F13 or better decreasing from 54% to 35%. This was a result of worsening economic environment caused by the COVID-19 pandemic, implying both client/country rating deteriorations and crisis overrides. These ultimately affected the allocation of client ratings more to deteriorated ratings.

Credit quality analysis

Loans to the private sector at December 31, 2020 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Fair value	Total	%
F1-F10 (BBB- and higher)	116,469	3,965	-	-	120,434	2%
F11-F13 (BB-,BB,BB+)	1,379,685	66,660	-	214,999	1,661,344	33%
F14-F16 (B-,B,B+)	1,757,032	451,781	-	277,524	2,486,337	49%
F17 and lower (CCC+ and lower)	73,702	299,442	304,039	141,737	818,920	16%
Gross exposure	**3,326,888**	**821,848**	**304,039**	**634,260**	**5,087,035**	**100%**
Less: amortizable fees	-37,142	-7,486	-2,177	-	-46,806	
Less: ECL allowance	-40,608	-45,870	-146,743	-	-233,221	
Plus: FV adjustments	-	-	-	-48,544	-48,544	
Carrying amount	**3,249,138**	**768,492**	**155,118**	**585,716**	**4,758,464**	

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)	366,815	9,706	-	3,732	380,253	7.1
F11-F13 (BB-,BB,BB+)	2,066,085	113,684	-	339,254	2,519,023	46.9
F14-F16 (B-,B,B+)	1,224,431	242,040	94,248	301,565	1,862,284	34.7
F17 and lower (CCC+ and lower)	54,303	166,690	289,635	98,337	608,965	11.3
Gross exposure	**3,711,634**	**532,120**	**383,883**	**742,888**	**5,370,525**	**100.0**
Less: amortizable fees	-45,542	-5,055	-2,990	-	-53,587	
Less: ECL allowance	-32,524	-25,227	-182,190	-	-239,941	
Plus: FV adjustments	-	-	-	-46,375	-46,375	
Carrying amount	**3,633,568**	**501,838**	**198,703**	**696,513**	**5,030,622**	

As of 31 December 2020, the overall impact of country crisis adjustments, individual client ratings and to a minimum extent, forbearance measures (e.g. due to payment holidays) resulted in an increase in the stage-2 portfolio to €768 million (2019: €502 million), and a stage-2 impairment charge of €46 million (2019: €25 million). The stage-3 impairment charge for YE 2020 amounted to €147 million (2019: €182 million), which reflects that FMO's clients were, as of year-end 2020, still coping relatively well with the COVID-19 crisis. However, it can still be expected that the negative economic outlook will affect FMO's portfolio and hence stage-3 impairments over time. FMO will closely monitor the loan portfolio.

Apart from on-balance finance activities, FMO is also exposed to off-balance credit-related commitments. Guarantees, which represent contingent liabilities to make payments if a customer cannot meet its obligations to third parties, carry similar credit risks as loans. Most of the guarantees are quoted in US Dollars. Guarantees on export facilities are collateralized by the underlying letters of credit, and therefore carry less credit risk than direct uncollateralized borrowing. The following table shows the credit quality and the exposure to credit risk of the financial guarantees for the period.

Financial guarantees[1]	2020				2019
Indicative counterparty credit rating scale of S&P	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
F1-F10 (BBB- and higher)	24,532	-	-	24,532	40,629
F11-F13 (BB-,BB,BB+)	76,306	26,972	-	103,278	264,763
F14-F16 (B-,B,B+)	189,003	32,848	-	221,851	64,978
F17 and lower (CCC+ and lower)	11,098	45,792	-	56,890	29,779
Sub-total	**300,939**	**105,612**	**-**	**406,551**	**400,149**
ECL allowance	-1,875	-2,630	-	-4,505	-2,092
Total	**299,064**	**102,982**	**-**	**402,046**	**398,057**

1 Financial guarantees represent €66,099 classified as contingent liabilities and €340,451 classified as irrevocable facilities as per Note 'Irrevocable and contingent liabilities'

Additionally, irrevocable facilities represent commitments to extend finance to clients and consist of contracts signed but not disbursed yet which are usually not immediately and fully drawn.

The following table shows the credit quality and the exposure to credit risk of the loan commitments which are part of the irrevocable facilities for the period.

Loans commitments			2020			2019
Indicative counterparty credit rating scale of S&P	**Stage 1**	**Stage 2**	**Stage 3**	**Other [1)]**	**Total**	**Total**
F1-F10 (BBB- and higher)	13,141	-	-	-	13,141	21,919
F11-F13 (BB-,BB,BB+)	124,256	40,232	-	16,355	180,843	481,000
F14-F16 (B-,B,B+)	213,055	1,794	-	35,545	250,394	272,315
F17 and lower (CCC+ and lower)	28,538	12,878	18,360	2,742	62,518	57,200
Total nominal amount	**378,990**	**54,904**	**18,360**	**54,642**	**506,896**	**832,434**
ECL allowance	-3,160	-1,748	-	-	-4,908	-6,274
Total	**375,830**	**53,156**	**18,360**	**54,642**	**501,988**	**826,160**

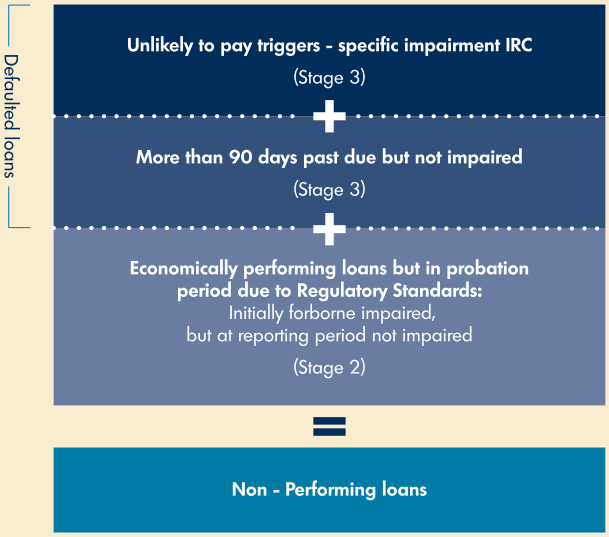
Non-Performing Loans

Non-Performing Loans (NPL) are defined when any of the following occur:

- When FMO judges that the client is "unlikely to pay" its credit obligation to FMO and IRC decides on a specific impairment on a loan (Stage 3);
- Loans with interest, principal or fee payments that are past due for more than 90 days (Stage 3);
- Forborne exposures which are economically performing but are still in probation (curing) period due to Regulatory Standards (Stage 2). Probation period before returning to performing status is one year;
- Additional forbearance measures are applied for forborne performing loans which have exited the NPL probation (Stage 2);
- Performing forborne loans which have exited the NPL probation period have past due amounts for more than 30 days (Stage 2);
- One of the loans is classified as non-performing due to criteria mentioned above, all loans of the client will be identified as non-performing (Stage 2).

As of 31 December 2020, FMO's NPLs amounted to €464 million (2019: €524 million). FMO's NPL ratio decreased from 9.8% to 9.1% as a result of the calling of guarantees, a higher amount of write-offs and limited new NPLs.

The following figure summarizes the criteria used to identify a loan as-non performing:



New NPLs in 2020 were highest in the Energy Sector, followed by the Financial Institutions Sector. Overall, NPLs in absolute terms are now highest in the Energy Sector (€164 million), followed by the Industry, Manufacturing and Services (IMS) sector (€158 million). Activities in the IMS sector were terminated during 2017 following a strategic reorientation. The amount of FMO's NPLs in the Agri Sector and Financial Institutions Sectors amounted to respectively €101 million and €40 million. Overall, the NPL ratio for current focus sectors (i.e. excluding IMS) increased to 6.7% (2019: 6.2%). Geographically, NPLs remained concentrated in India, with a share in total NPLs of 18% (2019: 21%). The second largest country is Argentina, which makes up 17% (2019: 19%) of total NPLs. NPL levels in FMO's portfolio partially reflect long recovery periods, which are inherent in markets where FMO operates.

Among the NPLs, the loans with interest and/or principal payments that are past due more than 90 days amount to 5.8% (2019: 6.6%) of the gross loan portfolio. Past due information related to FMO's portfolio loans and receivables are presented in the table below. This categorization does not apply to financial assets other than loans, including interest-bearing securities and short-term deposits.

Loans past due and impairments 2020	Stage 1	Stage 2	Stage 3	Fair Value	Total
Loans not past due	3,326,888	785,485	46,284	589,659	4,748,316
Loans past due:				0	
-Past due up to 30 days	-	2,752	-	6,528	9,280
-Past due 30-60 days	-	33,611	-	-	33,611
-Past due 60-90 days	-	-	-	-	-
-Past due more than 90 days	-	-	257,755	38,073	295,828
Gross exposure	**3,326,888**	**821,848**	**304,039**	**634,260**	**5,087,035**
Less: amortizable fees	-37,142	-7,486	-2,177	-	-46,806
Less: ECL allowance	-40,608	-45,870	-146,743	-	-233,221
Less: FV adjustments	-	-	-	-48,544	-48,544
Carrying amount	**3,249,138**	**768,492**	**155,118**	**585,716**	**4,758,464**

Loans past due and impairments 2019	Stage 1	Stage 2	Stage 3	Fair Value	Total
Loans not past due	3,687,277	512,658	111,047	650,788	4,961,770
Loans past due:					
-Past due up to 30 days	24,357	1,897	-	8,864	35,118
-Past due 30-60 days	-	-	-	-	-
-Past due 60-90 days	-	12,511	-	5,058	17,569
-Past due more than 90 days	-	5,054	272,836	78,178	356,068
Gross exposure	**3,711,634**	**532,120**	**383,883**	**742,888**	**5,370,525**
Less: amortizable fees	-45,542	-5,055	-2,990	-	-53,587
Less: ECL allowance	-32,524	-25,227	-182,190	-	-239,941
Less: FV adjustments	-	-	-	-46,375	-46,375
Carrying amount	**3,633,568**	**501,838**	**198,703**	**696,513**	**5,030,622**

The table below presents the distribution of Stage 3 loans according to regions and sectors. Impairments are highest in the Agribusiness sector. Geographically there is reduced level of impairments in all regions more considerably in Africa due to the write-off of an Energy client.

Stage 3 - ECL distributed by regions and sectors

December 31, 2020	Financial Institutions	Energy	Agribusiness	Infrastructure, Manufacturing, Services	Total
Africa	-	6,371	-	7,320	13,691
Asia	7,504	26,181	-	1,873	35,558
Latin America & the Caribbean	621	5,298	56,623	16,289	78,831
Europe & Central Asia	135	3,051	6,267	9,210	18,663
Non-region specific	-	-	-	-	-
Total	**8,260**	**40,901**	**62,890**	**34,692**	**146,743**

Stage 3 - ECL distributed by regions and sectors

December 31, 2019	Financial Institutions	Energy	Agribusiness	Infrastructure, Manufacturing, Services	Total
Africa	-	30,165	-	8,661	38,826
Asia	-	21,228	-	15,686	36,914
Latin America & the Caribbean	1,127	4,249	61,946	19,440	86,762
Europe & Central Asia	204	2,934	3,035	13,515	19,688
Non-region specific	-	-	-	-	-
Total	**1,331**	**58,576**	**64,981**	**57,302**	**182,190**

Modified financial assets

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

The watch-list process and the Credit department review modified loans periodically. When a loan is deemed no longer collectible, it is written off against the related loss allowance. In 2020, FMO's write-offs equaled to €64 million due to 4 loans (2019: 3).

The following table provides a summary of FMO's forborne assets, both classified as performing and non-performing, 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	Gross exposure	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	Carrying amount
Loans to the private sector (Amortised Cost)	**4,096,033**	33,611	218,083	**356,742**	84,577	292,501	**4,452,775**	-46,806	-233,221	-	**4,172,748**
Loans to the private sector (Fair value)	**526,801**	-	9,071	**107,459**	80,331	-	**634,260**	-	-	-48,544	**585,716**
Total	**4,622,834**	33,611	227,154	**464,201**	164,908	292,501	**5,087,035**	-46,806	-233,221	-48,544	**4,758,464**

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	Gross exposure	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	Carrying amount
Loans to the private sector (Amortised Cost)	**4,216,428**	-	67,189	**411,189**	87,688	224,605	**4,627,637**	-53,587	-239,941	-	**4,334,109**
Loans to the private sector (Fair value)	**629,973**	-	34,087	**112,915**	78,573	-	**742,888**	-	-	-46,375	**696,513**
Total	**4,846,401**	**-**	101,276	**524,104**	166,261	224,605	**5,370,525**	-53,587	-239,941	-46,375	**5,030,622**

The following table shows the movement of gross outstanding amount and ECL impact of Stage 2 and Stage 3 loans which were modified during 2020.

	Post - modification		Pre - modification	
December 31, 2020	**Gross outstanding amount**	**Corresponding ECL**	**Gross outstanding amount**	**Corresponding ECL**
Restored loans since forbearance and now in Stage 1	29,462	-518	31,697	-553
Loans that reverted to Stage 2/3 once restored	-	-	-	-

	Post - modification		Pre - modification	
December 31, 2019	**Gross outstanding amount**	**Corresponding ECL**	**Gross outstanding amount**	**Corresponding ECL**
Restored loans since forbearance and now in Stage 1	-	-	-	-
Loans that reverted to Stage 2/3 once restored	7,186	-181	7,052	-195

For the forborne loans restored and transferred to Stage 1, ECL decreased from €0.55 million to €0.52 million. There were no loans restored from forborne status which entered into Stage 2/3.

The table below includes Stage 2 and Stage 3 assets for which terms and conditions were modified with the related net modification profit.

	2020	**2019**
Amortised cost of financial assets modified during the period	80,243	7,186
Net modification result	1,291	96

Credit risk mitigation

As per December 31, 2020, the total carrying value of the FMO's loan portfolio is €4.7 billion; of which €642 million is guaranteed by either the Dutch government or highly rated guarantors, of which the following table shows a breakdown of guarantee amounts received and carrying values of guaranteed loans per credit ranking of the guarantors.

	2020		2019	
Guarantor credit ranking based on rating scale S&P	**Amount of guarantees received**	**Guaranteed loans - carrying amount**	**Amount of guarantees received**	**Guaranteed loans - carrying amount**
Dutch State	8,798	10,424	15,218	18,146
AA- and higher ratings	210,672	579,408	182,265	417,231
A+ to A-			-	-
BBB+ to B-	20,795	52,226	28,929	65,426
CCC+ and lower ratings			-	-
Total	**240,265**	**642,057**	**226,412**	**500,803**

The total carrying value of defaulted (stage 3) loans in FMO's loan portfolio is €155 million; of which €47 million is guaranteed by either the Dutch government or highly rated guarantors, of which the following table shows a breakdown of guarantee amounts received and carrying values of guaranteed loans.

The majority of amounts of guarantees received and carrying amounts of guaranteed loans are related to stage 1 or performing loans in both 2019 and 2020.

	2020		2019	
Stage of guaranteed loans	**Amount of guarantees received**	**Guaranteed loans - carrying amount**	**Amount of guarantees received**	**Guaranteed loans - carrying amount**
1	169,858	487,533	157,479	340,051
2	51,476	107,104	17,892	21,903
3	18,931	47,420	51,041	138,849
Total	**240,265**	**642,057**	**226,412**	**500,803**

Equity risk

Definition

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

Risk appetite and governance

FMO has a long-term view on its equity portfolio, usually selling its equity stake within a period of 5 to 10 years. FMO can accommodate an increase in the average holding period of its equity investments and thereby wait for markets to improve again to materialize exits. The equity investment portfolio consists of direct investments, largely in the financial institutions and energy sectors, co-investments with aligned partners (mainly in cooperation with funds) and indirect investments in private equity funds. The three types of investments require different type of risk assessments and selection criteria. Equity investments are approved by the Investment Committee. In close cooperation with the Credit and Finance departments, the Private Equity department assesses the valuation of equity investments on a periodic basis which are approved by the IRC. Diversification across geographical area, sector and equity type across the total portfolio is evaluated before new investments are made. Based on this performance and the market circumstances, direct exits are pursued by involving intermediaries. For co-investments our fund managers do initiate the exit process as they are in the lead. Exits are limited by available liquidity and the absence of well-developed stock markets.

The risk of building an equity portfolio is driven by two factors:

- 1. Negative value adjustments due to currency effects (EUR/USD and USD/Local FX), negative economic developments in emerging markets (EM) and specific investee related issues. This would negatively affect the profitability of FMO.
- 2. Liquidity of the portfolio – in case FMO is not able to liquidate (part) of its maturing equity portfolio by creating sufficient exits for its direct and co- investment portfolio. This is also reflected in the fund portfolio where some fund managers have to hold longer to their portfolio due to the lack of good exit opportunities.

