FMO

Entrepreneurial
Development
Bank

MASSIF

Annual report

2016

MASSIF is the financial inclusion fund that FMO manages on behalf of the Dutch government.

Government of the Netherlands

FMO has a dedicated department – Public Investment Management (PIM) – for the management of government and public funds, consisting of MASSIF, the Infrastructure Development Fund (IDF) and the Access to Energy Fund (AEF). The total committed portfolio of these funds amounts to € 1,212.1 mln as per December 31, 2016.

Our mission is to empower entrepreneurs to build a better world.

Vistaar Financial Services is a growing non-banking financial company that provides loans to small businesses in rural and semi-urban markets of India. MASSIF provided a loan to the company in 2013 and has furthermore supported the organization with technical assistance related to consumer literacy and business and livelihood improvements for customers.

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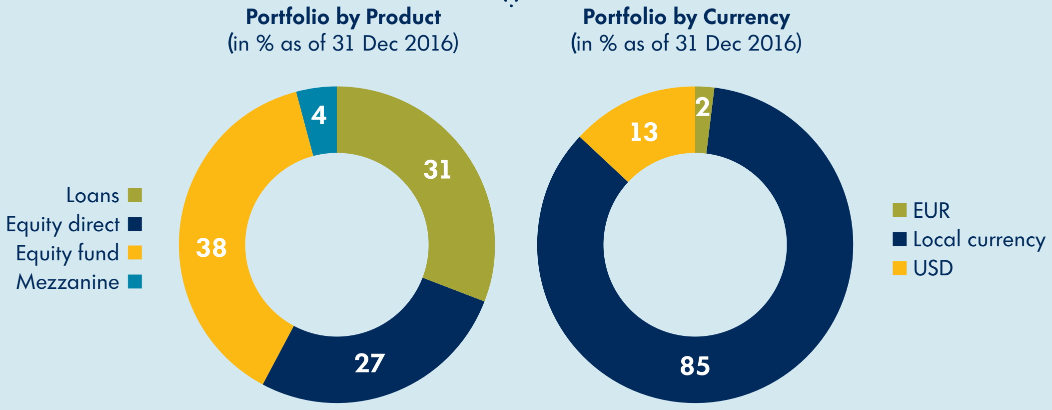
MASSIF AT A GLANCE

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

MASSIF: Achievements 2006 - 2016

contribution by government

€325 million



399 investments

€876 mln disbursements

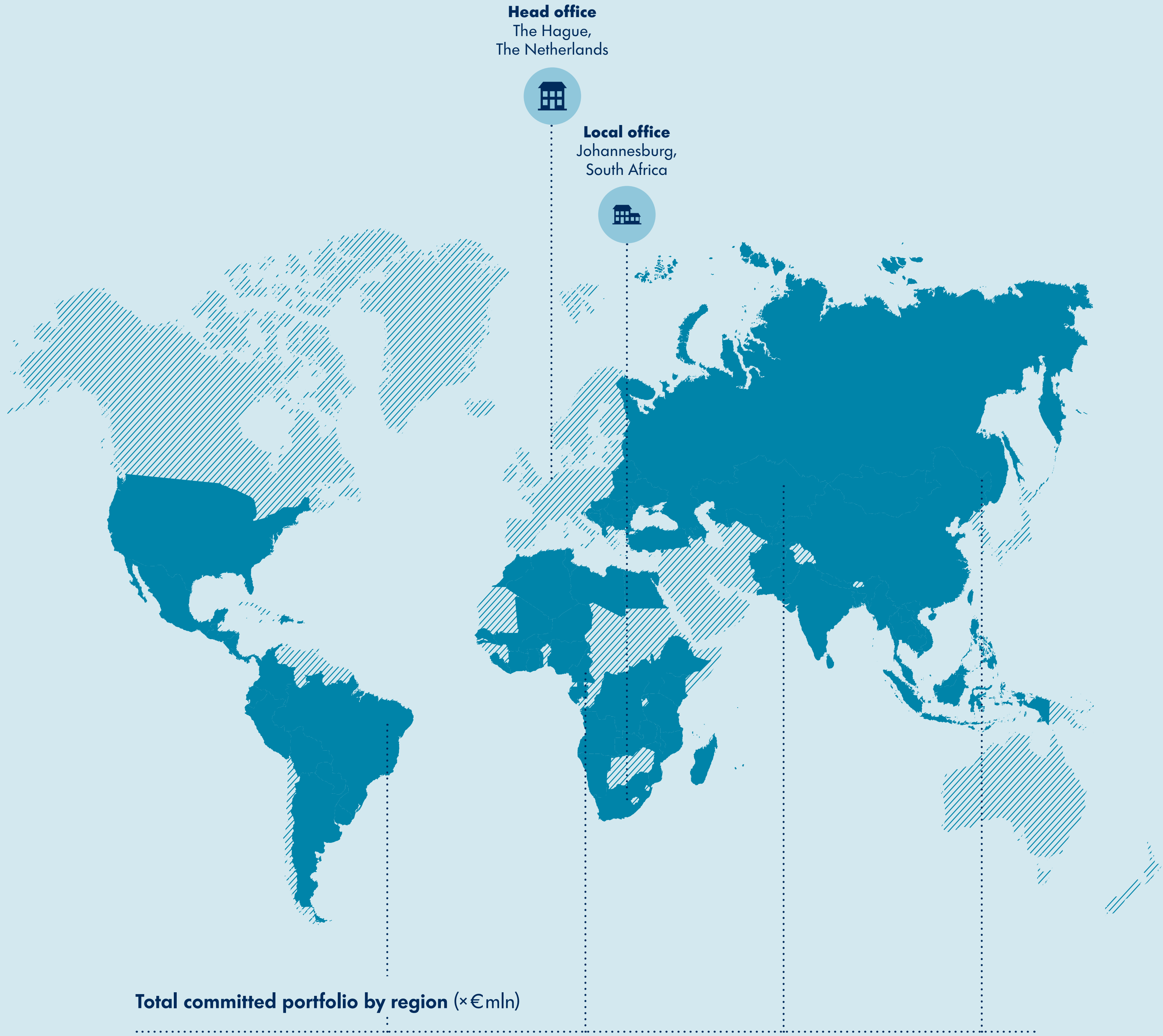
>40 currencies

248 CD projects

926,310 micro-entrepreneurs reached

10,433 SMEs reached

158% revolvability



Total committed portfolio by region (×€mln)

Non-specific region	Latin America & the Caribbean	Africa	Eastern Europe & Central Asia	Asia
€85 mln	€93 mln	€227 mln	€47 mln	€142 mln

Total committed portfolio 2016

€594 million

LETTER FROM THE FUND MANAGER

Dear Stakeholder,

The year 2016 was in many ways unique. We were at cross-roads. We looked back on achievements accomplished over the last decade but also looked into the future and role of MASSIF, resulting in an extension of the Fund until 2026. Since its inception in 2006, the Fund has had the privilege of a unique 'set-up' to support and provide much-needed financial resources and technical assistance to small businesses and micro-entrepreneurs. MASSIF supports local intermediates like small financial institutions, microfinance organizations, and funds that can contribute to the development of their end-clients, often people at the base of the pyramid.

With a wide range of financial products, from seed capital and debt products up to direct equity and investment in funds, and with a strong focus to offer local currency, MASSIF is one-of-a-kind. What has been achieved? As fund manager, FMO leveraging 45 years of experience and its extensive network across emerging markets achieved the following:

Moreover, women and young entrepreneurs still have disproportionally less access to financial services. Some markets have matured, but rural areas as well as the agricultural sector remain underserved. The market for productive goods and services targeting the base of the pyramid with, for example, new technologies and green solutions can be developed much further. We believe that providing access to (digital) financial services and empowering entrepreneurs helps to build a better world.

In 2016, we made twelve new investments in countries like Democratic Republic of Congo, Zimbabwe and Ethiopia, supporting financial access, rural development and smallholder finance. We financed a fund focusing on women-owned micro and small enterprises in Latin America. Digital financial services have the potential to be a very effective and low-cost distribution channel in our markets. The investment made in the Accion Inclusion Fund supports young tech start-ups. We participated in financing Mobisol, a green pioneer in Africa. All true frontier investments!

926,310	47,498	€ 876 mln	399	158%
micro-entrepreneurs reached	SMEs reached	disbursements	investments	revolvability

Over the last ten years the financial inclusion landscape has changed for the better. More and more investors have become interested and provided funds for the benefit of empowering entrepreneurs and supporting the development of financial services in emerging markets. But this is not enough: an estimated two billion adults have no access to any formal financial service. Close to 1 billion people live below the poverty line. Over 200 million formal and informal micro, small and medium-sized enterprises (MSMEs) in emerging economies lack adequate financing to thrive and grow. It is evident that our efforts need to continue!

MASSIF has always been at the frontier of investing in financial inclusion and paving the way for other investors. MASSIF's investments contribute to many of the Sustainable Development Goals. Today, the role of the Fund is even more important than before. Many of the most fragile and least financially serviced countries are in need. Like Myanmar, which is opening up. Another example would be Afghanistan that is still facing significant security issues. The circle around Europe – especially the MENA region – is facing huge challenges.

