

FMO

Entrepreneurial
Development
Bank

ACCESS TO
ENERGY FUND

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Annual Report

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





Government of the Netherlands

FMO manages the following funds on behalf of the Dutch government: MASSIF, Building Prospects, the Access to Energy Fund (AEF), the Dutch Fund for Climate and Development (DFCD), FOM, FOM-OS, B-CD, Partnership Development Facility (PDF) and Development Accelerator (DA). The total committed portfolio of these funds (excluding grants) amounts to € 1,180 mln as per December 31, 2020. The term "fund" as used in this annual report refers to a program in the form of a subsidy received from the Dutch government that is managed by FMO, unless reference is made to an investment made under a program.

Front photo is from Dharma Lift project that promotes solar lights as non-polluting source of lighting in India.



**The Access to Energy
Fund** provides funding to
projects supporting access
to sustainable energy.



LETTER FROM THE MB OF THE FUND MANAGER

Dear reader,

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

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

2020 was for Access to Energy Fund (AEF) a year of increased monitoring to support customers affected by the COVID-19 pandemic. Companies in the off-grid energy sector were faced with lower sales, while on-grid energy companies under construction were confronted with delays, for example because borders were closed. AEF contracted a smaller amount than targeted. This lag is expected to continue in 2021.

The Ministry approved a grant commitment increase of €40 million for AEF, of which €15 million was disbursed in December 2020, to further help finance renewable energy companies that are not yet eligible for more commercial financing.

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

The Hague, 29 April 2021

On behalf of the Management Board

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

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AT A GLANCE

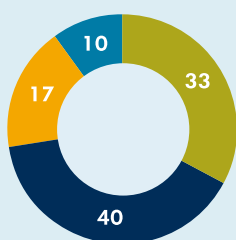
The Access to Energy Fund (AEF) was set up to actively support the creation of access to sustainable energy in developing countries by providing risk bearing funding; equity, subordinated loans, local currency loans and to a limited extent (convertible) grants. To reach this, €125.8 million worth of funding has been made available by the Dutch Ministry of Foreign Affairs.

Achievements portfolio as per 31-12-2020

Total committed portfolio

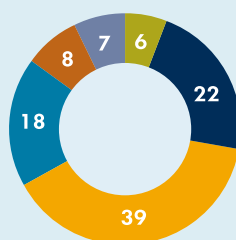
€156_{mln}

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



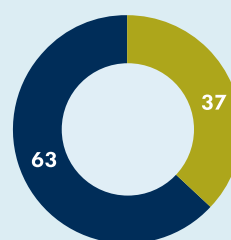
- Loans
- Direct equity
- Fund investments
- Mezzanine

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



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

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



- EUR
- USD/Indirect Local¹
- Local



€1.2_{bln}

Public co-investments



€1.0_{bln}

Private co-investments



130%

Revolvability



35%

MFA focus countries

(excluding new investments 2020)

2.6_{mln}

Beneficiaries reached

5,189

Direct jobs supported

1,506

Direct jobs supported women

538_{MW}

Installed capacity

285,844

Indirect jobs supported²

49,675

Indirect jobs supported women

3,498,814

tCO₂eq/yr
GHG Avoidance

¹ The USD/Indirect Local category is a combination of direct USD exposure and USD denominated investments with underlying local currency exposures.

² Decline in job supported is due to moving to a new methodology: the Joint Impact Model (JIM) - jointimpactmodel.com

Head office
The Hague, The Netherlands



Local office
Johannesburg, South Africa



Representative office
Registered in Singapore



Local office
Nairobi, Kenya



Total committed portfolio by region (per 31 December 2020)

Latin America &
the Caribbean

€5_{mln}

Africa

€118_{mln}

Europe &
Central Asia

€6_{mln}

Asia

€15_{mln}

Non-specific region

€12_{mln}

Total committed portfolio

€156_{mln}

PERFORMANCE ON OUR STRATEGY

Highlights

The previous year of 2020 has certainly been a year of challenges, uncertainty, and partnerships. In 2020 FMO received a €40 million grant commitment to top-up the Access to Energy Fund (AEF), to be paid out over the period 2020-2024. The first tranche, €15 million, was received in December 2020.

For most AEF customers, 2020 was a difficult year due to COVID-19. On-grid energy projects under construction viewed delays, leading to cost overruns. The off-grid energy sector faced temporary difficulties in the supply of solar panels and other material, and a decline in demand. As a consequence, the value of AEF's equity portfolio decreased, and provisions were taken on the loan portfolio.

In the interest of business continuity for three existing customers, AEF provided COVID-assistance to ensure the health and safety of employees and communities by providing personal protective equipment whilst raising awareness.

Under the banner of partnership, AEF joined FMO, MASSIF and Building Prospects fund to launch the FMO Ventures program that became operational in August 2020. The program, through funds, actively invests in eligible technology-enabled companies in any of its three focus sectors: Fintech, Energy Access, and AgriTech but also other relevant and impactful sectors such as Edutech, Healthtech, and Mobility.

We welcomed three new customers: AEF financed Fasobiogaz and Koden, Burkina Faso. The latter together with FMO, where AEF is taking a higher risk position. In India, AEF entered into a loan agreement with Dharma Life: a female-led enterprise selling solar lamps and cook stoves to rural households.

In two instances, Salima Malawi and Scatec Bangladesh, additional funding was provided to help customers facing delays.

As AEF is mandated to provide risk finance to projects, the fund actively seeks to exit customers of which the risk appetite meets commercial financiers or FMO. In 2020, together with Building Prospects, AEF transferred the Kivu Watt Rwanda loan to FMO. Moreover, AEF's equity stake in Rabai Kenya, was sold to FMO.

For 2021 it is anticipated that COVID-19 will continue to have an impact on the portfolio and pipeline. Monitoring the existing customers, and helping them where needed, remains the key focus. At the same time AEF continues to look for new investment opportunities in high-risk markets and sectors.

Production

Production 2020



BIX Capital B.V. – USD 1.2 mln debt

Amsterdam based BIX is a joint Shell Foundation / Cardano Development initiative aiming to increase access to essential household products and services (predominantly cookstoves, bio-digesters and water-purifiers) to the bottom of the pyramid (BoP). In 2020 AEF converted part of its loan, in order to mobilize additional funding.

Dharma Life/ Gajam Group Limited UK – EUR 1.2 mln debt

Gajam India Pvt Ltd, or Dharma Life ("DL") is an India based social impact enterprise targeting the BoP by selling a.o. solar lamps and cooking stoves to rural households. DL has set up a network of 16,000+ rural, of which 75% are women, reaching approx. 40,000+ rural villages in 13 states across India. India has always been home to the world's largest un-electrified population with an estimated 240 million Indians living without or with limited access to electricity. The AEF loan is used to purchase and sell primarily solar energy and energy efficient cookstoves.





JCM Salima - USD 4.4 mln equity

JCM Salima (UK) is 75% owner of JCM Matswani Solar Corp Ltd (Malawi) established for the development of a 60 MWac solar PV plant located in the Salima district of Malawi. In 2019 AEF invested in Salima, to finance the construction of the project. Malawi is one of the poorest countries in the world with a significant energy shortage and abundant solar resource availability. The project helps Malawi in diversifying its electricity mix and reducing its reliance on import of fossil fuels. In 2020 AEF provided additional financing to cover cost overruns due to construction delays.



Kodeni Solar S.A.S.U. – EUR 8.10 mln debt

Kodeni Solar SASU (“Kodeni”), will develop, construct and operate a 38MWp solar farm in Burkina Faso. The project is the first privately owned solar power project in the country. Kodeni will provide clean, reliable electricity at a lower price than current thermal power stations. Burkina Faso has one of the lowest electrification rates in West Africa. AEF is providing a long-term funding, to help the structure of the total financing, mobilising DFIs.



Sistema.bio / Buen Manejo del Campo S.A. de CV – USD 1.3 mln debt

Buen Manejo del Campo S.A. de CV (“Sistema.bio”) is a company that builds, sells, finances, and services a range of high quality, prefabricated and modular biodigesters to smallholder farmers. In 2020 AEF provided a second loan to help the company finance its growth.



Scatec Solar Bangladesh B.V. - USD 2 million convertible development contribution

Increase of the development contribution for a 60MWp solar project located in Baispukur village in the Nilphamari northern district of Bangladesh. First investment was done in 2019.



FMO Ventures Program – EUR 12 mln equity

FMO Ventures Program is an initiative of FMO. The EUR 200 million program is supported by contributions from the Ministry of Foreign Affairs of the Netherlands as well as by a guarantee from the European Commission.

FMO Ventures Program aims to empower innovative business models applying disruptive technology to enable or improve affordable access to goods and services to the un(der)served in emerging markets. FMO Ventures Program focuses on direct investments in young start-up and scale-up companies in Fintech, Energy access and Agritech, as well as on indirect (fund) investments in Venture Capital funds, predominantly in Africa and the European neighborhood, and in certain parts of Asia.

Exits and Sales

Access to Energy Fund had two exits in 2020, despite the COVID-19 crisis, we are proud that two customers have graduated to FMO-A funding. This is good news for AEF and demonstrates its catalytic and ‘upstream’ role in creating bankable energy projects.