Developments

In 2020 the market was largely affected by COVID-19, the US–China trade war and devaluation of the USD versus the EUR. Especially the effects of COVID-19 created uncertainty related to the valuation of our investments. Especially the financial sector investments were impacted, leading to a sharp reduction of valuations. In addition, our African fund portfolio also suffered by weakening of local currencies and by COVID-19. Liquidity flows to emerging markets reduced significantly as a first reaction to COVID-19, however with the huge abundance of liquidity in developed markets, liquidity started to return during the last two months of 2020 to emerging markets mainly to frontier Asia. In Africa commercial funding is still limited and almost fully dominated by local liquidity and international financial institutions (IFI's). The depreciation of the USD in the second half of 2020 (from USD/EUR 1.12 to 1.22) further had a negative impact on the valuations of our equity portfolio.

In 2020 our committed equity portfolio reduced in value to €2.6 billion (2019: €2.8 billion) due to decrease of valuation by €84 million and reduction of €116 million due to the direct impact of the USD/EUR change. We paid-in more capital than we got distributed by funds and through direct exits. In line with our ambition, the percentage of direct investments versus fund investments grew from 44% to 45%. Overall, the return of our portfolio was negative -8.6%. However the level of dividend income was relatively stable and amounted to €32.9 million (2019: €29.5 million)

Exposures

The total outstanding equity portfolio at December 31, 2020, amounts to €2.0 billion (2019: €2.1 billion) of which €900 million (2019: €988 million) is invested in investment funds.

Equity portfolio including Associates distributed by region and sector

December 31, 2020	Financial Institutions		Energy		Agribusiness		Multi-Sector Fund Investments		Infrastructure, Manufacturing, Services		Total	
	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds
Africa	240,490	24,768	44,818	18,513	26,790	4,906	-	275,710	108,749	-	420,847	323,897
Asia	170,643	4,415	54,730	96,685	38,830	5,966	-	233,232	52,183	-	316,386	340,298
Latin America & the Caribbean	2,907	4,381	-	9,853	23,900	-	-	64,428	39,454	-	66,261	78,662
Europe & Central Asia	84,843	-	-	20,978	16,763	1,977	-	55,561	24,794	-	126,400	78,516
Non-region specific	39,489	46,069	21,698	21,083	-	-	-	11,215	93,075	-	154,262	78,367
Total	**538,372**	**79,633**	**121,246**	**167,112**	**106,283**	**12,849**	**-**	**640,146**	**318,255**	**-**	**1,084,156**	**899,740**

Equity portfolio including Associates distributed by region and sector

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	325,075	26,280	75,734	13,075	31,426	11,078	-	274,155	127,509	-	559,744	324,588
Asia	167,706	23,140	40,997	103,091	24,763	10,321	-	255,925	55,529	-	288,995	392,477
Latin America & the Caribbean	93,669	-	-	24,972	20,352	3,609	-	69,582	23,423	-	137,444	98,163
Europe & Central Asia	3,625	4,285	-	11,312	3,288	17,833	-	72,687	42,316	-	49,229	106,117
Non-region specific	37,003	41,507	23,258	11,060	-	-	-	12,799	83,050	-	143,311	65,366
Total	**627,078**	**95,212**	**139,989**	**163,510**	**79,829**	**42,841**	**-**	**685,148**	**331,827**	**-**	**1,178,723**	**986,711**

The equity portfolio is left unhedged for FX risk. For more information please refer to the sections on Currency risk and Structural Hedge.

Concentration risk

Definition

Concentration risk is the risk that FMO's exposures are too concentrated within or across different risk categories. Concentration risk may trigger losses large enough to threaten the institution's health or ability to maintain its core operations or trigger material change in institution's risk profile.

Risk appetite and governance

Strong diversification within FMO's emerging market portfolio is ensured through stringent limits on individual counterparties (single and group risk limits), sectors, countries and regions. These limits are monitored by Risk, reviewed regularly and approved by the IRC. Diversification across countries, sector and individual counterparties is a key strategy to safeguard the credit quality of the portfolio.

Developments

Without exceptions, all geographies important to FMO are impacted by the pandemic. Instead of a predicted growth in developing and emerging markets of around 4-5% in 2020 and 2021 (IMF WEO Jan 2020), forecasts have been drastically revised. A decline of 2.4% in 2020, with a recovery to 6.3% in 2021, is now projected (IMF WEO January 2021). The occurrence of the pandemic has a large impact on global economy as well as on performance of FMO's customers.

FMO has intensively monitored its portfolio throughout 2020 since the surging volatility in commodity and FX markets increased the uncertainty on each focus sector of FMO. On the other hand, the impact of COVID-19 on FMO's portfolio is different per sector and geography since countries took different measures in response, which reduced and postponed the negative consequences of the pandemic.

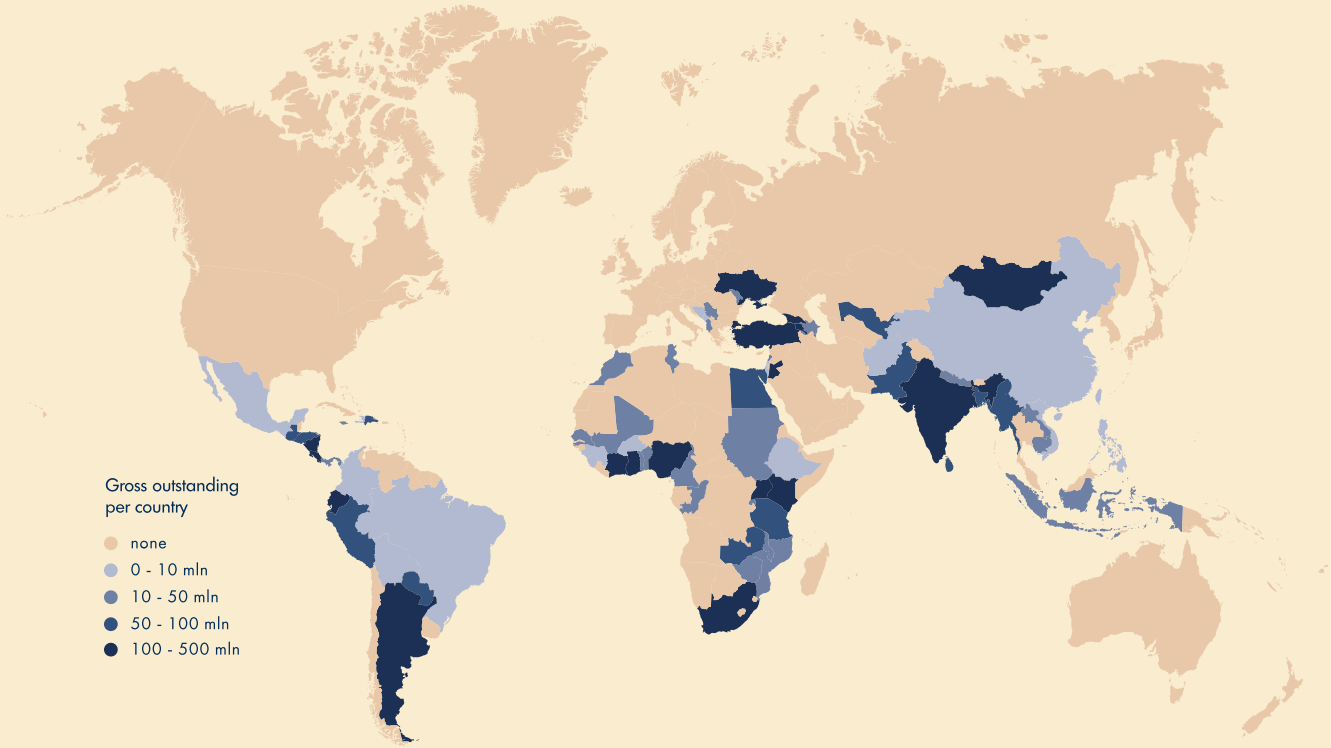
Despite the fact that all countries are affected by the COVID-19 pandemic, the impact of the pandemic on our markets differs per country as the government responses vary in timing and stringency.

Country, regional and sector exposures

Country risk arises from country-specific events that adversely impact FMO's exposure in a specific country. Within FMO, country risk is broadly defined. It includes all relevant factors that have a common impact on FMO's portfolio in a country such as economic, banking and currency crises, sovereign defaults and political risk events.

To ensure diversification within FMO's emerging market portfolio across regions, a country limit framework is in place to minimize concentration risk from the perspective of the portfolio as a whole. Country limits range from 8% to 22% of FMO's shareholders equity, depending on the country rating, where FMO sets higher limits in less risky countries. The assessment of the country rating (F-rating scoring in line with internal credit risk rating) is based on a benchmark of external rating agencies and other external information. In order for FMO to remain a reliable partner for its clients in markets especially important to FMO, country limits for a number of countries were temporarily fixed in 2020. This ensures business continuity and mitigates the reputational risk that would emerge if transactions would need to be cancelled at a very late stage. The fixation of country limits will be re-assessed in the first quarter of 2021.

In determining the limit usage within a country for loans, the committed portfolio amount as well as underlying transaction specific elements - which may lead to effective reduction of country risk - are considered. The figure below provides an overview of the diversification over the countries of FMO's gross outstanding in the loan portfolio.



In general, the loan portfolio remains well diversified across different countries. The single largest country exposure is under 10% of the total loan book. The three largest country exposures in the loan book at the end of 2020 were India, Turkey and Argentina, together 20% of the total loan exposure. Throughout 2020, the internal rating of Argentina was downgraded from F19 to F20 but has recovered to F19 at the end of the year. The ratings of India and Turkey did not change. Noteworthy changes in country ratings are downgrades of Armenia to F14 (2019: F13), Costa Rica to F15 (2019: F14), Ecuador to F17 (2019: F16) and South Africa to F13 (2019: F11), Ukraine upgraded to F15 (2019: F16).

Overview country ratings loan book based on rating scale S&P

Indicative external rating equivalent	2020 (%)	2019 (%)
F9 and higher (BBB and higher ratings)	3.4	4.5
F10 (BBB-)	8.5	8.5
F11 (BB+)	2.3	3.4
F12 (BB)	5.9	6.5
F13 (BB-)	7.5	10.5
F14 (B+)	30.1	26.3
F15 (B)	24.2	20.1
F16 (B-)	8.1	11.2
F17 and lower (CCC+ and lower ratings)	10.0	9.0
Total	**100.0**	**100.0**

On top of country risk limits, FMO has additional limits in place to ensure adequate diversification across sectors and regions. Below an overview of the gross exposure of loans distributed by region and sector is given.

Gross exposure of loans distributed by region and sector

	Financial Institutions	Energy	Agribusiness	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
December 31, 2020						
Africa	407,484	551,531	176,209	20,479	155,059	1,310,762
Asia	485,768	336,734	112,768	-	132,518	1,067,788
Latin America & the Caribbean	573,520	434,656	196,210	-	90,127	1,294,513
Europe & Central Asia	580,066	211,136	199,810	33,751	92,849	1,117,612
Non-region specific	78,743	8,611	154,847	6,148	48,010	296,359
Total	**2,125,581**	**1,542,668**	**839,844**	**60,378**	**518,563**	**5,087,034**
December 31, 2019						
Africa	406,122	622,533	141,149	31,848	212,289	1,413,941
Asia	512,229	352,552	63,610	-	190,426	1,118,817
Latin America & the Caribbean	522,356	480,201	261,775	-	118,264	1,382,596
Europe & Central Asia	637,970	222,727	225,877	37,269	95,769	1,219,612
Non-region specific	114,345	13,338	66,358	-	41,518	235,559
Total	**2,193,022**	**1,691,351**	**758,769**	**69,117**	**658,266**	**5,370,525**

Single and group risk exposures

Regarding single and group risk exposures, FMO has set stringent internal limits where the maximum loss possible for one single client or group is set as a percentage of FMO's shareholders' equity. At year-end, all exposures are well within these limits. These internal single and group risk limits are set to be more stringent than the regulatory limits such as the ones foreseen under the CRR norm of 25% of eligible regulatory capital.

Counterparty credit risk

Definition

Counterparty credit risk in the treasury portfolio is the risk that FMO will suffer economic losses because a counterparty fails to fulfill its financial or other contractual obligations from open positions in the portfolio.

Risk appetite and governance

The main responsibility of FMO's Treasury department is to fund the core business of FMO and to efficiently and effectively mitigate risks in line with the Treasury's mandate. The main goal of the treasury portfolio is to maintain a liquidity buffer such that FMO can serve its liquidity needs in both on- going business and in stressed circumstances. FMO's Treasury department does not have its own trading book and does not actively take open positions in the pursuit of profits. FMO aims to balance between keeping losses within its limited risk tolerance and supporting FMO's business strategy, thereby minimizing credit risk and concentration risk in the treasury portfolio, derivative portfolio, and several bank accounts.

The Treasury department is responsible for day-to-day counterparty risk management. Risk is the second line of defense and responsible for assessing, quantifying, and monitoring counterparty risk daily. Limit excesses and material findings are reported to the ALCO on a monthly basis, together with recommended mitigations and/or actions. The Risk Department is also responsible for updating related policies and processes and for setting up limits, including minimum credit rating requirements, exposure limits, as well as transaction limits. The policies, processes, relevant parameters, and limits are reviewed and approved by the ALCO annually.

Developments

FMO has followed developments since 2019 for the Brexit Action Plan and in addition, FMO advanced the companywide project starting in early 2019 that captures the full impact of changes and discontinuation of Benchmark interest rates, such as Libor and Eonia. For more details please refer to the section 'Legal Risk'. Furthermore, there has been an increased frequency of rating downgrades of FMO's treasury counterparties within 2020 compared to 2019 mostly owing to the aftermath of the COVID-19 pandemic. However, the latter has not led to a limit breach or urgent mitigating actions by FMO.

Exposures

Counterparty risk exposures in FMO's treasury portfolios originate from short-term investments (deposits, investment in money market funds, CPs, and collaterals related to transacted derivatives), interest-bearing securities (bonds), and transacted derivatives for hedging purpose. The tables below show outstanding positions as of 31 December.

Overview interest-bearing securities based on rating scale S&P

At December 31	2020	2019
AAA	247,583	274,222
AA- to AA+	123,493	76,015
Total	**371,076**	**350,237**

Geographical distribution interest-bearing securities

At December 31	2020 (%)	2019 (%)
Belgium	7	0
Finland	17	18
France	5	6
Germany	25	28
Netherlands	21	29
Philippines	5	6
Sweden	8	9
Supra-nationals	12	4
Total	**100**	**100**

Overview short-term deposits

At December 31	S&P rating (short-term)	2020	2019
Dutch central bank		935,686	351,532
Financial institutions	A-1	213,936	874,328
	A-2	4,617	17,573
	A-3	-	-
	Unrated	-	-
Money market funds	A-1+	143,122	130,044
Total		**1,297,361**	**1,373,477**

Supra-nationals are international organizations or unions in which member states delegate part of their national powers to a collective decision-making body.

FMO mitigates its counterparty credit risk through various means. Minimum requirements of credit quality are set for counterparties of treasury activities. Netting and collateral agreements are also utilized to reduce counterparty credit risk originating from derivative transactions. FMO has Credit Support Annexes (CSAs) with all derivative counterparties. Additionally, part of the derivative portfolio, particularly EUR and USD interest rate swaps, is cleared through central counterparties, as required by the European Market Infrastructure Regulations (EMIR).

Derivative financial instruments distributed by rating, based on rating scale S&P

	2020		2019	
	Net exposure	**CSA (%)**	**Net exposure**	**CSA (%)**
AA- to AA+	-		-	
A to A+	409,797	100	58,414	100
BBB	24,184	100	-	
Central cleared	-		25,853	100
Total	**433,980**	**100**	**84,267**	**100**

The exposure of derivative financial instruments is presented for only derivatives with positive market value, if possible, netted with derivatives with a negative market value if it concerns the same counterparty. For this reason, the total amount shown in the table above does not equal the exposure presented in the other tables.

The disclosures as set out in the tables below include financial assets and financial liabilities that:

- are offset in the consolidated balance sheet of FMO; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated balance sheet.

FMO receives and pledges only cash collateral with respect to derivatives.

