FMO

Entrepreneurial
Development
Bank

DUTCH FUND FOR CLIMATE AND DEVELOPMENT

Annual Report

2021

The **Dutch Fund for Climate and Development (DFCD)** enables private sector investment in projects aimed at climate adaptation and mitigation in developing countries

FMO manages the following funds on behalf of the Dutch government: the Access to Energy Fund (AEF), Building Prospects (BP), MASSIF , the Dutch Fund for Climate and Development (DFCD), FOM, B-CD. The following program on behalf of the United Kingdom government: Mobilising Finance for Forests (MFF). The total committed portfolio of these funds (excluding grants) amounts to € 1,306 mln as per December 31, 2021. The term "fund" as used in this annual report refers to a program in the form of a subsidy received from the Dutch and/ or UK government that is managed by FMO, unless reference is made to an investment made under a program.

The picture is taken from our client Sembrar Sartawi

The Dutch Fund for Climate and Development enables private sector investment in projects aimed at climate adaption and mitigation in developing countries.

LETTER FROM THE MB OF THE FUND MANAGER

Dear reader,

This was the second consecutive year in which FMO was faced with the effects of an ongoing pandemic. Challenges and change but also resilience in how we deal with new realities have characterized 2021. For most of the year, we were unable to travel to our markets and carry out business as usual. Still we have supported our customers during the pandemic and at the same time stepped up our efforts in completing the Financial Economic Crime enhancement project, including an extensive Know Your Customer file remediation effort, tailored to the specific requirements of developing and emerging economies.

During these challenging times, the public funds managed to realize or come very close to their targets and therefore continued to play a key, countercyclical role in 2021. Not only did our finance solutions support our clients in facing the pandemic, it also contributed to much-needed new investments, improving the long-term resilience of our customers.

In 2022, that resilience will be further tested as the ongoing war in Ukraine and associated sanctions will have a severe impact on all markets in the global economy.

Our long-standing track record in managing public funds to catalyze private finance, has also contributed to a significant expansion of our responsibilities. Over the past years, FMO set up facilities and investment programs with the European Commission and the Green Climate fund. In 2021, the UK government also decided to trust FMO with the management of the UKs Mobilizing Finance for Forestry fund.

The focus on new investments had the highest priority for the cross-organizational DFCD team, working at FMO, SNV, WWF, and CFM. In order to grow the number of investments, we gave much attention to the careful origination of projects that positively impact climate change and/or improve the climate resiliency of vulnerable groups and ecosystems. During the year, we enhanced this originating strength of the DFCD via the Scalable Climate Solutions Challenge. This contest centered on 3 key landscape countries of DFCD: Kenya, Uganda and Bangladesh. The challenge led to 118 applications, of which 103 from local entrepreneurs. Three of these were awarded at the COP in Glasgow.

The public funds provided by the Dutch government allowed DFCD to accelerate on its ambition. Origination Facility Investment Committee approval was provided for 14 impactful projects originated by SNV and WWF DFCD deal team members, while an additional 25 projects were upgraded to the "Structure stage". The Land Use Facility of DFCD provided loan commitments to 2 additional projects, while the DFCD Water Facility's Development Fund signed contracts to support 9 projects with early capital solutions.

There are eight years left in this decisive decade and to help reach the SDGs. Growing inequality continues to affect our markets and we all know the extent of the urgency to take climate action. The world calls for transformative impact to tackle these two challenges. Courage and ambition are therefore imperative in the deployment of the Dutch government funds. We will continue to generate investments that create equal opportunities and equitable access to finance, that protect the value of ecosystems and forests, that provide access to renewable energy and that help build up fair value chains in agriculture.

The Hague, 28 April 2022

On behalf of the Management Board

Michael Jongeneel, Chief Executive Officer
Fatoumata Bouaré, Chief Risk and Finance Officer
Huib-Jan de Ruijter, Chief Investment Officer

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AT A GLANCE

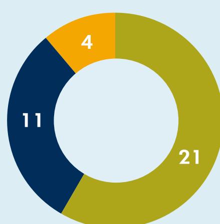
The Dutch Fund for Climate and Development (DFCD) is a recently established fund, launched in 2019, that steers capital towards projects that strengthen the climate resilience of vulnerable populations and ecosystems. The EUR 160 mln fund is managed by a consortium of Dutch development bank FMO, SNV Netherlands Development Organisation, World Widlife Fund for Nature (WWF-NL) and Climate Fund Managers (CFM) and is funded by the Dutch Ministry of Foreign Affairs.

Achievements portfolio as per 31-12-2021

Total DFCD portfolio

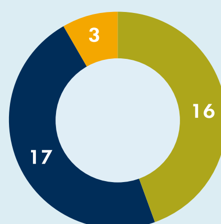
34 contracted projects

Projects per Facility
(# as of 31 Dec 2021)



- Origination Facility (excl TA)
- Water Facility
- Land Use Facility

Projects per Region
(# as of 31 Dec 2021)



- Asia
- Africa
- Latam

€1.3mln
Disbursements of Grants

€6.1 mln
Commitments of Grants

€14.8mln
Disbursements of Investments

€41 mln
Committed Investments

€10mln
Private Finance Mobilized

22.9%
Of commitments in NL-Priority countries

9.8%
Of commitments in Least Development Countries

50.8%
Of commitments promote Climate Adaptation*

83.2%
Of commitments promote Climate Mitigation*

* Is based on the "OECD DAC Rio Markers for Climate Handbook". When scored as 'Principal', a project is fully considered (100%). Projects that score 'Significant' are counted for 40% each.

PERFORMANCE ON OUR STRATEGY

Highlights

The DFCD's mission is to support climate-relevant business cases that benefit vulnerable communities and ecosystems.

The key highlight of 2021 was therefore an increase in the number of climate-relevant business projects the DFCD supported. In 2021, the DFCD contracted a total of 19 climate-relevant projects after approval by the various Investment Committees, up from 9 in 2020. Since the start of the DFCD in 2019, a total of 21 projects have been supported by SNV and WWF as part of the DFCD Origination Facility. Another 4 projects have been supported by FMO via an investment as part of the DFCD Land Use Facility. Finally, 11 projects have been supported by CFM through the DFCD Water Facility.