- **Kivu Watt** - is a 26MW methane gas extraction power plant located in Lake Kivu, Rwanda. Power produced by the plant is sold to the grid. As part of a larger debt package, FMO financed the project in 2015 from Building Prospects and the Access to Energy Fund. After substantial construction delays of almost 3 years, the Project reached technical completion end 2019. In 2020 Kivu Watt was found to meet FMO’s risk appetite and investment criteria and it was decided to transfer the project to FMO’s balance sheet. We wish Kivu Watt continued success in the years to come.
- **Rabai Power Ltd** - is a 90MW Heavy Fuel Oil (“HFO”) fired power plant near Mombasa, Kenya. In 2008 AEF provided equity and a shareholder loan, playing an important additionality role, as risk capital for a greenfield energy project in Sub-Saharan Africa was scarce at that time. Construction started in October 2008, commercial operations in April 2010. The investment generated jobs during construction (353 at peak of construction) and operations (56 permanent staff). Since 2009, Rabai has been providing reliable base load electricity to the Mombasa and Nairobi regions. Over the past years, Rabai demonstrated substantial improvement in the risk/return profile, after which it was decided to transfer the company from AEF to FMO’s balance sheet. We wish Rabai Power Ltd continued success in the years to come.

Production capacity development

Contracts CD 2020



Lakeside Pakistan - EUR 38,712

Lakeside Energy is developing a 50MW Wind power project in Pakistan. The aim of the CD project is to support the customers and their local E&S consultant in preparing the necessary E&S documentation



D.Light Design Ltd - EUR 100,000

It is essential that hospitals have access to energy, in general, and even more so during COVID-19, to be able to help their patients well. Hospitals -especially rural- typically lack means to pay for d.light's products. The aim of the CD project is to electrify 300 off-grid private clinics across rural Kenya, increasing the quality of healthcare to the citizens.



Consortio Eólico Amayo - EUR 100,000

Amayo generates 94 GWh/yr; 13% of the country's wind generation. During COVID-19, the CD project supported the customer in its humanitarian efforts to the community, by means of medical protection equipment to health professionals in the community. Moreover, cleaning supplies and face masks were provided to people from the community.

FasoBiogaz

FasoBiogaz - EUR 200,000




AEF provided a development contribution to complete two biodigesters in Ouagadougou, Burkina Faso. The biodigesters will receive organic waste from a slaughterhouse and a brewery nearby and use the gas to produce electricity that is sold to the national electricity company SONABEL. The organic material that remains in the biodigesters is taken out and sold as fertiliser. FasoBiogaz is the first privately owned larger biogas project in Burkina Faso.



Scatec Bangladesh - EUR 40,650

Bangla Sun Solar (Scatec Bangladesh) is a 50MW solar photovoltaic project in development. The CD grant is for knowledge on the management and mitigation measures of COVID-19, through training and peer learning sessions.

INTERNATIONAL PRINCIPLES

 EQUATOR PRINCIPLES	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 International Finance Corporation <small>WORLD BANK GROUP</small>	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 client in relation to project-level activities.	Adopter
 OECD Guidelines for Multinational Enterprises <small>RECOMMENDATIONS FOR RESPONSIBLE BUSINESS CONDUCT IN A GLOBAL CONTEXT</small>	OECD Guidelines We follow OECD Guidelines on responsible business conduct, notably human rights, labor rights and the environment.	Adopter
 UNITED NATIONS HUMAN RIGHTS <small>OFFICE OF THE HIGH COMMISSIONER</small>	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
 International Labour Organization	ILO Standards We follow the set of ILO legal instruments that set out basic principles and rights at work.	Adopter
 UNEP FINANCE INITIATIVE	UNEP FI Principles for responsible banking FMO is a signatory of the Principles for Responsible Banking .	Signatory
 GIIN <small>GLOBAL IMPACT INVESTING NETWORK</small>	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	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	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 Declaration <small>Financial sector leadership on natural capital</small>	Natural Capital Finance Alliance We closely follow the developments of the NCF 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		Member



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

Dutch Climate Accord

Signatory

We signed the financial sector commitment to fight climate change and support the Dutch Climate Accord to achieve a 49% CO₂ reduction by 2030 in the Netherlands.

Mainstreaming climate action in financial institutions

Signatory



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

Platform for Carbon Accounting Financials

Signatory



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

NpM Platform for Inclusive Finance

Member



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

Consultative Group to Assist the Poor

Member



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

European Microfinance Platform

Member



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

Emerging Market Private Equity Association

Member



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

Corporate Governance Development Framework

Adopter



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

Financial Action Task Force

Adopter



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

For our own operations, we maintain the following standards:

Signatory

- The Gold Standard

LIST OF ABBREVIATIONS

AC	Amortized Cost
AEF	Access to Energy Fund
B-CD	Capacity Development Program
CD	Capacity Development
CIO	Climate Investor One
CIP	Clearance in Principle
COVID	Coronavirus disease
DA	Development Accelerator
DAC	Development Assistance Committee
DFCD	Dutch Fund for Climate and Development
DFI	Development Finance Institution
DGIS	Directorate-General for International Cooperation
ECL	Expected Credit Loss
EEGF	Energy Entrepreneurs Growth Fund
ESG	Environmental, Social and Governance
E&S	Environmental and Social
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden
FOM	Faciliteit Opkomende Markten
FOM-OS	Fonds Opkomende Markten - Ontwikkelingssamenwerking
FP	Financial Proposal
FV	Fair Value
FVOCI	Fair Value Through Other Comprehensive Income
FVPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GCF	Green Climate Fund
GDP	Gross Domestic Product
GHG	Green House Gas
IASB	International Accounting and Standards Board
IFRS	International Financial Reporting Standards
IFC	International Finance Corporation
IPP	Independent Power Producer
IRC	Investment Review Committee
LCY	Local Currency
LGD	Loss Given Default
MB	Management Board
MFA	Ministry of Foreign Affairs
MW	Mega Watt
NPL	Non-Performing Loans - loans in default
OCI	Other Comprehensive Income
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PD	Probability of Default
PDF	Partnership Development Facility
PEII	Pioneer Energy Investment Initiative
PIM	Public Investment Management team within FMO
PV	Photovoltaic System
SDGs	Sustainable Development Goals
SPPI	Solely Payments of Principal and Interest
SSA	Sub-Saharan Africa
tCO2eq	Tonnes of CO2 equivalent
YE	Year End

Read more about

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

Annual accounts

Statement of financial position

At December 31, 2020

	Notes	2020	2019
Assets			
Banks	(1)	20,296	10,483
Current account with FMO	(2)	85	-
Loan portfolio	(3)		
- of which: at Amortized cost		27,336	37,562
- of which: at Fair value through profit or loss		20,490	16,134
Equity investments	(4)	58,480	61,818
Investments in associates	(5)	9,949	7,947
Other receivables	(6)	170	95
Total assets		136,806	134,039
Liabilities			
Current account with FMO	(2)	-	568
Accrued liabilities	(7)	385	2,841
Provisions	(8)	192	167
Total liabilities		577	3,576
Fund capital			
Contribution DGIS previous years		110,880	110,800
Contribution DGIS current year		15,000	-
Total contribution DGIS	(9)	125,880	110,880
Translation reserve		-701	-31
Other reserves		7,491	7,491
Undistributed results previous years	(9)	12,123	9,310
Net profit/(loss)		-8,565	2,813
Total fund capital		136,228	130,463
Total liabilities and fund capital		136,805	134,039
Irrevocable facilities	(16)	42,255	35,450
Total subsidy allocated to AEF		150,880	110,880
Total subsidy withdrawn from DGIS for AEF		125,880	110,880
"Subsidy available AEF"		25,000	-

Statement of comprehensive income

At December 31, 2020

	Notes	2020	2019
Income			
Interest income from financial instruments measured at AC		3,260	3,467
Interest income from financial instruments measured at FVPL		902	920
Total interest income	(10)	4,162	4,387
Fee and commission income	(11)	156	405
Dividend income	(12)	15	557
Results from equity investments	(13)	-2,619	4,776
Results from financial transactions	(14)	-3,581	-2,043
Results from grants		-	6
Total income		-1,867	8,088
Expenses			
Remuneration FMO		-2,988	-2,216
CD expenses		-489	-2,830
Evaluation expenses		-139	-176
Other expenses		-	-1
Total expenses	(15)	-3,616	-5,223
Impairments on			
Banks		-1	1
Loans	(3)	-3,119	-30
Total impairments		-3,120	-29
Share in result of associates	(5)	38	-23
Net profit/(loss)		-8,565	2,813
Other comprehensive income			
Translation reserve		-670	-31
Other comprehensive income		-670	-31
Total comprehensive income		-9,235	2,782

Statement of changes in fund capital

At December 31, 2020

	Contributed Fund capital	Translation reserve	Other reserves	Undistributed results previous years	Net profit	Total fund capital
Balance at January 1, 2019	110,880	-	7,491	6,851	2,459	127,681
Transfer profit/(loss) PY to Undistr. Results PY	-	-	-	2,459	-2,459	-
Contribution DGIS	-	-	-	-	-	-
Contribution FMO	-	-	-	-	-	-
Translation reserve	-	-31	-	-	-	-31
Results current year	-	-	-	-	2,813	2,813
Net balance at December 31, 2019	110,880	-31	7,491	9,310	2,813	130,463
Balance at January 1, 2020	110,880	-31	7,491	9,310	2,813	130,463
Transfer profit/(loss) PY to Undistr. Results PY	-	-	-	2,813	-2,813	-
Contribution DGIS	15,000	-	-	-	-	15,000
Contribution FMO	-	-	-	-	-	-
Translation reserve	-	-670	-	-	-	-670
Addition undistributed results	-	-	-	-	-	-
Results current year	-	-	-	-	-8,565	-8,565
Net balance at December 31, 2020	125,880	-701	7,491	12,123	-8,565	136,228

