FMO

Entrepreneurial
Development
Bank

DUTCH FUND FOR CLIMATE AND DEVELOPMENT

Annual Report

2023

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

Government of the Netherlands

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. The total committed portfolio of these funds (excluding grants) amounts to € 1,217 mln as per December 31, 2023. The term "fund" as used in this annual report refers to a program in the form of a subsidy received from the Dutch government that is managed by FMO, unless reference is made to an investment made under a program.

The front and back cover picture is from our client Oceans Finance Company, Galapagos Islands by Jacob Hinkston - From Unsplash.

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

DFCD CONSORTIUM

"We acknowledge the support, energy and commitment of the DFCD in building a climate-resilient future for all of us. With the DFCD's anchor support, CI2 is ramping up its efforts to deliver water, sanitation, and oceans projects in emerging markets and least developing countries. We look forward to working closely together with the Origination Facility to progress in their portfolio and make these countries more resilient to climate change."

—Jim Brands, CFM

"The strength of our work and achievements lies in our robust teams on the ground, working tirelessly to identify and nurture climate-focused projects in forestry, agriculture, water, and environmental protection. The DFCD stands out with its unique structure, bringing together diverse actors to innovate. This collaboration has proven to be a game changer, addressing the financing gap and rewriting the narrative for a sustainable future."

—Albert Bokkestijn, SNV

"Across the DFCD consortium, processes have become more robust, streamlined, and effective, to the benefit of our growing portfolio of projects. The welcome news of the top-up by the Ministry of Foreign Affairs of the Netherlands ensured we could close out the first phase of the Origination Facility not by winding down, but by building momentum."

—Jaap de Jong, WWF

"The Dutch Fund for Climate and Development enables private sector investment in projects aimed at climate adaptation and mitigation in the global South. To create scalable impact in order to make the world climate resilient is the aim for DFCD."

—Pien Nijs, FMO

Staying the course

In 2023, the volatile global economic and geo-political circumstances were aggravated by more extreme weather conditions, food crises, the collapse of several major banks, the ongoing war in Ukraine, the war in Gaza, and Sahel coups. All with direct and prolonged, devastating effects on the well-being of entire communities, in particular in FMO's geographies. This instability is often worsened by adverse financial factors in many emerging markets such as higher interest rates, high inflation, and increased sovereign debt.

Within this context, FMO's 50+ year mission becomes more relevant by the day: enabling entrepreneurs to increase inclusive and sustainable prosperity. Over the next decade, the World Bank estimates one billion young people — a majority living in emerging markets — will try to enter the job market. If they won't be able to find decent jobs, this will leave millions without hope for a sustainable future. FMO's investments support jobs in local markets – around 990 thousand direct and indirect jobs in 2023 – and enhance access to energy, food and finance: crucial factors in breaking the downward cycle of poverty and migration.

Maximizing our impact towards the SDGs is the foundation of FMO's strategy towards 2030. This past year marks the first full year dedicated to implementing and working towards these 2030 goals. Staying on course, we had similar priorities as in 2022: growing impactful business, ensuring FMO's foundations are solid, and organizational development.

Through the consortium approach, DFCD serves as a leading example for institutional partnerships by connecting long standing project development expertise of its consortium partners. This allows projects to graduate from ideas to full implementation. An example of this is the Camimex Project, originated by SNV. The project is focused on organic shrimp production in the Ca Mau province in Vietnam. In 2023, Camimex has graduated, and will continue to follow its graduation path with the investment process of FMO.

In 2023, through its proven consortium of four partners, DFCD has continued connecting project development expertise on water & sanitation, land use in agriculture, forestry, and ecological protection areas to the financial knowledge of DFIs and other investors. The total number of active projects thereby increased to more than 65. With the EFSD+, as part of EU's investment framework, the EC has decided to give preliminary approval to provide DFCD's Land Use Facility with a guarantee to further develop climate resilience projects and support vulnerable landscapes, an important milestone for the DFCD. In 2023, the Dutch Ministry of Foreign Affairs has granted DFCD's Origination Facility with a 40 million euro subsidy to continue their essential role within the DFCD.

Looking ahead

Staying the course, in 2024 we will focus on the three same priorities as in 2023, continuing our work towards our 2030 goals. With regard to growing impactful business, we aim to further increase new investments in Reduced Inequalities and Green. We will take the next steps in market creation, supporting the new generation of entrepreneurs. FMO's Public Funds and facilities will be fundamental to reach these goals.

With the fragile global economic and political situation in some of our markets, we do realize our financial result can be volatile and further growth to maximize our impact will be challenging. But given the immense climate challenge that lies ahead and the huge investments that are needed to support job creation and overall economic development in emerging markets, we see it as our role to be countercyclical and focus on the long term. We invest when others shy away, always with our mission in mind: enabling entrepreneurs to increase inclusive and sustainable prosperity.