	(a)	(b)	(c)=(a)-(b)	(d)		(e)=(c)-(d)
				Related amounts not offset in the balance sheet		
December 31, 2020	**Gross amounts recognized in balance sheet**	**Gross amount of financial assets/ liabilities offset in the balance sheet**	**Net amount presented in the balance sheet**	**Financial instruments (including non-cash collateral)**	**Cash collateral[1)]**	**Net amount**
FINANCIAL ASSETS						
Derivatives	463,436	-	463,436	-	-	-
FINANCIAL LIABILITIES						
Derivatives	-129,592	-	-129,592	-		
Total	**333,844**	**-**	**333,844**	**-**	**-282,054**	**51,790**

	(a)	(b)	(c)=(a)-(b)	(d)		(e)=(c)-(d)
				Related amounts not offset in the balance sheet		
December 31, 2019	**Gross amounts recognized in balance sheet**	**Gross amount of financial assets/ liabilities offset in the balance sheet**	**Net amount presented in the balance sheet**	**Financial instruments (including non-cash collateral)**	**Cash collateral[1)]**	**Net amount**
FINANCIAL ASSETS						
Derivatives	301,237	-	301,237	-	-	-
FINANCIAL LIABILITIES						
Derivatives	-257,171	-	-257,171	-	-	-
Total	**44,066**	**-**	**44,066**	**-**	**-816**	**46,580**

Liquidity risk

Definition

Liquidity risk is defined as the risk for FMO not being able to fulfill its financial obligations due to insufficient availability of liquid means.

Risk appetite and governance

FMO's risk appetite is to maintain adequate liquidity buffers to fulfill FMO's current and future financial obligations. The appetite follows a similar rationale as for capital and it is aimed to maintain enough liquidity to ensure FMO would never need to fall back on the guarantee provided by the Dutch State to our investors. To realize this ambition, minimum liquidity requirements apply as prescribed by the regulator.

FMO's Liquidity Risk Policy Framework is built on four Pillars.

1. Minimum liquidity buffer under stress
2. Maturity matched funding
3. Diversified funding
4. Meet regulatory requirements

Based on these four pillars. FMO's risk appetite levels are defined to ensure a minimum buffer above the 7-months minimum survival period under stress, a liquidity coverage ratio (LCR) to exceed 135%, a Net Stable Funding Ratio (NSFR) to exceed 110%, and restrictions on failed funding periods and cost of wholesale funding above peers. Additional thresholds such as matching funding and liquidity in specific currencies are also in place for managing and monitoring the risk profile of the bank. These monitoring metrics are delegated to Director Risk and Director Treasury and are subject to a formal sign- off procedure and reported to the ALCO. The ALCO is also responsible to approve the Liquidity Risk Policy.

FMO traditionally has a conservative liquidity policy and funding strategy that is well suited to its business. Stress tests are conducted on FMO's liquidity position on weekly basis to ensure this conservative position is maintained. For the annual Internal Liquidity Adequacy Assessment Process (ILAAP), FMO performs additional stress tests including a severe stress scenario provided by DNB and includes reverse stress testing. A continuous review is performed on the liquidity position, FMO's assumptions, internal expectations and external market conditions to ensure that FMO's liquidity planning is accurate.

The Liquidity Contingency Plan sets out FMO's strategy for addressing liquidity needs in the case of a crisis, ensuring that various sources of emergency liquidity are available to meet all current and future financial obligations, whilst avoiding excessive funding costs, incurring unacceptable losses and significantly changing the business profile. The liquidity sources include a long-term bond portfolio and a portfolio of short-term instruments such as cash, Money Market Funds, Commercial Paper (CP) and Treasury Bills. The long-term bonds and CP can be used as collateral in repurchase agreements to obtain short-term cash from the Dutch Central Bank or from commercial parties.

Developments

During 2020, FMO's liquidity position remained comfortably above the regulatory requirements and the internal managerial limits, with an LCR never falling below 435%. In addition, FMO accessed the capital markets also at the peak of crisis, confirmed by the successful issuance of €500 million sustainability bond on April 4, 2020. An internal Task Force was also established to report on liquidity and financial positions to senior management during full year 2020, providing different scenarios based on market developments.

In addition, over the past few years, FMO has established a key role in local currency frontier markets and is keen to continue issuances in 2021, fostering capital markets development in line with its mandate. In total, FMO issued approximately US$ 136 million of equivalent funding in local currency transactions during 2020. In these transactions a total of US$ 50 million was issued in Uzbekistani Soum, which can be considered a significant amount in frontier market funding.

Liquidity position

Throughout the course of 2020, FMO's liquidity position has been compliant with internal and regulatory metrics.

The following table shows the categorization of the balance sheet per maturity bucket. This table shows the timing of the undiscounted principal cash flows, and not the market values, per instrument. The totals per instrument may therefore differ from the totals on the balance sheet. Expected cash flows resulting from irrevocable facilities being drawn are not included in the liquidity gap. For internal liquidity planning and management, cash flows from irrevocable facilities are included in the cash flow forecasts.

Categorization of principal cash flows per maturity bucket

December 31, 2020	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
Assets						
Banks	46,775	-	-	-	-	46,775
Current accounts with State funds and other programs	-	-	-	-	678	678
Short-term deposits						-
-of which: Amortized cost	994,814	-	-	-	-	994,814
-of which: Fair value through profit or loss	302,547	-	-	-	-	302,547
Other receivables	17,371	-	-	-	-	17,371
Interest-bearing securities	-	57,241	273,574	40,000	-	370,815
Derivative financial instruments	1,349	41,940	117,745	79,436	-	240,470
Loans to the private sector						-
-of which: Amortized cost	150,342	1,045,546	2,516,683	589,545	-	4,302,116
-of which: Fair value through profit or loss	5,144	140,048	400,061	33,779	-	579,031
Equity investments						-
-of which: Fair value through OCI	-	-	-	-	115,504	115,504
-of which: Fair value through profit or loss	-	-	-	-	1,688,437	1,688,437
Investments in associates	-	-	-	-	179,955	179,955
Current tax receivables	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	29,504	29,504
Intangible assets	-	-	-	-	20,867	20,867
Deferred income tax assets	-	-	-	-	9,847	9,847
Total assets	**1,518,342**	**1,284,774**	**3,308,063**	**742,760**	**2,044,792**	**8,898,731**
Liabilities and shareholders' equity						
Short-term credits	-	-	-	-	341,199	341,199
Current accounts with State funds and other programs	214	-	-	-	-	214
Current tax liabilities	3,863	-	-	-	-	3,863
Derivative financial instruments	5,728	18,806	57,244	8,022		89,800
Debentures and notes	85,938	616,881	3,051,516	1,560,939	-	5,315,274
Wage tax liabilities	429	-	-	-	-	429
Accrued liabilities	42,203	-	-	-	-	43,959
Other liabilities	5,788	-	-	-	20,916	26,704
Provisions	-	-	-	-	66,189	66,189
Deferred income tax liabilities	-	-	-	-	5,063	5,063
Shareholders' equity	-	-	-	-	2,896,701	2,896,701
Total liabilities and shareholders' equity	**144,164**	**635,687**	**3,108,760**	**1,568,961**	**3,330,068**	**8,787,640**
Liquidity gap 2020	**1,374,177**	**649,087**	**199,303**	**-826,201**	**-1,285,276**	**111,091**

Categorization of principal cash flows per maturity bucket

December 31, 2019	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
Assets						
Banks	64,626	-	-	-	-	64,626
Current accounts with State funds and other programs	-	-	-	-	1,194	1,194
Short-term deposits						-
-of which: Amortized cost	351,532	-	-	-	95,176	446,708
-of which: Fair value through profit or loss	927,675	-	-	-	-	927,675
Other receivables	25,823	-	-	-	-	25,823
Interest-bearing securities	49,854	26,880	222,175	60,270	-	359,179
Derivative financial instruments	49,735	48,960	85,704	36,615	-	221,014
Loans to the private sector						-
-of which: Amortized cost	210,701	578,738	2,532,199	1,208,601	-	4,530,239
-of which: Fair value through profit or loss	55,203	60,928	374,078	253,378	-	743,587
Equity investments						-
-of which: Fair value through OCI	-	-	-	-	122,921	122,921
-of which: Fair value through profit or loss	-	-	-	-	1,756,644	1,756,644
Investments in associates	-	-	-	-	285,867	285,867
Current tax receivables	46,484	-	-	-	-	46,484
Property, plant and equipment	-	-	-	-	28,289	28,289
Intangible assets	-	-	-	-	17,585	17,585
Deferred income tax assets	-	-	-	-	6,986	6,986
Total assets	**1,781,633**	**715,506**	**3,214,156**	**1,558,864**	**2,314,662**	**9,584,821**
Liabilities and shareholders' equity						
Short-term credits	-	-	-	-	94,339	94,339
Current accounts with State funds and other programs	2,832	-	-	-	-	2,832
Derivative financial instruments	36,862	8,349	98,370	77,771	-	221,352
Debentures and notes	509,182	758,623	3,601,706	890,063	-	5,759,574
Wage tax liabilities	412	-	-	-	-	412
Accrued liabilities	22,983	-	-	-	-	22,983
Other liabilities	20,450				23,509	43,959
Provisions	-	-	-	-	49,440	49,440
Deferred income tax liabilities	-	-	-	-	5,638	5,638
Shareholders' equity	-	-	-	-	3,127,037	3,127,037
Total liabilities and shareholders' equity	**592,721**	**766,972**	**3,700,076**	**967,834**	**3,299,963**	**9,327,566**
Liquidity gap 2019	**1,188,912**	**-51,466**	**-485,920**	**591,030**	**-985,301**	**257,255**

The tables below are based on the final availability date of the contingent liabilities and irrevocable facilities.

Contractual maturity of effective guarantees issued and irrevocable facilities

December 31, 2020	< 3 months	3-12 months	1-5 years	>5 years	Total
Effective guarantees issued	-	1,285	46,200	18,524	66,009
Irrevocable facilities	19,616	29,438	301,869	1,208,113	1,559,036
Total off-balance[1)]	**19,616**	**30,723**	**348,068**	**1,226,637**	**1,625,045**

December 31, 2019	< 3 months	3-12 months	1-5 years	>5 years	Total
Effective guarantees issued	-	-	68,444	29,926	98,370
Irrevocable facilities	2,331	34,122	496,189	1,250,240	1,782,882
Total off-balance1)	**2,331**	**34,122**	**564,633**	**1,280,166**	**1,881,252**

1 FMO expects that not all of these off-balance items will be drawn before expiration date.

FMO complies with DNB's Pillar 2 liquidity requirements methodology for Less Significant Institutions (LSIs) which have been applied from the supervisory review and evaluation process (SREP). The liquidity requirements are a survival period of at least 6 months based on internal stress testing methodology, a Net Stable Funding Ratio (NSFR) of 100% and a specific Liquidity Coverage Ratio (LCR) requirement of 100%. FMO's internal liquidity appetite levels include a safety cushion over and above these minimum requirements as described in the section above.

Following the risk appetite, FMO's liquidity position has been well above regulatory requirements and internal appetite levels throughout 2020. Per reporting date, FMO has a survival period exceeding 8 years (2019: 48 months), an LCR of 1116% (2019: 252%) and a NSFR of 127% (2019: 120%).

FMO's major liquidity exposures are in EUR and USD currencies. However, some transactions are denominated – and may be settled – in local currencies. These exposures are specifically hedged using financial instruments to minimize liquidity and settlement risks.

Funding and sustainability bonds

Treasury aims to ensure good market access by diversifying FMO's funding sources. The result of this is a balanced funding mix in terms of geography, instrument and maturity.

Eurodollar (i.e. USD investors outside the United States) constitute key markets for FMO. Treasury has identified USD and EUR as strategic funding markets. Other markets to attract funding include Australia, Sweden and local frontier currencies. Typical investors in FMO debentures and notes, either through public or private issuances, hold these instruments till maturity. A final important factor to note about FMO funding, except for our Tier II issuance, is that it is plain vanilla and generally senior unsecured funding. The liquidity profile of our funding notes is therefore very straightforward.

Thematic bonds are an important part of FMO's funding strategy, that accounted for about 62% of the total capital market issuances in 2020. The FMO Sustainability Bonds Framework was updated in December 2018 in order to issue Green Bonds, Social Bonds or Sustainability Bonds to support FMO's Strategy. In 2020, FMO has issued another €500 million sustainability bond and a €135 million green bond.

Market risk

Market Risk is the risk that the value and/or the earnings of the bank decline because of unfavorable market movements. At FMO, this includes interest rate risk and currency risk.

Interest rate risk in the banking book

Definition

Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Changing interest rates mainly influence the fair value of fixed interest balance sheet items.

Risk appetite and governance

FMO has no trading book and all assets (loans and investments) are part of the banking book. FMO's policy is to match assets and liabilities within defined limits. As the loan portfolio is more granular, loans are pre-funded and new funding is obtained periodically and matched to the asset portfolio in terms of expected maturity and interest rate sensitivity. Interest rate risk arises from the residual tenor mismatch, mismatch in fixed rate assets funded by floating rate liabilities, and differences in reference rates or currencies resulting in basis risk. FMO has little optionality in its portfolio and has no material exposure to rates-driven prepayment risk. The volatility of the market value of assets and liabilities over the holding period due to interest rate movements is of less concern as these are held until maturity.

Interest rate risk management falls under the responsibility of the ALCO. The day-to-day management of interest rate risk, particularly quantification and monitoring, is delegated to Risk. Treasury department acts as the first line of defense and is responsible for daily transacting activities. Interest rate risk is monitored using earnings-based metrics and value-based metrics.

Earnings-based methods capture short-term effects of interest rate re-fixing or re-pricing that may impact net interest incomes. The metrics below are used for this purpose.

- The interest rate gap provides a static overview of the full balance sheet's repricing and refinancing characteristics. The gap is monitored over different time buckets where limits are in place both per bucket and on cumulative level, for all currencies (aggregate and currency-by-currency).

- Earnings-at-Risk (EaR) provides a dynamic projection of net interest income sensitivity to yield curve shocks. FMO monitors EaR on a 2-year forward looking basis and applies different scenarios simultaneously that allow for identification of basis risk as well.

Economic value methods capture changes in net present values of assets, liabilities and off-balance sheet items to changes in yield curves. Value-based metrics measure long-term effects of interest rate changes over the full tenor of the balance sheet. The following economic value metrics are calculated:

- Basis Point Value (BPV) provides the change in market value of assets, liabilities and interest-rate risk sensitive off-balance items for a one basis point change in yield curves. Limits are in place for the whole balance sheet, and for main currencies (EUR and USD) separately.
- Equity Value at Risk (EVaR) provides changes in the economic value of the shareholder's equity given certain shifts in yield curves. The impacts of both a 200 basis-points parallel shift and a 200 basis-points gradual shift are reported.

The interest rate gap and BPV exposure are monitored on weekly basis against limits set by the ALCO. Limits are defined dynamically to accommodate a 200 basis-points shock within 5% of shareholder's equity. The EVaR limit is defined in the Risk Appetite Framework and set at 5% of shareholder's equity. The EaR is used for monitoring purposes only and thresholds are defined based on 5% of projected net interest income.

Developments

Following extensive preparations for the (L)IBOR transition to new benchmark rates, the first two transitions for cleared derivatives (interest rate swaps) progressed according to plan: in July 2020 LCH transitioned from EONIA to ESTR discounting, in October 2020 LCH transitioned from FedFunds to SOFR discounting. On both occasions, FMO's interest rate position was not significantly affected. The Benchmark rates reform and discontinuation of LIBOR is continuing to be closely monitored by FMO's BMR&IBOR ending project.

Exposures

The limits with respect to interest rate risk were not breached in 2020. The following table summarizes the interest re-pricing characteristics for FMO's assets and liabilities.