Statement of cash flows

At December 31, 2020

	Notes	2020	2019
Cash flow from operating activities			
Inflows			
Interest received on loans		4,048	3,693
Repayments on loans	(3)	4,279	2,204
Sale of loans to FMO	(3)	5,946	-
Sale of equity instruments to other parties than FMO		2,804	1,258
Sale of equity instruments to FMO		7,129	-
Results from grants		-	6
Dividends and fees received		155	960
Other received amounts		7	211
Outflows			
Disbursements on loans	(3)	-10,797	-21,046
Investments in equity instruments & associates	(5)	-11,849	-21,279
Disbursements on grants		-2,863	-78
Management fees FMO		-2,985	-2,218
Other paid amounts		-408	-394
Net cash from operating activities		-4,534	-36,683
Cash flow from financing activities			
Inflows			
Contribution DGIS current year	(9)	15,000	-
Net cash from financing activities		15,000	-
Net change in cash & cash equivalent		10,466	-36,683
Position of cash at January 1 ¹⁾		9,915	46,598
Position of cash at end of period ¹⁾		20,381	9,915

1 Cash includes current account with FMO.

Summary of accounting policies

General information

The Access to Energy Fund (AEF), the Fund, is established in 2007 by the Dutch Ministry of Foreign Affairs to support the creation of sustainable access to energy in developing countries by providing risk bearing funding; equity, subordinated loans, local currency loans and convertible grants. FMO executes the Fund at the risk and expense of the Dutch State. The total subsidy granted to date amounts to €150.9 million (€125.9 million drawn) and the anticipated end date of the Fund is December 2028.

Basis of preparation

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

The annual accounts are prepared under the historical cost convention, except for:

- Equity investments that are measured mandatory at fair value;
- A part of the loans portfolio which is mandatory measured at fair value (refer to business model assessment and contractual cash flow assessment in this chapter below).

Adoption of new standards, interpretations and amendments

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

Amendments to References to the Conceptual Framework in IFRS Standards

On March 28, 2018 IASB presented the revised Conceptual Framework for Financial Reporting. The Conceptual Framework is not a standard itself but can be used as general guidance for transactions / events where specific IFRS standards are not available. Main improvements in the revised Conceptual Framework contains the introduction of concepts for measurement and presentation & disclosures, guidance for derecognition of assets and liabilities. In addition definitions of an asset & liability and criteria for recognition have been updated. These amendments are effective from January 1, 2020 and have no impact on the Fund's existing accounting policies.

Amendments to IAS 1 and IAS 8

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

Amendment to IFRS 3 Business Combinations

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

Amendment to IFRS 16 - COVID-19 Related Rent Concessions

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

The amendment was effective from June 1, 2020 and does not apply to the Fund.

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

In September 2019, the IASB issued amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. This concluded the first phase to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). The standard is effective from January 1, 2020 and does not have any impact on the Fund's financial statements.

Issued but not yet adopted standards

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

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

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

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

Amendments to IAS 37 - Onerous Contracts

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

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 recognized. The amendments are effective for business combinations entered into on or after January 1, 2022 and are not expected to have a significant impact on Fund's treatment of business combinations

IFRS 17 Insurance Contracts

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

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

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

Annual Improvements 2018-2020

Subsidiary as a First-Time Adopter (IFRS 1)

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

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

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

Lease Incentives (IFRS 16)

The amendment removes an illustrative example on the reimbursement of leasehold improvements and has no impact on the financial statements of the Fund.

Significant estimates and assumptions and judgements

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

- The determination of the fair value of the loans to private and equity investments based on generally accepted modeled valuation techniques;
- The determination of the Expected Credit Loss allowance for loans to private sector, loan commitments.

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

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

Changes in accounting estimate

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

The overlay is derived by changing the country cap ('country crisis override') applied when assessing the client's credit rating applied when calculating the expected credit losses. The impact of the above change in calculation is an increase in stage 1 ECL allowances as per year end 2020. The total increase in the ECL stage 1 and stage 2 provision is €0.1 million. Refer to 'Credit Risk' section in the 'Risk Management' chapter for more information.

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

Foreign currency translation

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

Fair value of financial instruments

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

Amortized cost and gross carrying amount

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

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

Assets

Financial assets – Classification

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

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

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

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

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

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

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

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

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

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

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

Contractual cashflow assessment

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

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

Reclassification

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

Financial assets – Impairment

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

- Banks;
- Loans;
- Loan commitments.

No impairment loss is recognized on equity investments.

Impairment stages: loans, banks and guarantees

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

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

ECL measurement

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

ECL measurement Stage 1 and Stage 2

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

- PD: the Probability of Default is an estimate of the likelihood of default over a given time horizon. The Fund uses an 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 IFRS 9 a point in time adjustment is made to these PDs using a z-factor approach to account for the business cycle;
- EAD: the Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, scheduled by contract or otherwise, expected drawdowns and accrued interest from missed payments;
- LGD: the Loss Given Default is an estimate of the Funds loss arising in the case of a default at a given time. It is based on the difference between the contractual cash flows due and any future cashflows or collateral that the Fund would expect to receive;

- Z-factor: the z-factor is a correction factor to adjust the client PDs for current and expected future conditions. The z-factor adjusts the current PD and PD two years into the future. GDP growth rates per country from the IMF, both current and forecasted, are used as the macro-economic driver to determine where each country is in the business cycle. Client PDs are subsequently adjusted upward or downward based on the country where they are operating.

Macro economic scenarios in PD estimates

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

The three scenarios applied are:

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

ECL measurement Stage 3

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

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

Staging criteria and triggers

Financial instruments classified as low credit risk

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

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

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

Significant increase in credit risk (Stage 2)

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

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

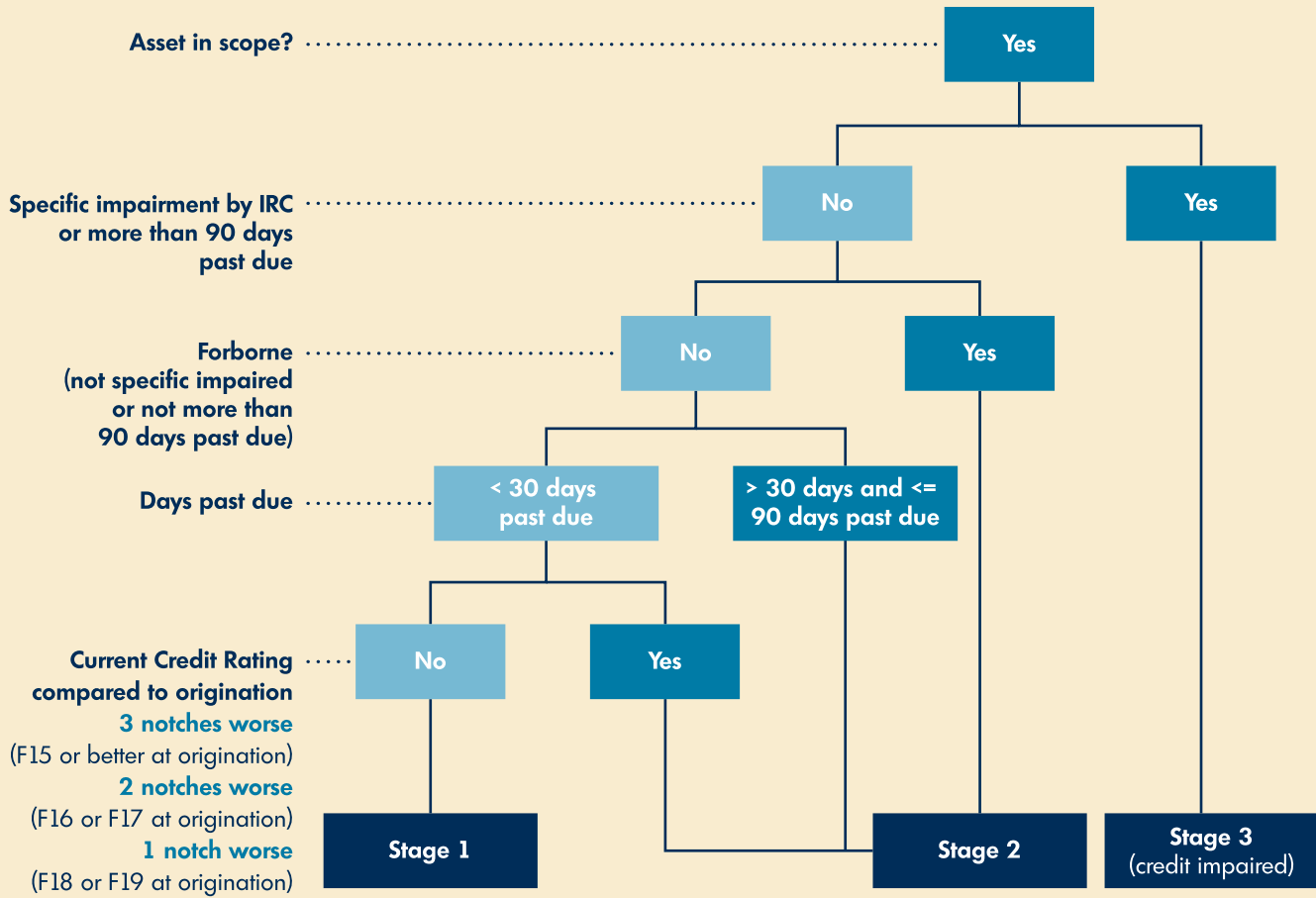
Definition of default (Stage 3)

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

- The client is past due more than 90 days on any material credit obligation to the Fund, including fees (excluding on-charged expenses);

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

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



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

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

Reverse staging

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

- Loans which are in stage 3 will revert to stage 2 when the specific impairment is released by the IRC and there are no obligations past due for more than 90 days;

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

Written-off financial assets

A write-off is made when a claim is deemed non - collectible, when FMO has no reasonable prospects of recovery after, among others, enforcement of collateral or legal enforcement with means of lawsuits. Furthermore, a write-off is performed when the loan is being forgiven by the Fund. There are no automatic triggers, which would lead to a write-off of the loan; specific impaired loans are assessed on individual basis depending on their circumstances. Generally when the impairment percentage exceeds 95%, the IRC is advised to consider a write - off.