A second highlight has been the first close of Climate Investor Two, which raised $675 million to invest in climate-relevant water and environmental protection solutions. This means that the original EUR 75 million DFCD Water Facility has been leveraged with other sources of (commercial) capital, enabling the facility to support more and larger water-related climate projects.

A final highlight has been the findings from an evaluation conducted by ITAD on how the DFCD originates projects. The ITAD Report reconfirmed the importance of the DFCD Landscape Approach, as a tool to get community buy-in and de-risk projects for the Investment Facilities. The report also described the high financial additionality of the projects sourced by the DFCD Origination Facility, which is critical to creating a market for climate projects. Finally, the ITAD evaluation showcased how the different DFCD Consortium partners complemented each other, along with advice on how to strengthen collaboration.

The Consortium reflects positively on the progress made over 2021, particularly on the number of projects contracted despite the restrictions imposed by the Covid pandemic. Over 2022 the Consortium hopes to shift focus towards graduating projects from the DFCD Origination Facility to the Investment Facilities, and allocate more capital to business projects that benefit vulnerable communities in Least Developed Countries (LDCs).

LIST OF ABBREVIATIONS

AC	Amortized Cost
AEF	Access to Energy Fund
B-CD	Capacity Development Program
CD	Capacity Development
CFM	Climate Fund Managers
CI2	Climate Investor Two
COVID	Coronavirus disease
DA	Development Accelerator
DAC	Development Assistance Committee
DF	Development Fund
DFCD	Dutch Fund for Climate and Development
DFI	Development Finance Institution
DGIS	Directorate-General for International Cooperation
ECL	Expected Credit Loss
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
FV	Fair Value
FVOCI	Fair Value Through Other Comprehensive Income
FVPL	Fair Value Through Profit or Loss
GDP	Gross Domestic Product
GHG	Green House Gas
IASB	International Accounting and Standards Board
IFRS	International Financial Reporting Standards
IFC	International Finance Corporation
IRC	Investment Review Committee
KYC	Know Your Customer
LDC	Least Developed Country
LMIC	Lower Middle Income Country
LGD	Loss Given Default
MB	Management Board
MoFA	Ministry of Foreign Affairs
NGO	Non-governmental organization
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
SDGs	Sustainable Development Goals
SNV	Netherlands Development Organisation
SPPI	Solely Payments of Principal and Interest
TA	Technical Assistance
tCO2eq	Tonnes of CO2 equivalent
UMIC	Upper Middle Income Country
WWF	World Wildlife Fund
YE	Year End

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

Special purpose annual accounts

Consolidated statement of financial position

At December 31

	Notes	2021	2020
Assets			
Banks	(1)	26,415	11,489
Loan portfolio	(3)		
- of which: at Amortized cost		6,268	183
- of which: at Fair value through profit or loss		4,189	3,163
Equity investments at Fair value through profit or loss	(4)	31,830	20,824
Current accounts	(2)	3	-
Other receivables	(5)	11	11
Total assets		**68,716**	**35,670**
Liabilities			
Current accounts	(2)	-	447
Accrued liabilities	(6)	11	5
Provisions	(7)	7	-
Total liabilities		**18**	**452**
Fund capital			
Contributions DGIS	(8)	82,000	47,000
Payments to consortium partners		-82,709	-47,709
Contribution DGIS- available to consortium partners		-709	-709
Contribution DGIS – attributable to consortium partners		82,709	47,709
Undistributed results previous years		-11,782	-1,842
Net profit/(loss)	(8)	-1,520	-9,940
Total fund capital		**68,698**	**35,218**
Total liabilities and fund capital		**68,716**	**35,670**
Irrevocable facilities	(14)	4,775	943
Total subsidy amount received according to "subsidy order" DFCD		160,000	160,000
Total subsidy withdrawn from DGIS		82,000	47,000
"Total amount available"		**78,000**	**113,000**

Consolidated statement of comprehensive income

At December 31

	Notes	2021	2020
Income			
Interest on loans	(9)	349	97
Fee and commission income	(10)	4	-
Results from equity investments	(11)	5,175	-3,790
Results from financial transactions	(12)	694	-593
Total income		**6,222**	**-4,286**
Expenses			
Interest on bank	(13)	-74	-112
Operating expenses			
Grants		-1,204	-205
Technical assistance		-3,528	-2,979
Direct Personnel costs		-1,837	-1,689
Other direct project costs		-436	-377
Overhead/indirect costs		-417	-292
Total operating expenses		-7,422	-5,542
Total expenses		**-7,496**	**-5,654**
Impairments on			
Loans	(3)	-246	-
Total impairments		**-246**	**-**
Net profit/(loss)		**-1,520**	**-9,940**
Total comprehensive income		**-1,520**	**-9,940**

Consolidated statement of changes in fund capital

At December 31

	Unallocated DFCD	Amounts received Partners	Undistributed results previous years	Net profit	Total fund capital
Balance at January 1, 2020	38,928	1,072	-	-1,842	38,158
Contributions	7,000	-	-	-	7,000
Contribution CFM	-	18,951	-	-	18,951
Contribution SNV	-	3,162	-	-	3,162
Contribution WWF	-	2,024	-	-	2,024
Contribution LUF	-	22,500	-	-	22,500
Distributions to consortium partners	-46,637	-	-	-	-46,637
Addition undistributed results	-	-	-1,842	1,842	-
Net profit/(loss)	-	-	-	-9,940	-9,940
Net balance at December 31, 2020	**-709**	**47,709**	**-1,842**	**-9,940**	**35,218**
Balance at January 1, 2021	-709	47,709	-1,842	-9,940	35,218
Contributions	35,000	-	-	-	35,000
Contribution CFM	-	8,620	-	-	8,620
Contribution SNV	-	2,496	-	-	2,496
Contribution WWF	-	3,668	-	-	3,668
Contribution LUF	-	20,216	-	-	20,216
Distributions to consortium partners	-35,000	-	-	-	-35,000
Addition undistributed results	-	-	-9,940	9,940	-
Net profit/(loss)	-	-	-	-1,520	-1,520
Net balance at December 31, 2021	**-709**	**82,709**	**-11,782**	**-1,520**	**68,698**