The Hague, 25 April 2024

On behalf of the Management Board
Fatoumata Bouaré, Chief Finance & Operations Officer
Franca Vossen, Chief Risk Officer
Huib-Jan de Ruijter, Co-Chief Investment Officer
Michael Jongeneel, Chief Executive Officer
Peter Maila, Co-Chief Investment Officer

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AT A GLANCE

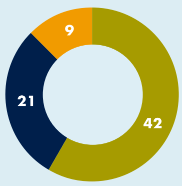
The Dutch Fund for Climate and Development (DFCD) is an investment program launched in 2019, that steers capital towards projects that strengthen the climate resilience of vulnerable populations and ecosystems. The original EUR 160 million program is managed by a consortium of Dutch development bank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

Achievements portfolio as per 31-12-2023

Total DFCD portfolio

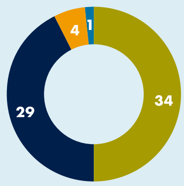
68 contracted projects

Projects per Facility
(# as of 31 Dec 2023)



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

Projects per Region
(# as of 31 Dec 2023)



- Asia
- Africa
- Latin America & the Caribbean
- Europe & Central Asia

€7.6mln Disbursements of Grants

€10.5mln Commitments of Grants

€110.4mln Disbursements of Investments

€104.4mln Committed Investments*

€872.8mln Private Finance Mobilized**

53% Of commitments in NL-Priority countries

33% Of commitments in Least Development Countries

65% Of commitments promote Climate Adaptation***

65% Of commitments promote Climate Mitigation***

* Committed Investments amount is shown excluding write offs.
** Based on initial calculations by external consultant (including mobilisation of the Water Facility at Climate Investor 2 fund level).
*** Is based on the 'OECD DAC Rio Markers for Climate Handbook'. When scored as 'Principal', a projects is fully considered (100%). Projects that score 'Significant' are counted for 40% each.

Impact data as per 31-12-2023

193,489 tCO_2e
Avoided GHG emissions

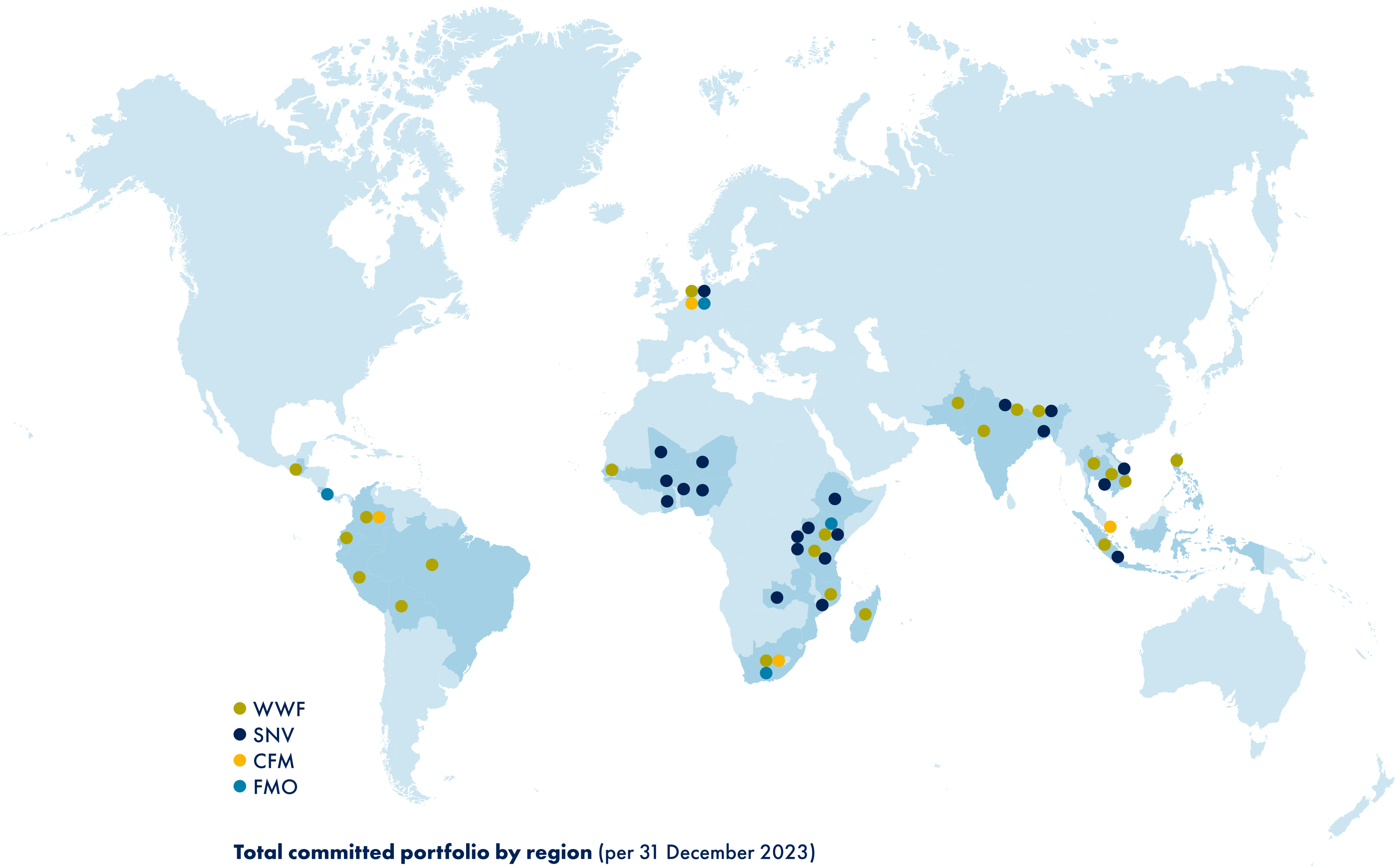
159,819 ha
Farmland under sustainable management

20,862 ha
Forest under sustainable management

98,488 FTE
Employment (direct and indirect)

105,816
People reached

* The impact data is purely derived from FMO and therefore only reflect the impact of the investments from the Land Use Facility. The impact from the Water Facility is nascent due to the projects in the Development Fund of CFM having recently entered the Construct Equity Fund as investments.



