FMO
Entrepreneurial
Development
Bank

# LAND USE FACILITY

## Annual report

# 2023

The **Land Use Facility** is part of the Dutch Fund for Climate and Development (DFCD). DFCD enables private sector investments 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.

Front and back photo is from a DFCD consortium client, Cinch, Kenya.

The DFCD Land Use Facility targets investments in sectors relating to agroforestry, sustainable land use and climate resilient food production in developing countries.

# LETTER FROM THE MB OF THE FUND MANAGER

## 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 inflations, and increased sovereign debt. The global economy is still growing, but growth is uneven. Over the past 3 years, poverty rates in poor countries have increased. Of the SDGs, only 15% is on track, 48% is moderately on track, and 37% has stagnated or is reversing.

Within this context, our 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. Our investments supported jobs in local markets – 990,000 direct and indirect jobs in 2023 – and enhanced 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.

In 2023, the initial resources of the Land Use Facility ("LUF"), as funded by the Ministry of Foreign Affairs, have been fully deployed with the signing of five new transactions. In March, a USD 5 mln transaction with Taprobane was signed. Taprobane is a leading seafood company in Sri Lanka. The transaction will help the company to rehabilitate abandoned shrimp farms, establish new hatcheries and set up eco-friendly processing factories, which together provides a necessary boost to the local economy, supports the wider agri-value chain and aids both climate adaptation and food system stability. In September, we signed a USD 10 mln transaction with NMB bank in Nepal. With the loan and technical assistance provided by SNV, NMB will be able to grow its MSME and green portfolio. An additional three high impact transactions were signed during the last months of the year, with Trans-Oil Group (USD 7.5 million for grain origination from Ukraine to Moldava, increasing climate resilience throughout the value chain), Sistema Bio (providing smallholder farmers in rural areas in Africa with biogas) and Dvara (providing access to financial services to the lowest segment in climate vulnerable areas in India).

In 2024, with the negotiations in the final stage, we aim for the Land Use Facility to be increased via a loan from FMO, covered by a guarantee from the European Commission under the EFSD+ Program. The pipeline of the LUF is ready for this and with all enthusiasm and passion we will continue to make a difference with the deployment of the LUF in 2024.

## Looking ahead

Staying the course, in 2024 we will remain focused on the three core priority SDGs: Decent work and Economic Growth (SDG 8), Reduced Inequalities (SDG 10) and Climate Action (SDG 13), continuing the work towards our 2030 goals. With regard to growing impactful business, we aim to further increase new investments in Green and Reducing Inequalities. 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, 28 March 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

## TABLE OF CONTENTS

# PERFORMANCE ON OUR STRATEGY

## Highlights

The DFCD Land Use Facility had two evident highlights in 2023:

The Land Use Facility reached the full commitment stage. In 2019, the Ministry of Foreign Affairs of the Netherlands committed EUR 55 mln to the Land Use Facility as part of the Dutch Fund for Climate and Development. In 2023, the Land Use Facility has been well deployed. With a promising pipeline and an integrated program within the consortium, the Land Use Facility is ready for the next phase.

The negotiations with the European Commission for the guarantee agreement under EFSD+ reached the final advanced stage with an agreed Term Sheet. This guarantee structure will enable a top up of the Land Use Facility via a loan from FMO to the LUF program.

For more information we refer to the general DFCD Annual Report 2023.