Consolidated statement of cash flows

At December 31

	Notes	2021	2020
Cash from operating activities			
Inflows			
- Interest received on loans		96	-
- Dividends and fees received		4	-
- Other received amounts		-	5
Outflows			
- Disbursements on loans		-6,596	-3,595
- Investments in equity instruments		-5,831	-25,401
- Disbursements on grants		-1,204	-205
- Disbursements on Technical Assistance		-3,528	-2,979
- Direct personnel cost		-1,837	-1,689
- Other direct project cost		-436	-377
- Overhead/ indirect cost		-417	-292
- Other paid amounts		-85	-324
Net cash from operating activities		**-19,834**	**-34,857**
Cash flow financing activities			
Contribution DGIS current year		35,000	7,000
Net cash from financing activities		**35,000**	**7,000**
Net change in cash & cash equivalent		**15,166**	**-27,857**
Position of cash at January 1 [1)]		11,042	39,115
Foreign exchange Translation		210	-216
Position of cash at end of period [1)]		**26,418**	**11,042**

1 Cash includes the current account with FMO.

Summary of accounting policies

General information

The Dutch Fund for Climate and Development (DFCD) (the "Fund") is established as a consortium led by FMO with consortium partners SNV Netherlands Development Organisation (SNV), World Wildlife Fund for Nature (WWF-NL) and Climate Fund Managers (CFM) to manage on behalf of the Dutch Ministry of Foreign Affairs.

Basis of preparation

The 2021 special purpose consolidated financial statements of DFCD have been prepared in accordance with the reporting requirements set out by Dutch Ministry of Foreign Affairs. Accounting policies are based on International Financial Reporting Standards (IFRS) as adopted by the European Union.

The special purpose consolidated financial statements are prepared under the historical cost convention, except for:

- Equity investments that are measured at fair value through profit or loss;
- A part of the loan portfolio which is measured at fair value.

The principal accounting policies adopted are set out below.

Basis of Consolidation

The 2021 consolidated financial statements of DFCD incorporates the activities of the FMO Land use facility, the Origination facilities managed by SNV Netherlands Development Organisation (SNV) and World Wildlife Fund for Nature (WWF-NL), as well as the Water facility managed by Climate Fund Managers (CFM). Where necessary, adjustments are made to the financial statements of consortium partners to bring the accounting policies used into line with the FMO accounting policies. All assets and liabilities, equity, income, expenses and cash flows relating to transactions between consortium partners are eliminated on consolidation.

Adoption of new standards, interpretations and amendments

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

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

These amendments, mandatory and effective from 1 January 2021, provide reliefs and practical expedients on issues that affect financial reporting when an existing interest rate benchmark is replaced with a RFR. No early adoption of Phase 2 amendments is implemented by the Fund. The main IBOR rate used by the Fund is USD LIBOR for pricing of loans. The Fund will use SOFR as the successor base rate for USD LIBOR. The Fund is managing the transition in the form of the BMR&IBOR project and has planned the transition is various working streams. The Fund has prepared to originate new loans with new reference rates as from the fourth quarter of 2021. This transition did not have a material impact on the financial statements. The LIBOR SOFR transition of existing loans to the new reference rates is planned from 2022 onwards and is expected to last up to the first half-year of 2023.

Issued but not yet adopted standards

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.

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 a significant impact on how the Fund classifies liabilities in the statement of financial position. The amendments are effective from 1 January 2023 and are applied retrospectively.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful. The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments are not expected to change the way the Fund applies materiality judgements.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments are not expected to have a material impact on the Fund and will be considered for judgement purposes, when changes are to be applied in a reporting period.

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify the application of the initial recognition exemption provided in IAS 12. The initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. The amendments do not have an impact on the Fund.

Amendments to IFRS 3 - Reference to the Conceptual Framework

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

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

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. The amendments are effective for annual periods beginning on or after 1 January 2022 and are applied retrospectively. 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.

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.

Taxation in fair value measurements (IAS 41)

The amendment removes the requirement for entities to exclude tax related cash flows when measuring the fair value of assets in the scope of IAS 41. The amendments apply to the financial period beginning 1 January 2022 and will have no impact on the Fund annual financial statements.

Lease Incentives (IFRS 16)

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

Significant estimates, assumptions and judgements

In preparing the special purpose consolidated financial statements based on the accounting principles of 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 special purpose annual accounts. For the Fund the most relevant estimates and assumptions relate to:

- The determination of the fair value of financial instruments based on generally accepted modeled valuation techniques;
- The determination of the Expected Credit Loss allowance in accordance with IFRS 9

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

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

Foreign Currency translation

The Fund uses the euro as the unit for presenting its special purpose 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'.

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

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

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

Amortized cost and gross carrying amount

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

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

Assets

Financial assets – Classification

On initial recognition, a financial asset is classified as measured at AC, FVOCI or FVPL.

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

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

Business model assessment

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

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

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

Contractual 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.

Impairment stages loans and banks
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 Fund's loss arising in the case of a default at a given time. It is based on the difference between the contractual cash flows due and any future cashflows or collateral that the Fund would expect to receive;
- Z-factor: the z-factor is a correction factor to adjust the client PDs for current and expected future conditions. The z-factor adjusts the current PD and PD two years into the future. GDP growth rates per country from the IMF, both current and forecasted, are used as the macro-economic driver to determine where each country is in the business cycle. Client PDs are subsequently adjusted upward or downward based on the country where they are operating.

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

The three scenarios applied are:

- Positive scenario: Reduced vulnerability to an emerging market economic downturn;
- Base scenario: Vulnerability and accompanying losses based on The 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 IRC to decide about the specific impairment level:

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

Staging criteria and triggers

Financial instruments classified as low credit risk

The Fund considers all financial instruments with an investment grade rating (BBB- or better on the S&P scale or F10 or better on the Funds 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.