There were also challenges to face. MASSIF provides local currency loans protecting our clients from sometimes steep devaluations such as the one that occurred in Nigeria. The Naira devaluated with approximately 60% and negatively impacted the Fund. Impairments needed to be taken on some investments, mainly related to adverse macro-economic situations in Central Asia. Due to the size and diversification of the portfolio, the impact was limited and overall positive results prevailed. This clearly demonstrates that in addressing financial inclusion in a sustainable manner, portfolio size and long-term focus are important.

We are therefore very pleased to take our work with MASSIF into the next decade. On behalf of FMO, I would like to thank the Ministry of Foreign Affairs for its continued trust in our organization and valuable input defining the MASSIF strategy for the coming decade – the Next Frontier!

Jeroen Harteveld
Fund Manager MASSIF

OUR STRATEGY

MASSIF 2006-2016

Since its inception in 2006, MASSIF has been extending risk capital, medium- and long-term debt in local (LCY) and hard (HCY) currency to financial intermediaries in developing countries. These institutions in turn serve its end-beneficiaries: micro-entrepreneurs, small- and medium-sized enterprises (SMEs), and lower income households. MASSIF's clients offer a wide array of financial services including, but not limited to, saving products, business lending, guarantees, leasing, and insurance. MASSIF projects are characterized by their high risk and high development impact. A special feature of MASSIF is that the fund can bear currency risks. By being able to take higher risks than other market parties – for example by being the first foreign investor in an organization, or by taking a longer tenor or a junior tranche – MASSIF plays an important catalyzing role for FMO and other investors. The Fund has a revolving nature – i.e. at any moment, fund capital is equal to or exceeds the initially contributed amount.

Market developments

Over the lifetime of MASSIF financial inclusion indices have improved markedly, but financial exclusion continues to hamper economic development, specifically in certain regions and segments of the population. People at the base of the pyramid (BoP) in low-income and fragile countries, women, and rural and agriculturally-based households are still disproportionately affected by a lack of access to financial services. BoP individuals in developing economies are often excluded from sustainable livelihoods for themselves and their families. Employment opportunities are sporadic and unstable, and there are limited means and educational opportunities for individuals to develop their own entrepreneurial skills. Access to finance for individuals looking to establish their own business or for SMEs providing employment opportunities for individuals is key to supporting the BoP. Another relevant market development is related to Financial Technologies (FinTech). Financial and mobile technologies are helping to drive financial inclusion in several of MASSIF's markets. While mobile technologies still focus primarily on payment and savings services, credit and insurance services are expected to follow and interesting opportunities for enhancement of financial inclusion are likely to arise from this.

New frontiers

MASSIF targets the least financially-penetrated countries and fragile states. Building on MASSIF's (2006-2016) solid track record, MASSIF intends to further focus its efforts on reaching the base of the pyramid supporting the growth of responsible businesses that create new jobs, provide income and improve livelihoods for those groups and in those countries where this makes the biggest difference. FMO has identified and developed investment themes centered around end-client user groups that are most financially excluded. For each investment theme, MASSIF selects the most appropriate distribution channels and partnerships to provide tailored financing and capacity development benefitting these end-beneficiaries.

Across these themes, local currency financing continues to be a strategic priority for the Fund. MASSIF is a pioneer in local currency financing and one of the very few market parties worldwide offering such a product. The Fund provides its investees with local currency financing, reducing the risks of losses from currency mismatches for these financial intermediaries and allowing them to offer stable, local currency products to their (M)SME clients.

The Unbanked
Investments within this theme are centered around a specific subset of countries with very low levels of financial inclusion, covering the World Bank-designated low income countries (LICs) and fragile and conflict-affected states. Low income and highly unequal societies continue to hold large populations of unbanked entrepreneurs, while armed conflicts, natural disasters, and pandemics have a disruptive effect in certain regions, deteriorating the business environment, and entrepreneurs' access to finance.

MASSIF will allocate significant capacity towards on-going, broad-based support of MSMEs in such countries. To maximize impact, the Fund will target the intermediaries best situated to scale access to finance for MSMEs in these countries, which can be a financial institution, corporate, or private equity or debt fund, providing finance to MSMEs in these LICs and fragile countries.

Agricultural and Rural Livelihoods
MASSIF's on-going relevance will be in supporting access to finance for MSMEs in rural areas and in support of agricultural production and value chains. Through this investment theme MASSIF contributes to viable livelihoods for small-scale farmers and rural communities, improved yields and decreased posts-harvest losses. Different intermediaries will be targeted by the Fund: Supply Chain Managers (SCM) and cooperatives, agri-dedicated microfinance institutions, rurally-based financial institutions, agri-focused private equity funds, and FinTech companies. These intermediaries not only provide access to finance, but often access to markets, inputs, and employment as well.

Women-owned (M)SMEs
Women-owned (M)SMEs (W(M)SMEs) is the third investment theme, targeting access to finance for women, both in the micro and SME segments. MASSIF will contribute to tackling supply-side issues around W(M)SMEs lack of access to finance, by providing funding to financial institutions and microfinance institutions to be on-lend to W(M)SMEs or to businesses with a female customer focus. CD funding will be crucial in addressing both the demand-side and supply-side issues, by helping clients to identify, serve, and monitor the W(M)SME-client segment and by creating and supporting projects that help to increase women's access to education, financial literacy training and networking opportunities.

FMO recognizes a parallel between women's and youth access to finance, and will seek to identify opportunities with partners to serve the youth segment through dedicated financing and CD grants.

Innovations in Inclusive Business
MASSIF's 'Innovations in Inclusive Business' theme focuses on new technologies and business models that hold the promise of lowering the production and delivery costs for productive goods and services targeting the BoP. MASSIF will play a role in lowering the barrier to access to finance for companies that are developing new productive goods and services for BoP individuals. It will also support financial institutions enabling BoP individuals to finance the purchase of these productive goods and services, in particular in the realm of clean and renewable energy, education, health and sanitation – in line with the Sustainable Development Goals. Investments along this theme are funneled through one of the following distribution channels: BoP-dedicated private equity funds, financial institutions facilitating financing of productive goods, and FinTech companies.

Capacity Development
Under the new MASSIF strategy, the Capacity Development team will support MASSIF (end) clients, and focus on the following topics: governance, risk and management information systems, environment and social, green, gender, agribusiness, and FinTech. Projects will include development of gender (W(M)SMEs) and agriculture finance products, deployment of agent networks and mobile technologies. MASSIF-CD's focus will on the one hand be on building capacity at the level of MASSIF's direct investees, while on the other hand, the CD team will also reach out more directly to base-of-the-pyramid clients of our clients. The fund will consequently have the ability to allocate CD funds towards end-client projects in the areas of financial literacy and bankability, product education and uptake, training farmers in Good Agricultural Practices (GAP) and supporting them in receiving certifications such as FairTrade.

OUR BUSINESS MODEL

The visual shows how MASSIF creates value for its stakeholders by steering on the strategic priorities that we set and making use of the various financial and non-financial capital (inputs) that we control.

The investments through financial intermediaries are relevant for strengthening the financial sector and reaching out to MSMEs

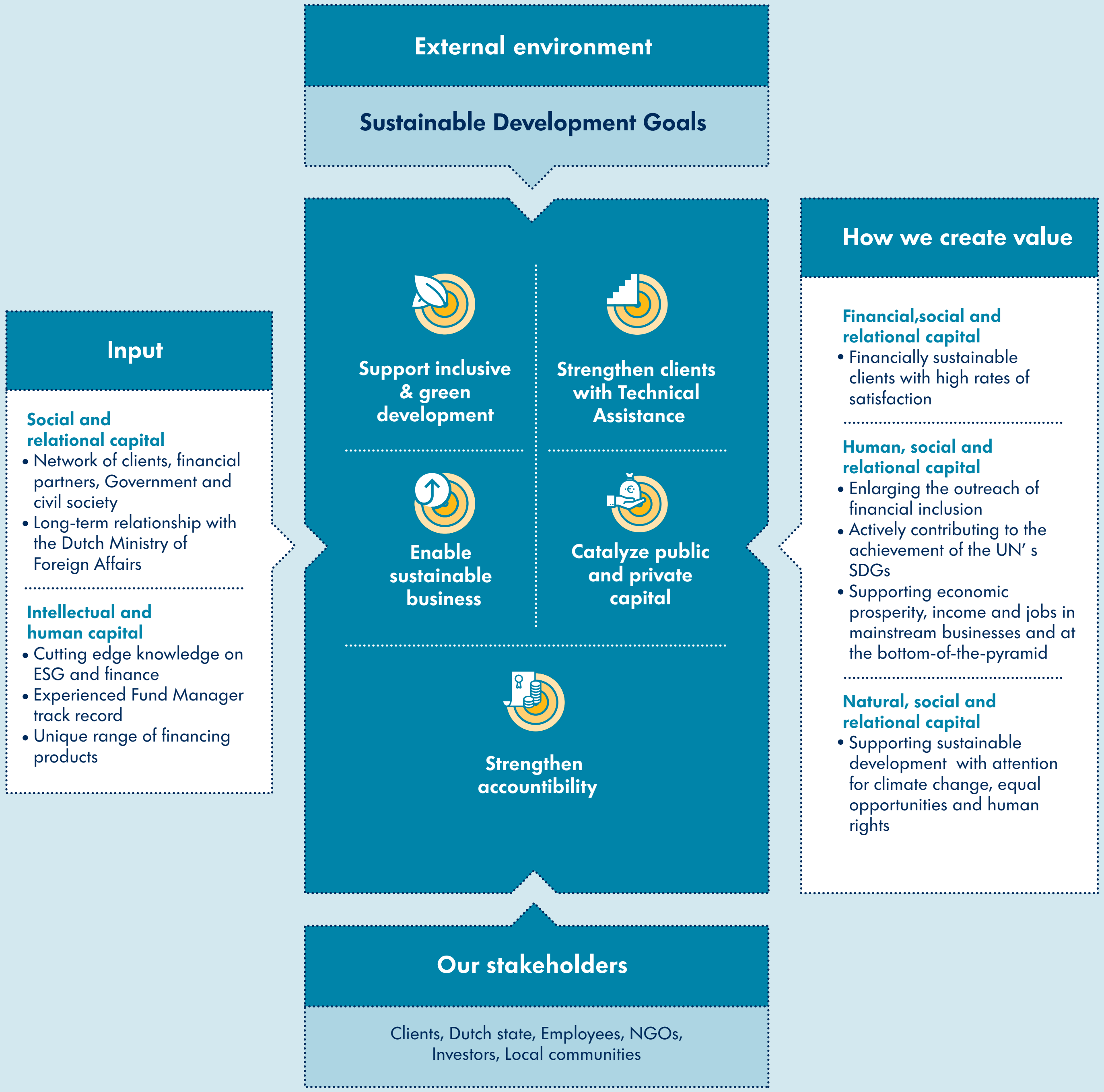
Carnegie Evaluation, 2015[1]