Total committed portfolio by region (per 31 December 2023)

Latin America & The Caribbean	Africa	Europe & Central Asia	Asia
€20mln	**€49mln**	**€2mln**	**€43mln**

Total committed portfolio

€114mln

Highlights

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

Linked to this purpose, several highlights have been achieved over 2023. In the final year of the first phase of DFCD, in which DFCD resources are also fully committed while having reached all targets, the Origination Facility (OF) maintained a steady flow of 13 graduations and 14 newly contracted projects, demonstrating the OF's added value within the DFCD. The transactions generate investment opportunities that improve climate adaptation and mitigation. Alignment with local landscape needs is sought, with successfully organized multi-stakeholder platforms in countries like Vietnam, Cambodia, Pakistan, Zambia and Uganda. This provides the DFCD Land Use and Water Facilities with a strong pipeline for further investments in 2024, the year in which the Land Use Facility hopes to sign the guarantee agreement with the EC.

An overall DFCD highlight has been the growth we experience as a consortium by working together as efficiently as possible. The cooperation pays off in the amount of transactions signed in 2023 in which partners of DFCD have worked together.

Another highlight has been the expansion of our collaboration with third party investors, which increases the chances of investment in OF originated projects. The collaborations have contributed to the overall success of the DFCD model.

A true highlight for the Origination Facility was the receiving of the top-up in funding of EUR 40mln from the Dutch Ministry of Foreign Affairs. WWF Director Kirsten Schuijt was able to share this news at the UN General Assembly in New York in presence of SNV CEO Simon O'Connell. Furthermore, the official launch event of the top-up has been organized in The Hague, with a contribution from the Dutch Ministry of Foreign Affairs, which resulted in a boost of positive energy ahead of the second phase.

A highlight for CFM is the general achievement of reaching the DFCD targets, especially in terms of commitments to Least Developed Countries (LDCs) and the Ministry of Foreign Affairs' Priority Countries. CFM is also thrilled to see how CFM's CI2 portfolio is growing geographically and technologically diverse. As of Q4 2023, CFM has 14 assets in various stages of development and 7 assets in the pipeline across Asia, Africa and Latin America. CFM looks forward to working closely with the consortium partners and to explore renewed opportunities for project graduation from the additional funding granted in 2023.

The Consortium reflects positively on its progress made over 2023, particularly on the development of its advanced pipeline. In 2024, the Consortium will focus on the expansion of its pipeline, next to signing the EFSD+ guarantee agreement.

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
FRC	Financial Risk 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

Consolidated statement of financial position

At December 31

	Notes	2023	2022
Assets			
Banks	(1)	7,872	33,747
Short-term deposits	(2)	20,427	-
Loan portfolio	(3)		
- of which: at Amortized cost		28,194	35,616
- of which: at Fair value through profit or loss		3,730	4,909
Equity investments at Fair value through profit or loss	(4)	54,227	33,436
Other receivables	(5)	102	5
Total assets		**114,552**	**107,713**
Liabilities			
Provisions	(6)	135	-
Total liabilities		**135**	**-**
Fund capital			
Contributions DGIS	(7)	160,000	135,000
Payments to consortium partners		-135,317	-122,065
Contribution DGIS- available to consortium partners		24,683	12,935
Contribution DGIS – attributable to consortium partners		135,317	122,065
Undistributed results previous years		-27,287	-13,302
Net profit/(loss)	(7)	-18,296	-13,985
Total fund capital		**114,417**	**107,713**
Total liabilities and fund capital		**114,552**	**107,713**
Irrevocable facilities	(13)	16,049	1,642
Total subsidy amount received according to "subsidy order" DFCD		200,000	160,000
Total subsidy withdrawn from DGIS		160,000	135,000
"Total amount available"		**40,000**	**25,000**

Consolidated statement of comprehensive income

At December 31

	Notes	2023	2022
Income			
Interest income from financial instruments measured at AC		1,365	651
Interest income from financial instruments measured at FVPL		787	366
Interest on loans	(8)	2,152	1,017
Fee and commission income	(9)	7	5
Results from equity investments	(10)	-3,517	-3,036
Results from financial transactions	(11)	-4,968	-1,787
Total income		**-6,326**	**-3,801**
Expenses			
Interest on bank	(12)	-	-63
Grants		-4,715	-3,286
Technical assistance		-3,258	-4,106
Direct Personnel costs		-1,810	-1,766
Other direct project costs		-596	-589
Overhead/indirect costs		-690	-536
Total expenses		**-11,069**	**-10,346**
Impairments on			
Loans	(3)	-901	162
Total impairments		**-901**	**162**
Net profit/(loss)		**-18,296**	**-13,985**
Total comprehensive income		**-18,296**	**-13,985**