Interest re-pricing characteristics

December 31, 2020	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
Assets						
Banks	-	-	-	-	46,775	46,775
Current accounts with State funds and other programs	-	-	-	-	678	678
Short-term deposits						
-of which: Amortized cost	994,814	-	-	-	-	994,814
-of which: Fair value through profit or loss	302,547	-	-	-	-	302,547
Other receivables	-	-	-	-	17,370	17,370
Interest-bearing securities	17,005	40,874	273,195	40,002	-	371,076
Derivative financial instruments[1]	335,177	127,092	-	-	-	462,269
Loans to the private sector						
-of which: Amortized cost	1,639,838	870,141	839,790	822,979	-	4,172,748
-of which: Fair value through profit or loss	90,581	245,655	132,994	116,486	-	585,716
Equity investments						
-of which: Fair value through OCI	-	-	-	-	115,504	115,504
-of which: Fair value through profit or loss	-	-	-	-	1,688,437	1,688,437
Investment in associates	-	-	-	-	179,955	179,955
Current tax receivables	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	29,504	29,504
Intangible assets	-	-	-	-	20,867	20,867
Deferred income tax assets	-	-	-	-	9,847	9,847
Total assets	**3,379,962**	**1,283,762**	**1,245,979**	**979,467**	**2,108,937**	**8,998,107**
Liabilities and shareholders' equity						
Short-term credits	-	-	-	-	341,199	341,199
Current accounts with State funds and other programs	-	-	-	-	214	214
Derivative financial instruments[1]	117,431	11,990	171	-	-	129,592
Debentures and notes	646,230	181,774	3,073,419	1,584,526	-	5,485,949
Current tax liabilities					3,863	3,863
Wage tax liabilities	-	-	-	-	429	429
Accrued liabilities	-	-	-	-	42,203	42,203
Other liabilities	-	-	-	-	26,704	26,704
Provisions	-	-	-	-	66,190	66,190
Deferred income tax liabilities	-	-	-	-	5,063	5,063
Shareholders' equity	-	-	-	-	2,896,701	2,896,701
Total liabilities and shareholders' equity	**763,661**	**193,764**	**3,073,590**	**1,584,526**	**3,382,566**	**8,998,107**
Interest sensitivity gap 2020	**2,616,301**	**1,089,998**	**-1,827,611**	**-605,059**	**-1,273,629**	**-**

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant interest re-pricing category.

Interest re-pricing characteristics

December 31, 2019	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
Assets						
Banks	64,626	-	-	-	-	64,626
Current accounts with State funds and other programs	-	-	-	-	1,194	1,194
Short-term deposits						
-of which: Amortized cost	446,708	-	-	-	-	446,708
-of which: Fair value through profit or loss	926,769	-	-	-	-	926,769
Other receivables	-	-	-	-	25,824	25,824
Interest-bearing securities	46,295	24,846	217,442	59,786	1,868	350,237
Derivative financial instruments[1]	79,142	109,287	62,654	3,105	47,049	301,237
Loans to the private sector						-
-of which: Amortized cost	1,847,317	1,331,809	692,762	401,839	60,382	4,334,109
-of which: Fair value through profit or loss	292,700	211,020	109,766	63,670	19,357	696,513
Equity investments						-
-of which: Fair value through OCI	-	-	-	-	122,921	122,921
-of which: Fair value through profit or loss	-	-	-	-	1,756,644	1,756,644
Investment in associates	-	-	-	-	285,867	285,867
Current tax receivables	-	-	-	-	46,484	46,484
Property, plant and equipment	-	-	-	-	28,289	28,289
Intangible assets	-	-	-	-	17,585	17,585
Deferred income tax assets	-	-	-	-	6,986	6,986
Total assets	**3,703,557**	**1,676,962**	**1,082,624**	**528,400**	**2,420,450**	**9,411,993**
Liabilities and shareholders' equity						
Short-term credits	94,339	-	-	-	-	94,339
Current accounts with State funds and other programs	-	-	-	-	2,832	2,832
Derivative financial instruments1	181,315	10,937	24,656	4,618	35,645	257,171
Debentures and notes	1,110,742	751,707	2,981,528	919,354	44,851	5,808,182
Wage tax liabilities	-	-	-	-	412	412
Accrued liabilities	-	-	-	-	22,983	22,983
Other liabilities	-	-	-	-	43,959	43,959
Provisions	-	-	-	-	49,440	49,440
Deferred income tax liabilities	-	-	-	-	5,638	5,638
Shareholders' equity	-	-	-	-	3,127,037	3,127,037
Total liabilities and shareholders' equity	**1,386,396**	**762,644**	**3,006,184**	**923,972**	**3,332,797**	**9,411,993**
Interest sensitivity gap 2019	**2,317,161**	**914,318**	**-1,923,560**	**-395,572**	**-912,347**	

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant interest re-pricing category.

Currency risk

Definition

Currency risk is defined as the risk that changes in foreign currency exchange rates have an adverse effect on the value of FMO's financial position and future cash flows. FMO also reviews currency risk in terms of impact on the capital ratios.

Risk appetite and governance

FMO offers loans and attracts funding in a wide range of currencies. This is done to provide financing in the currency best fitting FMO's clients and to reduce currency risks on their side. To ensure proper diversification, FMO attracts funding in different currencies, both on-shore and off-shore, including emerging market and frontier market currencies which contribute to FMO's goal to develop local currency markets.

FMO has limited appetite for currency risk. Exposures are hedged through matching currency characteristics of assets with liabilities, or through derivative transactions such as cross-currency swaps and FX forwards conducted with either commercial parties or with The Currency Exchange Fund (TCX Fund N.V.). Most currency exposures are hedged to US dollars on a micro-hedge basis, whereby the US dollar position is managed on a portfolio basis accordingly. FMO does not take any active positions in any currency for purpose of making a profit. Each individual currency is managed within a strict position limit and an overall appetite level is set at 1% of shareholder's equity for the total open position across all currencies. Both the individual and overall open positions are monitored by Risk on a daily basis. Additionally, FMO maintains a deliberately unhedged foreign currency position for the purpose of structural hedge which is reported to the ALCO monthly. Please refer to the structural hedge sub-section for further details.

Developments

No material developments occurred in 2020.

Exposures

Individual and total open currency positions were within risk appetite in 2020. The table below illustrates that the currency risk sensitivity gap per December 2020 is almost completely part of FMO's equity investments and investments in associates.

Currency risk exposure (at carrying values)

December 31, 2020	EUR	USD	INR	ZAR	Other	Total
Assets						
Banks	31,683	12,172	354	545	2,021	46,775
Current accounts with State funds and other programs	325	-	-	353	-	678
Short-term deposits						
-of which: Amortized cost	994,794	20	-	-	-	994,814
-of which: Fair value through profit or loss	25	302,522	-	-	-	302,547
Other receivables	12,076	4,289	51	975	-21	17,370
Interest-bearing securities	282,535	88,541	-	-	-	371,076
Derivative financial instruments1	724,209	-1,147,492	-105,704	-7,663	998,919	462,269
Loans to the private sector						
-of which: Amortized cost	532,444	2,972,022	302,413	43,952	321,917	4,172,748
-of which: Fair value through profit or loss	122,609	405,826	52,436	3,401	1,444	585,716
Equity investments						
-of which: Fair value through OCI	9,799	105,705	-	-	-	115,504
-of which: Fair value through profit or loss	274,968	1,191,642	111,909	58,180	51,738	1,688,437
Investments in associates	-	179,955	-	-	-	179,955
Current tax receivables	-	-	-	-	-	-
Property, plant and equipment	29,504	-	-	-	-	29,504
Intangible assets	20,867	-	-	-	-	20,867
Deferred income tax assets	9,847	-	-	-	-	9,847
Total assets	**3,045,685**	**4,115,202**	**361,459**	**99,743**	**1,376,018**	**8,998,107**
Liabilities and shareholders' equity						
Short-term credits	267,690	70,500	-	-	3,009	341,199
Current accounts with State funds and other programs	214	-	-	-	-	214
Derivative financial instruments1	-437,286	735,087	293,623	17,580	-479,412	129,592
Debentures and notes	1,847,102	1,808,751	-	26,917	1,803,179	5,485,949
Current tax liabilities	3,863	-	-	-	-	3,863
Wage tax liabilities	429	-	-	-	-	429
Accrued liabilities	60,170	-18,109	-79	-160	381	42,203
Other liabilities	22,119	2,010	2,178	350	47	26,704
Provisions	57,803	7,744	-	407	236	66,190
Deferred income tax liabilities	5,063	-	-	-	-	5,063
Shareholders' equity	2,896,701	-	-	-	-	2,896,701
Total liabilities and shareholders' equity	**4,723,868**	**2,605,983**	**295,722**	**45,094**	**1,327,440**	**8,998,107**
Currency gap 2020		1,509,219	65,737	54,649	48,578	
Currency gap 2020 excluding equity investments and investments in associates		31,917	-46,172	-3,531	-3,160	

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant currency category.

Currency risk exposure (at carrying values)

December 31, 2019	EUR	USD	SEK	INR	Other	Total
Assets						
Banks	41,831	15,672	5,101	12	2,010	64,626
Current accounts with State funds and other programs	1,194	-	-	-	-	1,194
Short-term deposits						
-of which: Amortized cost	445,823	-	-	-	885	446,708
-of which: Fair value through profit or loss	-	926,769	-	-	-	926,769
Other receivables	16,909	7,538	1	-	1,376	25,824
Interest-bearing securities	251,692	98,545	-	-	-	350,237
Derivative financial instruments[1]	789,864	-209,130	-255,392	-55,846	31,741	301,237
Loans to the private sector						
-of which: Amortized cost	521,130	3,077,423	303,591	138,926	293,039	4,334,109
-of which: Fair value through profit or loss	113,791	521,079	57,787	-	3,856	696,513
Equity investments						
-of which: Fair value through OCI	10,595	112,326	-	-	-	122,921
-of which: Fair value through profit or loss	274,819	1,227,427	116,250	-	138,148	1,756,644
Investments in associates	-	285,867	-	-	-	285,867
Current tax receivables	46,484	-	-	-	-	46,484
Property, plant and equipment	28,289	-	-	-	-	28,289
Intangible assets	17,585	-	-	-	-	17,585
Deferred income tax assets	6,986	-	-	-	-	6,986
Total assets	**2,566,992**	**6,063,516**	**227,338**	**83,092**	**471,055**	**9,411,993**
Liabilities and shareholders' equity						
Short-term credits	72,140	22,199	-	-	-	94,339
Current accounts with State funds and other programs	2,832	-	-	-	-	2,832
Derivative financial instruments[1]	-716,416	2,076,851	144,529	-76,009	-1,171,784	257,171
Debentures and notes	1,824,061	2,347,883	-	171,929	1,464,309	5,808,182
Wage tax liabilities	564	-	-	-	-152	412
Accrued liabilities	-46,964	1,720	263	-	67,964	22,983
Other liabilities	28,754	15,141	-	-	64	43,959
Provisions	41,839	6,805	69	-	727	49,440
Deferred income tax liabilities	5,638	-	-	-	-	5,638
Shareholders' equity	3,127,037	-	-	-	-	3,127,037
Total liabilities and shareholders' equity	**4,339,485**	**4,470,599**	**144,861**	**95,920**	**361,128**	**9,411,993**
Currency gap 2019		1,592,917	82,477	-12,828	109,927	
Currency gap 2019 excluding equity investments and investments in associates		-32,707	-33,773	-12,828	-28,217	

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant currency category.

As described above, FMO's loan assets in local currencies, such as Indian Rupee (INR), are fully swapped to US dollar on a cash flow basis. The positions in these currencies are therefore fully hedged. For IFRS reporting, however, the loans are recorded at (amortized) cost, while the related swaps are recorded at fair value, leading to an accounting mismatch in these currencies.

Sensitivity of profit & loss account and shareholders' equity to main foreign currencies

	December 31, 2020		December 31, 2019	
Change of value relative to the euro[1)]	**Sensitivity of profit & loss account**	**Sensitivity of shareholders' equity[2)]**	**Sensitivity of profit & loss account**	**Sensitivity of shareholders' equity[2)]**
USD value increase of 10%	140,351	10,571	148,059	11,233
USD value decrease of 10%	-140,351	-10,571	-148,059	-11,233
INR value increase of 10%	6,574	-	8,248	-
INR value decrease of 10%	-6,574	-	-8,248	-
ZAR value increase of 10%	5,465	-	-	-
ZAR value decrease of 10%	-5,465	-	-	-
GEL value increase of 10%	-	-	-1,283	-
GEL value decrease of 10%	-	-	1,283	-

1 The sensitivities employ simplified scenarios. The sensitivity of profit & loss account and shareholders' equity to possible changes in the main foreign currencies is based on the immediate impact on the financial assets and liabilities held at year-end, including the effect of hedging instruments.

2 Shareholders' equity is sensitive to equity investments valued at fair value through other comprehensive income.

Structural Hedge

FMO maintains a deliberately unhedged foreign currency position for purpose of managing the volatility of the capital ratio. These foreign currency positions stem from the private equity investments, and act as a hedge against an adverse effect of the exchange rate on the regulatory capital ratios. A depreciation of FMO's reporting currency (Euro) can significantly affect the capital ratio since FMO's assets - and hence also the risk weighted assets - are mainly denominated in foreign currencies. The long open position in the equity portfolio thereby functions as a partial hedge for FMO's regulatory capital ratios. In addition, the uncertainty in the size and the timing of the cash flows for equity investments makes micro- hedging less effective, hence these positions are better fit for use as a capital ratio hedge.

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

Business risk

Environmental, Social and Governance risks

Definition

Environmental & Social (E&S) risk refers to risk posed by (potential) adverse impacts of the FMO investments on the environment, their employees and workers, communities, and other stakeholders. In turn such risk may pose business risk to our customers and/or to FMO. Corporate Governance (G) risks refers primarily to risk to customers' business and - as a result - to FMO.

Risk Appetite and Governance

FMO has an appetite for managed risk in our portfolio. Our clients operate in countries where ESG regulations are less institutionalized. Initially, when conducting a transaction with a customer, we accept the risk that the ESG performance may be below our standards. In addition, impact on the environment, employees and workers, communities and other stakeholders, ESG risks can result in non-compliance with applicable regulation, NGO and press attention, reputation damage and financial loss where such risk adversely affects operational and financial performance.

As part of the investment process, FMO screens all clients 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.

Developments internal

The 2020 ESG target expanded in scope compared to the 2019 ESG target. While the 2019 ESG target included all E&S Category high risk rated (A and B+)[30] customers and customers that have a CG Officer in the deal contracted in 2017 and 2018 and where FMO leads the transaction (n=40), the 2020 target group increased to all E&S Category A and B+ customers and customers that have a CG Officer in the deal, irrespective of the year of contracting and FO leading yes/no (n=308). We will continue reporting ESG performance using the ESG target.

The Sustainability Information System (SIS) was launched in September 2020 to replace FMO's previous ESG Performance Tracker. The SIS is a robust and audit-proof solution to monitor, report and follow-up on Impact and ESG risk exposure, performance and progress made. The Performance Tracker data have undergone a thorough remediation exercise prior to migration into SIS ESG. This means that all E&S category A and B+ customers have now gone through the process of drafting, archiving, and approving, as per the requirements in the PT manual. Performance Tracker data have been migrated to the new SIS. We will use the subsequent review cycle to optimize data quality and fully achieve SIS requirements.

30 As defined in FMO's Sustainability Policy, and described further under ESG definitions in the 'How we report' section of this annual report.

As a response to COVID-19, we have included a feature in the incident register to track COVID-19 related ESG events and implemented a COVID-19 response package including customer support in managing risks which would affect workers and communities. Furthermore, FMO launched a best practice guide (co-branded with Proparco) for COVID-19 related ESG risk management for customers. We have implemented operational guidance for digital ESG due diligence and operationalizing – together with EDFI partners – retrenchment requirements as part of waivers, moratoria and emergency liquidity requests by customers and investees.

With a focus on the ECB Guide on climate-related and environmental risks, various departments within FMO have come together to discuss and develop further steps in the area of Climate Risk Management. A climate risk project for implementation in 2021 was approved by the Management Board.

Developments external

The COVID-19 pandemic has increased risk to people related to the projects that FMO invests in. The most salient impacts are related to worker health and (possible) temporary or permanent job loss as well as community health and threats to community livelihoods due to restricted movement.

FMO has been participating in an EDFI initiative to review the EDFI Exclusion List, which is expected to result in further harmonized fossil fuel related exclusions as well as a more general update. We also participated in initiatives towards the further EDFI alignment in our ESG risk management approach with respect to direct investments, including a particular workstream on human rights. COVID-19 and the business challenge it poses has emphasized the importance of harmonized practices across (E)DFIs and our ability to leverage ESG resources.

The EU Taxonomy, which entered into force on July 12, 2020, is at the heart of the EU sustainable finance package, aiming to create a uniform and harmonized classification system in order to protect against greenwashing, avoid market fragmentation and provide a basis for future regulation and standards. It is a tool to help plan, report and achieve the transition to a sustainable economy and EU's ambition to be climate-neutral by 2050.

To inform its work on the action plan to implement the Taxonomy, the European Commission established a Technical Expert Group on Sustainable Finance (TEG). The TEG published its final recommendations in March 2020, including a technical annex with recommended screening criteria. In late 2020 and beginning 2021 European Commission published a consultation on the Delegated Acts for climate mitigation and climate adaptation criteria. FMO is following the developments of the Taxonomy and cooperates with other development finance institutions.