Our key inputs

We have cutting edge knowledge of ESG and finance in developing countries, as is illustrated by our solid track-record as a Fund Manager. This strength is supported by an internal culture that is typified by a drive to fulfil our mission and the willingness to take risks, yet balanced by a strong risk awareness. FMO's employees exemplify our corporate values: engaged, excellence, cooperation and making a difference.

Our networks are a crucial part of our business model. These are networks of clients, financial partners as well as knowledge partners. Our financial partners are other development finance institutions, commercial investors and banks, as well as governments. These partners are central to our approach to business, as they leverage our own capital and in that way allow us to increase our impact beyond our own financial means. Our knowledge partners facilitate the transfer of best-practice knowledge to our clients.

1. Carnegie Consult performed an evaluation of the MASSIF achievements over the past 10 years.



OUR INVESTMENT PROCESS

The diagram illustrates the sequence of process steps that we follow to create value on the individual project level.

We strive to create sustainable impact in developing countries. To support our efforts in this area, we have a framework in place – the FMO Sustainability Policy Universe – consisting of policies and tools that guide our behavior and way of working. This integrated approach, which ensures sustainability is at the heart of our operations, is aligned with the Sustainable Development Goals.

Applicable investment policies, guidelines and tools

For stages 1, 2 and 3:
- Sustainability policy, including position statements
- Country selection
- Investment criteria
- Exclusion list
- Know-Your-Customer policy
- Anti-bribery & corruption

For stage 4:
- Disclosure policy, including early disclosure of potential investments
- Active stakeholder engagement

For stages 5 and 6:
- Capacity development program
- Board participation (through private equity investments)
- Exchange programs and network events
- ESG masterclass, toolkits
- Disclosure
- Independent Complaints mechanism

1 Sourcing

We identify potential opportunities through a deep-rooted network in developing countries.

Our initial assessment focuses on factors as country, investment plan, development impact and our role as financier. Increasingly, we steer our investments towards projects that foster a transition to a more inclusive and greener economy.

2 Screening

If the financing opportunity meets our investment criteria, we continue to analyze potential risks and challenges.

To ensure that the client complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations, we conduct a Know-Your-Customer assessment. Furthermore, we categorize the project based on its potential effects on environmental, social and human rights conditions, as well as governance structures benchmarked against the IFC Performance Standards.

3 Due diligence

To fully understand and map the risks and opportunities, we conduct thorough due-diligence including on-the-ground research through local visits.

We visit the client and local stakeholders to discuss in detail the impact of the Fund's financing, their business, and environmental, social and human rights risks. We also analyse the client's tax practices and policies. Our tax department provides expert advice where needed. If we identify gaps in meeting international standards or policies, we develop an action plan to mitigate and manage any of the identified risks and promote positive development in these areas.

4 Stakeholder engagement

In addition to regular meetings and dialogue sessions with our main stakeholders, we also give stakeholders the opportunity to provide input for our decision-making on new transactions with a high environmental or social risk profile.

In 2016, we started to disclose the potential investment online to ensure that we have not overlooked any important concerns. From identification to implementation, we consult key stakeholders to properly assess, monitor and manage the impacts of the project.

5 Contracting

For each investment, we have assessed the environmental, social and governance risks, identified where improvements can be made, and established action plans for further development.

After internal approval, we sign an agreement with our clients to ensure that our requirements and conditions are legally binding. We disclose our investments on our website after contracting.

6 Monitoring and value creation

Throughout the lifetime of the investment, we monitor our client's financial performance as well as progress on the environmental, social and governance requirements.

We receive annual or more frequent financial reports, conduct assessments (including ESG reviews) with the help of local consultants and pay regular visits. If necessary, we support our clients with capacity development and technical assistance to improve their business and identify new opportunities.

We aim to support and develop early-stage businesses and businesses in high-risk markets

Private Sector Development and Blended Finance

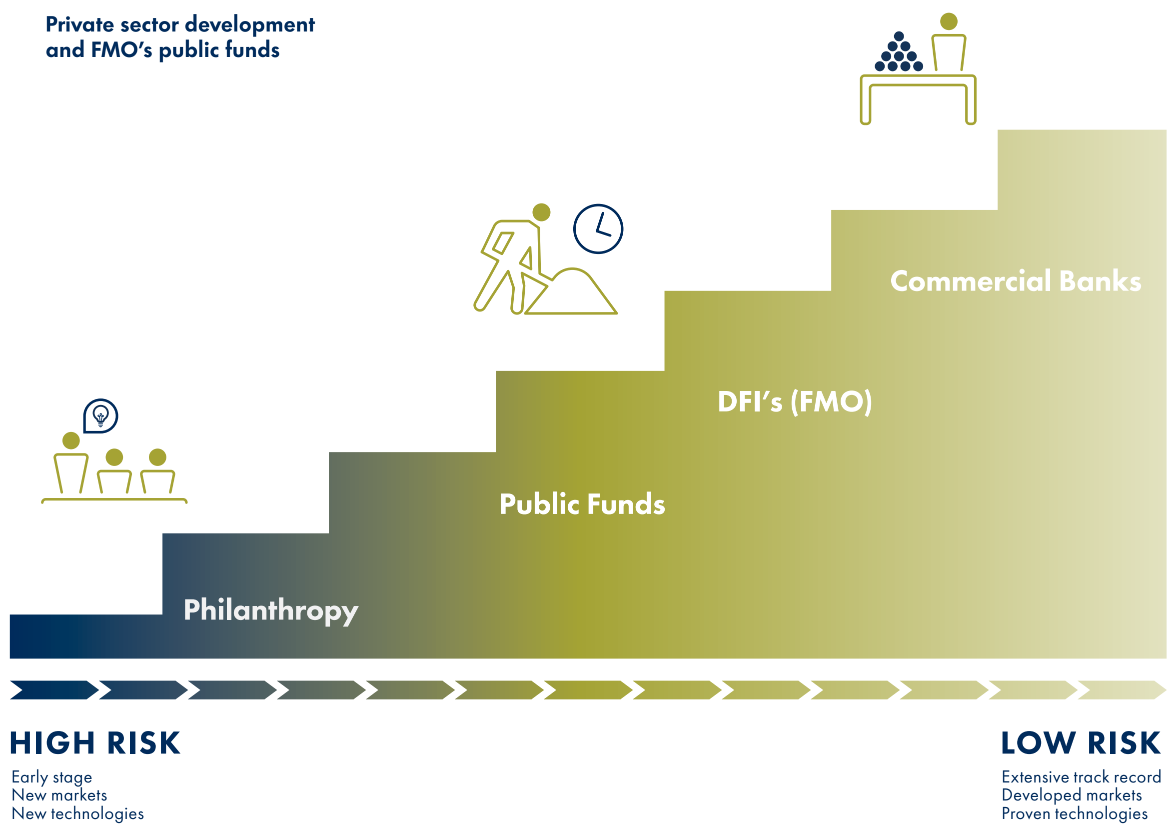
FMO manages several Private Sector Development (PSD) programs on behalf of the Dutch government. In 2006, FMO and the Dutch government established MASSIF to contribute to developing and strengthening the financial infrastructure in developing countries to better serve entrepreneurs and consumers at the lower end of the financial market.

In addition to MASSIF, FMO manages several other public funds for the Dutch Government, which all invest in higher-risk projects. The other funds[2] are Access to Energy Fund (AEF) –, which funds private sector projects that create sustainable access to energy services and the Infrastructure Development Fund (IDF) –, which provides long-term financing for infrastructure projects in low-income countries. The Funds have a longstanding record of catalyzing other investors, for example by providing a junior tranche, longer tenor, or local currency loan.
In addition, the Funds' financing and technical assistance is aimed at growing and strengthening organizations in order to finally graduate them out of the MASSIF portfolio to other market parties.