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, 2022	-709	82,709	-11,782	-1,520	68,698
Contributions	53,000	-	-	-	53,000
Contribution CFM	-	28,674	-	-	28,674
Contribution SNV	-	4,056	-	-	4,056
Contribution WWF	-	6,626	-	-	6,626
Contribution LUF	-	-	-	-	-
Distributions to consortium partners	-39,356	-	-	-	-39,356
Addition undistributed results	-	-	-1,520	1,520	-
Net profit/(loss)	-	-	-	-13,985	-13,985
Net balance at December 31, 2022	**12,935**	**122,065**	**-13,302**	**-13,985**	**107,713**
Balance at January 1, 2023	12,935	122,065	-13,302	-13,985	107,713
Contributions	25,000	-	-	-	25,000
Contribution CFM	-	6,759	-	-	6,759
Contribution SNV	-	4,883	-	-	4,883
Contribution WWF	-	1,610	-	-	1,610
Contribution LUF	-	-	-	-	-
Distributions to consortium partners	-13,252	-	-	-	-13,252
Addition undistributed results	-	-	-13,985	13,985	-
Net profit/(loss)	-	-	-	-18,296	-18,296
Net balance at December 31, 2023	**24,683**	**135,317**	**-27,287**	**-18,296**	**114,417**

Consolidated statement of cash flows

At December 31

	Notes	2023	2022
Cash from operating activities			
Inflows			
- Interest received on loans		800	563
- Interest received on cash and deposits		693	-
- Dividends and fees received		5	5
- Repayments on loans		18,933	1,501
Outflows			
- Disbursements on loans		-14,951	-32,784
- Investments in equity instruments		-24,308	-4,642
- Disbursements on grants		-3,259	-3,286
- Disbursements on Technical Assistance		-4,714	-4,106
- Direct personnel cost		-1,833	-1,766
- Other direct project cost		-573	-588
- Overhead/ indirect cost		-690	-539
- Other paid amounts		-72	-137
Net cash from operating activities		**-29,969**	**-45,779**
Cash flow financing activities			
Contribution DGIS current year		25,000	53,000
Net cash from financing activities		**25,000**	**53,000**
Net change in cash & cash equivalent		**-4,969**	**7,221**
Position of cash at January 1 [1)]		33,747	26,418
Foreign exchange Translation		-479	108
Position of cash at end of period [1)]		**28,299**	**33,747**

1 Cash includes the current account with FMO.

Summary of material 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 2023 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 mandatorily measured at fair value through profit or loss;
- A part of the loan portfolio is mandatorily measured at fair value (refer to business model assessment and contractual cash flow assessment in this chapter below).

The material accounting policies adopted are set out below.

Basis of Consolidation

The 2023 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 DFCD's 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

There are no new standards, interpretations or amendments adopted that have an impact on DFCD.

Issued but not yet adopted standards

DFCD has assessed the amendments and new standards and does not expect them to have a significant impact on these consolidated financial statements.

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 statement of financial position 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 statement of profit or loss 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 statement of financial position 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.

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.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Fund accounts for the Day 1 profit or loss.

Reclassification

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

Cash and cash equivalents

Cash and cash equivalents consist of balances with banks, current account maintained with FMO 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 statement of financial position 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 the statement of profit or loss.

Equity investments

Equity investments on the statement of financial position 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 the statement of profit or 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 the statement of profit or loss.

Financial assets – Impairment

The Fund estimates an allowance for expected credit losses for all financial assets and loan commitments (off balance items) in scope of IFRS 9 impairment assessment.

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 Financial Risk Committee (FRC) 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:

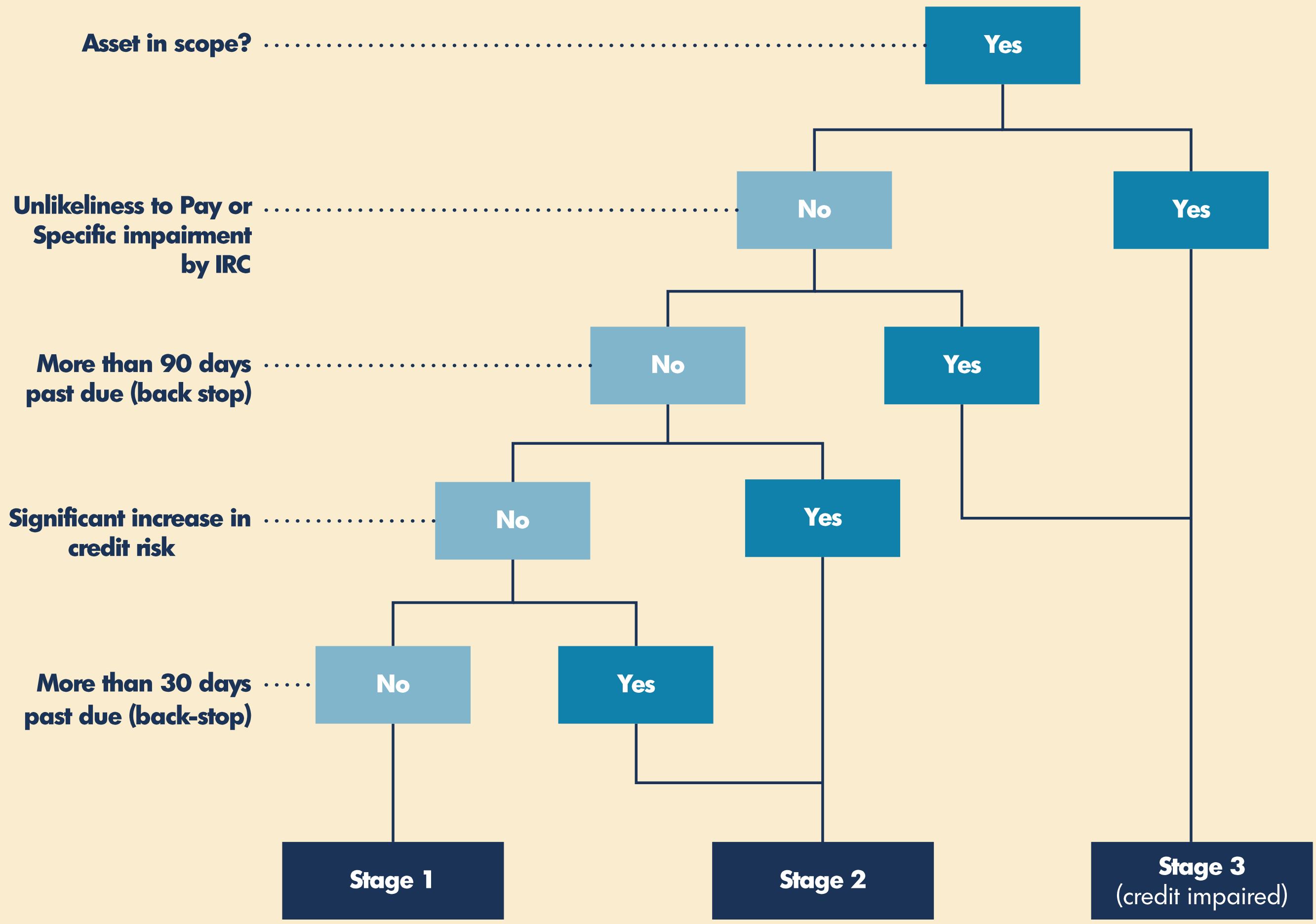
- The fact that an early warning signal has triggered financial difficulty following a transfer to the watchlist;
- The fact that the financial asset is 30 days past due or more on any material obligation to the Fund, including fees and excluding on charge expenses;