Regulatory Risk

Definition

FMO defines two types of regulatory risks. Regulatory compliance risk is defined as the risk that FMO does not operate in accordance with applicable regulations, and regulatory risk is the risk that a future change in regulations will impact the viability of the business strategy of FMO.

Risk Appetite and Governance

FMO is subject to banking laws and government regulation in the Netherlands. DNB has broad administrative power over many aspects of the banking business including liquidity, capital adequacy, permitted investments, ethical issues and anti-money laundering. Changes in banking regulation may adversely affect FMO's operations or profitability. To ensure that FMO adheres to existing financial and prudential regulation and to assess the impact on the business strategy, FMO has in place a regulatory risk policy and committees such as the Regulatory Monitoring Group (RMG) and the Financial Regulation Committee (FRC) to keep oversight of regulatory requirements and identify changes in regulations. FMO is closely monitoring the process of translating Basel standards into European legislation, providing feedbacks to EC and EBA consultations and incorporates the latest available information in terms of capital planning.

Developments

In December 2017, the Basel Committee on Banking Supervision (BCBS) published the finalization of the Basel III reforms (BCBS 424). An important element for FMO is a change in the treatment of private equity exposures under the new standardized approach for credit risk. FMO's private equity exposures would no longer receive a 150% risk weight but they would fall under one of three categories: speculative equity (400% risk weight), equity holdings under national legislated programs (100% risk weight), and all other equity exposures (250% risk weight). The exact impact of the new standard will depend on the translation into European legislation. The Basel standard is expected to become mandatory per January 2023 with a five-year phase-in period.

In May 2019, the European Council adopted a comprehensive legislative package of reforms to CRR, CRD IV, the BRRD and the SRMR (the "EU Banking Package"). Most of the rules will start applying in mid-2021. The most relevant reform for FMO is the requirement to apply a look through for investments in equity and some debt funds. In short, investments in Collective Investment Undertakings (CIUs, or Funds) will no longer automatically labelled as 'high risk' with a 150% risk weight. Instead, risk weights will be determined using the look-through approach (LTA) or mandate-based approach (MBA) which requires an institution to look at the funds underlying investments and calculate the risk weights based on funds actual investments and leverage. FMO is finalizing a project that will facilitate the application of this requirement. Other changes in the EU Banking Reforms will only have minor impacts to FMO, primarily due to adjusted reporting requirements.

In January 2019, the BCBS published the final standard on the capital requirements for market risk (BCBS 457). Although FMO does not have a trading book portfolio, the revised standards affect the capital requirements for FMO's foreign exchange position in the banking book. The capital requirements for foreign exchange positions will increase with a multiplication factor of 1.2 under the simplified alternative approach. In case a sensitivity-based approach needs to be implemented, the capital requirements will depend on the type of currency and the correlation between the currencies. Based on the threshold proposed by EBA, it is deemed likely that FMO will apply the sensitivity-based approach both for reporting and capital requirements. The final CRR-2 provided only a reporting requirement for market risk and the final standard is expected to come into effect in January 2023 or later.

Business model and strategy execution risk

Definition

Business model risk

Business model risk is defined as the risk of a non-viable business model or strategy. Long-term viability is achieved when a bank is able to cover all its costs and provide an appropriate return on equity, taking into account its risk profile.

Strategy execution risk

Strategy Execution risk is defined as the risk of failed execution of strategic initiatives and decisions. FMO is open to project risk and will take strongly justified risks. Some uncertainty and variation are expected. We prefer options that are most likely to result in successful delivery while also providing an acceptable level of reward. These potential rewards contribute to our objectives.

Risk Appetite and Governance

Business model risk

Business model risk is monitored by comparing the deviation of actual volumes from targets or initial projections (total investment volumes of FMO and the State Funds, proportions of Green and Reducing Inequalities as part of total production; and operating income). The results of this monitoring exercise are evaluated yearly in the rolling four-year strategic cycle and in sector evaluations. The strategic process is used to adjust the current strategy with the goal of optimizing our business model.

Strategy execution risk

The Project & Process Management (PPM) team monitors the project portfolio using several metrics such as external budget utilized, internal budget utilized, realization of deliverables, open risk status. Potential identified risks related to projects are amongst others: lack of experience within FMO, unavailability of (internal) resources, interdependencies between projects (mainly resources and systems), complexity of project execution and/or implementation, time sensitivity of deliverables, dependency on and/ or by external parties.

FMO's project performance is measured against the YTD realization of the deliverables of the total project portfolio. Currently, the target is set at >85%, which reflect FMO's risk appetite in strategy execution risk. In 2019, FMO changed its project (portfolio) governance by increasing the Management Board's (MB) involvement and Directors' accountability for project delivery. The MB is accountable for managing FMO's project portfolio in alignment with FMO's strategic objectives, sector business plans and ICT strategy. The MB selects projects (ICT and non-ICT related) and manages the integral project portfolio (start project, postpone, put on hold, budget release, closure). The PPM team supports the MB in its role of managing FMO's project portfolio. The PPM team is responsible for the monitoring and reporting on the projects and the project portfolio. The PPM team acts as knowledge center for projects, project owners and project managers. The project owner is a Director who is the single person overall accountable for the project. The Director is primarily concerned with ensuring that the project delivers the agreed business benefits and acts as the representative of the organization. The project owner maintains oversight of the project and decides - within boundaries set by the MB - on scope, deliverables, planning, budget, resources, and progress of the project. The Architecture Board is responsible for ensuring that changes in respect to product, process, data architecture, systems and technology adhere to the guidelines and principles agreed upon.

Developments

Business model risk

After years of strong portfolio growth, COVID-19 has significantly affected FMO's business performance in 2020 and will remain of sizeable influence on our performance and operations at least until mid-2021. However, this impact is expected to be of a temporary nature: as the pandemic may ease in the coming period, it is expected that pressures on our business model will also wane, although some could have sizeable lagging effects after the crisis has passed.

Since the onset of the COVID-19 pandemic, many clients have faced dwindling demand and an inability to produce due to lockdowns and supply chain disruptions, which weakened firms' financial positions. FMO also saw increasing prepayments, as some clients deleveraged their balance sheets. The pandemic has also affected FMO's business performance. Travel bans hampered our ability to source new clients and transactions, and the cost of risk (impairments, fair value adjustments) has increased due to financial difficulties at clients.

The implementation of know-your-customer policies will possibly put pressure on FMO's ability to engage in new transactions on the short term. As a result, it will not affect the long-term viability of the business model.

Strategy execution risk

Enabled by the change in 2019 in project (portfolio) governance, increasing MB's involvement and Directors' accountability for project delivery, we have seen a strengthening of our portfolio monitoring and control. For 2021 we will further invest in our ability in managing interdependencies, internal resources as well as benefits.

Operational risk

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks, excluding strategic risks. This is the 'Basel' definition of operational risk.

Risk appetite and governance

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

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

Information and Cyber Security

Information is one of the bank's most valuable assets. In recognition of the importance of protecting the bank's information, systems and infrastructure, FMO has established a dedicated second line function and structured approach to identify and assess Cyber risks and ensure the confidentiality, integrity and availability of information.

Model risk

FMO uses models in various business areas including loan origination, financial reporting and compliance. Model risk is the risk of misspecified or inappropriately used models. In order to control and mitigate model risk, FMO has a model risk policy that prescribes sound practices for model development and use. The policy outlines the governance framework for model risk, including the responsibilities of model owners and the model risk oversight function.

FMO performs regular validations of models that have a material financial, regulatory or reputational impact. Furthermore, model results are regularly evaluated and compared with actual experience.

Developments

The definition of operational risk above is very broad and covers a wide range of potential risk events, causes and impacts. FMO adopted the ORX (Operational Risk data eXchange Association) risk taxonomy to structure all non-financial risk types. New policies have been introduced and are under development. A roadmap, aimed at further improvement of the maturity of internal control was approved by the Management Board. Centralized tooling was introduced to support Governance, Risk and Compliance processes.

Compliance risk

Definition

Compliance Risk is the risk of failure to comply with laws, regulations, rules, related self-regulatory organization, standards and codes of conduct applicable to FMO's services and activities.

Risk appetite & governance

FMO's standards and policies and good business practices foster acting with integrity. FMO is committed to its employees, customers and counterparties, adhering to high ethical standards. FMO has a Compliance framework which entails identifying risks, designing policies, monitoring, training and providing advices. FMO has policies on topics such as financial economic crime (including KYC, sanctions, anti-bribery and corruption) conflicts of interest, internal fraud, private investments, privacy and speak-up. FMO also regularly trains its employees to raise awareness by means of e.g. virtual classroom trainings and mandatory compliance related e-learnings. Employees are also encouraged to speak up in case of suspected integrity violations conducted by an FMO employee. Management is periodically informed via the Compliance Committee or when required on an ad-hoc basis, on integrity related matters at client or employee level. In 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 verifying the ultimate beneficial owners of the customer we finance, identifying politically exposed persons, and screening against mandatory international sanction lists. These checks are also performed regularly during the relationship with existing customers. Following a DNB onsite inspection in 2018, DNB identified several shortcomings in the way FMO conducts Customer Due Diligence/Know Your Customer. 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 demonstrate full compliance by the end of 2021. In 2019 FMO started with 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 guidance notes. It became clear in September 2020 that the progress of the FEC Enhancement programme was not fast enough. 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)

After the implementation of the GDPR in 2018, FMO continued its effort towards the protection of personal data related to its employees, customers and other stakeholders. The data protection officer (DPO) monitors FMOs compliant behavior periodically. The DPO is involved in a.o. change management activities to advise on data protection risks and risk mitigation.

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 fight 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 collaborative 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.

Developments

In addition to above-mentioned developments, FMO incorporated tax integrity as part of the risk assessments. The KYC processes were re-designed to enhance the remediation process and new KYC IT solutions were implemented. Furthermore, FMO prepared an independent validation from a third party on its compliance towards the Wwft and Sanctions Act, which will take place in 2021.

Legal and Tax risk

Definition

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.

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.

Risk appetite and governance

Legal risk

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 transactional legal team is responsible for the review of the legal aspects of FMO's contracts with its clients and for mitigating legal risks arising from FMO'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 in which FMO operates, 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

FMO is cautious with Tax Accounting risks regarding Dutch tax authorities. Some uncertainty is accepted regarding tax liabilities in developing countries because the attitude and sophistication of tax authorities can be less predictable. Mitigation is sought by engaging with local tax advisors.

With regards to Tax Integrity risk, FMO is indirectly exposed to the tax matters of its investees and clients through its investments. FMO could unwittingly support or be perceived to support aggressive tax structures. FMO could breach EU DAC6 reporting requirements on potentially aggressive tax planning arrangements involving an EU member state. Certain ownership structures could contain indicators of tax evasion that require reporting of financial crime. FMO is averse to Tax structures that are clearly aggressive. FMO 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. Further, the EU delegation programs which have been allocated to FMO, subjects FMO to EU tax integrity requirements and as Dutch licensed bank FMO must follow the client acceptance tax standards of the Dutch Central Bank.

Developments

Legal risk

Brexit. Following the adoption of the Withdrawal Agreement, the United Kingdom has left the European Union. It is considered now a 'third country'. A 'hard Brexit' was temporarily avoided, due to the transition period, where regulatory equivalence was recognised was granted to the UK, this transition period was lapsed on the 31st of December 2020. FMO's Brexit Working Group, identified only the following two legal items of attention:

1. *English Law governed contracts*. FMO has many contracts under English law. Current assessment (supported by indications from external counsel) is that Brexit has no impact on this. Due to existing EU Regulation (Rome I Regulation) Brexit will not change the obligation on courts in EU member states to uphold the parties' choice of English law governed contracts. However, as required by European Banking Regulation FMO shall ensure to include the required EEA Bail-In Regulation language under all new contracts governed by English Law. Already existing contracts do not need to be amended for this, which mitigates this requirement for FMO. Is noted that a large number of the exiting English law governed contracts in FMO already include this wording.
2. *Trading and Clearing with UK entities*. FMO's Derivatives Working Group novated all its documentation with UK banks to their EU entities. This ensures that FMO can at any time transact with the banks that it has normal dealings with. As such FMO's attention lies with its legacy portfolio and trading life cycle events. FMO's legacy portfolio would most encounter the following life cycle events: Novation, the Transfer of Collateral, and general cash flow through transactions and swaps. Considering FMO is an EU remaining party, FMO will be able to novate its legacy portfolio from UK to EU entities – this was also the case prior to Brexit. This means no immediate action is required. When FMO

wants to exercise any life-cycle events it can novate a transaction from UK to an EU entity prior to doing so. Non-Cash Transfers of Collateral are regulated, however cash transfers of collateral and general cash flow are not regulated. FMO only has cash collateral, as such this risk is not applicable to FMO's legacy portfolio. Legally this should not pose additional risks. Having said the above, this is still all dependent on the implications of a possible Comprehensive Free Trade Agreement between the EU and UK, so FMO's Brexit Working Group will continue to monitor developments.

LIBOR / new Benchmark Regulation. On March 5, 2021, ICE Benchmark Administration (IBA) stated that it would cease publication of the following USD LIBOR benchmark rates after 30-jun-23: Overnight and 1-, 3-, 6- and 12-mo USD LIBOR. The discontinuation of LIBOR impacts the products and services which are currently provided to FMO, its customers and investors. Discontinued benchmarks will be replaced with alternative reference rates (ARRs), and the ARRs and its provider need to comply with the EU Benchmark Regulation. This will require amendment of all the contracts that include interest rates referenced to discontinued benchmarks (USD LIBOR is the most important interest rate benchmark for FMO).

FMO is preparing for contract transitioning away from USD LIBOR. The actual transition from LIBOR to the ARR (SOFR for USD LIBOR) will be distributed over multiple years into 2023 ultimately. FMO's loan contracts include fallback back language in case of LIBOR cessation, with the ultimate fallback to cost of funds. FMO adhered to the ISDA protocol for its derivatives contracts.

Tax risk

Mandatory disclosure rules (DAC6) are applicable to EU taxpayers and intermediaries, hence also to FMO. The regulations require FMO to report aggressive tax structures (as defined by DAC6) as taxpayer or as 'intermediary'. DAC6 analyses are part of FMO's tax integrity analyses during investment process.

A high court decision of December 2018 in relation to non-deductible cost related to the acquisition and sale of shares/ participations will impact the allowable deductions for FMO. An acceptable approach will be aligned with the tax authorities.

FMO in 2020 has submitted an appeal to court – 'in agreement' with the tax authorities – relating to a sale of shares in 2017 (JSC bank Georgia). There is no conflict with the tax authorities on the facts, the step to court is meant to get clarity on the interpretation of a specific provision in the corporate income tax Act. No additional tax liabilities can be the result of the appeal, because FMO reported conservatively, following the tax authority's position.

Company annual accounts

Accounting policies

Activities

The activities of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereafter referred to as FMO) consist of financing activities in developing countries to stimulate private-sector development. Furthermore, FMO provides services in relation to government funds and programs. Further reference is made to the consolidated annual accounts.

Significant accounting policies

Principles of valuation and determination of results

The annual accounts are prepared in accordance with the financial reporting requirements as included in Part 9 of Book 2 of the Dutch Civil Code with the allowed application of the accounting policies (EU-IFRS) as set forth in the consolidated annual accounts. The principles of valuation and determination of results stated in the consolidated balance sheet and profit and loss account are also applicable to the company balance sheet and profit and loss account. Investments in group companies are initially recognized at cost and subsequently accounted for by the equity method.

Inter company accounts with subsidiaries consist of current accounts. These current accounts are freely disposal. Low credit risk exemption is applied due to limited credit risk and expected credit loss is not calculated.

Reference to the consolidated annual accounts

As mentioned above, the accounting policies applied in the annual accounts correspond with the consolidated annual accounts. Furthermore, the consolidated annual accounts have a limited consolidation scope and accordingly the notes to the balance sheet and profit and loss account are almost similar in both the company annual accounts and the consolidated annual accounts. In these cases, reference is made to the disclosure notes and information provided in the consolidated annual accounts. For the mandatory disclosure notes and those notes with larger discrepancies, the information is included in the notes to the company's annual accounts.

Estimates and assumptions

In preparing the annual accounts, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from such estimates and the differences may be material to the annual accounts. The most relevant estimates and assumptions relate to the determination of the fair value of financial instruments based on generally accepted modeled valuation techniques, and the determination of the counterparty specific and group-specific value adjustments. Estimates and assumptions are also used for the pension liabilities, determination of tax and depreciation of PP&E assets and others.