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:

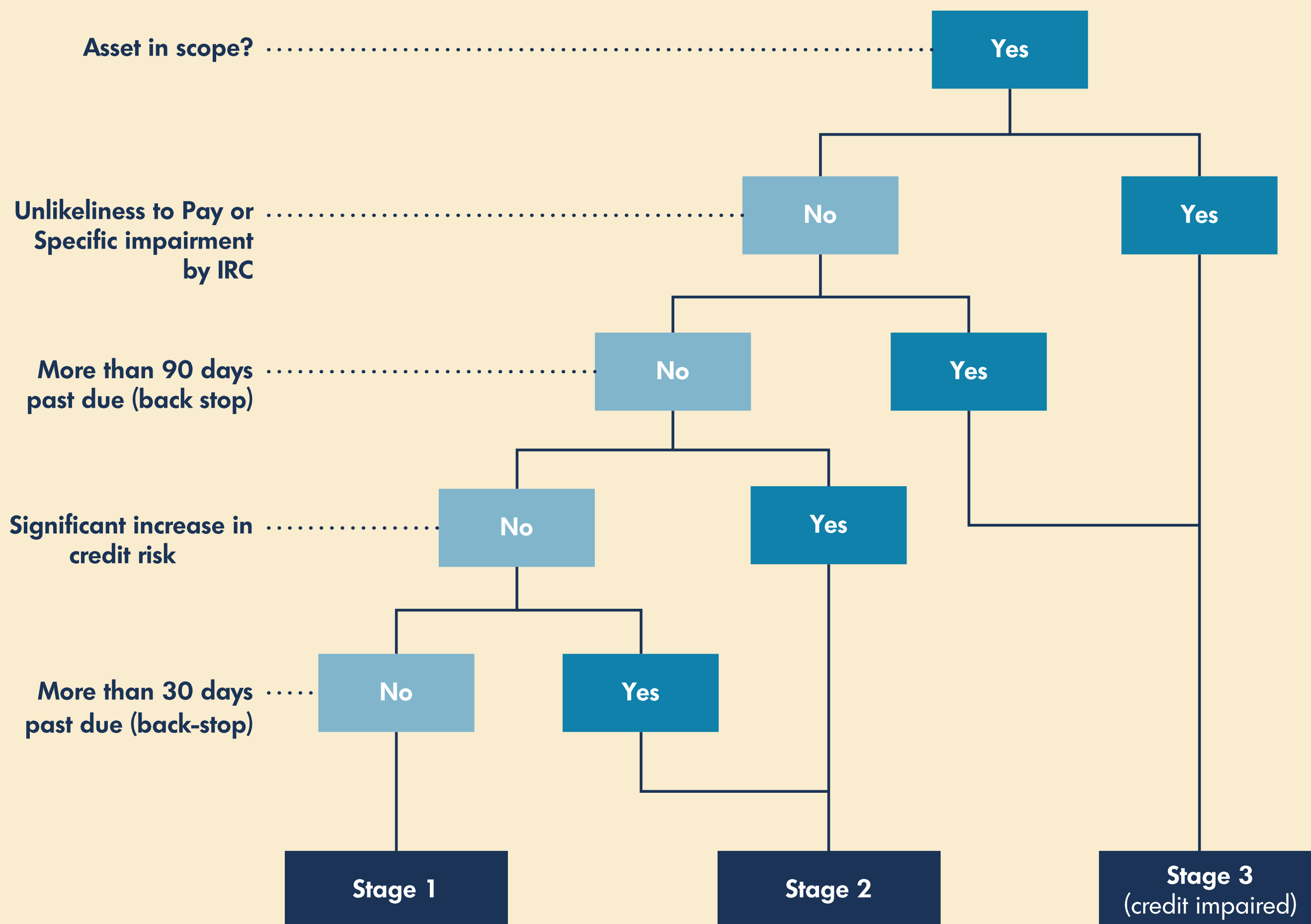
- The fact that an early warning signal has triggered financial difficulty following a transfer to the watchlist;
- The fact that the financial asset is 30 days past due or more on any material obligation to the Fund, including fees and excluding on charge expenses;

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

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



Reversed staging

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

- Loans which are in stage 3 will revert to Stage 2 when the specific impairment is released by the IRC and there are no obligations past due for more than 90 days;
- Loans which are in stage 2 will only revert to stage 1 when there is no indication of financial difficulty and the exposure is removed from watchlist, the regulatory forbearance probation period of minimum two years has passed and no material amounts are past due for more than 30 days.

Written-off financial assets

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

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

Modification of financial assets

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 in profit and 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 re-recognized on the balance sheet. The Fund considers a variance of greater than 10% as substantially different.

Modification of contractual terms versus forbearance

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

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

Cash and cash equivalents

Cash and cash equivalents consist of banks and short-term deposits that usually mature in less than three months from the date of acquisition.These financial instruments are very liquid with high credit rating and which are subject to an insignificant risk of changes in fair value. There is no restriction on these financial instruments and the Fund has on demand full access to the carrying amounts.

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, net of 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 are 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 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.

Fund Capital
This special purpose reserve contains the consolidated capital provided by the State to finance the portfolio of loans and equity investments. Only when this capital is claimed from the State, it is recognized in the Fund Capital. The remaining part of
the committed capital is not recognized until claimed from the State.

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

Other reserves
The other reserves include the cumulative distributable net profits. Dividends are deducted from other reserves in the period in which they are declared.

Consolidated 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, premiums on financial instruments.

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

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

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

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

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

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

Grants and development contributions

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

Operating expenses

Operating expenses include direct and overhead costs. Expenses are recorded on accrual basis as they incur.

Statement of cash flows

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

Notes to the special purpose consolidated annual accounts

1. Banks

	2021	2020
Banks	26,415	11,489
Balance at December 31	**26,415**	**11,489**

The cash in bank accounts can be freely disposed of.

2. Current account

	2021	2020
Current account with FMO assets	3	-
Current account with FMO liabilities	-	447
Balance at December 31	**3**	**447**

Current accounts relate to amounts receivable from FMO (2021) and payable to FMO (2020).

3. Loan portfolio

The tables below present the movements in loans during 2021 and 2020.