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 FRC 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 FRC 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 FRC is advised to consider a write-off.

Write-offs are charged against previously booked impairments. If no specific impairment is recorded on basis of FRC 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 be recognized again on the statement of financial position 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 statement of financial position 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 statement of financial position. 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.

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.

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.

Undrawn loan commitments

The Fund issues loan commitments.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Fund is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECL allowances are disclosed in Note 14.

Notes to the special purpose consolidated annual accounts

1. Banks

	2023	2022
Banks	7,872	33,747
Balance at December 31	**7,872**	**33,747**

The cash in bank accounts can be freely disposed of.

2. Short-term deposits

	2023	2022
Money market funds	20,427	-
Balance at December 31	**20,427**	**-**

3. Loan portfolio

The tables below present the movements in loans during 2023 and 2022.

	Loan portfolio measured at AC	Loan portfolio measured at FVPL	Total 2023
Balance at January 1, 2023	**35,727**	**4,909**	**40,636**
Disbursements	14,263	688	14,951
Interest Capitalization	-	423	423
Repayments	-18,933	-	-18,933
Changes in amortizable fees	-211	-	-211
Changes in fair value	-	-2,202	-2,202
Changes in accrued income	267	83	350
Exchange rate differences	-2,057	-171	-2,228
Balance at December 31, 2023	**29,056**	**3,730**	**32,786**
Impairment	-862	-	-862
Net balance at December 31, 2023	**28,194**	**3,730**	**31,924**

	Loan portfolio measured at AC	Loan portfolio measured at FVPL	Total 2022
Balance at January 1, 2022	6,517	4,189	10,706
Disbursements	30,367	2,417	32,784
Interest Capitalization	-	177	177
Repayments	-1,501	-	-1,501
Changes in amortizable fees	10		10
Changes in fair value	-	-2,336	-2,336
Changes in accrued income	84	190	274
Exchange rate differences	250	272	522
Balance at December 31, 2022	**35,727**	**4,909**	**40,636**
Impairment	-111	-	-111
Net balance at December 31, 2022	**35,616**	**4,909**	**40,525**

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.

	2023	2022
Net balance at January 1	33,436	31,830
Purchases and contributions	24,308	4,643
Changes in fair value	-3,517	-3,037
Net balance at December 31	**54,227**	**33,436**

5. Other receivables

	2023	2022
Debtor fees	102	5
Balance at December 31	**102**	**5**

6. Provisions

	2023	2022
Allowance for loan commitments	135	-
Balance at December 31	**135**	**-**

7. Contributed fund capital

	2023	2022
Balance at January 1	135,000	82,000
Contributions	25,000	53,000
Balance at December 31	**160,000**	**135,000**

Undistributed results	2023	2022
Balance at January 1	-27,287	-13,302
Net profit / (loss)	-18,296	-13,985
Balance at December 31	**-45,583**	**-27,287**

8. Net interest income

	2023	2022
Interest on loans measured at AC	953	651
Interest on bank accounts	412	-
Total interest income from financial instruments measured at AC	**1,365**	**651**
Interest on loans measured at FVPL	506	366
Interest on short-term deposits	281	-
Total interest income from financial instruments measured at FVPL	**787**	**366**
Total interest income	**2,152**	**1,017**

9. Fee and commission income

	2023	2022
Administration fees	7	5
Net fee and commission income	**7**	**5**

10. Results from equity investments

	2023	2022
Results from equity investments:		
Unrealized results from changes in fair value	-3,517	-3,036
Total results from equity investments	**-3,517**	**-3,036**