Through its blended finance approach, FMO aims to support and develop early-stage businesses and businesses in high-risk markets by providing (public) funding and advisory services. The main purpose of blended finance is to enable financing of projects with a high development impact by carrying a risk that is too high for international financial institutions (IFIs) and/or commercial financiers.

Public funds can play an important role here in the private sector development of high-risk markets that otherwise would not be served. The blended finance approach can thus de-risk transactions for FMO and other IFIs, as well play an important role in crowding in commercial and impact investors into higher risk markets. By filling the gap between more philanthropic and grant-based money flows and development and commercial banks, public funds can be highly additional to markets, and contribute to the development and growth of local economies in emerging markets where stable funding sources are scarce and the risk appetite of local commercial investors is limited.

2. Please note that FMO also manages FOM (a government facility), FOM-OS (a government fund, of which the investment period has ended), and PDF (FMO's Partnership Development Facility) on behalf of the Dutch government. FMO also has a capacity development program (BCD). FMO subsidiary FIM is a licensed investment firm for qualified or professional investors.



Advanced and innovative: the Dutch approach works

On behalf of our investor:
The Ministry of Foreign Affairs

The Dutch aid and trade agenda entails an advanced and innovative approach on strengthening the economies of developing countries. Confidently we can tell the world that our approach works. Sustainable, inclusive economic development is an indispensable part of efforts to combat poverty and improve global living conditions. The Netherlands is pursuing these goals by working with a range of partners. We collaborate with developing countries' governments to improve the business climate. We work with businesses to increase opportunities for long-term employment and entrepreneurship, and with civil society organisations to promote compliance with labour standards.

Thanks to our bold, innovative approach, the Netherlands plays a leading role in strengthening the economies of developing countries. As a former Dutch ambassador to Ghana, I have had considerable experience with the Dutch approach to sustainable economic development and thereby encountered that the Dutch efforts bear fruit. With my own eyes I have seen the added value of cooperation between the Dutch government and local businesses.

One key player in the Netherlands' success is the MASSIF fund, which promotes access to financial services by investing in financial intermediaries. Giving people access to financial services is a crucial part of enabling them to develop economic initiatives, which benefit the local population by creating more jobs. This helps make the world's poorest people more self-reliant by allowing them to earn their own money.

MASSIF's distinctive approach to financial inclusion distinguishes it from other funds. It leads the way and takes significant risks, including providing loans in local currency. MASSIF also actively contributes to the development of the organisations it invests in by providing technical assistance. It blazes a trail for other investors, extending its reach and raising its effectiveness even more.

The Ministry of Foreign Affairs commends MASSIF for its approach and for the results the fund has achieved in the past year. An external evaluation in 2015 underlined these results, and MASSIF's term was recently extended for another 10 years, through to the end of 2026. The challenge it faces is pushing the boundaries even further and providing access to finance for even more people. Its achievements so far promise a bright future of investments that will enhance people's access to financial services.

That's how we are working together to create a global economy that works for everyone.

Hans Docter
Director for Sustainable Economic Development
at the Netherlands Ministry of Foreign Affairs

MASSIF AND THE SUSTAINABLE DEVELOPMENT GOALS

On 1 January 2016, the 17 United Nations Sustainable Development Goals officially came into force. The Sustainable Development Goals (SDGs) call for action by all countries and parties – government, civil society and the private sector – e.g. to end extreme poverty, reduce inequality and tackle climate change by 2030. The SDGs are increasingly supported by businesses, governments, non-governmental organizations and the general public, and hence align efforts towards achieving these common goals.

Stakeholder needs

The SDGs provide a framework for different stakeholder groups to align and prioritize impact objectives. Our stakeholders consistently indicate the importance of reducing inequality, with particular attention to improving gender equality, and combatting climate change. The Dutch government is actively implementing the SDGs into its agenda, and the financial sector as a whole is also increasingly endorsing the SDGs. At the Global Impact Investing Network, held in Amsterdam in December 2016, FMO and 17 other Dutch financial institutions, collectively managing over €2.8 trillion in assets, invited the Dutch government and Dutch Central Bank to continue to make a concerted effort with them in support of the United Nations Sustainable Development Goals. The initiative is the first in the world to bring together national pension funds, insurance firms, and banks around a shared SDG investment agenda.

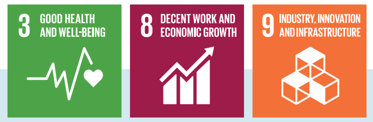
Achieving the SDGs through financial inclusion

MASSIF's aim is to enhance financial inclusion for micro-entrepreneurs and small and medium enterprises (MSMEs) that are disproportionately affected by a lack of access to high quality financial services. Greater access to financial services in emerging economies has proven to be a key determinant for the attainment of the Sustainable Development Goals. While the SDGs do not explicitly target financial inclusion, greater access to financial services is a key enabler for many of them[2].

Through its mission and activities, MASSIF thus contributes directly and indirectly to the achievement of the UN's Sustainable Development Goals. The Fund's investments specifically target the SDGs described below. In addition, the individual transactions may benefit several other SDGs, depending on the scope of the investment.

MASSIF's contribution to the Sustainable Development Goals

3. CGAP (2016). Achieving the Sustainable Development Goals. The Role of Financial Inclusion. Retrieved from: https://www.cgap.org/sites/default/files/Working-Paper-Achieving-Sustainable-Development-Goals-Apr-2016.pdf



– CLIENT CASE: THE CENTRAL AFRICAN SME FUND –

Building businesses in post-conflict regions

The Central African SME Fund (CASF) is a private equity fund providing capital to 32 small and medium enterprises (SMEs) in the Democratic Republic of Congo (DRC) and the Central African Republic (CAR). While mainly known for conflict, corruption, and colonial exploitation, DRC and CAR are home to an overlooked group of talented entrepreneurs that have started their businesses in a difficult, but often untapped, market. For these men and women, finding finance is highly challenging given limited formal banking penetration and perceived credit risk. CASF supports these under-served SMEs, creating lasting opportunities for economic and social development.

Shaping Flourishing SMEs in Turbulent Times
CASF is the first private equity fund in DRC and CAR, providing scarce, high risk capital to SMEs, predominantly by providing debt or mezzanine and selectively equity investments. These companies are active in the services, ICT, retail, education, transport, and healthcare sectors, providing vital goods and services for the local population. Besides capital investments, pre- and post-investment technical assistance is an important part of the CASF's work, including business plan development, financial systems and controls strengthening and environmental, social and governance support.

Strong Entrepreneurial Skills
Within the 32 SMEs, CASF has discovered a richness of entrepreneurial skills. Many founders studied abroad and returned with specific knowledge, expertise and a desire to be part of the country's economic revival. Three doctors from Congo, for instance, started a small medical clinic that was transformed with the financial support of CASF into one of the few well-functioning hospitals in Kinshasa with 24 beds, an ambulance, and nightly house call services. CASF also financed the start-up of DRC's first good quality copy shop for digital prints. Demand for these and other services is large and competition low. But that does not make business easy. Some of the entrepreneurs lost their business more than once. Operating in DRC and CAR is not easy with high operating costs, lack of electricity, corruption, bureaucracy and lack of transparency as some of the key challenges entrepreneurs face. Therefore, creativity, flexibility, and especially perseverance are of great importance. This spirit, combined with CASF's tailored investment offerings and pre- and post- technical assistance work very well in creating trustworthy, long lasting business partnerships and sustainable companies positively contributing to the economic and social development of the Central African Region.

Sector
Private Equity

MASSIF investment
USD 5 mln

Country
Democratic Republic of Congo (DRC) and Central African Republic (CAR)

Year of investment
2010

Instrument
Equity, debt, mezzanine

Highlights

In 2016, MASSIF reached approximately 100,000 micro-entrepreneurs and 1,500 SMEs. At the end of the year, MASSIF had 137 facilities in its portfolio with 117 different clients. MASSIF's fund capital has grown significantly to € 501.1 mln at December 31, 2016 (€ 461.4 mln at December 31, 2015), compared to a cumulative contribution from the government of € 324.8 mln. The Fund continued to show good asset quality throughout 2016. MASSIF enabled technical assistance to its clients through 19 Capacity Development (CD) projects.

Production

MASSIF contracted 12 clients and committed €65.5 mln in 2016:

Accion Frontier Inclusion Fund (€6.4 mln, equity – fund) is an early stage venture capital fund targeting financial technologies companies for which new distribution channels, products and technologies are created via commercializing innovation. The Fund focuses on 8 pre-identified investment hubs: Colombia, Peru, Brazil, Mexico, Nigeria, Kenya, South Africa, and India.

The **African Rivers Fund (€ 9.2 mln, equity – fund)** is a private equity fund targeting growing, well-managed small and medium-sized enterprises (SMEs) in the Central African region covering Democratic Republic of Congo, Uganda, Republic of Congo, Burundi and Central African Republic.

Agronomika Finance Corporation (€1.9 mln, local currency loan) is a financial institution started by Kennemer Foods International - an agribusiness company operating in the production and sourcing of cocoa beans in the Philippines. The funds provided by MASSIF will be used by Agronomika Finance Corporation to provide planting and working capital loans to cocoa farmers in the Philippines.