	Loan portfolio measured at AC	Loan portfolio measured at FVPL	Total 2021
Balance at January 1, 2021	183	3,163	3,346
Disbursements	6,176	421	6,597
Interest Capitalization	-	312	312
Changes in amortizable fees	-39	-	-39
Changes in fair value	-	100	100
Changes in accrued income	69	-87	-18
Exchange rate differences	128	280	408
Balance at December 31, 2021	**6,517**	**4,189**	**10,706**
Impairment	-249	-	-249
Net balance at December 31, 2021	**6,268**	**4,189**	**10,457**

	Loan portfolio measured at AC	Loan portfolio measured at FVPL	Total 2020
Balance at January 1, 2020	-	-	-
Disbursements	183	3,412	3,595
Changes in fair value	-	-164	-164
Changes in accrued income	-	85	85
Exchange rate differences	-	-170	-170
Balance at December 31, 2020	**183**	**3,163**	**3,346**
Impairment	-	-	-
Net balance at December 31, 2020	**183**	**3,163**	**3,346**

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 2021	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, 2020	183	-	-	-	-	-	183	-
Additions	2,790	-	3,386	-232	-	-	6,176	-232
Changes in risk profile not related to transfers	-	-	-	-8	-	-	-	-8
Changes in amortizable fees	-	-	-39	-	-	-	-39	-
Changes in accrued income	-	-	69	-	-	-	69	-
Foreign exchange adjustments	-	-	128	-9	-	-	128	-9
At December 31, 2021	**2,973**	**-**	**3,544**	**-249**	**-**	**-**	**6,517**	**-249**

4. Equity investments

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

	Equity measured at FVPL
Net balance at January 1, 2021	20,824
Purchases and contributions	5,831
Changes in fair value	5,175
Net balance at December 31, 2021	**31,830**

	Equity measured at FVPL
Net balance at January 1, 2020	-787
Purchases and contributions	24,284
Changes in fair value	-2,673
Net balance at December 31, 2020	**20,824**

5. Other receivables

	2021	2020
Debtor commitment fee	11	11
Balance at December 31	**11**	**11**

6. Accrued liabilities

Accrued liabilities relate to incurred expenses.

	2021	2020
Other accrued liabilities	11	5
Balance at December 31	**11**	**5**

7. Provisions

	2021	2020
Allowance for loan commitments	7	-
Balance at December 31	**7**	**-**

8. Contributed fund capital

	2021	2020
Balance at January 1	47,000	40,000
Contributions	35,000	7,000
Balance at December 31	**82,000**	**47,000**

Undistributed results	2021	2020
Balance at January 1	-11,782	-1,842
Net profit / (loss)	-1,520	-9,940
Balance at December 31	**-13,302**	**-11,782**

9. Net interest income

	2021	2020
Interest on loans measured at AC	124	-
Interest on loans measured at FVPL	225	97
Total interest income	**349**	**97**

10. Fee and commission income

	2021	2020
Administration fees	4	-
Net fee and commission income	**4**	**-**

11. Results from equity investments

	2021	2020
Results from equity investments:		
Unrealized results from changes in fair value	5,175	-3,790
Total results from equity investments	**5,175**	**-3,790**

12. Results from financial transactions

	2021	2020
Results on sales and valuations of FVPL loans	100	-164
Foreign exchange results	594	-429
Total results from financial transactions	**694**	**-593**

13. Net interest expenses

	2021	2020
Interest on banks	-74	-112
Total interest expenses	**-74**	**-112**

14. Off-Balance Sheet information

To meet the financial needs of borrowers, the Fund enters into various irrevocable commitments (loan commitments, equity, and grants).

	2021	2020
Irrevocable facilities		
Contractual commitments for disbursements of:		
Loans	4,610	843
Grants	165	100
Total irrevocable facilities	**4,775**	**943**

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

IFRS 9 Changes in loans commitments in 2021	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
Outstanding exposure as at January 1, 2021	843	-	-	-	-	-	843	-
New exposures	8,038	-196	-	-	-	-	8,038	-196
Exposure derecognised or matured/lapsed (excluding write offs)	-4,542	119	-	-	-	-	-4,542	119
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes due to modifications not resulting in derecognition	-	72	-	-	-	-	-	72
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	271	-2	-	-	-	-	271	-2
At December 31, 2021	**4,610**	**-7**	**-**	**-**	**-**	**-**	**4,610**	**-7**

15. Analysis of financial assets and liabilities by measurement basis

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

December 31, 2021	FVPL - mandatory	Amortized cost	Total
Financial assets measured at fair value			
Loan portfolio	4,189	-	4,189
Equity investments	31,830	-	31,830
Total	**36,019**	**-**	**36,019**
Financial assets not measured at fair value			
Loan portfolio	-	6,268	6,268
Banks	-	26,415	26,415
Current accounts	-	3	3
Other receivables	-	11	11
Total	**-**	**32,697**	**32,697**
Financial liabilities not measured at fair value			
Accrued liabilities	-	11	11
Total	**-**	**11**	**11**

December 31, 2020	FVPL - mandatory	Amortized cost	Total
Financial assets measured at fair value			
Loan portfolio	3,163	-	3,163
Equity investments	20,824	-	20,824
Total	**23,987**	**-**	**23,987**
Financial assets not measured at fair value			
Loan portfolio	-	183	183
Banks	-	11,489	11,489
Other receivables	-	11	11
Total	**-**	**11,683**	**11,683**
Financial liabilities not measured at fair value			
Current accounts	-	447	447
Accrued liabilities	-	5	5
Total	**-**	**452**	**452**

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 it's 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.

If there is no quoted price in an active market, valuation 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 following table provides an overview of fair values of financial instruments which are recognized at amortized cost in the balance sheet

	2021		2020	
At December 31	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Loans	6,268	6,268	183	183
Banks	26,415	26,415	11,489	11,489
Total non fair value financial assets	**32,683**	**32,683**	**11,672**	**11,672**

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, 2021	Level 1	Level 2	Level 3	Total
Financial assets at FVPL				
Loans portfolio	-	-	4,189	4,189
Equity investments	-	-	31,830	31,830
Total financial assets at fair value	**-**	**-**	**36,019**	**36,019**

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

	Loans portfolio	Equity investments	Total
Balance at January 1, 2021	3,163	20,824	23,987
Total gains or losses			
· In profit and loss (changes in fair value)	412	5,175	5,587
Purchases/disbursements	421	5,831	6,252
Accrued income	-87	-	-87
Exchange rate differences	280	-	280
Balance at December 31, 2021	**4,189**	**31,830**	**36,019**