Prior year error - presentation Shareholders' equity

At December 2019, the presentation of the Shareholders' equity in the company annual accounts was aligned with IFRS Shareholders' equity as presented in the consolidated financial statements. The presentation of legal reserves, mainly consisting of revaluation reserves (as part of legal reserves) was incorrect (see table below for prior year presentation and restated figures of 2019). There is no impact on total Shareholders' equity however, the error impacts the classification of components in shareholders' equity. Furthermore, line item actuarial result pensions was identified as a legal reserve instead of other reserves.

	Annual Accounts 2019		Restated figures 2019
Shareholders' equity		**Shareholders' equity**	
Share capital	9,076	Share capital	9,076
Share premium reserve	29,272	Share premium reserve	29,272
Development fund	657,981	Development fund	657,981
Contractual reserve	2,379,350	Total contractual reserve	2,379,350
Actuarial result pensions	-13,974	*-of which: Other Contractual reserve*	*1,886,078*
Fair value reserve	33,082	*-of which: Other Revaluation reserve*	*493,272*
Translation reserve	-2,742	Fair value reserve	33,082
Other reserves	32,162	Translation reserve	-2,742
Undistributed result	2,708	Other reserves	18,188
		Undistributed result	2,708
Total shareholders' equity	**3,126,915**	**Total shareholders' equity**	**3,126,915**

Company balance sheet

As at 31 December 2020

	Notes	2020	2019
Assets			
Banks	(A)	41,748	60,087
Current accounts with State funds and other programs	(2)	678	1,194
Short-term deposits	(3)		
-of which: Amortized cost		994,814	446,708
-of which: Fair value through profit or loss		302,547	926,769
Other receivables	(B)	23,462	31,919
Interest-bearing securities	(5)		
-of which: Amortized cost		371,076	350,237
Derivative financial instruments	(6)	462,269	301,237
Loans to the private sector	(7)		
-of which: Amortized cost		4,172,748	4,334,109
-of which: Fair value through profit or loss		585,716	696,513
Equity investments	(C)		
-of which: Fair value through OCI		115,504	122,921
-of which: Fair value through profit or loss		1,675,235	1,732,334
Subsidiaries	(D)	12,341	22,604
Investments in associates	(9)	179,955	285,867
Intangible assets	(12)	20,867	17,585
Property, plant and equipment	(11)	29,504	28,289
Current tax receivables	(30)	-	46,484
Deferred income tax assets	(30)	9,847	6,986
Total assets		**8,998,311**	**9,411,843**
Liabilities			
Short-term credits	(13)	341,199	94,339
Current accounts with State funds and other programs	(14)	214	2,832
Derivative financial instruments	(6)	129,592	257,171
Debentures and notes	(15)	5,485,949	5,808,182
Current tax liabilities	(30)	3,863	-
Wage tax liabilities		429	412
Accrued liabilities	(16)	42,084	22,881
Other liabilities	(17)	27,096	44,033
Provisions - Pensions, other provisions	(18)	66,190	49,440
Provisions - Deferred income tax liabilities	(30)	5,063	5,638
Total liabilities		**6,101,679**	**6,284,928**
Shareholders' equity			
Share capital		9,076	9,076
Share premium reserve		29,272	29,272
Development fund		657,981	657,981
Total contractual reserve		2,180,171	2,379,350
-of which: Other Contractual reserve		1,644,122	1,886,078
-of which: Other Revaluation reserve		536,049	493,272
Fair value reserve		26,200	33,082
Translation reserve		-17,727	-2,742
Other reserves		15,006	18,188
Undistributed result		-3,347	2,708
Total shareholders' equity		**2,896,632**	**3,126,915**
Total liabilities and shareholders' equity	**(E)**	**8,998,311**	**9,411,843**
Contingent liabilities:			
- Encumbered funds (single resolution fund)	(31)	832	389
- Effective guarantees issued	(31)	66,009	98,370
Effective guarantees received	(31)	-233,679	-211,194
Irrevocable facilities	(31)	1,549,869	1,782,342

Company profit and loss account

For the year ended 31 December 2020

	Notes	2020	2019
Income			
Interest income from financial instruments measured at AC		321,862	322,735
Interest income from financial instruments measured at FVPL		1,771	53,524
Interest expenses from financial instruments measured at AC		-120,825	-136,539
Interest expenses from financial instruments measured at FVPL		38,350	-24,283
Interest expenses on leases		-168	-185
Net interest income	**(20)**	**240,990**	**215,252**
Dividend Income	(21)	32,908	29,553
Results from Equity Investments	(22)	-200,152	64,553
Share in the result of subsidiaries		-10,238	8,939
Share in the result of associates		-66,416	11,077
Total results from Equity Investments, subsidiaries and associates		**-243,898**	**114,122**
Fee and commission income		7,393	7,212
Fee and commission expense		-3,794	-11,226
Net fee and commission income	**(23)**	**3,599**	**-4,014**
Results from financial transactions	(24)	-10,806	-19,990
Remuneration for services rendered	(25)	27,733	28,502
Gains and losses due to recognition	(26)	2,000	3,916
Other operating income	(27)	293	1,695
Total other income		**19,220**	**14,123**
Total income		**19,911**	**339,483**
Operating expenses			
Staff costs	(28)	-99,734	-89,255
Administrative expenses	(29)	-29,858	-31,913
Depreciation and impairment of fixed assets	(11), (12)	-12,665	-7,809
Other operating expenses		-253	-164
Total operating expenses		**-142,510**	**-129,141**
Impairments on			
Interest-bearing securities	(5)	-36	-5
Loans	(7),(8)	-76,406	-91,038
Loan commitments	(31)	877	-1,849
Guarantees issued	(31)	-2,817	964
Total impairments		**-78,382**	**-91,928**
Profit/(loss) before taxation		-200,981	118,414
Income tax	(30)	-4,251	1,949
Net profit/(loss)		**-205,232**	**120,363**

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

Notes to the company annual accounts

Notes to the company balance sheet

The company annual accounts of FMO should be read in conjunction with the consolidated annual accounts including the risk management, segment information and the notes to the consolidated accounts. The FMO company annual accounts is, due to the limited investments activities of our consolidated subsidiaries almost the same as the consolidated annual accounts. Therefore, for notes of specific items of the balance sheet and the profit & loss accounts, we refer to the consolidated annual accounts to the extent these are not specifically disclosed hereafter.

For information related to the maturity of the assets and liabilities recorded in the balance sheet of the company annual accounts, we refer to the table with the categorization of principal cash flow per maturity bucket in the section Liquidity risk of the Risk Management Chapter.

A. Banks

	2020	2019
Banks	41,748	60,087
Balance at December 31	**41,748**	**60,087**

The cash on bank accounts can be freely disposed of.

B. Other Receivables

	2020	2019
Receivables related to equity disposals	1,504	7,509
Taxes and social premiums	703	1,037
To be declared on State guaranteed loans	2,428	3,264
Transaction fee receivables and prepayments	12,223	13,603
Intercompany receivables from subsidiaries	6,604	6,506
Balance at December 31	**23,462**	**31,919**

C. Equity investments

	Equity measured at FVOCI	Equity measured at FVPL	Total 2020	Total 2019
Balance at January 1	122,921	1,732,334	1,855,255	1,565,470
Purchases and contributions	40	230,401	230,441	296,457
Reclassification from loans	-	-	-	11,312
Reclassification Associate/FVPL	-	17,066	17,066	-
Sales	-	-112,630	-112,630	-103,284
Changes in fair value	-7,457	-191,937	-199,394	85,300
Balance at December 31	**115,504**	**1,675,234**	**1,790,738**	**1,855,255**

D. Subsidiaries

	2020	2019
Balance at January 1	22,604	37,457
Purchases and contributions	-	-
Share in other comprehensive income	-	-
Share in net results	-10,263	8,939
Return of Capital	-	-23,792
Balance at December 31	**12,341**	**22,604**

The investments in subsidiaries consist of the following interests in the share capital of:

1. Asia Participations B.V.: 100%;
2. FMO Investment Management B.V.: 100%;
3. FMO Medu II Investment Trust Ltd.: 100%;
4. Nuevo Banco Comercial Holding B.V.: 100%;

5. Equis DFI Feeder L.P.: 63%
6. NedLinx B.V.: 100%.

The following table summarizes the carrying amount of the subsidiaries.

	2020	2019
Asia Participations B.V.	6,998	17,534
FMO Investment Management B.V.	4,850	4,442
FMO Medu II Investment Trust Ltd.	6	23
Nuevo Banco Comercial Holding B.V.	337	396
Equis DFI Feeder L.P.	150	209
Balance at December 31	**12,341**	**22,604**

E. Shareholders' equity

Share capital

The authorized capital amounts to €45,380k, consisting of A shares of €22.69 each, which are held by the Dutch Government, and B shares of €22.69 each as well, which are for held by commercial banks and private investors. The Dutch Government holds 51% of the total shares of FMO, while commercial banks and private investors hold the remaining 49%. The voting rights for A shares and B shares are equal.

Authorized share capital	2020	2019
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
Balance at December 31	**45,380**	**45,380**

In addition, the shareholders' equity of the company comprises of three reserves, which result from the Agreement State-FMO of November 16, 1998. These are the share premium reserve, the development fund and the contractual reserve. As long as the company continues its activities, these reserves are not available to the shareholders. Upon liquidation of FMO these reserves fall to the Dutch Government, after settlement of the contractual return to the shareholders.

Issued and paid-up share capital	2020	2019
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
Balance at December 31	**9,076**	**9,076**

Share premium reserve

Share premium reserve is sole contributed by Shareholders of A shares on the transfer to the company of investments administrated on behalf of the State at the time of the financial restructuring and amounts to €29,272k (2019: €29,272k).

	2020	2019
Share premium reserve shareholder A, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	8,061	8,061
Share premium reserve shareholder B, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	21,211	21,211
Balance at December 31	**29,272**	**29,272**

Statutory reserves

Development fund

This special purpose reserve contains the annual budgetary allocations made by the Dutch Government to finance the portfolio of loans and equity investments.

Other contractual reserve

The addition relates to that part of the net result, which FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998 (see section 'Additional information').

Legal reserves

Legal reserves include the fair value-, other revaluation, and translation reserves.

	2020	2019
Fair value reserve	26,200	33,082
Other revaluation reserve	536,049	493,272
Translation reserve	-17,727	-2,742
Total legal reserves	**544,522**	**523,612**

Fair value reserve

The fair value reserve is the part of the revaluation reserve and includes gains and losses of equity investment measured at FVOCI. Gains and losses on such equity investments are never reclassified to profit or loss. Cumulative gains and losses recognized in this reserve are transferred to other reserves on disposal of the investment.

Other revaluation reserve

The Other revaluation reserve[1)] (as a part of the total contractual reserve) include unrealized gains related to financial assets measured at FVPL. The revaluation reserve in the Company annual accounts follows from differences in presentation requirements between IFRS and Part 9 of the Dutch Civil Code. This revaluation reserve has been created against the other reserves. At the same time, a same amount is added to the Other reserves and compensated by the contractual reserve.

The Other revaluation reserve includes the unrealized fair value gains of our equity investments, loans to private sector at FVPL and derivatives for which the valuations are not determined based on quoted market prices.

	2020	2019
Equity investment FVPL	338,383	371,984
Loans to private sector FVPL	6,431	3,406
Derivatives other than hedge accounting instruments	191,235	117,883
Total other revaluation reserve	**536,049**	**493,272**

1 The other revaluation reserve was not presented in the Company annual accounts at December 31, 2020. Refer to Prior year error - Shareholders' equity section in the Accounting Policies chapter.

Translation reserve

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

At December 31, 2020 the translation reserve (as a part of the legal reserve) has a negative balance of €17 million (2019: €2.7 million).

Other reserves

Pursuant to Dutch reporting requirements in Part 9 of Book 2 the Dutch Civil Code, the table reflects the other reserves included in the total Shareholders' equity. According to the Support Agreement with the Dutch Government, FMO allocates the net results after dividend pay - out to the contractual reserve. The contractual reserve is a statutory reserve, against which no legal reserves can be created. The Other revaluation reserve is recorded through Other reserves. At the same time Other reserves are compensated via the contractual reserve.

	2020	2019
Actuarial gain/loss on defined benefit plans	-17,156	-13,974
Retained earnings	32,162	32,162
Total other reserves	**15,006**	**18,188**

Changes in Shareholders' equity

The table below presents changes in Shareholders' equity for line items which are only relevant for Company - only. Remaining line items are reflected in the FMO's consolidated annual accounts.

	Legal reserve - Other revaluation reserve	Other reserves
Restated Balance at December 31, 2018	538,813	11,039
Actuarial gains/(loss) on defined benefit plans net of tax[1)]	-	7,149
Addition/(release) to other revaluation reserve	-45,541	45,541
Addition/(release) from contractual reserve	-	-45,541
Balance at December 31, 2019	**493,272**	**18,188**
Actuarial (gain)/(loss) on defined benefit plans net of tax	-	-3,182
Addition/(release) to other revaluation reserve	42,777	-42,777
Addition/(release) from contractual reserve	-	42,777
Balance at December 31, 2020	**536,049**	**15,006**

1 This item refers to line item Actuarial result pension in the consolidated statement of changes in Shareholders' equity

Proposal for appropriation of the net result

In 2020, the General Meeting of Shareholders approved the non-binding proposal by the Management Board and Supervisory Board to not pay out the distributable part of the profit of €2.7 million related to financial results of 2019. The General Meeting of Shareholders agreed to allocate this amount to the contractual reserve. The Management Board and Supervisory Board propose to allocate this amount to the other reserves, based on more insights. This proposal to add the amount to other reserves is more in line with the Agreement State-FMO of November 16, 1998 and aligned with the approach applied during years when the pay-out ratio that was applied to the distributable part of the profit was variable.

A company net loss of €205 million is recorded in 2020. Considering this loss, the Management Board and Supervisory Board proposes to the Shareholders not to pay out dividends related to 2020. Based on the Agreement State-FMO of November 16, 1998, the proposal is made to allocate €6.1 million of the loss (3% of the loss) to other reserves and the remaining loss to the other contractual reserve. This approach aligns with the pay-out factor as applied in the allocation of dividend in previous years. The amount which should be allocated to the contractual reserve has already been recorded in the balance sheet.

Subsequent events

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

COMBINED INDEPENDENT AUDITOR'S AND ASSURANCE REPORT

Building a better working world

Combined independent auditor's report on the 2020 financial statements and sustainability information

To: the shareholders and supervisory board of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

We have summarized the main conclusions and main features of our audit and review of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO or the Company) below. The full text of the independent auditor's report, which includes the assurance report on sustainability information, has been included in the following pages.

Summary

Financial statements

Unqualified opinion on financial statements

Materiality

- Materiality of € 29 million
- 1% of shareholders' equity

Key audit matters

- Impairment of loans to the private sector
- Valuation of equity investments at fair value
- Reliability and continuity of the information technology and systems

Sustainability information

Unqualified opinion on green-labelled new investment volume, materiality assessment and diversity KPIs

Unqualified conclusion on sustainability information

Materiality

- Professional judgment for qualitative information
- Specific materiality levels for each quantitative element of the sustainability information in scope

Key assurance matter

- Joint impact model

Combined independent auditor's report on the 2020 financial statements and sustainability information

To: the shareholders and supervisory board of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

Our conclusions

We have audited the financial statements 2020 of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO or the Company) based in The Hague, the Netherlands. The financial statements include the consolidated annual accounts and the company annual accounts.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of FMO 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) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of FMO as at 31 December 2020 and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code

We have reviewed the sustainability information for the year 2020 of FMO. A review is aimed at obtaining a limited level of assurance. Furthermore, we have audited the green-labelled new investment volume, the materiality assessment 2020 and the diversity KPIs. The scope of our engagements is described in the section Our Scope.

Based on our procedures performed, nothing has come to our attention that causes us to believe that the accompanying sustainability information does not present, in all material respects, a reliable and adequate view of the policy and business operations with regard to corporate social responsibility and the thereto related events and achievements for the year 2020, in accordance with the Sustainability Reporting Standards, core option, of the Global Reporting Initiative (hereafter: GRI standards) and the applied supplemental reporting criteria as disclosed in the chapter 'How we report' of the annual report.

In our opinion, the green-labelled new investment volume, the materiality assessment 2020 and the diversity KPIs have been prepared, in all material respects, in accordance with the applied supplemental reporting criteria as disclosed in the chapter 'How we report' of the annual report.