Early Dawn Microfinance Company (€2.7 mln, local currency loan) is a one of Myanmar's leading microfinance institutions, serving around 70,000 women micro-entrepreneurs. MASSIF has been an equity investor in Early Dawn since 2014. This loan is FMO's first debt financing in the country.

Global Partnerships Fund 6.0 (€ 7.2 mln, loan – fund) is a loan fund providing senior loans to tier II/III MFIs and "social enterprises" – entities providing basic products and services to the base of the pyramid ("BoP") – in Latin American and Sub-Saharan Africa. The Fund's mission is to invest in sustainable solutions that help impoverished people earn a living and improve their lives.

IAPEF 2 Mobisol (€1.7 mln, equity – direct) is a leading Pay-As-You-Go solar home system provider in East Africa. Mobisol combines affordable solar home systems along with smart payment systems to make electricity available to the lower and middle income segment. Their systems provide amenities beyond basic lighting that result in productive electrification. The transaction is a co-investment with the Access to Energy Fund.

Kreditimi Rural I Kosoves (€ 3 mln local currency loan). KrK is a microfinance institution in Kosovo offering tailored loan products to farmers, traders, and micro and small businesses in rural areas. KrK has a clear rural focus with a large agricultural portfolio (>50 percent). Its loans are predominately provided in economically disadvantaged communities to small farmers and entrepreneurs. MASSIF is also a shareholder of KrK.

NMB Bank Limited (€ 8.9 mln, local currency loan) is a Zimbabwean bank and an existing MASSIF debt and equity client. In addition to the € 8.9 mln loan provided to the bank, MASSIF also catalyzes € 4.5 mln from Swedfund. The USD 10 mln senior term facility will be used to support NMB Bank Ltd to grow its SME portfolio. The funding is highly additional in the Zimbabwean market where liquidity is very scarce.

PT Bina Artha Ventura (€4.7 mln, local currency loan) is an MFI in Indonesia that fulfills an important role in providing finance to the underserved microsegments by providing group loans and individual lending to micro and small enterprises. FMO's financing will support further growth of the company's loan portfolio.

Sanasa Development Bank (€7.8 mln local currency loan and €1.9 mln equity – direct) is a Sri Lankan MFI, particularly active in rural areas. SDB is in the process of converting from a NGO type MFI bank into a more professional commercial SME bank while continuing to serve its cooperatives client base by targeting the lower end of the market.

Takura II Feeder (€3.5 mln, equity – fund) is a Zimbabwe based SME fund focusing on Zimbabwe and neighbouring countries. In 2014, MASSIF was the seed investor in the Fund, which has almost fully been invested.

Zoscales Fund (€6.7 mln, equity – fund) is a private equity fund focusing on growth capital investments in SMEs in Ethiopia. MASSIF's investment will be highly additional in the nascent & underdeveloped Ethiopian PE market where the provision of equity funding to SMEs is scarce.

Sales and exits

NMBZ was transferred from MASSIF to FMO as per 1 December 2016. FMO indicated interest in NMBZ as result of a strategic decision to transfer NMBZ into Arise B.V. in the form of in-kind contribution to the vehicle. Being a strong international investor, Arise B.V. is a sound party to take over the investment. NMBZ Holding Ltd. had been part of the MASSIF portfolio since June 2013, when MASSIF acquired an 8.99% stake in the Zimbabwe-listed holding of NMB Bank.

MASSIF exited AB Bank Rwanda as part of its overall exit from the Access Group. MASSIF exited its investment at the holding in 2015. The Fund also concluded negotiations with an external investor to sell its stake in Sri Lankan MFI LOMC. In addition, MASSIF exited its equity investment in Afriland First Group. The equity investment was fully transferred into a loan facility.

Extension of FMO's management of MASSIF

The Ministry of Foreign Affairs and FMO signed a 10-year extension of FMO's mandate to manage MASSIF in 2016. FMO is very pleased with the opportunity to continue managing the Fund. We are looking forward to a successful and impactful cooperation with the Ministry of Foreign Affairs.

Events and external network

To enhance and maintain strong partnerships in the broader financial inclusion space, the MASSIF team has been highly engaged in inclusive finance events throughout 2016. As an example, the MASSIF team is actively involved with the Netherlands Platform for Inclusive Finance (NpM), and plays an active role in the working groups of the platform. In addition, together with the Ministry of Foreign Affairs and NpM, FMO is a member of The Consultative Group to Assist the Poor (CGAP), which is a global partnership of 34 governments, development organizations, and foundations that seek to advance financial inclusion.

The MASSIF team engaged in several events in 2016. In cooperation with the Netherlands Platform for Financial Inclusion (NpM), the MASSIF team organized a workshop by MIMOSA on saturation in microfinance markets for Dutch investors in the inclusive finance sector. Jeroen Harteveld presented a session on the Global Goals at ING's a Billion to Gain Conference on 11 October 2016, where he talked about MASSIF's contribution to the Goals. MASSIF's Fund Manager also gave a joint presentation with the Ministry of Foreign Affairs about revolving funds as a successful policy instrument. The learning session was open to all interested individuals at the Ministry.

MASSIF was present at several conferences and other events that took place throughout 2016. In May, the MASSIF team joined the 2016 Annual CGAP Conference in Luxembourg. Jeroen Harteveld joined the Global SME Finance Forum in Beijing in September. In November, the MASSIF team joined the European Microfinance Week in Luxembourg, which presented fruitful sourcing, networking and knowledge-building activities. In addition, the MASSIF team was actively involved in the FMO-organized Future of Finance. This conference took place in Noordwijk and was visited by several MASSIF stakeholders – from individuals from the Ministry of Foreign Affairs to MASSIF clients – who benefitted from a wide range of knowledge-sharing and networking opportunities.

FMO also participated in multiple meetings on refugee finance – a topic that MASSIF is actively looking into. The aim of the meetings, which were coordinated by NpM, was to align efforts by Dutch impact investors in the refugee finance space.

MASSIF contributed and co-financed a study initiated by the Platform for Inclusive Finance (NpM) on inclusive green finance. This study provides an assessment of the current status of green inclusive finance practices among NpM members. It was a follow-up of the signing of the Letter of Intent in 2015, which was presented to the Ministry of Foreign Affairs and covers the shared intentions of the NpM member to make their policies and practices greener. In addition, MASSIF was part of a study by EY on financial inclusion and digital financial services. The study looks at the potential of mobile technology in enabling financial service providers to reach unbanked individuals.

– CLIENT CASE: AGRONOMIKA FINANCE CORPORATION –

A financing company for smallholders in the Philippines

The newly established Agronomika Finance Corporation will provide affordable financing to smallholder farmers of cocoa. The facility for Agronomika is structured under the Smallholder Finance Facility, the cooperation between FMO and IDH (the Sustainable Trade Initiative). FMO provides a long-term loan from the Dutch government fund MASSIF and IDH provides a first loss guarantee. Both FMO and IDH support Kennemer's operations with technical assistance.

Owned by Kennemer Foods International, Agronomika is a logical step to further enhance and improve Kennemer's service to smallholders. Kennemer is a Philippine agribusiness company specializing in the growing, sourcing and trading of high quality cacao beans sourced from smallholder farmers.

Inclusive business
Located near the equator, the Philippines offers perfect growing conditions for cocoa farming. As the country has many smallholders engaged in coconut farming, Kennemer Foods International saw the opportunity to supplement smallholders' income if they planted cocoa - which need shade - between the coconut trees. In just a few years, Kennemer created a contract farming model that successfully integrates smallholders in the supply chain of the production of high quality cocoa beans. They offer the cocoa farmers a comprehensive suite of services – from planting materials, technical training to technology and now also provide access to long-term finance.

Value chain integration
Kennemer provides a link between cacao farmers in the Philippines to global food corporations, such as Mars. They create good-quality products, transparency in the value chain and provide a fair price for the produce. With their approach, they have enabled farmers to make sustained improvements in income and quality of life, thus reducing poverty in some of the poorest areas in the Philippines.

Sector
Agribusiness

MASSIF investment
USD 2 mln

This facility is structured under the Smallholder Finance Facility, a cooperation between FMO and IDH - the Sustainable Trade Initiative.

Country
Philippines

Year of investment
2016

Instrument
Loan

MASSIF committed USD 10 mln to **Novastar** East Africa Ventures fund in 2013. One of the investees of the fund is Komaza, a micro-foresrtry company planting trees on currently unused land of dryland subsistence farmers (currently living on 50 cents a day on average), enabling these farmers to generate sizeable additional income. Komaza currently works with 7,000 farmers and in the coming years projects to plant trees with close to 100,000 dryland farmers, which will impact over 650,000 bottom-of-the-pyramid individuals in rural coastal Kenya

> **"Novastar is a unique fund manager pioneering the venture asset class in Eastern Africa with the ambition to support companies that make a difference to bottom-of-the-pyramid beneficiaries."**

Annette Berendsen, Senior Investment Officer at FMO

OUR LOCAL CURRENCIES PORTFOLIO

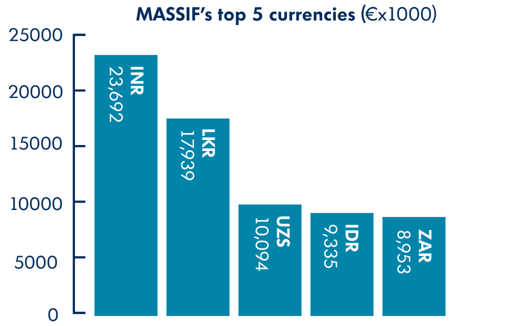
MASSIF is a pioneer in local currency financing. The Fund provides its clients with local currency financing, allowing these intermediaries to offer local currency products to their (M)SME clients in turn. On 31 December 2016, the percentage of local currency debt out of total debt for the MASSIF portfolio was 56%. In the course of the year, the Fund signed six6 local currency loans out of the seven debt facilities that it contracted. Because of the nature of the investments, MASSIF also takes currency risks on its equity portfolio.