Type of equity investment	Fair value at December 31, 2021	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Private equity direct investments	6,591	Book multiples	1.0	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of € 0.6 million.
	25,239	Market Approach	The Manager considers observable and unobservable data, such as expected cash inflows estimated based on the deal pipeline and the Manager's knowledge of the business and how the current economic environment is likely to impact the Stichting	Accordingly the Board is limited in assessing the sensitivity of the fair value investment. If the Board resolved to reduce the net asset value of the Stichting by 10%, it would have resulted in a loss of € 2.5 million
Total	**31,830**			

Type of debt investment	Fair value at December 31, 2021	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Loans	4,189	Discounted cash flow model	Based on client spread	A decrease/increase of the used spreads with 1% will result is a higher/lower fairvalue of approximately €41K.
Total	**4,189**			

16. Related party information

Dutch Government:

The Dutch Ministry of Foreign Affairs, Directoraat-generaal internationale Samenwerking sets up and administers the investments funds (“State Funds”), including Dutch Fund for Climate and Development, according to the Dutch Government’s development agenda. Directoraat-generaal internationale Samenwerking is the main contributor to the Dutch Fund for Climate and Development, providing funding upon FMO’s request (2021: 35,000; 2020: 7,000)

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

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

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

Coöperatief Climate Fund Managers U.A. (“CFM”)

Coöperatief Climate Fund Managers U.A. (“CFM”) is a blended finance fund manager with a long-term vision to structure, cutting edge financing facilities around core areas of climate change mitigation and adaptation, including energy, water, sustainable land use, oceans and sustainable cities. CFM is established as a joint venture between the Dutch development bank FMO and Sanlam InfraWorks – part of the Sanlam Group of South Africa. CFM is the fund manager of Climate Investor One and Climate Investor Two, with the latter including the Water Facility of the Dutch Fund for Climate and Development. Coöperatief Climate Fund Managers U.A. is solely and independently in charge of the investment activities, operations and general day-to-day decision making of the Dutch Fund for Climate and Development Water Facility. FMO exerts significant influence on the policy decisions though its role as the shareholder and supervisory board member of CFM.

17. Subsequent events

On February 24, 2022 the Russian Federation started to invade Ukraine. The move followed shortly after Russian President Putin recognized two Eastern-Ukrainian provinces as independent states and invaded those areas for a “peacekeeping” mission. At reporting date, the fund has no exposure to Ukraine or Belarus, therefore no material impact is expected on the financial statements.

There have been no other significant subsequent events 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

The risk management framework of the Dutch Fund for Climate and Development ("DFCD", or "the Fund") is based on two pillars: (i) prudent financial risk management, and (ii) preventing non-financial risks such as reputational risk, environmental, social and governance risk, compliance risk, operational risk and legal risk. For FMO, acting in its role as Lead Partner, to be able to carry out the Fund's strategy, it is essential to have an adequate risk management system in place to address both pillars of risks across all three Fund facilities.

With respect to financial risk management, the DFCD has a pre-defined risk appetite translated into limits for country, region and maximum exposures per client/ project. Limit usages are monitored on a monthly basis and for each proposed transaction. The assessment of the financial risk of each proposed financing is further defined for each of the three Finance Facilities and delegated to their respective managers. As there is a range of financial products provided across the three facilities, from grant finance in the Origination Facility to equity finance in the CFM Facility, the specialized and delegated financial risk assessment approach of the DFCD provides for an appropriate, project-specific assessment of financial risk.

The approach for compliance (including business integrity) and reputational risks is set out in the policies that each of FMO, CFM, WWF-NL and SNV have implemented in their respective organizations. FMO, as the Fund Manager, receives reporting on the specific risks and mitigations assessed for each project financed by each of the Finance Facilities.

Financial risk

Financial risk management for the Fund is delegated to each of the facility managers.

Credit risk

As the Origination Facility provides grant finance, rather than loans or investments, the core focus of the financial risk approach is ensuring financial alignment with counterparts. Financial risk is minimized by assessing the financial figures of an organization or project entering the Origination Facility, ruling out unviable businesses. The Origination Facility provides financing in the form of grants, for which the recipient of the grants is required to co-fund, typically for 50%. WWF-NL and SNV apply their internal financial monitoring and risk management systems and procedures.

For FMO and CFM's role of providing loans and equity finance, the assessment of financial risk is embedded in the project assessment and approval process. FMO reviews each transaction and provides consent to eligible proposals. Departmental Investment Committees, comprising of senior representatives of several departments, review 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 before approval. This department is responsible for credit risk assessment of both new transactions and the existing portfolio.

In addition, the loans and equity investments of FMO are subject to periodic reviews, which are in general executed annually. Fair values of equity investment are reviewed periodically. 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.

CFM manages financial risk of its equity investments both at fund level and at individual investment level. At fund level CFM minimizes portfolio risk through diversification requirements, including limiting investments to a maximum of 25% of its capital into one single country and investing no more than fifteen percent of the total commitments into one project. Further financial risks at fund level are managed within the CFM's Risk Appetite Framework. The fair value of each equity investment is reviewed periodically.

Maximum exposure to credit risk

	2021	2020
On balance		
Banks	26,415	11,489
Loans to the private sector		
- of which: Amortized cost	6,308	-
- of which: Fair value through profit or loss	4,138	3,509
Other receivables	11	11
Total on-balance	**30,564**	**15,009**
Off-balance		
Contingent liabilities	4,775	1,126
Total credit risk exposure	**35,339**	**16,135**