Based on the procedures performed according to the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 and Sections 2:135b and 2:145 sub-section 2 of the Dutch Civil Code

Basis for our conclusions

We conducted our assurance engagements in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3810N, "Assurance-opdrachten inzake maatschappelijke verslagen" (Assurance engagements relating to sustainability reports), which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information".

Our responsibilities under those standards are further described in the section Our responsibilities in this report.

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

Our independence

We are independent of FMO in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagements. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

Our scope

Our engagements scope

The annual report consists of the financial statements and other information, including Reports by the management board and supervisory board, that provide altogether an overview of the policy, activities, events and performances related to both the financial position and the sustainable development of FMO during reporting year 2020. The following information in the annual report has been in scope for our assurance engagements:

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2020
- The following statements for 2020: the consolidated profit and loss account, the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2020
- The company profit and loss account for 2020
- The notes comprising a summary of the accounting policies and other explanatory information

The sustainability information comprises:

- Reasonable assurance – green-labelled investment volume as disclosed on page 10, the materiality assessment as presented on page 113 and the diversity KPIs as disclosed on page 78 of the annual report – hereafter: the selected sustainability information;
- Limited assurance - The sustainability information in 'At a glance', 'About this report', 'External environment', 'Our strategy', 'Our value creation model', 'Our investment process', 'Performance on our strategy', 'Our commitments', 'Stakeholder engagement and materiality assessment', and 'How we report' – hereafter: the other sustainability information .

The other information comprises:

- At a glance
- Report of the management board

- Report of the supervisory board
- Corporate governance
- Stakeholder engagement and materiality assessment
- How we report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Limitations to the scope of our assurance engagement on of the sustainability information

The sustainability information includes prospective information, such as ambitions, strategy, plans, expectations and estimates. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

Calculations to determine the indirect jobs supported, the financed absolute GHG emissions (hereafter: the impact data) and the green labeled new investment volume as included in the annual report are mostly based on external sources and by using several assumptions. The assumptions and sources used are explained in the documents 'JIM application by FMO March 2021' (hereafter: the methodology of the impact model) and 'Green Methodology 2020' (hereafter: the Green Methodology) as available on the website of FMO. We have not performed procedures on the content of these assumptions and external sources, other than evaluating the suitability and plausibility of these assumptions and external sources used.

The references to other external sources or websites in the sustainability information are not part of the sustainability information as assured by us. We therefore do not provide assurance on this information.

Reporting criteria

The financial statements and the sustainability information need to be read and understood together with the reporting criteria. FMO is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The absence of an established practice on which to draw, to evaluate and measure sustainability information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

The reporting criteria used for the preparation of the financial statements and the sustainability information are presented below.

Consolidated financial statements	International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code
Company financial statements, Reports by the Management Board and Supervisory board	Part 9 of Book 2 of the Dutch Civil Code and Sections 2:135b and 2:145 sub-section 2
Sustainability information	GRI Standards and the applied supplemental reporting criteria as disclosed in the chapter 'How we report' of the annual report

Our audit approach

Our understanding of the business

FMO is the Dutch entrepreneurial development bank that invests with the aim of enhancing local prosperity in emerging markets. FMO is at the head of a group of entities and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the Company and our risk assessment.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

In 2020, we were forced to perform our procedures to a greater extent remotely due to the Covid-19 measures. This limits our observation and increases the risk of missing certain signals. In order to compensate for the limitations related to physical contact and direct observation, we performed alternative procedures to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

General

The scope of our assurance procedures is influenced by the application of materiality. Our assurance engagements aim to provide assurance about whether the financial statements and the sustainability information are free from material misstatement. Misstatements may arise due to fraud or errors. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the (economic) decisions of users taken on the basis of the financial statements and the sustainability information. The materiality affects the nature, timing and extent of our assurance procedures and the evaluation of the effect of identified misstatements on our conclusions.

Financial statements

For the audit of the financial statements our considerations regarding the materiality are as follows:

Materiality	€29 million (2019: €31 million)
Benchmark used	1% of shareholders' equity (2019: 1% of shareholders' equity)
Additional explanation	FMO's shareholders' equity and solvency, and the ability to invest in and provide financing to companies in developing countries, are key indicators for the users of its financial statements. We applied, consistent with 2019, 1% of shareholders' equity for the audit of the 2020 financial statements.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of €750,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Sustainability information

Based on our professional judgment we determined materiality levels for each relevant part of the sustainability information and for the sustainability information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the organization.

We agreed with the supervisory board that misstatements which are identified during the review and which in our view must be reported on quantitative or qualitative grounds, would be reported to them.

Scope of the group audit

FMO is at the head of a group of entities. The financial information of this group is included in FMO's consolidated financial statements. FMO is structured based on the sectors: Financial Institutions, Energy, Agribusiness, Food & Water, Private Equity, Partnership for impact and Other. FMO operates in the following four geographical markets: Africa, Asia, Europe & Central Asia, Latin America & the Caribbean. As FMO generates its revenues from customers in developing countries, no revenues are derived from FMO's country of domicile, the Netherlands.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities based on size and risk. Our group audit focused on the stand-alone financial information of FMO. This resulted in a coverage of 100% of profit before taxation and 100% of total assets. By performing these procedures we have been able to obtain sufficient and appropriate audit evidence about FMO's financial information to provide an opinion on the consolidated financial statements

Teaming and use of specialists

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a listed client in the banking industry. We included specialists in the areas of IT audit, forensics and income tax and have made use of our own experts in the areas of valuations of ECL provisions, direct equity investments, fair value loans, derivatives, hedge accounting and pensions.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Non-compliance with laws and regulations may result in fines, litigation or other consequences for the Company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executives, directors (including internal audit, compliance and risk management) and the supervisory board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic and legal specialists. In our risk assessment we considered the risk of bribery and corruption as FMO is providing loans to clients in multiple jurisdictions with an inherently higher corruption risk profile.

In our process of identifying fraud risks, we considered whether the Covid-19 pandemic gives rise to specific fraud risk factors resulting from a dilution in the effectiveness of controls as a result of the general disruption associated with remote working, management overrides and workarounds becoming the norm, manual invoicing and manual payments.

We evaluated the design and the implementation of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in Notes 6, 7, 8, 9, 10, 18 and 30 to the financial statements. We have also used data analysis to identify and address high-risk journal entries. We refer to the following KAM: Impairment of loans to the private sector.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes, inspection of internal audit and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected correspondence with regulatory authorities together with an EY legal specialist, and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Non-compliance with laws and regulations may result in fines, litigation or other consequences for the Company that may have a material effect on the financial statements. In 2018, the Dutch Central Bank performed an on-site inspection and identified shortcomings in compliance with the Dutch Act on the prevention of money laundering and financing of terrorism and Sanctions Law. FMO is executing a remediation plan to address the shortcomings identified to be fully compliant with these laws by the end of 2021. As part of our audit we paid specific attention to FMO's remediation approach.

Going concern

We performed the following procedures in order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting. Management made a specific assessment of the company's ability to continue as a going concern and to continue its operations for at least the next 12 months. We discussed and evaluated the assessment with management exercising professional judgment and maintaining professional skepticism, and specifically focusing on the process followed by management to make the assessment, management bias that could

represent a risk, the impact of current events and conditions have on the company's operations and forecasted cash flows, with a focus on whether the company will have sufficient liquidity to continue to meet its obligations as they fall due.

We consider based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company'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 company to cease to continue as a going concern.

General audit procedures

Our audit further included among others:
• Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
• Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
• Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
• Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our key audit and review matters

Key audit and review matters are those matters that, in our professional judgment, were of most significance in our assurance procedures on the financial statements and the sustainability information. We have communicated the key audit and review matters to the supervisory board. The key audit and review matters are not a comprehensive reflection of all matters discussed.

Last year we included a key audit matter on green investments as it was the first year FMO used its own developed criteria for green investments to determine if an investment is considered green. As these criteria remained unchanged for 2020, we did not include this as a key audit matter this year.

These matters were addressed in the context of our assurance procedures for the financial statements and the sustainability information as a whole and to conclude thereon, and we do not provide a separate conclusion on these matters.

For the audit of the financial statements 2020 we identified the following key audit matters:

Impairment of loans to the private sector	
Risk	At 31 December 2020, FMO reported loans to the private sector measured at amortized cost of €4.2 billion including an allowance of €233 million for expected credit losses. The timing and measurement of expected credit losses require significant estimates and management's judgment in setting assumptions and criteria in respect of: • Allocation of loans to stages 1, 2 or 3

Impairment of loans to the private sector	
	• Accounting policies and modelling assumptions used to build the model to calculate the expected credit loss (ECL) • Completeness and accuracy of data used to calculate the ECL • Management overlay to address the effects of the Covid-19 pandemic for stages 1 and 2 • Estimating the impact of multiple macro-economic scenarios to calculate the ECL for stages 1 and 2 • Measurement of individually assessed provisions for stage 3, including the assessment of recovery scenarios. Due to the significance of the loans to the private sector and the related estimation uncertainty of expected credit losses, we consider the measurement of the allowance for expected credit losses a key audit matter. Reference is made to the "Significant estimates, assumptions and judgements" section, note 7 "Loans to the private sector", note 8 "ECL allowances - assessment" and "Credit risk" section under Risk Management Chapter to the financial statements.
Our audit approach	We obtained an understanding of the process and tested the design, and where applicable the operating effectiveness, of key-controls in the processes relevant for FMO's ECL calculation. This included the allocation of loans into stages, model governance, data accuracy and completeness, credit risk monitoring, multiple economic scenarios, individual provisions, journal entries and disclosures. We performed an overall assessment of the ECL provision levels by stage to determine if they are reasonable considering FMO's portfolio, risk profile, credit risk management practices and macro-economic environment. We considered trends in the economy and industries to which FMO is exposed to. We challenged the criteria used to allocate loans to stage 1, 2 or 3 in accordance with EU-IFRS and FMO's policy. We tested loans in stage 1, 2 and 3 and verified whether they were allocated to the appropriate stage. With the support of our modelling specialists, we tested assumptions, inputs and formulas used in the ECL model. This included the appropriateness of model design, recalculating the Probability of Default, Loss Given Default, Exposure at Default in this model including back-testing of assumptions applied. We assessed the management overlay applied by FMO to recognize the Covid-19 impact on the ECL provision. Further, we assessed the selected macro-economic scenarios and variables used. We examined a selection of loans to assess the expected credit loss provision for stage 3 loans. We applied professional judgment in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that are potentially more sensitive to developing economic and political trends. For selected loan exposures

Impairment of loans to the private sector	
	we recalculated individually assessed provisions and challenged the recovery scenarios and probability weightings assigned. We assessed the completeness and accuracy of the disclosures for compliance with EU-IFRS.
Key observations	We assessed that expected credit loss provisions are reasonable and in compliance with IFRS 9 and concur with the related disclosures in the financial statements.

Valuation of equity investments at fair value	
Risk	Equity investments amounted to €1.8 billion as at 31 December 2020. These equity investments are measured at fair value with the corresponding fair value change recognized through profit and loss, except for 4 strategic equity investments, for which fair value changes are recognized through other comprehensive income. The valuation of the equity investments is inherently subjective - most predominantly for the level three equity investments since these are valued using inputs other than quoted prices in an active market. Key inputs used in the valuation of individual level three equity investments are, amongst others, net asset values for the fund investments, comparable recent transaction prices, comparable book and earnings multiples, and discounted cash flows for the direct investments. Certain aspects of the valuation of the equity investments require significant judgment, such as the assessment of the reliability of recent available information, determining the appropriate peer group for establishing multipliers, and determining the input data for the income based models as the data cannot be verified by external market data. Covid-19 has increased the estimation uncertainty in respect of the valuation of equity investments at fair value. Due to the significance of equity investments at fair value and the related estimation uncertainty, we consider the valuation of these equity investments a key audit matter. Reference is made to section "Equity investments" in the Significant accounting policies, note 9 "Equity investments" and related disclosures of "Equity risk" within section Financial risk management and "Fair value of financial assets and liabilities" in the notes to the financial statements.
Our audit approach	Our audit approach included testing the design and effectiveness of internal controls where applicable in FMO's valuation processes for equity investments as well as executing substantive audit procedures. Our substantive audit procedures comprised, amongst others, of an assessment of the methodology and the appropriateness of the valuation models and inputs used to value fund and direct investments. We involved internal valuation specialists to assess market related information for the valuation of a sample of direct investments (level 3), and to assess whether the

Valuation of equity investments at fair value	
	valuations were within a reasonable range. We assessed the accuracy of key inputs and assumptions driving the valuation. This included the assessment of the appropriateness of comparable market multiples, adjusted for comparability differences such as size and liquidity, and the assessment of the reasonability of the expected cashflows and discount rates used. We examined a selection of the fund investments to assess the appropriate application of net asset value statements received from these fund managers and assessed this statement was the best reflection of fair value. We assessed the clerical accuracy of the fair value calculations. We performed back-testing procedures on fund investments and on the direct investment exits during 2020 to verify the appropriateness and reasonableness of the previous recorded valuations. We assessed whether all new information available between balance sheet date and the date of the financial statements relevant for the year end fair value was properly included in the valuations. We assessed the completeness and accuracy of the disclosures for compliance with EU-IFRS.
Key observations	We are satisfied that the fair value of the equity investments is within a reasonable range and concur with the related disclosures in the financial statements.

Reliability and continuity of the information technology and systems	
Risk	FMO and its financial reporting processes are highly dependent on the reliability and continuity of information technology (IT) due to the number of transactions that are processed daily and the reliance on IT applications to support initiation through reporting of those transactions. An adequate IT infrastructure in combination with effective general IT and application controls ensure the reliability and continuity of the FMO's business processes and accuracy of financial reporting. Further, the increasingly detailed financial and regulatory reporting requirements require high quality data. Given the importance of the reliability and continuity of IT for FMO we consider this a key audit matter. Reference is made to "Information and Cyber Security" section under Risk Management Chapter to the financial statements.
Our audit approach	As part of our audit procedures we have assessed the changes in the IT systems and IT infrastructure. We tested the reliability and continuity of electronic data processing within the scope of the audit of the 2020 financial statements. For that purpose, we have included IT auditors in our team. Our procedures included testing the design and operating effectiveness of controls with regards to IT systems and

Reliability and continuity of the information technology and systems	
	processes relevant for financial reporting. Amongst others, we tested the IT general controls related to logical access and change management, and application controls embedded in FMO's key processes.
Key observations	The tests of controls performed provided sufficient appropriate evidence for the purposes of our audit.

For the assurance engagement on the sustainability information, we identified the following key review matter:

Joint Impact Model (JIM) (Key Review Matter)	
Risk	Indirect jobs supported and financed absolute Greenhouse gas (hereafter: GHG) emissions are reported using the Joint Impact Model (JIM). FMO, together with other DFIs, developed this model to calculate indirect impact of investments. 2020 is the first year that FMO used this model to report on its indirect jobs supported and financed absolute GHG emissions. This model includes key judgments and assumptions in respect of the measurement of the indirect jobs supported and financed absolute GHG emissions. No comparative figures are included in the annual report. The suitability of the criteria, the implementation and consistent application of the model and transparent disclosure of the results, criteria and explanation of the absence of comparative figures in the annual report are of significant importance. Reference is made to the chapters 'Performance on our strategy' and 'How we report' in the annual report.
Our review approach	Our approach included assessing the suitability of the methodology of the impact model including underlying assumptions and the consistent application of these in 2020. We verified correct implementation and consistent application in reporting on the results. We conducted an analysis of the underlying drivers for the 2020 data reported and determined that the most material assumptions and limitations have been properly disclosed in the chapter 'How we report' in the Report. We assessed the transparent disclosure of the methodology in the report, including the assumptions used.
Key observations	The indirect jobs supported, financed absolute GHG emissions including the reporting criteria and the methodology of the impact model are disclosed sufficiently transparent in the chapters 'Performance on our strategy' and 'How we report'.

Unaudited corresponding information

No audit has been performed on the diversity KPIs for the periods before 2020. The diversity KPIs were part of the review of the sustainability information for the periods before 2020.