11. Results from financial transactions

	2023	2022
Results on sales and valuations of FVPL loans	-2,202	-2,336
Foreign exchange results	-2,766	549
Total results from financial transactions	**-4,968**	**-1,787**

12. Net interest expenses

	2023	2022
Interest on banks	-	-63
Total interest expenses	**-**	**-63**

13. Off-Balance Sheet information

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

	2023	2022
Irrevocable facilities		
Contractual commitments for disbursements of:		
Loans	16,049	935
Grants	-	707
Total irrevocable facilities	**16,049**	**1,642**

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

IFRS 9 Changes in loans commitments in 2023	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, 2023	-	-	-	-	-	-	-	-
New exposures	30,459	-238	-	-	-	-	30,459	-238
Exposure derecognised or matured/lapsed (excluding write offs)	-14,263	164	-	-	-	-	-14,263	164
Changes to models and inputs used for ECL calculations	-	-62	-	-			-	-62
Foreign exchange adjustments	-373	1	-	-	-	-	-373	1
At December 31, 2023	**15,823**	**-135**	**-**	**-**	**-**	**-**	**15,823**	**-135**

IFRS 9 Changes in loans commitments in 2022	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, 2022	4,610	-7	-	-	-	-	4,610	-7
New exposures	-	-	3,648	-153	-	-	3,648	-153
Exposure derecognised or matured/lapsed (excluding write offs)	-4,754	7	-3,636	152	-	-	-8,390	159
Foreign exchange adjustments	144	-	-12	1	-	-	132	1
At December 31, 2022	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

14. 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, 2023	FVPL - mandatory	Amortized cost	Total
Financial assets			
Banks	-	7,872	7,872
Short-term deposits	20,427	-	20,427
Loan portfolio	3,730	28,194	31,924
Equity investments	54,227	-	54,227
Other receivables	-	102	102
Total Financial assets	**78,384**	**36,168**	**114,552**
Financial liabilities			
Provisions	-	135	135
Total Financial liabilities	**-**	**135**	**135**

December 31, 2022	FVPL - mandatory	Amortized cost	Total
Financial assets			
Banks	-	33,747	33,747
Loan portfolio	4,909	-	4,909
Equity investments	33,436	35,616	69,052
Other receivables	-	5	5
Total	**38,345**	**69,368**	**107,713**

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

	2023		2022	
At December 31	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Loans to the private sector at AC	28,194	28,194	35,616	35,616
Banks	7,872	7,872	33,747	33,747
Total non fair value financial assets	**36,066**	**36,066**	**69,363**	**69,363**

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, 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL				
Short-term deposits	20,427	-	-	-
Loans portfolio	-	-	3,730	3,730
Equity investments	-	-	54,227	54,227
Total financial assets at fair value	**20,427**	**-**	**57,957**	**78,384**

December 31, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL				
Loans portfolio	-	-	4,909	4,909
Equity investments	-	-	33,436	33,436
Total financial assets at fair value	**-**	**-**	**38,345**	**38,345**

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, 2023	4,909	33,436	38,345
Total gains or losses			
· In profit and loss (changes in fair value)	-2,202	-2,104	-4,306
Purchases/disbursements	688	24,308	24,996
Interest Capitalization	423	-	423
Accrued income	83	-	83
Exchange rate differences	-171	-1,413	-1,584
Balance at December 31, 2023	**3,730**	**54,227**	**57,957**

	Loans portfolio	**Equity investments**	**Total**
Balance at January 1, 2022	4,189	31,830	36,019
Total gains or losses			
· In profit and loss (changes in fair value)	-2,159	-4,938	-7,097
Purchases/disbursements	2,417	4,643	7,060
Accrued income	190	-	190
Exchange rate differences	272	1,901	2,173
Balance at December 31, 2022	**4,909**	**33,436**	**38,345**

Type of equity investment	Fair value at December 31, 2023	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Private equity direct investments	54,227	Cost 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 € 5.4 million
Total	**54,227**			

Type of debt investment	Fair value at December 31, 2023	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Loans	3,730	Discounted cash flow model	Based on client spread	A decrease/increase of the used spreads with 1% will result is a higher/lower fair value of approx €37k.
Total	**3,730**			

15. 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 (2023: 25.0 million; 2022: 53.0 million).

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, 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.

16. Subsequent events

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

Credit risk

Definition

Credit risk is defined as the risk that the bank will suffer an economic loss because a customer fails to meet its obligations in accordance with agreed terms.

Risk appetite and governance

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 Financial Risk Committee. The larger and higher risk exposures are accompanied by the advice of the Credit department. If the Financial Risk 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

	2023	2022
On balance		
Banks	7,873	33,747
Short term deposits	20,427	-
Loans to the private sector		
- of which: Amortized cost	29,294	35,616
- of which: Fair value through profit or loss	8,182	4,909
Current accounts with FMO	-	-
Other receivables	102	5
Total on-balance	**65,878**	**74,277**
Off-balance		
Commitment	16,049	2,095
Total credit risk exposure	**81,927**	**76,372**

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.

Non-performing exposures

A customer is considered non-performing when it is not probable that the customer will be able to pay his payment obligations in full without realization of collateral or calling on a guarantee, regardless of the existence of any past-due amount or the number of days past due.