Credit quality analysis

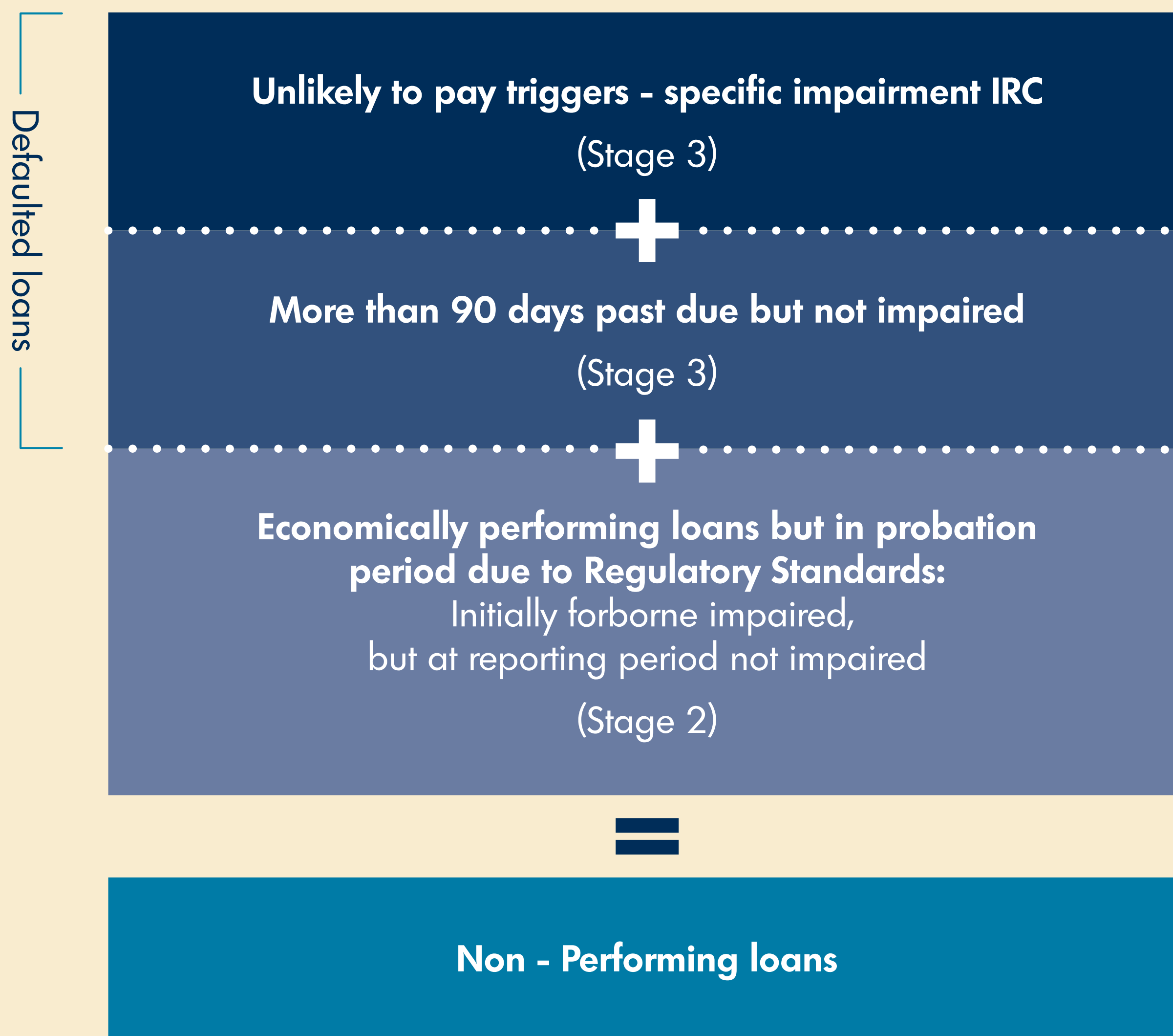
In addition to on balance loans, irrevocable facilities (off-balance) represent commitments to extend finance to clients and consist of contracts signed but not disbursed yet which are usually not immediately and fully drawn.

In measuring the credit risk of the emerging market portfolio at counterparty level, the main parameters are the credit quality of counterparties and the expected recovery ratio in case of defaults. Counterparty credit quality is measured by scoring counterparties on various dimensions of financial strength. Based on these scores, FMO assigns ratings to each counterparty on an internal scale from F1 (lowest risk) to F20 (default), equivalent to a scale from AAA to C ratings. The rating for the fair value loan at €4.3 million after fair value adjustment a carrying value of €4.2 million is F14-F16 (B-,B,B+). The rating for the loan commitment is F11-F13 (BB-,BB,BB+).

Non-Performing Loans

Non-Performing Loans (NPL) are defined when any of the following occur:

- When FMO judges that the customer is "unlikely to pay" its credit obligation to FMO and IRC decides on a specific impairment on a loan (Stage 3);
- Loans with interest, principal or fee payments that are past due for more than 90 days (Stage 3);
- One of the loans is classified as non-performing due to criteria mentioned above, all loans of the customer will be identified as non-performing (Stage 3);
- Forborne exposures which are economically performing but are still in probation (curing) period due to Regulatory Standards (Stage 2). Probation period before returning to performing status is one year;
- Additional forbearance measures are applied for forborne performing loans which have exited the NPL probation (Stage 2);
- Performing forborne loans which have exited the NPL probation period have past due amounts for more than 30 days (Stage 2).



The NPL percentage for the loan portfolio is nil as all loans are performing.

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. At this point the loan is performing there are no forborne assets

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 equity investments. 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 equity investments. Equity investments will be assessed in terms of specific obligor as well as country risk. The performance of the equity investments in the portfolio will be periodically analyzed during the fair value process. Based on this performance and the market circumstances, exits will be pursued in close cooperation with our co-investing partners.

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.

Liquidity risk

Liquidity risk is the risk that insufficient funds are available to meet financial commitments. The Fund has a conservative liquidity management to ensure 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.

Market risk

Market risk can be divided into interest rate risk and currency risk.

The 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 value of fixed interest balance sheet items.

Interest re-pricing characteristics

December 31, 2021	<3 months	3-12 months	1-5 years	>5 years	Non-interest-bearing	Total
Assets						
Banks	26,415	-	-	-	-	26,415
Current accounts	3	-	-	-	-	3
Loans amortized cost	6,268	-	-	-	-	6,268
Loans fair value through profit or loss	-	4,189	-	-	-	4,189
Equity investments fair value through profit or loss	-	-	-	-	31,830	31,830
Other receivables	-	-	-	-	11	11
Total assets	**32,686**	**4,189**	**-**	**-**	**31,841**	**68,716**
Liabilities and Fund Capital						
Accrued liabilities	-	-	-	-	11	11
Provisions		-	-	-	7	7
Fund Capital	-	-	-	-	68,698	68,698
Total liabilities and Fund capital	**-**	**-**	**-**	**-**	**68,716**	**68,716**
Interest sensitivity gap 2021	32,686	4,189	-	-	-36,875	