Local currency financing is thus an important strategic priority for MASSIF. Borrowing in local currency is essential to MASSIF's primarily local-currency earning end-clients, who may otherwise be subject to currency mismatches. Local currency financing can strengthen the risk profile of clients and help diversify their funding sources. By providing financing in local currency, MASSIF allows these intermediaries to offer local currency products to their (M)SME clients.

MASSIF has built up a well-diversified and sustainable portfolio of currencies, which enables the Fund to provide local currency financing for new or existing loans using various structures, depending on availability and aspects such as underlying loan obligations, local market conditions, and legal and institutional frameworks.

MASSIF's ability to take open currency positions and its large, diversified portfolio of currencies gives it additional flexibility in serving this market. The Fund's local currency portfolio has shown to be sustainable in the past as the pricing of local currency has systematically covered for the depreciation of portfolio currencies.

MASSIF's top 5 currencies (€x1000)



MASSIF local currency portfolio (2006-2016)

– LOCAL CURRENCY CASE: NIGERIA NAIRA –

Protecting clients from devaluations

MASSIF has been active in the microfinance sector in Nigeria for many years. By providing financing and technical assistance, the Fund has supported several microfinance institutions (MFIs) to grow their operations and increase their efficiency, thereby allowing them to better serve their clients – many of them individuals at the base of the pyramid.

While hard currency financing (e.g. euros and US dollars) is standard in our markets, the loans provided to our Nigerian clients are local currency based. By providing local currency loans, MASSIF takes the currency risks on its own books, instead of transferring the risk of currency movements to the microfinance institution. The Fund does not hedge its exposure to local currency.

In the course of 2016, the Nigerian economy had to cope with oil prices at much lower levels, a subsequent foreign exchange shortage and the continuing social and political fight against violent extremism in the northern part of the country.

The Nigerian government's oil revenues dropped by more than 80% and the country's trade balance was hit hard as a result of being highly dependent on oil price fluctuations. Following these events, the Central Bank of Nigeria (CBN) decided to remove its currency peg to the US dollar, which had kept the Nigerian naira artificially high. Since June, the currency lost almost 40 per cent of its value against the US dollar.

Steep devaluations like the recent one in Nigeria have major implications for cross-border money flows. Microfinance organizations often deal with clients that have their earnings in local currency.

If a financier provides a hard currency loan to an organization that on-lends the funds to its end-clients in local currency, this exposes an MFI to currency risks. These risks are often transferred onwards to the end-client, resulting in higher and more volatile interest rates for this group. By taking the currency risk on its own books, MASSIF protected the organizations as well as their end-clients from significant currency losses. While a devaluation like the one described above negatively impacts MASSIF's profitability, the Fund is able to absorb currency losses on a portfolio level.

CAPACITY DEVELOPMENT

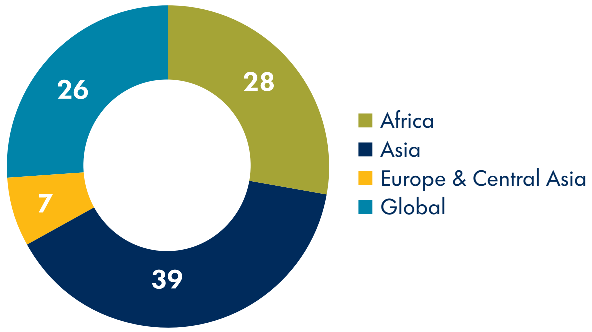
The sustainable development of a thriving private sector often needs more than just finance. In addition to providing financing, MASSIF supports its clients in improving their management skills and technical expertise through the Capacity Development program.

The CD program promotes and facilitates the transfer of knowledge and skills to MASSIF's current and prospective clients to strengthen their organizations. Under the CD program, we contribute to the cost of hiring external consultants, trainers and experts to facilitate the knowledge transfer and provision of technical expertise that clients indicate a need for. The CD program is demand-led.

Capacity Development	2006 - 2016
Number of CD projects	248
CD funding	€ 29.4 mln

Since its inception, MASSIF has completed almost 250 Capacity Development projects with a broad range of clients. The total funding of CD projects added up to € 29.4 mln between 2006 and 2016. In 2016, 19 Capacity Development projects were contracted. Below you will find an overview of the distribution of projects by region.

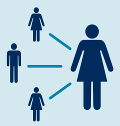
Capacity Development projects in 2016 by region
(in %)



Capacity Development: How does it work?

CD takes the form of grant-based co-financing of up to 50% of the project costs, with our client financing the balance. It is intended to cover external costs and not operational costs like internal staff, hardware or software.

Our team will work together with the client to develop a project that is customised to address their specific needs. Alongside a positive impact on our client's bottom-line, we also seek a positive social and environmental impact.



FMO has formed partnerships with a number of leading consultancy firms and experts around the world, so we can support our clients in finding the right implementing partner for their project.

In 2016, MASSIF supported Invest in Africa (IIA) with technical assistance. IIA's Business Accelerator Program links SMEs in Ghana with global consultants to embed the right strategies to make them locally, regionally and internationally competitive

– CLIENT CASE: VISIONFUND INTERNATIONAL –

Making microfinance climate resilient

In 2015, MASSIF provided a USD 10 million loan for 5 years to finance VisionFund International's African microfinance loan portfolio in Ethiopia, Ghana, Kenya, Malawi, Mali, Rwanda, Senegal, Tanzania, Uganda and Zambia. In addition to financing, MASSIF supported VisionFund International (VFI) – the microfinance subsidiary of World Vision – with Capacity Development support to further develop its innovative Disaster Resilient Microfinance Program through the strengthening of its approach on Financial Disaster Risk Management.

VFI's global network of over 30 microfinance institutions across Asia, Africa, Eastern Europe and Latin America has over 1.2 mln clients, impacting more than 2.4 mln jobs while changing the lives of nearly 4.5 mln children. This makes VisionFund one of the world's largest microfinance networks, focused on offering small loans, savings and insurance to families living in poverty, especially those in remote areas. As part of World Vision, VisionFund helps build economic resilience in communities, allowing children to grow up with improved nutrition, healthcare, and access to education. Nearly three quarters of VisionFund's loans go to women.

VisionFund's clients are primarily rural with agriculturally reliant livelihoods that are particularly exposed to climate shocks, which can threaten to overwhelm household and community resilience. With these shocks increasing in frequency and severity as a result of climate change, there is a need to address disaster preparedness and response, particularly given the vulnerability of the target clients.

Agriculturally dependent businesses need to feel financially protected in case of natural disasters that affect the stability of their crop-related cash flows, on which they rely for building sustainable livelihoods. VisionFund has been exploring the use of climate-tailored risk management tools that allow farmers and financiers to structure flexible financing products that can be adapted to sustain the recovery from climate-related shocks. This involves developing breakthrough products such as multi-peril crop insurance for smallholder farmers in order to mitigate the risk of growing their businesses, providing a pathway out of poverty.

Through its Capacity Development program, MASSIF is supporting VisionFund with a USD 275,000 grant to develop a Financial Disaster Risk Management scheme that responds to disasters with a fully funded recovery lending response. The project will deliver a strong climate risk assessment, an enhanced disaster plan including a recovery lending plan, and an implementation approach for 11 microfinance institutions across Africa, Asia and Latin America. This project has high strategic relevance for MASSIF due to its impact on rural communities and smallholder farmers, since over 60% of VFI's loans portfolio consists of agriculturally dependent businesses and individuals.

This Capacity Development project will significantly improve the agricultural risk analysis of the MFIs involved, and since the findings will be shared with relevant MFIs and related institutions it is also likely to be of interest to a broader range of MASSIF's clients.

Sector
Financial Institutions

MASSIF Capacity Development support
USD 275,000

Region
Global

Start of project
2015

Instrument
Grant

ACCOUNTING POLICIES

Basis of preparation: The accounting policies selected and applied by the fund manager are to a large extent in line with IFRS. The main exceptions to IFRS standards are related to a limitation in disclosure of balance sheet and P&L items. The annual accounts are prepared under the historical cost convention, except for equity investments, investment in associates and all derivative instruments that are measured at fair value.

ESTIMATES AND ASSUMPTIONS

In preparing the annual accounts management is required to make estimates and assumptions affecting reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment is inherent to the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from such estimates and the differences may be material to the annual accounts. The most relevant estimates and assumptions relate to the determination of the fair value of financial instruments based on generally accepted modelled valuation techniques and the determination of the counterparty-specific value adjustments

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

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. 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 and non-monetary assets that are not valued at cost denominated in foreign currencies are reported using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the profit and loss account under 'results from financial transactions'. Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For non-monetary financial assets, which are classified as available for sale, unrealized exchange differences are recorded directly in shareholders' equity until the asset is sold.