This situation is considered to have occurred when one or more of the following conditions apply:

- The customer is past due more than 90 days on any outstanding facility;
- An unlikeliness to pay (UTP) trigger is in place that automatically leads to NPE;
- An impairment analysis, done upon a UTP trigger that possibly leads to NPE, results in an impairment higher than 12.5% on any outstanding facility;
- There are additional criteria for a customer to enter NPE status in case of Forbearance. If a customer with (No) Financial Difficulty - Forbearance status under probation is extended additional forbearance measures/ concessions or becomes more than 30 days past-due, it shall be classified as non-performing. This only applies if the customer has been non-performing while it was forborne.

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

Definition

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

Risk appetite and governance
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
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 department approves each obligor to which the Fund is exposed through its treasury activities and sets a maximum limit for the credit exposure of that obligor. Depending on the obligor's short and long-term rating, limits are set for the total and long-term exposure. The Fund pursues a conservative investment policy.

Liquidity risk
Definition
Liquidity risk is defined as the risk for fund not being able to fulfill its financial obligations due to insufficient availability of liquid means.

Risk appetite and governance
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 is the risk that the value and/or the earnings of the bank decline because of unfavorable market movements. At FMO, this includes interest rate risk and currency risk.

Interest rate risk in the banking book
Definition
Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Changing interest rates mainly influence the fair value of fixed interest balance sheet items and affect fund's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII).

Exposures
The interest rate risk limits were not breached in 2023. The following table summarizes the interest repricing characteristics for Fund's assets and liabilities.

Interest re-pricing characteristics

December 31, 2023	<3 months	3-12 months	1-5 years	>5 years	Non-interest-bearing	Total
Assets						
Banks	7,872	-	-	-	-	7,872
Short-term deposits	20,427	-	-	-	-	20,427
Loans fair value through profit or loss	-	-	-	3,730	-	3,730
Loans at amortized cost	11,240	-	12,405	4,549	-	28,194
Equity investments fair value through profit or loss	-	-	-	-	54,227	54,227
Other receivables	-	-	-	-	102	102
Total assets	**39,539**	**-**	**12,405**	**8,279**	**54,329**	**114,552**
Liabilities and Fund Capital						
Accrued liabilities	-	-	-	-	-	-
Provisions	-	-	-	-	135	135
Fund Capital	-	-	-	-	114,417	114,417
Total liabilities and Fund capital	**-**	**-**	**-**	**-**	**114,552**	**114,552**
Interest sensitivity gap 2023	39,539	-	12,405	8,279	-60,223	

Interest re-pricing characteristics

December 31, 2022	<3 months	3-12 months	1-5 years	>5 years	Non-interest-bearing	Total
Assets						
Banks	33,747	-	-	-	-	33,747
Current accounts	-	-	-	-	-	-
Loans fair value through profit or loss	-	-	-	4,909	-	4,909
Loans amortized cost	-	-	35,616	-	-	35,616
Equity investments fair value through profit or loss	-	-	-	-	33,436	33,436
Other receivables	-	-	-	-	5	5
Total assets	**33,747**	**-**	**35,616**	**4,909**	**33,441**	**107,713**
Liabilities and Fund Capital						
Accrued liabilities	-	-	-	-	-	-
Provisions		-	-	-	-	-
Fund Capital	-	-	-	-	107,713	107,713
Total liabilities and Fund capital	**-**	**-**	**-**	**-**	**107,713**	**107,713**
Interest sensitivity gap 2022	33,747	-	35,616	4,909	-74,272	

Currency Risk

Definition

Currency risk is defined as the risk that changes in foreign currency exchange rates have an adverse effect on the value of the Fund's financial position and future cash flows. The Fund also reviews currency risk in terms of impact on the capital ratios.

Exposures

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.

Individual and total open currency positions were within risk appetite in 2023. The table below illustrates that the currency risk sensitivity gap per December 2023 is almost completely part of fund's equity investments and investments in associates.

Currency risk exposure (at carrying values)

December 31, 2023	EUR	USD	Total
Assets			
Banks	4,694	3,178	7,872
Short-term deposits	15,002	5,425	20,427
Loans portfolio	-	31,924	31,924
Equity investments	-	54,227	54,227
Other receivables	-	102	102
Total assets	**19,696**	**94,856**	**114,552**
Liabilities and Fund Capital			
Accrued liabilities	-	-	-
Provisions	-	135	135
Fund Capital	114,417	-	114,417
Total liabilities and fund capital	**114,417**	**135**	**114,552**
Currency sensitivity gap 2023		94,721	
Currency sensitivity gap 2023 excluding equity investments		40,494	

Currency risk exposure (at carrying values)

December 31, 2022	EUR	USD	Total
Assets			
Banks	32,744	1,003	33,747
Current accounts	-	-	-
Loans portfolio	-	40,525	40,525
Equity investments fair value through profit or loss	-	33,436	33,436
Other receivables	-	5	5
Total assets	**32,744**	**74,969**	**107,713**
Liabilities and Fund Capital			
Accrued liabilities	-	-	-
Provisions	-	-	-
Fund Capital	107,713	-	107,713
Total liabilities and fund capital	**107,713**	**-**	**107,713**

Currency sensitivity gap 2022	74,969	
Currency sensitivity gap 2022 excluding equity investments and investments in associates	41,533	

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, 2023	
USD value increase of 10%	9,472
USD value decrease of 10%	-9,472

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, 2022	
USD value increase of 10%	7,496
USD value decrease of 10%	7,496

Business Risk

Environmental, social and governance risk

Definition

Environmental & Social (E&S) risk refers to the risk posed by (potential) adverse impact of the FMO investments on the environment, their employees and workers, communities, and other stakeholders which may affect FMO's customers. Corporate Governance (CG) risks refer primarily to risk to customers’ business and - as a result - to FMO.