Report on other legal and regulatory requirements

Engagement

We were engaged as auditor by the Annual General Meeting of Shareholders of FMO on 4 December 2015, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements we provided the following services:

- Regulatory reporting: We issued auditor's reports and reports of factual findings following the audit of the prudential statements prepared by management for the Dutch Central Bank, consisting of Financial Reporting (FinRep), Common Reporting (CoRep) and agreed-upon procedures on the Interest rate risk.
- Capital market transactions: We issued a comfort letter and a consent letter in relation to the updated debt issuance programme.
- State funds: We issued assurance reports on the reporting sets of the State Funds prepared in accordance with the specific requirements as set out by the Dutch State.
- Pillar assessment: We will issue an assurance report for reporting to the European Commission

Responsibilities

Responsibilities of management board and the supervisory board

The management board (hereafter: management) is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code and for the preparation of the other information, including the Report by the management board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Management is also responsible for the preparation of reliable and adequate sustainability information in accordance with the GRI Standards and the applied supplemental reporting criteria, including the identification of the stakeholders and the determination of material issues. The choices made by management with respect to the scope of the sustainability information are included in chapter 'How we report' of the annual report.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements and the sustainability information that are free from material misstatement, whether due to fraud or error.

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

The supervisory board is responsible for overseeing the reporting process of FMO.

Our responsibilities

Our responsibility is to plan and perform the assurance engagements in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusions.

Our assurance procedures aimed at obtaining reasonable assurance have been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audits. The procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in a review is therefore substantially less than the assurance obtained in an audit.

We apply the "Nadere voorschriften kwaliteitssystemen" (NVKS, Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

A further description of our responsibilities is included in the annex to the combined independent auditor's report.

Amsterdam, 19 March 2021

Ernst & Young Accountants LLP

J.G. Kolsters

Annex to the combined independent auditor's report

Work performed

We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagements, in accordance with the Dutch Standards on Auditing and the Dutch assurance standards, ethical requirements and independence requirements.

Our audit to obtain reasonable assurance about the financial statements (consolidated and company) included amongst others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or errors, 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 company'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 company'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.

Our review to obtain limited assurance about the sustainability information included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues and the characteristics of the company
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates by management
- Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review
- Obtaining an understanding of the procedures performed by the internal audit department of FMO
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatements, whether due to fraud or errors. Designing and performing further procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These further review procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate and local level responsible for the sustainability strategy, policies and results
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information
  - Obtaining assurance information that the sustainability information reconciles with underlying records of the company

Work performed	
However, future events or conditions may cause the company 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	• Reviewing, on a limited test basis, relevant internal and external documentation • Evaluating whether the assumptions used in the calculation of the impact data and the green labeled new investment volume as included in the chapter 'Performance on our strategy' are plausible, which are included in the methodology of the impact model and the Green Methodology. • Evaluating the suitability and plausibility of the external sources used in the calculations on which the impact data and the green labeled new investment volume as included in the chapter 'Performance on our strategy' is based, which are included in the methodology of the impact model and the Green Methodology. • Performing an analytical review of the data and trends • Reconciling the relevant financial information with the financial statements • Evaluating the consistency of the sustainability information with the information in the annual report which is not included in the scope of our review • Evaluating the overall presentation, structure and content of the sustainability information • Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used In addition to the procedures mentioned above, for the selected sustainability information, we identified and assessed the risks that the selected sustainability information is misleading or unbalanced, or contains material misstatements, whether due to fraud or errors. We designed and performed further audit procedures responsive to the risks identified, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the selected sustainability information is misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Work performed	
	These further audit procedures included the following procedures: • Obtaining a more detailed understanding of systems and reporting processes, including obtaining an understanding of internal control relevant to our assurance engagement but not for the purpose of expressing an opinion on the effectiveness of FMO's internal control • Conducting more in-depth analytical procedures and substantive testing procedures on the relevant data • Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the selected sustainability information

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 and Section 2: 135b sub-Section 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements or in our assurance engagement of the sustainability information.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the assurance procedures and significant findings, including any significant findings in internal control that we identify during our assurance engagements. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements and the assurance engagement of the sustainability information of the current period and are therefore the key audit and review matters. We describe these matters in our combined independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Provision in the Articles of Association concerning the appropriation of the net result

The provision and the appropriation of the net profit is based upon the Articles of Association and the Agreement State-FMO of November 16, 1998.

The General Meeting will determine which portion of the result of a financial year is reserved or in which way a loss will be incorporated. The Supervisory Board and the Management Board can make a non-binding proposal in accordance with the provision and dividend policy adopted by the General Meeting, taking into account the relevant provisions in the Agreement State-FMO of November 16, 1998.

Proposal for appropriation of the net result

In 2020, the General Meeting of Shareholders approved the non-binding proposal by the Management Board and Supervisory Board to not pay out the distributable part of the profit of €2.7 million related to financial results of 2019. The General Meeting of Shareholders agreed to allocate this amount to the "contractual reserve". The Management Board and Supervisory Board propose to allocate this amount to the "other reserves", based on more insights. This proposal to add the amount to "other reserves" is more in line with the Agreement State-FMO of November 16, 1998 and aligned with the approach applied during years when the pay-out ratio that was applied to the distributable part of the profit was variable.

A company net loss of €205 million is recorded in 2020. Considering this loss, the Management Board and Supervisory Board propose to the Shareholders not to pay out dividends related to 2020. Based on the Agreement State-FMO of November 16, 1998, the proposal is made to allocate €6.1 million of the loss (3% of the loss) to "other reserves" and the remaining loss to the "contractual reserve". This approach aligns with the pay-out factor as applied in the allocation of dividend in previous years.

Guarantee provisions in the Agreement State-FMO of November 16, 1998

Article 7: Maintenance obligations in the event of depletion of General Risks Reserve (GRR) fund and inadequate cover for exceptional operating risks

7.1 To determine whether FMO has grounds for invoking the maintenance obligation (the 'State's Maintenance Obligation') as referred to in Article 7.2.1, the losses incurred by FMO as referred to in Article 7.2.2, as shown by the annual accounts drawn up for the relevant year in accordance with generally accepted accounting principles and in conformity with Part 9 of Book 2 of the Netherlands Civil Code and duly adopted by the competent corporate body, shall first be charged to the GRR fund.

7.2.1 The State undertakes vis-à-vis FMO to defray losses on its operations pursuant to Article 3.1 and 3.2 of this Agreement, as determined in Article 7.2.2, to the extent that such risks have not been covered by specific value adjustments and/or compensation and/or insurance benefits received or yet to be received, provided that:

a) the amount of such losses exceeds the size of the GRR fund as at December 31 of the year in which these losses were incurred; and

b) the inadequacy of the cover for general value adjustments under the GRR fund is due to abnormal operating risks, such as unforeseen political difficulties in, or transfer problems with, particular countries or the collapse of the world economy or a regional economy.

7.2.2 The parties shall consult together to determine the magnitude of such losses. Should they fail to agree, FMO's auditors and an auditor designated by the State shall make a reasonable and equitable calculation of the losses in accordance with generally accepted accounting principles.

7.3 If the circumstances arise as described in Article 7.2.1, under a) and b) and FMO requests the State to fulfill its obligations as referred to in Article 7.2, this shall give rise to a claim against the State, which shall be duly acknowledged by the State, on the first business day of the first financial year following the date of the request. Such request shall be in writing.

Article 8: Other financial security obligations

8.1 Without prejudice to the other provisions in this Agreement, the State shall prevent situations arising in which FMO is unable to meet the following (comprehensive enumerated) commitments on time: FMO's commitments in respect of:

(i) loans raised in the capital market;

(ii) short-term funds raised on the money market with maturities of two years or less;

(iii) swap agreements involving the exchange of principal and payment of interest;

(iv) swap agreements not involving the exchange of principal but with interest payment;

(v) foreign exchange forward contracts and forward rate agreements (FRAs);

(vi) option and futures contracts;

(vii) combinations of the products referred to in (i) to (vi);

(viii) guarantees provided by FMO to third parties in respect of the financing of private companies in developing countries;

(ix) commitments relating to the maintenance of an adequate organization.

Notes to the guarantee provision

The GRR fund referred to in Article 7 of the Agreement State-FMO of November 16, 1998 consists of the share capital of €9,076k; share premium reserve of €29,272k and the contractual reserve. On December 31, 2020 the fund amounted to €2,219,500k (2019: €2,417,698k).

List of abbreviations

AC	Amortized cost	EC	European Commission
AEF	Access to Energy Fund	ECB	European Central Bank
AFC	Africa Finance Corporation	ECL	Expected Credit Loss
AFS	Available for sale	EDFI	European Development Financial Institution
AFW	Agribusiness, Food and Water	EDGE	Economic Dividends from Gender Equality
AIFMD	Alternative Investment Fund Managers Directive	EIB	European Investment Bank
ALCO	Asset and Liability Committee	EM	Emerging market
ARC	Audit and Risk Committee	EMIR	European Markets Infrastructure Regulation
BMR	Benchmark Regulations	EONIA	Euro OverNight Index Average
BOP	Base of the Pyramid	ESAP	Environmental and social action plan
BPV	Basis point value	ESG	Environmental, social and governance
BRRD	Bank Recovery and Resolution Directive	EU	European Union
C&M	Classification and measurement	EURIBOR	Euro Interbank Offered Rate
CC	Compliance Committee	EVaR	Equity Value at Risk
CD	Capacity Development	ExCo	Executive Committee
CEO	Chief Executive Officer	FAO	Food and Agriculture Organization
CET1	Common Equity Tier 1	FEC	Financial Economic Crime
CFI	Center for Financial Inclusion	FI	Financial Institution
CFM	Climate Fund Managers	FMO	Financierings-Maatschappij voor Ontwikkelingslanden N.V.
CG	Corporate governance	FMO IM	FMO Investment Management B.V.
CIO	Chief Investment Officer	FOM	Faciliteit Opkomende Markten
CiP	Clearance in Principle	FOM - OS	Fund Emerging Markets for Developing Countries
CIU	Collective Investment Undertakings	FPIC	Free prior and informed consent
CP	Commercial Paper	FRC	Financial Regulation Committee
CRD	Capital Requirements Directive	FVOCI	Fair value through other comprehensive income
CRFO	Chief Risk and Finance Officer	FVPL	Fair value through profit or loss
CRR	Capital Requirements Regulation	FX	Foreign exchange
CSA	Credit Support Annex	GAAP	Generally Accepted Accounting Principles
CTI	Cost to income	GCF	Green Climate Fund
D&I	Diversity and inclusion	GDP	Gross Domestic Product
DA	Development Accelerator	GDPR	General Data Protection Regulation
DBA	Dutch Banking Sector Agreement	GHG	Greenhouse gas
DCF	Discounted cashflow	GRI	Global Reporting Initiative
DD	Due diligence	GRR	General Risk Reserves
DEG	Deutsche Investitions- und Entwicklungsgesellschaft	GTAP	Global Trade Analysis Project
DFCD	Dutch Fund for Climate and Development	GWh	Gigawatt-hours
DFI	Development Finance Institution	IAS	International Accounting Standards
DNB	Dutch Central Bank	IASB	International Accounting and Standards Board
DS	Diverse Sectors	IBOR	Interbank Offered Rate
E&S	Environmental and social	IC	Investment Committee
EAD	Exposure at default	ICAAP	Internal Capital Adequacy Assesment Process
EaR	Earnings at Risk	ICM	Independent Complaints Mechanism
EBA	European Banking Authority	IDB	Inter-American Development Bank
EBF	European Banking Federation	IDFC	International Development Finance Club
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization	IEP	Independent Expert Panel

IFC	International Finance Corporation	OHS	Occupational health and safety
IFC PS	IFC Performance Standards	OIS	Overnight - index - swap
IFRS	International Financial Reporting Standards	ORC	Operational Risk Committee
IIRC	International Integrated Reporting Council	ORX	Operational Risk data eXchange Association
ILAAP	Internal Liquidity Adequacy Assesment Proess	P2G	Pillar 2 Guidance
IMF	International Monetary Fund	PCAF	Partnership for Carbon Accounting Financials
IMS	Infrastructure, Manufacturing and Services	PD	Probability of default
IPC	Irrevocable payment commitment	PDF	Partnership Development Fund
IRC	Investment Review Committee	PE	Private equity
IRRBB	Interest Rate Risk in the banking book	PP&E	Property, plant and equipment
JIM	Joint Impact Model	RAF	Risk Appetite Framework
KPI	Key performance indicator	RCA	Root cause analysis
KYC	Know your customer	RI	Reducing Inequalities
L&R	Loans and receivables	RVO	Rijksdienst voor Ondernemend Nederland
LCR	Liquidity Coverage Ratio	S&P	Standard and Poor's
LDC	Least developed country	SB	Supervisory Board
LGD	Loss given default	SDG	Sustainable Development Goal
LIBOR	London Interbank Offered Rate	SIC	Standard Interpretations Committee
LTA	Look-through approach	SICR	Significant increase in credit risk
MB	Management Board	SIRA	Systematic Integrity Risk Assessment
MBA	Mandate-based approach	SME	Small and medium-sized enterprise
MDB	Multilateral Development Bank	SOFR	Secured overnight financing rate
MFF	Mobilizing Finance for Forests	SPPI	Solely payments of principal and interest
MFI	Microfinance institution	SREP	Supervisory Review and Evaluation Process
MoU	Memorandum of understanding	SRM	Single Resolution Mechanism
MSME	Micro, small and medium enterprise	TCFD	Task Force for Climate-related Financial Disclosure
NAV	Net Asset Value	tCO_2e	1 tonne of CO_2 equivalent
NBFI	Non-banking financial institution	TEG	Technical expert group
NCML	National Collateral Management Limited	TWG	IFI Technical Working Group
NGO	Non - governmental organization	UN	United Nations
NPE	Non performing exposures	UNEP	United Nations Environment Programme
NPL	Non performing loans	UNGPs	United Nations Guiding Principles on Business and Human Rights
NPS	Net Promotor Score	USAID	United States Agency for International Development
NPV	Net present value	USD	US dollar
NSFR	Net Stable Funding Ratio	Wft	Dutch Financial Supervision Act
NVB	Nederlande Vereniging van Banken	WWF	World Wide Fund for Nature
OCI	Other comprehensive income	Wwft	Dutch Anti-Money Laundering and Anti-Terrorist Financing Act

Colophon

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Photography
Opmeer Reports, www.opmeerreports.nl | Cover: WayCool, India | P6 Sucafina Coffee Plantation, Rwanda | P10-11 Niche Cocoa Industry, Ghana | P19 Komaza Forestry, Kenya | P90-91 Baynouna Solar Energy Company | P116-117 Miro Forestry, Ghana

Yvette Wolterinck, eyescream.nl | P14-P98 pictures Management Board | P96 pictures Supervisory Board Dirk Jan van den Berg, Koos Timmermans, Thessa Menssen, Reintje van Haeringen

Design
Studio Duel, The Hague
www.studioduel.nl

Production
F19 Digital Reporting, Eindhoven
www.f19.nl

Reporting scope
This integrated annual report covers activities that took place or had an effect on the reporting year.

FMO publishes its integrated annual report on 23 March 2021. The annual shareholders' meeting is in April. The report is audited by an external auditor. Please read EY's auditor's report for detailed information on the scope of their work. Previous reports are available on www.fmo.nl/reports

Disclaimer

Presentation of information

This annual report (Annual Report) of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-Eu) and with Title 9 of Book 2 of the Netherlands Civil Code.

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Cautionary statement regarding forward-looking statements

Cautionary statement regarding forward-looking statements Certain of the statements in this Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that relate to, among other things, FMO's business, result of operation, financial condition, plans, objectives, goals, strategies, future events, future revenues and/or performance, capital expenditures, financing needs, plans or intentions, as well as assumptions thereof. These statements are based on FMO's current view with respect to future events and financial performance and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Words such as 'anticipate', 'believe', 'could', 'endeavor', 'estimate', 'expect', 'forecast', 'intend', 'predict', 'project', 'may', 'objectives', 'outlook', 'plan', 'strive', 'target', 'will', and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Actual results, performance or events may differ materially from those in such statements and from past results due to, without limitation: (i) changes in general economic conditions, in particular in FMO's core and niche markets, (ii) changes in the availability of, and costs associated with, sources of liquidity, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (iii) changes performance of financial markets, including emerging and developing markets, (iv) changes in interest rate levels, (v) changes in credit spread levels, (vi) changes in currency exchange rates, (vii) changes in general competitive factors, (viii) general changes in the valuation of assets, (ix) conclusions with regard to accounting assumptions and methodologies, (x) changes in law and regulations, including regulatory law and fiscal law, (xi) changes in policies of governments and/or regulatory authorities, (xii) changes in credit and financial strength ratings, (xiii) the results of our strategy and investment policies and objectives, (xiv) other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by FMO, and (xv) risks and uncertainties as addressed in this Annual Report.

The forward-looking statements speak only as of the date they are made. FMO does not undertake any obligation to publicly update or revise forward-looking statements contained in this Annual Report, whether as a result of new information, future events or for any other reason.

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