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

Modification of financial assets

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

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

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

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

Modification of contractual terms versus forbearance

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

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

Loans

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

Loans on the balance sheet of the Fund include:

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

Equity investments

Equity investments on the balance sheet of the Fund include:

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

Investment in associates

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

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

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

Investments in associates are reviewed and analyzed 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 equity instrument below its cost is considered as the primary objective evidence of impairment, in addition to other observable loss events. The Fund considers more than 10% difference between fair value and its cost as significant and greater than one year as prolonged.

When the Fund 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'.

Cash and cash equivalents

Cash and cash equivalents consist of banks and current account maintained with FMO. Cash and cash equivalents consist of bank balances and the current account maintained with FMO. There is no restriction on these financial instruments and the Fund has on demand full access to the carrying amounts. These instruments are measured at amortized cost.

Provisions

Provisions are recognized when:

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

Provisions are recognised for loan commitments.

Contributed Fund Capital

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

Translation reserve

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

Other reserves

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

Undistributed results previous years

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

Profit and Loss

Net interest income: interest income and expense

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

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

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

Fee and commission income and expense

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

- *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 the Fund for servicing a loan (such as administration fees and agency fees) are recognized as revenue when the services are provided. Portfolio and other management advisory and service fees are recognized in line with the periods and the agreed services of the applicable service contracts;
- *Fees that are earned on the execution of a significant act (IFRS 15)*
These fees (such as arrangement fees) are recognized as revenue when the significant act has been completed.

Dividend income

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

Results from equity investments

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

Results from financial transactions

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

Capacity development expenses and contributions

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

Statement of cash flows

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

Taxation

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

Notes to the annual accounts

1. Banks

	2020	2019
Banks	20,296	10,483
Balance at December 31	20,296	10,483

The cash on bank accounts can be freely disposed of.

2. Current accounts

	2020	2019
Current account with FMO (receivable)	85	-
Current account with FMO (payable)	-	568
Balance at December 31	85	568

The cash on current accounts can be freely disposed of.

3. Loan portfolio

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

	Loan portfolio measured at AC	Loan portfolio measured at FVPL	Total 2020
Balance at January 1	38,495	16,134	54,629
Disbursements	5,253	5,544	10,797
Conversion from loans to equity	-	-	-
Sale of loans	-5,946	-	-5,946
Repayments	-3,613	-666	-4,279
Write-offs	-	-	-
Derecognized and/or restructured loans	-	-	-
Changes in amortizable fees	-19	-	-19
Changes in fair value	-	578	578
Changes in accrued income	-51	148	97
Exchange rate differences	-2,880	-1,248	-4,128
Balance at December 31	31,239	20,490	51,729
Impairment	-3,903	-	-3,903
Net balance at December 31	27,336	20,490	47,826

	Loan portfolio measured at AC	Loan portfolio measured at FVPL	Total 2019
Balance at January 1	25,040	11,898	36,938
Disbursements	14,179	6,867	21,046
Conversion from loans to equity	-	-	-
Repayments	-1,878	-326	-2,204
Write-offs	-	-1,429	-1,429
Derecognized and/or restructured loans	-	-	-
Changes in amortizable fees	-15	62	47
Changes in fair value	-	-1,360	-1,360
Changes in accrued income	524	190	714
Exchange rate differences	645	232	877
Balance at December 31	38,495	16,134	54,629
Impairment	-933	-	-933
Net balance at December 31	37,562	16,134	53,696

The following tables summarize the loans segmented by sector and geographical area:

	2020						2019
	Stage 1	Stage 2	Stage 3	Fair value	Total 2020		
Financial Institutions	-	-	-	-	-	-	2,658
Energy	17,882	6,941	2,513	20,490	47,826		51,038
Net balance at December 31	17,882	6,941	2,513	20,490	47,826		53,696

	2020						2019
	Stage 1	Stage 2	Stage 3	Fair value	Total 2020		
Africa	14,216	3,012	2,513	11,492	31,233		42,534
Asia	671	-	-	3,652	4,323		1,846
Latin America & the Carriibbean	-	3,929	-	612	4,541		6,041
Europe & Central Asia	-	-	-	4,734	4,734		3,275
Non - region specific	2,995	-	-	-	2,995		-
Net balance at December 31	17,882	6,941	2,513	20,490	47,826		53,696

	2020	2019
Gross amount of loans to companies in which AEF has equity investments	-	3,213
Gross amount of subordinated loans	21,276	20,239
Gross amount of non-performing loans	6,363	195

For more details on non-performing loans, we refer to section 'Credit Risk' within the Risk Management chapter

The movements in the gross carrying amounts and ECL allowance for the loan portfolio measured at AC are as follows:

Changes in loan portfolio measured at AC in 2020	Stage 1		Stage 2		Stage 3		Total	
	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance
At December 31, 2019	25,517	-445	12,783	-482	195	-6	38,495	-933
Additions	5,254	-303	-	-	-	-	5,254	-303
Exposures derecognised or matured / lapsed (excluding write-offs and modifications) ¹	-1,168	91	-8,392	168	-	-	-9,560	259
Transfers to Stage 1	115	-4	-	-	-115	4	-	-
Transfers to Stage 2	-3,535	19	3,535	-19	-	-	-	-
Transfers to Stage 3	-6,174	170	-	-	6,174	-170	-	-
Modifications of financial assets (including derecognition)	-	-	-	-	-	-	-	-
Changes in risk profile not related to transfers	-	-67	-	-52	-	-2,915	-	-3,034
Amounts written off	-	-	-	-	-	-	-	-
Changes in amortizable fees	-42	-	14	-	9	-	-19	-
Changes in accrued income	42	-	-23	-	-70	-	-51	-
Foreign exchange adjustments	-1,640	52	-659	68	-581	-12	-2,880	108
At December 31, 2020	18,369	-487	7,258	-317	5,612	-3,099	31,239	-3,903

Changes in loan portfolio measured at AC in 2019

	Stage 1		Stage 2		Stage 3		Total	
	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance	Gross amount	ECL allowance
At December 31, 2018	11,037	-162	14,003	-689	-	-	25,040	-851
Additions	14,020	-293	80	-2	79	-3	14,179	-298
Exposures derecognised or matured / lapsed (excluding write-offs and modifications) ¹	-293	-	-1,585	-	-	-	-1,878	-
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-119	5	-	-	119	-5	-	-
Modifications of financial assets (including derecognition)	-	-	-	-	-	-	-	-
Changes in risk profile not related to transfers	-	9	-	223	-	2	-	234
Amounts written off	-	-	-	-	-	-	-	-
Changes in amortizable fees	-43	-	26	-	2	-	-15	-
Changes in accrued income	562	-	-33	-	-5	-	524	-
Foreign exchange adjustments	353	-4	292	-14	-	-	645	-18
At December 31, 2019	25,517	-445	12,783	-482	195	-6	38,495	-933

¹ Movements in ECL related to partial repayments are included in the row "Changes in risk profile not related to transfers".

Total impairments on loans in the profit and loss account

	2020	2019
Additions and reversals loans AEF portfolio	-3,119	-30
Balance at December 31	-3,119	-30

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

IMF GDP % Growth Forecasts	2020	2021
Kenya	1.0%	4.7%
Ghana	0.9%	4.2%
Malawi	0.6%	2.5%
Mali	-2.0%	4.0%
Madagascar	-3.2%	3.2%
Tanzania, United Republic Of	1.9%	3.6%
Ukraine	-7.2%	3.0%
Djibouti	-1.0%	7.0%
Nicaragua	-5.5%	-0.5%
Uganda	-0.3%	4.9%

The following tables outline the impact of multiple scenarios on the ECL allowance:

ECL allowance

December 31, 2020	Total unweighted amount per ECL scenario	Probability	Loan Portfolio	Total
ECL Scenario:				
Upside	3,759	2%	75	75
Base case	4,095	50%	2,047	2,047
Downside	4,667	48%	2,240	2,240
Total	12,521	100%	4,362	4,362

December 31, 2019	Total unweighted amount per ECL scenario	Probability	Loan Portfolio	Total
ECL Scenario:				
Upside	732	5%	37	37
Base case	1,100	50%	550	550
Downside	1,688	45%	759	759
Total	3,519	100%	1,346	1,346

The table below represents sensitivity of ECL stage 2 allowance for loan portfolio and loan commitments.