Risk appetite and governance

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

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

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

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.

Operational risk

Financial economic crime risk

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks, excluding strategic risks. This is the Basel definition of operational risk, which covers a wide range of non-financial risks.

FMO adopted the Operational Risk Data Exchange Association (ORX) risk taxonomy to structure all non-financial risk types, such as people, data, model, technology, third party, information and cyber security, business continuity, statutory reporting, transaction execution, et cetera. FMO uses the terms operational risk and non-financial risk interchangeably.

Risk appetite and governance

FMO is cautious about non-financial risks. We do not seek them as they have no direct material reward in terms of return/income generation, but they are inherent to our business. We prefer safe options, with low inherent risk, even if they limit rewards or lead to higher costs. There is no appetite for high residual risk.

First and second line functions work closely together to understand the full and varied spectrum of non-financial risks, and to focus their risk and control efforts on meaningful and material risks. Risk identification and assessment draws on multiple sources of data, such as topic-specific risk-assessments, results of half-yearly control monitoring and testing rounds, internal loss data and root cause analysis, audit results, supervisory findings, and key risk indicators. Policies and operating procedures clarify control standards, accountabilities, and mandate training on key risks.

Management of the first line is responsible for understanding risks and implementing and operating internal controls in the day-to-day business processes. Key controls are monitored and tested twice a year. The first line performs these responsibilities in line with the risk management framework, using the methods and tools provided by the second-line Operational Risk function. The Operational Risk function challenges and advises the first line, performs oversight and maintains the Integrated Control Framework.

Risk events will occur, despite the implementation of internal controls. Risk events can result in losses, non-compliance, misstatements in the financial reports, and reputational damage. Risk events are centrally registered and reviewed and classified by the Operational Risk team. Root cause analyses of high-concern risk events require approval by the Non-financial Risk Committee and follow-up of remediating actions is tracked and reported.

Non-financial Risk metrics are reported on a quarterly basis. These metrics cover operational risks, such as the amount of loss per quarter, timely follow-up of remediating actions by management, and specific metrics for all non-financial risk subtypes. All departmental directors evaluate the operational risks in their area of responsibility and sign a departmental in control statement at year end.

Financial economic crime risk

Definition

Financial Economic Crime Risk is the risk that FMO, its subsidiaries, investments, customers and/or employees are involved or used for any non-violent crime that has a financial component, even though at times such transactions may be hidden or not socially perceived as criminal.

During 2023, FMO continued to enhance the maturity of its financial economic crime (FEC) framework through building the team, strengthening our policies and procedures and continuous monitoring of performance.

Financial economic crime framework

FMO's financial economic crime (FEC) procedures include, amongst others, screening of customers on compliance with applicable anti-money laundering, counter financing of terrorism and international sanctions laws and regulations. Due diligence is performed on customers, which includes checks such as verifying the ultimate beneficial owners of the customer we finance, identifying politically exposed persons and screening against mandatory international sanction lists. These checks are also performed regularly during the relationship with existing customers. FMO Fund's customers are included in FMO's procedures to mitigate the financial economic crime risk.

In January, FMO received the results of DNB's assessment of the effectiveness and efficiency of FMO's sanctions screening systems. Based on the results of the examination, DNB assessed that the overall functioning of these screening systems is currently 'sufficient'. FMO is also conducting training programs for its employees to raise awareness on sanctions. Further, FMO continues to remind its customers of the importance of sanctions compliance.

Also, in 2023, FMO has reviewed its Systematic Integrity Risk Analysis (SIRA) framework based on lessons learned from past SIRAs. This review resulted in an adjusted approach for 2023 and 2024: the (companywide) SIRA will be data driven and will enable FMO to identify its top integrity risks, level of risk mitigation and need for follow up actions.

FMO continues to work on strengthening the risk culture and creating awareness on FEC, (intended) unusual transactions and anti-bribery and corruption practices. In 2023, all FMO employees were required to complete the compliance e-learning that addresses personal integrity topics, such as bribery and corruption. In addition, new investment staff were also required to complete the KYC e-learning as part of their onboarding. All new investment staff were also required to undertake additional training related to the FEC program and remediation project.

In August of 2023 it was reported that, as a result of late notifications of unusual transactions to the Financial Intelligence Unit (FIU) in 2021 and 2022, DNB decided on enforcement measures. DNB is currently re-assessing these measures upon request of FMO (by means of objection). FMO's related Financial Economic Crime (FEC) framework enhancement program – which involved a full KYC file remediation – was finalized at the end of 2021. During 2023, FMO focused on continuous improvement of its FEC framework, through (amongst others) periodic review of policies and procedures, training, and monitoring of performance.

General Data Protection Act (GDPR)

The follow-up GDPR project, which was initiated in January 2023, has been finalized. Additional technical and organizational controls have been implemented to further strengthen personal data security. To keep risk awareness on top of mind, several training sessions were organized, for departments across the three lines. This will continue in 2024. The outcome of the 2023 GDPR pillar reassessment by EY Belgium on behalf of the EC is positive. FMO fulfils the requirements with regard to the protection of personal data. Overseas representative offices are fully in scope.

Colophon

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

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