## Production

| Production 2023 | |
|---|---|
| TAPROBANE SEAFOODS | **Taprobane - USD 5 mln loan**<br>Taprobane is a leading seafood company in Sri Lanka, operating throughout the whole supply chain from early production at hatcheries to frozen and packed end-products for consumers thereby applying modern production, processing and logistics techniques. The transaction will help to rehabilitate abandoned shrimp farms, establish renewed hatcheries, setup eco-friendly processing factories which together, provides a necessary boost to the local economy and supports the wider agri-value chain and aids both climate and food system stability and mitigation fund. |
| NMB BANK एनएमबि बैंक | **NMB Bank - USD 10 mln loan**<br>Licensed as "A" class financial institution by Nepal Rastra Bank, the central bank in Nepal. This means that NMB Bank Limited is among the largest and most well-established banks in Nepal. NMB Bank Limited is a leading commercial bank in Nepal, providing various banking services to its customers throughout the country. With this loan, FMO and the Dutch Fund for Climate and Development (DFCD) will support the growth of NMB's Micro, Small and Medium Enterprises (MSME) and green portfolio. |
| TRANS-OIL Group of Companies | **Trans-Oil Group - USD 7.5 mln loan**<br>Russia's war on Ukraine led most commercial banks to reduce their WC funding to the region, resulting in a financing gap. The combination of DFIs (FMO/Proparco in this case for 2.5 years) and of public funds (BP/DFCD for 5 years) plays a crucial and additional role in the market. The new financing brings comfort to the existing as well as potential lenders of TOI and will encourage further origination of food commodities from Ukraine. |
| SISTEMA.bio CREATING VALUE FROM WASTE | **Sistema Bio - USD 3 mln loan**<br>Sistema.Bio provides smallholder farmers in rural areas to a renewable source of energy (biogas), which can be used to replace fossil fuel and wood-fired cooking, and biofertilizer, which can be used to increase crop yields and replace chemical alternatives. In addition, the replacement of wood and fossil fuels and chemical fertilizers plus the efficient management of animal waste mitigate GHG emissions and have significant health benefits. The loan helps to close a financing gap and supports the company to expand into new markets and increase their social and environmental impact. |
| DVARA KGFS | **Dvara KGFS - USD 7 mln loan**<br>Dvara KGFS is a NBFC in India, with a mission to maximise the financial wellbeing of individuals and small enterprises by providing access to financial services. The loan, partly provided by the Land Use Facility, will be used for the growth of Dvara's microfinance portfolio towards climate resilient agriculture and smallholder farmers. |

# INTERNATIONAL PRINCIPLES

Our impact goes beyond our investments. To embrace our mission fully, we are committed to doing business in a responsible and sustainable way, guided by global standards and guidelines. These commitments are not prescribed by law but have been made on a voluntary basis by FMO N.V. .

| | |
|---|---|
| **2X Global**<br>FMO is a member of 2X Global, a field building organization for gender finance. Since 2018 FMO has also been a participant in the 2X Challenge, now an initiative of 2X Global. The 2X Challenge is a collective commitment of DFIs to mobilise gender lens investment in developing country markets. | Member |
| **Accelerating Investment in Adaptation and Resilience**<br>We are a signatory member to the Adaptation and Resilience Investors Collaborative, an international partnership of development finance organizations. We have committed to substantially increase investments in climate adaptation and resilience to support vulnerable developing and emerging countries. | Signatory |
| **Client Protection Principles**<br>FMO has adopted the CPP which set the minimum standards that end-customers should expect to receive when doing business with a financial service provider. | Adopter |
| **Consultative Group to Assist the Poor**<br>We are part of the CGAP global partnership to test, learn and share knowledge intended to help build inclusive and responsible financial systems. | Member |
| **COP26 Joint Statement on Public Finance**<br>We commit to supporting the clean energy transition and end new direct public support for the international unabated fossil fuel energy sector by the end of 2022, except in limited and clearly defined circumstances that are consistent with the 1.5°C warming limit and the goals of the Paris Agreement. | Signatory |
| **Corporate Governance Development Framework**<br>We adopted the Corporate Governance Development Framework as a common approach to corporate governance risks and opportunities in DFI investment operations. | Adopter |
| **Dutch Climate Accord**<br>We signed the financial sector commitment to fight climate change and support the Dutch Climate Accord. In 2022, we published our Climate Action Plan, which is available on our website. | Signatory |
| **EDFI Principles for Responsible Financing of Sustainable Development**<br>FMO upholds the EDFI Principles for Responsible Financing of Sustainable Development. | Signatory |
| **EDFI statement on climate and energy finance**<br>We commit to this statement where EDFI group outlines shared commitments to phase out fossil fuels and mobilise private sector climate finance, aligning with Paris Agreement and high disclosure standards. | Signatory |
| **Equator Principles**<br>We have been implementing the Equator Principles (EP) since 2006. This risk management framework provides financial institutions with a minimum standard for due diligence and monitoring to determine, assess and manage environmental and social risks in projects. Our annual EP report is available online. [1] | Signatory |
| **European Microfinance Platform**<br>We are part of the e-MFP network to foster activities that increase global access to affordable, quality, sustainable and inclusive financial services for the un(der)banked through knowledge-sharing, partnership development and innovation. | Member |
| **Financial Action Task Force**<br>We use the FATF framework to combat money laundering and terrorism financing, as well as the proliferation of weapons of mass destruction. | Adopter |