December 31, 2020

ECL allowance - Stage 2 trigger assessment	Loan portfolio	Loan commitments	Total
More than 30 days past due	-	-	-
Forbearance	-	-	-
Deterioration in credit risk rating	-317	-	-317
Total	-317	-	-317

December 31, 2019

ECL allowance - Stage 2 trigger assessment	Loan portfolio	Loan commitments	Total
More than 30 days past due	-3	-7	-10
Forbearance	-90	-	-90
Deterioration in credit risk rating	-389	-	-389
Total	-482	-7	-489

Refer to 'Accounting Policies' chapter on macro-economic scenarios on PD estimates.

4. Equity investments

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

	Equity measured at FVPL
Net balance at January 1, 2020	61,818
Purchases and contributions	9,215
Conversion from loans or grants	-
Return of Capital	-9,934
Changes in fair value	-2,619
Net balance at December 31, 2020	58,480

**Equity measured
at FVPL**

Net balance at January 1, 2019	45,023
Purchases and contributions	12,577
Conversion from loans or grants	701
Return of Capital	-8,267
Changes in fair value	11,785
Net balance at December 31, 2019	61,818

The following table summarizes the equity investments segmented by sector:

	2020	2019
Energy	55,713	61,818
Multi-Sector Fund Investments	2,767	-
Net balance at December 31	58,480	61,818

5. Investments in associates

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

	2020	2019
Net balance at January 1	7,947	-
Purchases and contributions	2,635	8,001
Reclassification to/ from loans	-	-
Sales	-	-
Share in net results	38	-23
Exchange rate differences	-671	-31
Net balance at December 31	9,949	7,947

The Fund invested in JCM Salima UK Ltd ("Salima"), a company incorporated in the U.K. and 75% owner of JCM Matswani Solar Corp Ltd, a Malawi Special Purpose Vehicle (the "Project Company") established for the development of a 60 MWac solar PV plant located in the Salima district of Malawi (the "Project"). Salima is incorporated in the U.K. and is registered at 3 More London Riverside, London, United Kingdom, SE1 2AQ. AEF's share and voting rights in "Salima" is 31%.

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

The following table summarizes the associates segmented by sector.

	2020	2019
Energy	9,949	7,947
Net balance at December 31	9,949	7,947

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

	Total
Total assets	13,148
Total liabilities	6,077
Total income	3
Total profit/loss	-167

6. Other receivables

	2020	2019
Fee receivables	170	95
Balance at December 31	170	95

7. Accrued liabilities

Accrued liabilities consist of accrued costs related to capacity development expenses.

	2020	2019
Accrued liabilities	385	2,841
Balance at December 31	385	2,841

8. Provisions

The amounts recognized in the balance sheet are as follows:

	2020	2019
Allowance for loan commitments	192	167
Balance at December 31	192	167

9. Contributed capital and reserves

	2020	2019
Contributed Fund Capital		
Initial contribution FMO	-	-
Contribution DGIS previous years	110,880	110,880
Contribution DGIS current year	15,000	-
Balance at December 31	125,880	110,880

Undistributed results	2020	2019
Balance at January 1	12,123	9,310
Net profit/(loss)	-8,565	2,813
Balance at December 31	3,558	12,123

10. Net interest income

	2020	2019
Interest on loans measured at AC	3,283	3,596
Interest on banks	-23	-129
Total interest income from financial instruments measured at AC	3,260	3,467
Interest on loans measured at FVPL	902	920
Total interest income from financial instruments measured at FVPL	902	920
Total interest income	4,162	4,387

11. Net fee and commission income

	2020	2019
Prepayment fees	7	-
Front-end fees for FVPL loans	12	14
Administration fees	72	72
Other fees (like arrangement, cancellation and waiver fees)	65	319
Net fee and commission income	156	405

12. Dividend income

	2020	2019
Dividend income direct investments	-	557
Dividend income fund investments	15	-
Total dividend income	15	557

13. Results from equity investments

	2020	2019
Results from equity investments:		
Unrealized results from capital results	497	4,078
Unrealized results from FX conversions - capital results	23	245
Unrealized results from FX conversions - cost price	-3,139	453
Net unrealized results	-2,619	4,776
Results from sales and distributions:		
Realized results	7,111	-7,009
Release unrealized results	-7,111	7,009
Net results from sales and distributions	-	-
Total results from equity investments	-2,619	4,776

14. Results from financial transactions

	2020	2019
Results on sales and valuations of FVPL loans	577	-1,778
Foreign exchange results	-4,158	-265
Total results from financial transactions	-3,581	-2,043

15. Expenses

Remuneration FMO is the management fee paid by the fund to FMO.

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

	2020	2019
Remuneration FMO	-2,988	-2,216
CD expenses	-489	-2,830
Evaluation expenses	-139	-176
Other expenses	-	-1
Total expenses	-3,616	-5,223

16. Off-Balance Sheet information

To meet the financial needs of borrowers, the Fund enters into various irrevocable commitments (loan commitments, equity, and grants). Provisions for loan commitments are calculated according to ECL measurement methodology applied for on balance loan portfolio.

Nominal amounts for irrevocable facilities is as follows:

Irrevocable facilities	2020	2019
Contractual commitments for disbursements of:		
Loans	19,948	17,903
Grants	1,519	2,027
Equity investments and associates	20,788	15,520
Total irrevocable facilities	42,255	35,450

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

Movement of loans commitments in 2020	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
At January 1, 2020	9,579	-160	308	-7	-	-	9,887	-167
Additions	9,301	-188	-	-	-	-	9,301	-188
Exposures derecognised or matured (excluding write-offs)	-6,540	180	-43	6	-	-	-6,583	186
Transfers to Stage 1	240	-6	-240	6	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-34	-	-5	-	-	-	-39
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-722	16	-25	-	-	-	-747	16
At December 31, 2020	11,858	-192	-	-	-	-	11,858	-192

Movement of loans commitments in 2019	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
At January 1, 2019	16,571	-232	-	-	-	-	16,571	-232
Additions	7,612	-136	-	-	-	-	7,612	-136
Exposures derecognised or matured (excluding write-offs)	-13,848	193	-448	18	-	-	-14,296	211
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-756	-16	756	16	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	32	-	-41	-	-	-	-9
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-1	-	-	-	-	-	-1
At December 31, 2019	9,579	-160	308	-7	-	-	9,887	-167

17. Analysis of financial assets and liabilities by measurement basis

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

December 31, 2020	FVPL - mandatory	Amortized cost	Total
Financial assets measured at fair value			
Loan portfolio	20,490	-	20,490
Equity investments	58,480	-	58,480
Total	78,970	-	78,970
Financial assets not measured at fair value			
Banks	-	20,296	20,296
Loan portfolio	-	27,336	27,336
Current accounts	-	85	85
Other receivables	-	170	170
Total	-	47,887	47,887
Financial liabilities not measured at fair value			
Current accounts	-	-	-
Other liabilities	-	192	192
Accrued liabilities	-	385	385
Total	-	577	577

December 31, 2019	FVPL - mandatory	Amortized cost	Total
Financial assets measured at fair value			
Loan portfolio	16,134	-	16,134
Equity investments	61,818	-	61,818
Total	77,952	-	77,952
Financial assets not measured at fair value			
Banks	-	10,483	10,483
Loan portfolio	-	37,562	37,562
Current accounts	-	-	-
Other receivables	-	95	95
Total	-	48,140	48,140
Financial liabilities not measured at fair value			
Current accounts	-	568	568
Other liabilities	-	167	167
Accrued liabilities	-	2,841	2,841
Total	-	3,576	3,576

Fair value hierarchy

All financial instruments for which fair value is recognized or disclosed are categorized within the fair value hierarchy, based on lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 – Valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable.

Valuation process

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

The 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 IRC. The IRC approves the fair values measured including the valuation techniques and other significant input parameters used.

Valuation technique

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

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

Valuation techniques include:

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

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

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

The table below presents the carrying value and estimated fair value of non fair value financial assets and liabilities.

At December 31	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Banks	20,296	20,296	10,483	10,483
Loan portfolio	27,336	26,707	37,562	37,433
Total non fair value financial assets	47,632	47,003	48,045	47,916

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

December 31, 2020	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Loans portfolio	-	-	20,490	20,490
Equity investments	-	-	58,480	58,480
Total financial assets at fair value	-	-	78,970	78,970

December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Loans portfolio	-	-	16,134	16,134
Equity investments	-	-	61,818	61,818
Total financial assets at fair value	-	-	77,952	77,952

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

	Loans portfolio	Equity investments	Total
Balance at January 1, 2020	16,134	61,818	77,952
Total gains or losses	578	497	1,075
Purchases/disbursements	5,544	9,215	14,759
Sales/repayments	-666	-9,933	-10,599
Accrued income	148	-	148
Exchange rate differences	-1,248	-3,117	-4,365
Balance at December 31, 2020	20,490	58,480	78,969

	Loan portfolio	Equity investments	Total
Balance at January 1, 2019	11,898	45,023	56,921
Total gains or losses	-1,360	11,090	9,730
Purchases/disbursements	6,866	12,577	19,443
Sales/repayments	-326	-8,267	-8,593
Write-offs	-1,429	-	-1,429
Accrued income	252	-	252
Exchange rate differences	233	694	927
Conversion from loans or grants to equity	-	701	701
Balance at December 31, 2019	16,134	61,818	77,952

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	9,606	Discounted cash flow model	Based on client spread	A decrease/increase of the used spreads with 1% will result in a higher/lower fair value of approx €6m.
	4,548	ECL measurement	Based on client rating	An improvement / deterioration of the Client Rating with 1 notch will result in a 1% increase/decrease
	612	Impairments	n/a	n/a
Debt Funds	5,724	Net Asset Value	n/a	n/a
Total	20,490			

Type of equity investment	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	16,075	Net Asset Value	n/a	n/a
Private equity direct investments	8,865	Recent transactions	Based on at arm's length recent transactions	n/a
	20,780	Book multiples	1.0	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of €2 million.
	12,760	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 €1 million.
Total	58,480			

18. Related party information

The Fund defines the Dutch Government, FMO and its Management Board and Supervisory Board as related parties.