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.

Derivative instruments
The derivatives related to the asset portfolio concerns derivatives that are embedded in other financial instruments. Such combinations are known as hybrid instruments and arise predominantly from providing mezzanine loans and equity investments. These derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract. These derivatives are measured at fair value with changes in fair value recognized in profit and loss. These derivative financial instruments are initially recognized at fair value on the date FMO enters into a derivative contract and are subsequently re-measured at its fair value. Changes in the fair value of these derivative instruments are recognized immediately in profit and loss.

Interest income
Interest income and expense are recognized in the profit and loss account for all interest-bearing instruments on an accrual basis using the 'effective interest' method based on the initial fair value at inception. Interest income and expense also include amortized discounts. When collection of loans becomes doubtful, value adjustments are recorded for the difference between the carrying values and recoverable amounts. Interest income is thereafter recognized based on the original effective yield that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fee and commission income
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 amortized cost can be divided into three categories:

1. Fees that are an integral part of the effective interest rate of a financial instrument
2. Fees earned when services are provided
3. Fees that are earned on the execution of a significant act

Dividend income
Dividends are recognized in dividend income when a dividend is declared. The dividend receivable is recorded at declaration date, taking the uncertainties of collection into account.

Cash and cash equivalents
Cash and cash equivalents consist of banks (assets and liabilities) and current account with FMO. Short-term
deposits are designated at fair value. Unrealized gains or losses of these short-term placements (including foreign exchange results) are reported in the results from financial transactions.

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

- Loans are recognized as assets when cash is advanced to borrowers. Loans are initially measured at cost, which is the fair value of the consideration paid, net of transaction costs incurred. Subsequently, the loans are valued at amortized cost using the effective interest rate method.
- Interest on loans is included in interest income and is recognized on an accrual basis using the effective interest rate method. Fees relating to loan origination and re-financing are deferred and amortized to interest income over the life of the loan using the effective interest rate method.

Value adjustments on loans
At each reporting date FMO assesses the necessity for value adjustments on loans. Value adjustments are recorded if there is objective evidence that FMO will be unable to collect all amounts due according to the original contractual terms or the equivalent value. The value adjustments are evaluated at a counterparty-specific level based on the following principles: Individual credit exposures are evaluated based on the borrower's characteristics, overall financial condition, resources and payment record, original contractual term, exit possibilities and, where applicable, the realizable value of the underlying collateral. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. In case of a loan restructuring, the estimated recoverable amount as well as the value adjustments are measured by using the original effective interest rates before the modification of the terms. Value adjustments for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.

A value adjustment is reported as a reduction of the asset's carrying value on the balance sheet. All loans are reviewed and analysed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared to prior estimates will result in a change in the value adjustments and will be charged or credited to the profit and loss account. A value adjustment is reversed only when the credit quality has improved to the extent that reasonable assurance of timely collection of principal and interest is in accordance with the original or revised contractual terms.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously recorded value adjustments. If no value adjustment is recorded, the write-off is included directly in the profit and loss account under the line item 'value adjustments'.

Equity investments
Equity investments in which The Fund has no significant influence are classified as available for sale assets and are measured at fair value. Unrealized gains or losses are reported in the available for sale reserve net of applicable income taxes until such investments are sold, collected or otherwise disposed of, or until such investment is determined to be impaired. Foreign exchange differences are reported as part of the fair value change in fund capital. On disposal of the available for sale investment, the accumulated unrealized gain or loss included in shareholders' equity is transferred to profit and loss.

Impairments
All equity investments are reviewed and analysed at semi-annually. An equity investment is considered impaired if its carrying value exceeds the recoverable amount by an amount considered significant or for a period considered prolonged. If an equity investment is determined to be impaired, the impairment is recognized in the profit and loss account as a value adjustment. The impairment loss includes any unrealized loss previously recognized in shareholders' equity. The impairment losses shall not be reversed through the profit and loss account except upon realization. Accordingly, any subsequent unrealized gains for impaired equity investments are reported through shareholders' equity in the available for sale reserve.

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:

1. 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
2. There are no material transactions between The Fund and the company; and
3. 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.

Available for sale reserve (AFS reserve)
The available for sale reserve includes net revaluations of financial instruments classified as available for sale that have not been reported through the profit and loss account.

Undistributed results previous years
The undistributed results consists of the part of the annual results that The Fund is accumulating to maintain the revolvability of the funds.

BALANCE SHEET MASSIF
At December 31, 2016

	31/12/2016	31/12/2015
Assets		
Banks	68,722	63,886
Loans guaranteed by the State	172,671	149,002
Equity investments & Investments in associates	257,720	247,023
Accrued income & Other receivables	10,042	8,318
Current account with FMO	62	0
Total assets	**509,217**	**468,229**
Liabilities		
Current account with FMO	0	196
Accrued liabilities & Other liabilities	8,129	6,666
Total liabilities	**8,129**	**6,862**
Fund capital		
Contribution DGIS previous years*	323,159	320,609
Contribution DGIS current year*	1,594	2,550
Total contribution DGIS	**324,753**	**323,159**
Initial contribution FMO	7,778	7,778
Total contribution FMO	**7,778**	**7,778**
Available for sale reserve	99,229	74,194
Undistributed results previous years	70,387	50,839
Result current year	15,799	19,548
Grants	-15,527	-13,308
Evaluation costs	-1,331	-843
Total fund capital	**501,088**	**461,367**
Total liabilities and shareholders' equity	**509,217**	**468,229**
Irrevocable facilities	**116,515**	**129,989**
Total subsidy amount MASSIF according to "Beschikking"	323,965	323,965
Total subsidy amount G-20 SME Finance Challenge according to "Beschikking"	7,786	8,540
Total subsidy received from DGIS for MASSIF	316,963	315,419
Total subsidy received from DGIS for G-20 SME Finance Challenge	7,790	7,740
"Beschikkingsruimte"	**6,998**	**9,346**

*Includes all MASSIF and G-20 grant funding, which upon disbursal no longer forms part of the formal and revolving "fund capital".

STATEMENT OF COMPREHENSIVE INCOME

At December 31, 2016

	31/12/2016	31/12/2015
Income		
Interest income	12,745	13,850
Results from equity investments and associates	23,977	7,467
Results from financial transactions	-134	457
Dividend, Fee and Commission income	3,775	-13
Fx loans	-1,126	9,661
Fx other	2,455	6,346
Other income	0	311
Total income	**41,692**	**38,079**
Expenses		
Remuneration FMO	-13,247	-13,130
Other operating results	-1	-1
Total expenses	**-13,248**	**-13,131**
Value adjustments, impairments and grants		
Value adjustments on loans	-943	158
Impairments on equity investments	-11,702	-5,558
Results on grants	0	0
Total value adjustments, impairments and grants (loss)	**-12,645**	**-5,400**
Net profit	**15,799**	**19,548**
Other comprehensive income		
Available for sale equity investments	25,035	57,370
Other comprehensive income	**25,035**	**57,370**
Total comprehensive income	**40,834**	**76,918**

all amounts in € × 1,000

STATEMENT OF CASH FLOWS

At December 31, 2016

	31/12/2016	31/12/2015
Cash flow from operating activities		
Inflows		
Interest received on loans	11,630	12,566
Repayments on loans	45,030	49,508
Sales of equity instruments (book value)	20,670	21,318
Results from equity investments	22,730	7,560
Sales to FMO (book value)	2,833	3,490
Results from sale to FMO	1,320	594
Dividends and fees received	4,060	508
Other	3,744	6,975
Outflows		
Disbursements on loans	-70,647	-54,565
Investments in equity instruments	-20,941	-32,702
Disbursements on grants	-2,219	-2,465
Other paid amounts	-1,463	-1,116
Net cash from operating activities	**16,747**	**11,671**
Cash flow from financing activities		
Inflows		
Contribution of DGIS	1,594	2,550
Outflows		
Remuneration FMO	-13,247	-13,130
Net cash from financing activities	**-11,653**	**-10,580**
Net change in cash & cash equivalents	**5,094**	**1,091**
Position of cash at January 1	63,690	62,599
Cash at end of period	**68,784**	**63,690**

all amounts in € × 1,000

RISK MANAGEMENT

ORGANIZATION OF RISK MANAGEMENT

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

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

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

RISK PROFILE AND APPETITE

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

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 ≥100% and sound capital adequacy. Therefore, FMO seeks to maintain a strong capital position for the Fund. The Fund's structure is based on a contribution from the Dutch government (97.66%) and a contribution from FMO (2.34%). Total contribution from the Dutch government is € 324,753 at 31 December 2016 (31 December 2015: € 323,159). FMO contributed € 7,778 to the Fund. Total fund capital – which is the sum of the contribution by the government, the contribution by FMO, the available for sale reserve, undistributed results from previous years, results from the current year, grants, and evaluations costs – increased to € 501,088 in 2016 (2015: € 461,367).