Interest re-pricing characteristics

December 31, 2020	<3 months	3-12 months	1-5 years	>5 years	Non-interest-bearing	Total
Assets						
Banks	11,489	-	-	-	-	11,489
Loans amortized cost	183	-	-	-	-	183
Loans fair value through profit or loss	-	-	-	3,163	-	3,163
Equity investments fair value through profit or loss	-	-	-	-	20,824	20,824
Other receivables	-	-	-	-	11	11
Total assets	**11,672**	**-**	**-**	**3,163**	**20,835**	**35,670**
Liabilities and Fund Capital						
Current accounts	-	-	-	-	447	447
Accrued liabilities	-	-	-	-	5	5
Fund Capital	-	-	-	-	35,218	35,218
Total liabilities and Fund capital	**-**	**-**	**-**	**-**	**35,670**	**35,670**
Interest sensitivity gap 2020	11,672	-	-	3,163	-14,835	

Currency risk is defined as the risk that changes in foreign currency exchange rates have an adverse effect on the value of the Fund's financial position and future cash flows. The Fund offers financing in both hard and local currencies. Aim is to match currency needs of the clients, thereby reducing their currency risk. All equity deals are considered local currency given the local exposure.

Currency risk exposure (at carrying values)

December 31, 2021	EUR	USD	Total
Assets			
Banks	23,164	3,251	26,415
Current accounts	3	-	3
Loans portfolio	-	10,457	10,457
Equity investments fair value through profit or loss	-	31,830	31,830
Other receivables	-	11	11
Total assets	**23,167**	**45,549**	**68,716**
Liabilities and Fund Capital			
Accrued liabilities	11	-	11
Provisions	-	7	7
Fund Capital	68,698	-	68,698
Total liabilities and fund capital	**68,709**	**7**	**68,716**

Currency sensitivity gap 2021	45,542
Currency sensitivity gap 2021 excluding equity investments and investments in associates	13,705

Currency risk exposure (at carrying values)

December 31, 2020	EUR	USD	Total
Assets			
Banks	10,564	925	11,489
Loans portfolio	-	3,346	3,346
Equity investments fair value through profit or loss	-	20,824	20,824
Other receivables	-	11	11
Total assets	**10,564**	**25,106**	**35,670**
Liabilities and Fund Capital			
Current accounts	447	-	447
Accrued liabilities	5	-	5
Fund Capital	35,218	-	35,218
Total liabilities and fund capital	**35,670**	**-**	**35,670**

Currency sensitivity gap 2020	25,106
Currency sensitivity gap 2020 excluding equity investments and investments in associates	4,282

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

Change of value relative to the euro	Sensitivity of profit & loss account
December 31, 2021	
USD value increase of 10%	4,554
USD value decrease of 10%	4,554

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

Change of value relative to the euro	Sensitivity of profit & loss account
December 31, 2020	
USD value increase of 10%	2,511
USD value decrease of 10%	-2,511

Non-financial risk

Reputation risk

Reputation risk is inevitable given the nature of the Fund's operations in developing countries, focusing on water and land-use specific interventions. FMO has a moderate appetite for reputation risk, accepting that reputational impact of activities may incidentally lead to negative press coverage, NGO attention or undesirable client feedback, as long as these activities clearly contribute to FMO's mission.

These risks cannot be completely avoided, but they are mitigated as much as possible through strict policies, upfront assessment and, when necessary, through agreements with the Fund's clients. Potential impact is conducted by feasibility studies and impact assessments, evaluated either by professionals of FMO, CFM, WWF-NL or SNV, or as needed, by specialist third party consultants.

FMO has in place a Sustainability Policy, as well as statements on human rights, land rights, and gender positions. FMO and CFM have established an Independent Complaints Mechanism consisting of an Independent Expert Panel for assessing issues and breaches of their respective policies.

Environmental, social and governance ("ESG") 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 refer primarily to the governance of the client's business activities. 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 DFCD actively manages ESG risks in its projects, which becomes in particular relevant for the investment facilities of CFM and FMO. The risk appetite for deviations from the exclusion list and human rights violations is zero. The Fund expects the highest standards in professional conduct. Each of the Fund's investments complies with international standards for managing environmental and social impacts and risks, such as IFC Performance Standards, ILO Core Conventions, or the UN Guiding Principles on Human Rights. By taking an active role in the project development, CFM supervises, monitors and reviews project companies on an ongoing basis. In an event of an incident occurring, CFM will conduct a full investigation and a corrective action plan will be prepared.

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. The management of each of FMO, CFM, WWF-NL and SNV have already fully implemented and operationalized compliance frameworks and relevant policies. For FMO as a regulated bank, the most important applicable laws in relation to products and customers, are the Dutch Financial Supervision Law (WFT); AML (WWFT); Sanctions Law and General Data Protection Regulation.

Financial Economic Crime, incl. sanctions

Fund's customers follow FMO's procedures regarding financial economic crime, which includes screening of clients on compliance with applicable anti-money laundering, counter financing of terrorism and international sanctions laws and regulations. Due diligence is performed on clients, which includes checks such as verifying the ultimate beneficial owners of the client we finance, identifying politically exposed persons, and screening against mandatory international sanction lists. These checks are also performed regularly during the relationship with existing clients.

In 2021, FMO continued the FEC Enhancement program initiated in 2019 and met the agreed deadline with DNB to finalize the remediation project on December 31, 2021. All active KYC-files are remediated – using a new KYC tool - and meet the standards of the renewed CDD-AML Policy and CDD-AML Manual. In the second half of 2021, the renewed KYC organization was implemented in the front-office (first line) and business as usual processed were restarted, amongst others periodic reviews of KYC-files. Independent external validation confirmed that the remediated efforts and KYC files are demonstrably compliant with the relevant requirements, after which the Management Board provided a compliance statement to DNB end of 2021. The validation identified several recommendations that FMO will follow up on in 2022.

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, a dialogue will be initiated 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)

In 2021, FMO started a project to further develop and enhance privacy data protection capabilities including engaging a dedicated privacy officer and privacy champions within various departments. Specific trainings will be deployed to stimulate awareness. The project aims to finish in 2022. The privacy officer monitors FMOs privacy compliance periodically. The privacy officer is involved in a.o. change management activities and new projects to advise on privacy risks and risk mitigation

Corruption

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

Operational risk

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

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 will occur. FMO systematically collects risk event information and analyses such events to take appropriate actions.

Colophon

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

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