Dutch Government

The Dutch Ministry of Foreign Affairs, Directoraat-Generaal Internationale Samenwerking (DGIS) sets up and administers the Access to Energy Fund I, according to the Dutch Government's development agenda. DGIS is the main contributor to AEF, providing funding upon FMO's request (2020: €15 million; 2019: €0).

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

The Dutch development bank FMO supports sustainable private sector growth in developing and emerging markets by leveraging its expertise in agribusiness, food & water, energy, financial institutions and Dutch business focus areas to invest in impactful businesses. FMO is a public-private partnership, with 51% of FMO's shares held by the Dutch State and 49% held by commercial banks, trade unions and other members of the private sector. FMO has a triple A rating from both Fitch and Standard & Poor's. FMO has been entrusted by the Dutch Government to execute the mandates of the Funds. Currently MASSIF, Building Prospects, Access to Energy – I, FOM, FOM-OS and the Land Use Facility of the Dutch Fund for Climate and Development (DFCD) are under FMO's direct management; the execution of Access to Energy – II and the other facilities of DFCD are performed by third parties under FMO's supervision. FMO charges a management fee to the Dutch Ministry of Foreign Affairs and it is reimbursed accordingly from the subsidy amount of AEF. The management fee amounts up to €3.0 million in 2020 (2019: €2.2 million). In 2020 AEF has sold two exposures to FMO, of which a loan for €5.9 million (2019: €0) and an equity investment for €7.1 million (2019: €0).

19. Subsequent events

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

Risk management

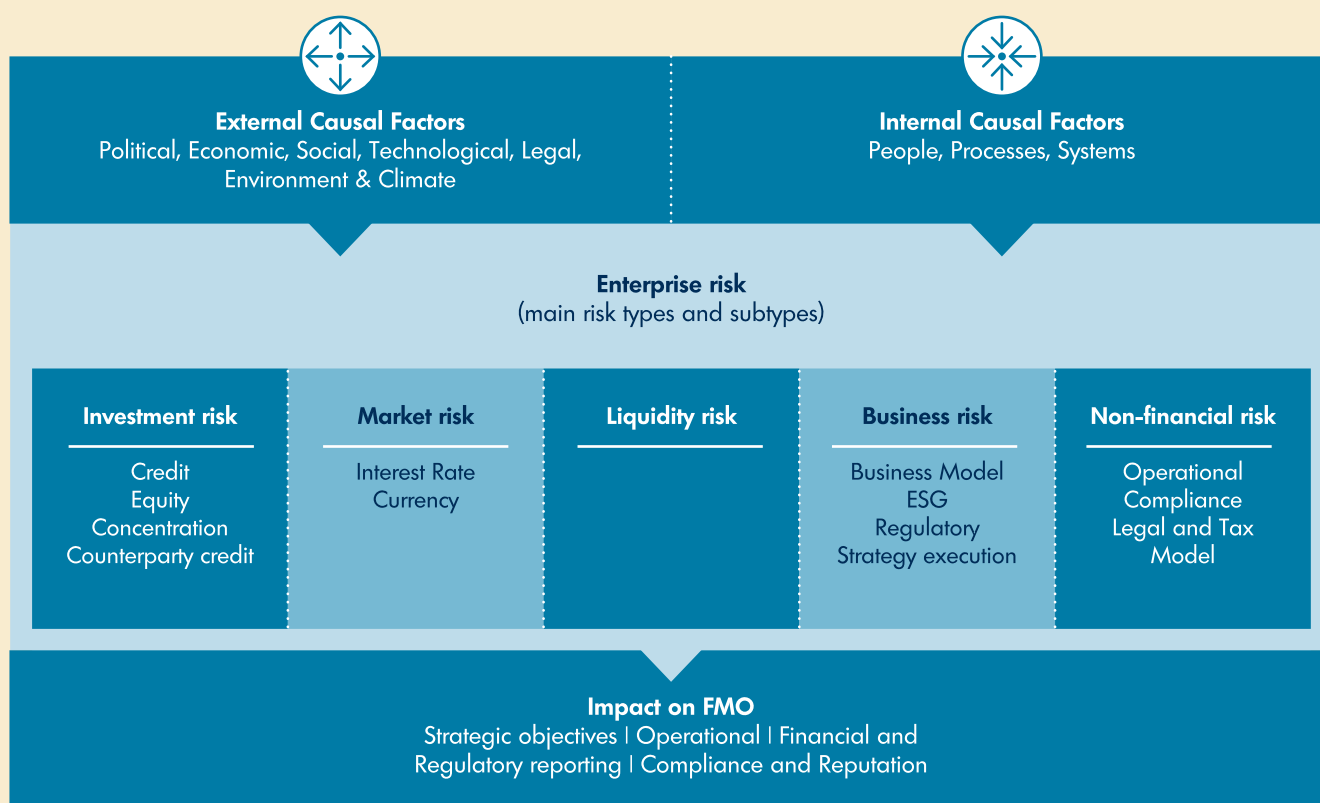
Organization of risk management

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

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

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

Risk Taxonomy Framework FMO



Risk profile & appetite

The Fund actively seeks to take risk stemming from debt and equity investments in private institutions in developing countries.

Capital management

The Fund aims to optimize development impact. This can only be achieved with a sound financial framework in place, combining a healthy long-term revolvability of $\geq 75\%$. The Fund's is based on a 100% contribution from the Dutch government. Total contribution to AEF from the Dutch government is €125.8 million at 31 December 2020 (31 December 2019: €110.9 million). Total fund capital – which is the sum of the contribution by the government, undistributed results from previous years, results from the current year, grants, and evaluations costs – increased to €136 million in 2020 (2019: €131 million).

Financial risk

Investment risk

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

Credit risk

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

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

Developments

In March 2020, in response to the emerging COVID-19 pandemic, it was concluded that a crisis override (considered a management overlay) was required in the rating methodology, to be applied to the entire loan portfolio. Country ratings were considered the best proxy to estimate the increased risk of the individual clients. Risk ratings of a large number of clients were downgraded as the Fund temporarily implemented more stringent country caps with respect to client sectors in March 2020. As a result, significant financial impact of the country overrides was reflected in the ECL movement. This impact was observed in two ways: migration from Stage 1 to 2 due to significant increase in credit risk (namely 3 notch downgrade since origination) and increased Stage 1 and 2 impairments due to higher PDs (while the clients remained in the same stage). In the second half of 2020, the necessity and level of the override was again evaluated. Due to the remaining uncertainty about the impact of the crisis on the Fund's clients, it was deemed justified to maintain a crisis override. However, the Fund decided to gradually reduce the level of the crisis override, because a significant part of the COVID-19 impact already should be reflected in country ratings and individual client ratings. In addition, it also transpired that our clients have so far been able to do relatively well despite the crisis. Therefore, in the last quarter of 2020, a revised level of overrides was implemented. In addition, individual clients were assessed by the end of 2020 to assure the revised rating properly reflects the potential COVID impact. There was a total impact of €0.16 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 €0.16 million increase in impairments, €0.15 million was due to the combined impact of rating changes without stage migration (€0.10 million increase in stage 1 and €0.05 million increase in stage 2 impairments) and €0.01 million was due to the combined impact of rating changes with stage migration.

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

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

Pre-COVID country caps

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

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

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

Country crisis adjustment following COVID-19 pandemic

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

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

Credit risk in the emerging markets loan portfolio

The Fund offers loans in emerging market countries. Diversification within the Fund's portfolio is ensured through limits on individual counterparties (single client limit of €10 million), sectors and maximum tenor 20 years in debt transactions.