REPUTATIONAL RISK

The Funds investments in developing and emerging markets are exposed to reputational risks such as environmental and social risks and various types of legal risks. The Fund has a limited appetite for reputation risk when such risks would prompt key stakeholders to intervene in the decision making or running of our daily business. Outside of this the Fund has a moderate appetite for reputation risk, accepting that reputational impacts of activities may incidentally lead to negative press coverage, NGO attention, client feedback, or isolated cases of financial losses, as long as these activities at the outset have a clear expected contribution to FMO's goal to achieve development impact with the Fund. FMO cannot fully avoid such risks due to the nature of its operations, but chooses to mitigate them as much as possible through strict policies, upfront assessment and, when necessary, through agreements with the Fund's clients. FMO manages issues from the perspective of learning lessons and prevention. Through transparency and a willingness to respond to challenges made, we aim to remain accountable and reduce our reputational risk.

Environmental, social and governance risk

The Fund runs environmental and social risks in its emerging market projects. These risks stem from the nature of our projects, which in some cases could carry negative environmental and/or social impacts. The Fund accepts that in the pursuit of development impact there is a risk of negative press and/or negative reactions from NGOs in the context of ESG performance and mitigates this risk through environmental and social action plans and monitoring. The risk appetite for deviations from the exclusion list and human rights violations by projects financed by the Fund is zero. Internally, FMO strives to limit the footprint of its own workplace and strives to the highest standards in employee satisfaction. Ensuring a high diversity in staff is a leading Human Resources principle.

CREDIT RISK

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

Management of credit risk is FMO's core business, both in the context of project selection and project monitoring of Fund investments. In this process, a set of investment criteria per sector is used that reflects benchmarks for the required financial strength of the Fund's clients. This is further supported by internal scorecards that are used for risk classification and the determination of capital use per transaction. As to project monitoring, the Fund's clients are subject to periodic reviews. Strong diversification within the Fund's emerging market portfolio is ensured through stringent limits on individual counterparties (single client limit of 7.5% of the Fund's capital, and economic group limit of 10% of the Fund's capital), countries (20% of the Fund's capital), continents (50% of the Fund's capital, and at least 30% in Africa), and local currency (20% of the Fund's capital). Similarly, credit policies and guidelines have been formulated covering treasury operations; these are reviewed regularly and approved by the ALCO.

Credit risk in the emerging markets loan portfolio

The Fund offers loans in emerging market countries. Concentration risks on individual counterparties, sectors or countries are mitigated due to stringent single client, sector and country limits.

Internal credit approval process

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

In measuring the credit risk of the emerging market portfolio at counterparty level, the main parameters are the credit quality of counterparties and the expected recovery ratio in case of defaults. Counterparty credit quality is measured by scoring counterparties on various dimensions of financial strength. Based on these scores, FMO assigns ratings to each counterparty on an internal scale from F1 (lowest risk) to F21 (highest risk), equivalent from AAA to CCC ratings.

Gross exposure distributed by internal ratings [1]

Indicative counterparty credit rating	2016	%
F1 – F10 (BBB- and higher)	€8,031	4.7
F11 – F13 (BB-, BB, BB+)	€31,088	18.2
F14 – F16 (B-, B, B+)	€80,917	47.4
F17 and lower (CCC+ and lower ratings)	€50,601	29.7
Total	**€170,638**	

1) Please note that this does not include the entire portfolio. Some investments are not rated.

Maximum exposure to credit risk of the gross loan portfolio increased to € 177,0 mln in 2016 (2015: € 152,5 mln). The bulk of our exposure of 47%, remains in the F14 to F16 ratings. The exposure to counterparties rated F17 and lower is spread across the regions and sectors of the Fund. The largest sector within the loan portfolio is the sector Financial Institutions. For more details, reference is made to the table above.

Loans past due and value adjustments

At the end of 2016, the counterparty-specific value adjustments as a percentage of the gross loan portfolio equaled 1.9% (2015: 1.5%).

Non-Performing Loans (NPL) are defined as loans with a counterparty-specific value adjustment and/or loans with interest and/or principal payments that are past due 90 days or more. The Fund's NPL ratio increased from 2,9% to 6.6% as a result of increased loans past due. In general, the non-performing loans represent a fair cross-section of our portfolio and no correlation with respect to specific geographic region has been identified. However, the increase in NPLs throughout 2016 can be fully attributed to our investments in Nigeria, where the recent economic downturn resulted in currency conversion difficulties are causing repayment issues. Note that the increase in NPLs are a result of difficulties of FX conversion, not of the underlying asset quality of the clients.

When the terms and conditions of a loan have been modified significantly, FMO considers these loans as restructured. Changes in terms and conditions usually include extending the maturity, changing the interest margin and changing the timing of interest payments. The loans are assessed to determine if they qualify for derecognition and if that is the case, they are recognized as a new loan with valuation differences through profit and loss. Value adjustments related to restructured loans are being measured as indicated in the accounting policies under 'Value adjustments on loans'.

In 2016, the write-offs were limited to one loan (2015: 0) for an amount of € 30,000.

Loans past due and value adjustments 2016

	Loans not value adjusted	Loans value adjusted	Gross exposure	Counterparty specific value adjustment	Total
Loans not past due	165,4	3,0	168,4	(1,8)	166,6
Loans past due:	0,0	0,0	0,0	0,0	0,0
· Up to 30 days	0,0	0,0	0,0	0,0	0,0
· 30-60 days	0,0	0,0	0,0	0,0	0,0
· 60-90 days	0,0	0,0	0,0	0,0	0,0
· more than 90 days	3,2	5,4	8,6	(1,5)	7,1
Subtotal	**168,6**	**8,4**	**177,0**	**(3,3)**	**173,7**
Less: amortizable fees	(1,0)	0,0	(1,0)	0,0	(1,0)
Net	**167,6**	**8,4**	**176,0**	**(3,3)**	**172,7**

Number of non-performing loans	5
Value adjustments / loans	1.9%
NPL percentage	6.6%

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 2016 the ratings of Nigeria, and Rwanda were downgraded from F14 to F15.

Overview country ratings	**2016 (%)**
Indicative external rating equivalent	
F9 and higher (BBB and higher ratings)	3.4
F10 (BBB-)	11.8
F11 (BB+)	2.9
F12 (BB)	0.3
F13 (BB-)	11.6
F14 (B+)	20.7
F15 (B)	30.9
F16 (B-)	6.7
F17 and lower (CCC+ and lower ratings)	11.6
Total	**100**

Treasury counterparty credit risk
Credit risk in the treasury portfolio stems from bank account holdings and placements in money market instruments to manage the liquidity in the Fund. The Risk Management 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. FMO pursues a conservative investment policy.

EQUITY RISK
With regard to equity risk that results from equity investments, a distinction can be made between:
· Exit risk, the risk that the Fund's equity stake cannot be sold for a reasonable price and in a sufficiently liquid market;
· Equity risk, the risk that the fair value of an equity investment decreases.

The Fund has a long-term view on its equity portfolio, usually selling its equity stake within a period of 5 to 10 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 realise exits. We have no deadlines on 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 at December 31, 2016, amounts to €303,708 (2015: €283,797).

In recent years FMO has further improved its valuation process for equity investments and in addition more reliable information has become available. As per December 2015 a part of the equity investments were measured at cost price as best estimate for fair value. As of first half of 2016 FMO was able to reliably estimate fair value of all its equity investments in the Fund.

CURRENCY RISK
Currency risk is defined as the risk that changes in foreign currency exchange rates have an adverse effect on the value of the Funds financial position and future cash flows. Limits have been set on currency positions and are monitored on a regular basis.

The Fund offers loans in emerging market currencies. We aim to match the currency needs of local banks and corporates, thereby reducing their currency risk. At December 31, 2016, 56% (2015: 47%) of the net loans to the private sector was in emerging market currencies.

INTEREST RATE RISK
Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Given the balance sheet and capital structure of the Fund interest rate risks are considered limited. Noted that lower interest base rates could lead to lower revenues.

LIQUIDITY RISK
Liquidity risk is the risk that insufficient funds are available to meet financial commitments. The Fund has a conservative liquidity management ensuring sufficient liquidity is available. In case of a liquidity shortfall the Fund can make a funding request to FMO for up to a maximum of 10% of the Fund's net portfolio.

OPERATIONAL RISK
Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or loss caused by external events. FMO aims to manage operational risk for the Fund in a cost effective way. Operational risks – including related to information security and personal data breach – are identified, measured and controls are implemented and their effectiveness is monitored. Operational risks are managed and monitored in accordance with three lines of Defense governance principle. In the first line of defense business management executes and reviews processes, reports incidents and performs risk and control self-assessments. In the second line of defense monitoring is performed by specialized risk departments and committees and the third line of defense is performed by the Internal Audit function. Although controls are in place, incidents sometimes happen and damage may occur, FMO registers and analyses operational risk events and losses systematically. Analysis of these data triggers actions to improve controls.

Operational risks resulting from new products or activities are considered in FMO's Product Approval and Review Process, FMO monitors the trends of operational risks, including information security risks and where deemed necessary anticipates on the unfavorable effects.

Kompanion Financial Group is a community development financial institution from Kyrgyzstan and became the first organization in Central Asia to be certified by the Smart Campaign for client protection in 2014. MASSIF took an equity stake in Kompanion in 2014. In 2016, the company's growth and the catalysing role of MASSIF enabled FMO to provided them a USD 7 million loan. The financing is used for on-lending to (mostly female) micro-entrepreneurs and small-scale farmers.

COLOPHON

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