Internal credit approval process

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

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

Maximum exposure to credit risk

	2020	2019
On balance		
Banks	20,296	10,483
Loans to the private sector	52,474	55,458
- of which: Amortized cost	31,802	38,553
- of which: Fair value through profit or loss	20,672	16,905
Current accounts with FMO	85	-
Other receivables	170	95
Total on-balance	73,025	66,036
Off-balance		
Irrevocable facilities	21,467	19,930
Total off-balance	21,467	19,930
Total credit risk exposure	94,492	85,966

Credit quality analysis

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

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

Loan portfolio at December 31, 2020 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Fair Value	Total
F1-F10 (BBB- and higher)	-	-	-	-	-
F11-F13 (BB-,BB,BB+)	-	-	-	-	-
F14-F16 (B-,B,B+)	18,352	7,278	-	19,901	45,531
F17 and lower (CCC+ and lower)	302	-	5,636	727	6,665
Sub-total	18,654	7,278	5,636	20,628	52,196
Less: amortizable fees	-285	-20	-24	-	-329
Less: ECL allowance	-487	-317	-3,099	-	-3,903
Plus: Fair value adjustments	-	-	-	-138	-138
Carrying value	17,882	6,941	2,513	20,490	47,826

Loan commitments at December 31, 2020 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Other ¹⁾	Total
F1-F10 (BBB- and higher)	-	-	-	-	-
F11-F13 (BB-,BB,BB+)	-	-	-	-	-
F14-F16 (B-,B,B+)	10,418	-	-	8,090	18,508
F17 and lower (CCC+ and lower)	1,440	-	-	-	1,440
Sub-total	11,858	-	-	8,090	19,948
Less: ECL allowance	-232	-	-	-	-232
Carrying value	11,626	-	-	8,090	19,716

Loan portfolio 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)	-	-	-	-	-
F11-F13 (BB-,BB,BB+)	5,053	7,456	-	6,319	18,828
F14-F16 (B-,B,B+)	20,685	5,435	195	9,105	35,420
F17 and lower (CCC+ and lower)	-	-	-	1,477	1,477
Sub-total	25,738	12,891	195	16,901	55,725
Less: amortizable fees	-221	-108	-	62	-267
Less: ECL allowance	-445	-482	-6	-	-933
Plus: Fair value adjustments	-	-	-	-829	-829
Carrying value	25,072	12,301	189	16,134	53,696

Loan commitments at December 31, 2019 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Other ¹⁾	Total
F1-F10 (BBB- and higher)	-	-	-	-	-
F11-F13 (BB-,BB,BB+)	-	-	-	6,680	6,680
F14-F16 (B-,B,B+)	8,688	308	-	1,336	10,332
F17 and lower (CCC+ and lower)	891	-	-	-	891
Sub-total	9,579	308	-	8,016	17,903
Less: ECL allowance	-160	-7	-	-	-167
Carrying value	9,419	301	-	8,016	17,736

¹ Other loan commitments include off balance items for which no ECL allowance is calculated.

Loans past due

Non-Performing Loans (NPL) are defined as loans with a counterparty-specific impairment and/or loans with interest and/or principal payments that are past due 90 days or more. The Fund's NPL ratio increased from 0.3% (2019) to 12.2% (2020) mainly due to additional impairments.

Loans past due and impairments 2020

	Stage 1	Stage 2	Stage 3	Fair value	Total
Loans not past due	18,654	7,278	-	20,628	46,560
Loans past due:	-	-	-	-	-
-Past due up to 30 days	-	-	5,636	-	5,636
-Past due 30-60 days	-	-	-	-	-
-Past due 60-90 days	-	-	-	-	-
-Past due more than 90 days	-	-	-	-	-
Subtotal¹	18,654	7,278	5,636	20,628	52,196
Less: amortizable fees	-285	-20	-24	-	-329
Less: ECL allowance	-487	-317	-3,099	-	-3,903
Plus: fair value adjustments	-	-	-	-138	-138
Carrying value	17,882	6,941	2,513	20,490	47,826

Loans past due and impairments 2019

	Stage 1	Stage 2	Stage 3	Fair value	Total
Loans not past due	25,738	12,891	-	16,901	55,530
Loans past due:					
-Past due up to 30 days	-	-	-	-	-
-Past due 30-60 days	-	-	-	-	-
-Past due 60-90 days	-	-	-	-	-
-Past due more than 90 days	-	-	195	-	195
Subtotal¹	25,738	12,891	195	16,901	55,725
Less: amortizable fees	-221	-108	-	62	-267
Less: ECL allowance	-445	-482	-6	-	-933
Plus: fair value adjustments	-	-	-	-829	-829
Carrying value	25,072	12,301	189	16,134	53,696

1 Gross outstanding + accrued interest

Stage 3 loans - ECL distributed by regions and sectors

At December 31, 2020	Financial Institutions	Energy	Total
Africa	-	3,099	3,099
Asia	-	-	-
Latin America & the Caribbean	-	-	-
Europe & Central Asia	-	-	-
Non-region specific	-	-	-
Total	-	3,099	3,099

Modified financial assets

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

The watch-list process and the Credit department review modified loans periodically. When a loan is deemed no longer collectible, it is written off against the related loss allowance. There were no write-offs in 2020 (2019: €1.4 million).

The following table provides a summary of the Fund's forborne assets, both classified as performing and non-performing.

At December 31, 2020	Performing	of which: performing but past due > 30 days and <=90 days	of which: performing forborne	Non Performing	of which: non performing forborne	of which: impaired	Sub Total	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	Carrying value
Loan portfolio measured at AC	25,932	-	-	5,636	5,636	5,636	31,568	-329	-3,903	-	27,336
Loan portfolio measured at FVPL	19,901	-	-	727	-	-	20,628	-	-	-138	20,490
Total	45,833	-	-	6,363	5,636	5,636	52,196	-329	-3,903	-138	47,826

At December 31, 2019	Performing	<i>of which: performing but past due > 30 days and <=90 days</i>	<i>of which: performing forborne</i>	Non Performing	<i>of which: non performing forborne</i>	<i>of which: impaired</i>	Sub Total	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	Carrying value
Loan portfolio measured at AC	38,629	-	7,456	195	-	-	38,824	-329	-933	-	37,562
Loan portfolio measured at FVPL	16,901	-	-	-	-	-	16,901	62	-	-829	16,134
Total	55,530	-	7,456	195	-	-	55,725	-267	-933	-829	53,696

Equity risk

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

The Fund has a long-term view on its equity portfolio, usually selling its equity stake within a period of five to ten years. The Fund can accommodate an increase in the average holding period of its equity investments and so wait for markets to improve again to realize exits. There are no deadlines regarding the exit date of our equity investments. Equity investments are assessed by the Investment Committee in terms of specific obligor as well as country risk. The Investment Review Committee assesses the valuation of the majority of equity investments quarterly. The performance of the equity investments in the portfolio is periodically analyzed during the fair value process. Based on this performance and the market circumstances, exits are pursued in close cooperation with our co-investing partners. The total outstanding equity portfolio including associates at December 31, 2020, amounts to €69 million (2019: €69 million) of €16 million is invested in investment funds (2019: €15 million).

Concentration risk

Country risk

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

The level of the country limits depends on the sovereign rating. FMO recognizes that the impact of country risk differs across the financial products it offers. In 2020 the ratings of Ghana, Mali and Tanzania (representing 15% of AEF's Total Committed Portfolio) were downgraded by one notch, Ukraine and Haiti (4% of portfolio) were upgraded by one notch.

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

Overview country ratings

Indicative external rating equivalent 2020	AEF (%)	FMO-A (%)
F9 and higher (BBB and higher ratings)	0.0	3.4
F10 (BBB-)	0.0	8.5
F11 (BB+)	0.0	2.3
F12 (BB)	0.0	5.9
F13 (BB-)	7.6	7.5
F14 (B+)	16.4	30.1
F15 (B)	50.8	24.2
F16 (B-)	9.6	8.1
F17 and lower (CCC+ and lower ratings)	15.6	10.0
Total	100.0	100.0

Overview country ratings

Indicative external rating equivalent 2019	AEF (%)	FMO-A (%)
F9 and higher (BBB and higher ratings)	0.0	4.5
F10 (BBB-)	0.0	8.5
F11 (BB+)	0.0	3.4
F12 (BB)	0.0	6.5
F13 (BB-)	3.3	10.5
F14 (B+)	32.2	26.3
F15 (B)	34.7	20.1
F16 (B-)	26.8	11.2
F17 and lower (CCC+ and lower ratings)	3.0	9.0
Total	100.0	100.0

Gross exposure of loan portfolio distributed by region and sector

	Financial Institutions	Energy	Total
At December 31, 2020			
Africa	-	35,033	35,033
Asia	-	4,404	4,404
Latin America & the Caribbean	-	4,951	4,951
Europe & Central Asia	-	4,691	4,691
Non-region specific	-	3,117	3,117
Total	-	52,196	52,196

At December 31, 2019

Africa	3,123	40,713	43,836
Asia	-	1,846	1,846
Latin America & the Caribbean	-	6,830	6,830
Europe & Central Asia	-	3,213	3,213
Non-region specific	-	-	-
Total	3,123	52,602	55,725

Single and group risk exposures

In the fund risk appetite, the maximum customer exposure for AEF is set at €10 million.

Counterparty credit risk

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

Liquidity risk

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

Market risk

Interest rate risk

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

Interest re-pricing characteristics

December 31, 2020	<3 months	3-12 months	1-5 years	>5 years	Non-interest-bearing	Total
Assets						
Banks	20,296	-	-	-	-	20,296
Loan portfolio						
-of which: Amortized cost	4,995	3,011	9,447	9,883	-	27,336
-of which: Fair value through profit or loss	612	5,725	4,884	9,269	-	20,490
Equity investments						
-of which: Fair value through OCI	-	-	-	-	-	-
-of which: Fair value through profit or loss	-	-	-	-	58,480	58,480
Investments in associates	-	-	-	-	9,949	9,949
Current accounts with FMO	-	-	-	-	85	85
Other receivables	-	-	-	-	170	170
Total assets	26,158	8,736	14,331	19,152	68,429	136,806
Liabilities and Fund capital						
Accrued liabilities	-	-	-	-	385	385
Current accounts with FMO	-	-	-	-	-	-
Provisions	-	-	-	-	192	192
Fund Capital	-	-	-	-	136,228	136,228
Total liabilities and Fund capital	385	-	-	-	136,474	136,806
Interest sensitivity gap 2020	25,773	8,736	14,331	19,152	-68,045	

Interest re-pricing characteristics

December 31, 2019	<3 months	3-12 months	1-5 years	>5 years	Non-interest-bearing	Total
Assets						
Banks	10,483	-	-	-	-	10,483
Loan portfolio						
-of which: Amortized cost	2,327	4,413	10,527	19,368	927	37,562
-of which: Fair value through profit or loss	1,761	-	6,235	7,887	251	16,134
Equity investments						
-of which: Fair value through OCI	-	-	-	-	-	-
-of which: Fair value through profit or loss	-	-	-	-	61,818	61,818
Investments in associates	-	-	-	-	7,947	7,947
Current accounts with FMO	-	-	-	-	-	-
Other receivables	-	-	-	-	95	95
Total assets	14,571	4,413	16,762	27,255	71,038	134,039
Liabilities and Fund capital						
Accrued liabilities	-	-	-	-	2,841	2,841
Current accounts with FMO	-	-	-	-	568	568
Provisions	-	-	-	-	167	167
Fund Capital	-	-	-	-	130,463	130,463
Total liabilities and Fund capital	-	-	-	-	134,039	134,039
Interest sensitivity gap 2019	14,571	4,413	16,762	27,255	-63,001	

Currency risk

Currency risk is defined as the risk of having an adverse effect on the value of the Fund's financial position and future cash flows due to changes in foreign currency exchange rates. The Fund offers debt, equity and guarantee instruments in denominated in USD, EUR and in emerging market currencies, while the main source of funding to the Fund, subsidies received from Dutch Ministry of Foreign Affairs is in EUR. Due to its commitment to the implementation of the Fund's development agenda and impact objectives, the Fund does not exclusively look for investments that counter-balance this currency risk exposure in its portfolio; the Fund also does not use derivatives and other financial instruments to hedge against the currency risk. The Fund does not take active positions in any currency for the purpose of making a profit.

Currency risk exposure (at carrying values)

December 31, 2020	EUR	USD	TZS	KES	Other	Total
Assets						
Banks	18,103	2,193	-	-	-	20,296
Loans to the private sector						
-of which: Amortized cost	6,551	10,958	3,072	6,322	433	27,336
-of which: Fair value through profit or loss	4,878	15,569	43	-	-	20,490
Equity investments						
-of which: Fair value through OCI	-	-	-	-	-	-
-of which: Fair value through profit or loss	20,404	38,075	-	-	-	58,480
Investments in associates	685	9,264	-	-	-	9,949
Current account with FMO	85	-	-	-	-	85
Other receivables	126	44	-	-	-	170
Total assets	50,832	76,103	3,115	6,322	433	136,806
Liabilities and Fund capital						
Accrued liabilities	385	-	-	-	-	385
Current accounts with FMO	-	-	-	-	-	-
Provisions	146	46	-	-	-	192
Fund Capital	136,228	-	-	-	-	136,228
Total liabilities and Fund capital	136,759	46	-	-	-	136,806
Currency sensitivity gap 2020		76,057	3,115	6,322	433	
Currency sensitivity gap 2020 excluding equity investments and investments in associates		28,718	3,115	6,322	433	

Currency risk exposure (at carrying values)
December 31, 2019

	EUR	USD	TZS	KES	Other	Total
Assets						
Banks	7,695	2,788	-	-	-	10,483
Loans to the private sector						
-of which: Amortized cost	6,271	20,753	6,116	4,151	271	37,562
-of which: Fair value through profit or loss	5,982	10,149	3	-	-	16,134
Equity investments						
-of which: Fair value through OCI	-	-	-	-	-	-
-of which: Fair value through profit or loss	23,681	38,137	-	-	-	61,818
Investments in associates	647	7,300	-	-	-	7,947
Current account with FMO	-	-	-	-	-	-
Other receivables	2	93	-	-	-	95
Total assets	44,278	79,220	6,119	4,151	271	134,039
Liabilities and Fund capital						
Accrued liabilities	2,841	-	-	-	-	2,841
Current accounts with FMO	568	-	-	-	-	568
Provisions	7	160	-	-	-	167
Fund Capital	130,463	-	-	-	-	130,463
Total liabilities and Fund capital	133,879	160	-	-	-	134,039
Currency sensitivity gap 2019		79,060	6,119	4,151	271	
Currency sensitivity gap 2019 excluding equity investments and investments in associates		33,623	6,119	4,151	271	

Sensitivity of profit & loss account and fund capital to main foreign currencies
December 31, 2020

Change of value relative to the euro	December 31, 2020	
	Sensitivity of profit & loss account	Sensitivity of fund capital
USD value increase of 10%	7,606	-
USD value decrease of 10%	-7,606	-
TZS value increase of 10%	312	-
TZS value decrease of 10%	-312	-
KES value increase of 10%	632	-
KES value decrease of 10%	-632	-

Sensitivity of profit & loss account and fund capital to main foreign currencies
December 31, 2019

Change of value relative to the euro	December 31, 2019	
	Sensitivity of profit & loss account	Sensitivity of fund capital
USD value increase of 10%	7,906	-
USD value decrease of 10%	-7,906	-
TZS value increase of 10%	612	-
TZS value decrease of 10%	-612	-
KES value increase of 10%	415	-
KES value decrease of 10%	-415	-

Non financial risk

Environmental, social and governance risk

Environmental & Social (E&S) risk refers to potential adverse impacts of the Fund's investments on the environment, employees, communities, or other stakeholders. Corporate Governance (G) risks refers primarily to risk to client business. ESG risks can lead to non-compliance with applicable regulation, NGO and press attention or reputation damage. These risks stem from the nature of the Fund's projects in difficult markets, where regulations on ESG are less institutionalized.

The Fund has an appetite for managed risk in portfolio, accepting ESG performance below standards when starting to work with a client, with the goal that performance is brought in line with our ESG risk mitigation requirements within a credible and reasonable period. ESG risks are mitigated through environmental and social action plans and monitoring. The risk appetite for deviations from the exclusion list and human rights violations is zero.

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

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

Compliance risk

Compliance Risk is the risk of failure to comply with laws, regulations, rules, related self-regulatory organization, standards and codes of conduct applicable to FMO's services and activities.

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

Financial Economic Crime, incl. sanctions

FMO's financial economic crime procedures include, amongst others, screening of customers on compliance with applicable anti-money laundering, counter financing of terrorism and international sanctions laws and regulations. Due diligence is performed on customers, which includes checks such as identifying and verifying the ultimate beneficial owners of the customer we finance, identifying politically exposed persons, and screening against relevant international sanctions lists. These checks are also performed regularly during the relationship with existing customers. Following a DNB onsite inspection in 2018, DNB identified several shortcomings in the way FMO conducts Customer Due Diligence/Know Your Customer checks. As FMO sees this as an area where the risk of non-compliance with Wwft and Sanctions Law is present, a FEC Enhancement program was set up to work towards full compliance by the end of 2021. In 2019 FMO started with the execution of the FEC EP which consisted of a.o. conducting the Systematic Integrity Risk Assessment (SIRA), the Risk Appetite Statement on Integrity, which was updated to include Tax Integrity Risk as well, and enhancing the CDD-AML Policy, CDD-AML Manual and a wide range of supporting guidance notes. It became clear in September 2020 that the progress of the FEC Enhancement program could be improved. The updated FEC Framework has meanwhile been implemented. Part of the FEC EP consists of remediation of the customer KYC files and bringing them in line with the updated framework. The remediation of customer KYC files will continue in 2021 and progress is closely monitored by the Management Board. As agreed with DNB, the remediation is to be finalized on December 31, 2021.

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

General Data Protection Act (GDPR)

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

Corruption

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

Operational risk

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

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

Management of the first line of defense is primarily responsible for managing (embedded) risks in the day-to-day business processes. The first line acts within the risk management framework and supporting guidelines defined by specialized risk functions that make up the second line of defense. Internal Audit in its role of the third line of defense provides independent assurance on the effectiveness of the first and second lines.

Departmental risk control self-assessments are conducted annually in order to identify and assess risks and corresponding controls. The strategy and business objectives are also reviewed annually by the Directors in a risk perspective. Based on among others these Risk and Control Self Assessments, the Directors sign a departmental In Control Statement at the year-end, which provides the underpinning for the management declaration in the Annual Report. Despite all preventive measures, operational risk events cannot always be eliminated. FMO, however, systematically collects risk event information and analyses such events in order to take appropriate actions. Furthermore, operational risks resulting from changes in activities are assessed in FMO's Change Risk Assessment Process and could trigger the Product Approval and Review Process. No risk events outside FMO's risk appetite have been reported.

Legal risk

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

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

Tax risk

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



Independent auditor's report

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

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

Our opinion

We have audited the financial statements 2020 of Access to Energy Fund (hereinafter: AEF or the Fund), based in Den Haag.

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

The financial statements comprise:

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

Basis for our opinion

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

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

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

Report on other information included in the annual report

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

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

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

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

Description of responsibilities for the financial statements

Responsibilities of management for the financial statements

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

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

Our responsibilities for the audit of the financial statements

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

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

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

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

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a fund to cease to continue as a going concern
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- ▶ Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

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

Amsterdam, 29 April 2021

Ernst & Young Accountants LLP

signed by J.G. Kolsters

Colophon

Contact details

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

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

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

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

Text

FMO N.V

Photography

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

Design

Studio Duel, www.studioduel.nl

Production

F19 Digital Reporting, www.f19.nl