| | | |
|---|---|---|
| | **Global Impact Investing Network**<br>We support the GIIN because it is dedicated to increasing the scale and effectiveness of impact investing through knowledge sharing, best practice exchanges, and tools and resources production. | Member |
| | **Global Private Capital Association**<br>We are a member of the GPCA. This aims to catalyze the development of private equity and venture capital industries in emerging markets through research, conferences, networking, and advocacy. | Member |
| | **Global Reporting Initiative (GRI)**<br>We report according to the standards defined by the GRI to help businesses and governments understand and communicate about their impact on critical sustainability issues. | Adopter |
| | **IFC Performance Standards**<br>Our E&S approach is guided by the IFC Performance Standards of Environmental & Social Sustainability . This framework helps us understand, avoid and mitigate E&S risks and impacts, for example through stakeholder engagement and disclosure obligations of the customer in relation to project-level activities. | Adopter |
| | **ILO Standards**<br>We follow the set of ILO legal instruments that set out basic principles and rights at work. | Adopter |
| | IFRS Foundation - Integrated Reporting Framework<br>We follow the Integrated Reporting framework to produce our annual report. In line with this, we link our strategy and performance to the external environment and value creation in the longer term. | Adopter |
| | **Natural Capital Finance Alliance**<br>We closely follow the developments of the NCFA initiative to integrate natural capital considerations into loans, public and private equity, and fixed income and insurance products. | Signatory |
| | **Netherlands Advisory Board on Impact Investing**<br>FMO is an active member of the Netherlands Advisory Board (NAB) on Impact Investing - a foundation that is part of the Global Steering Group for impact investment and aims to accelerate the growth and improve the effectiveness of the Dutch impact investing market. | Member |
| | **OECD Guidelines for Multinational Enterprises**<br>We follow OECD Guidelines on responsible business conduct, notably human rights, labor rights and the environment. | Adopter |
| | **Operating Principles for Impact Management**<br>In 2019, FMO became a signatory to and advisory board member of the Operating Principles for Impact Management, a global initiative led by the IFC to increase the transparency and accountability of impact investing. FMO publishes a report every year to disclose how it has interpreted and applied these nine principles. These reports are available on our website. | Signatory |
| | **Partnership for Carbon Accounting Financials**<br>We are one of the early adopters of PCAF, an industry-led global partnership to develop and implement a harmonized approach to assess and disclose GHG emissions of loans and investments. This facilitates transparency and accountability of the financial sector to the Paris Agreement. | Signatory |
| | **Principles of Repsonsible Investment**<br>FMO applies the six principles of the PRI: incorporating ESG into investment practices (Principle 1 and 2), disclosing on ESG issues (Principle 3), supporting acceptance and effective implementation of the principles (Principle 4 and 5), and reporting on progress (Principle 6). FMO's latest report is available on the PRI website. | Signatory |
| | **Sustainable Development Goals Charter**<br>We joined the SDG Charter Network to foster cooperation between business, civil society and local governments in the Netherlands, in order to achieve the SDGs at home and abroad. | Signatory |
| | **Task Force on Climate-Related Financial Disclosures \| TCFD**<br>We have been reporting in line with TCFD guidelines since 2019, disclosing climate related risks and opportunities for FMO, as well as our work to embed climate related risks within FMO's risk framework. Please refer to the latest TCFD report available on our website for more information. | Signatory |

| | | |
|---|---|---|
| | **The Paris Development Banks Statement on Gender Equality and Women's Empowerment**<br>This statement calls for accelerating the realization of gender equality and the empowerment of all women and girls through the international financial system. We recognize our substantive role in the achievement of the SDGs. | Signatory |
| | **UN Guiding Principles on Business and Human Rights**<br>We integrate the set of guidelines defined by the UN for states and companies to prevent, address and remedy human rights abuses in business operations. | Adopter |
| | **UNEP FI / EBF Working Group on Banking and Taxonomy**<br>We are part of the UNEP Finance Initiative / European Banking Federation Working Group that assesses how the EU Taxonomy on Sustainable Activities can be implemented by banks and applied to selected banking products. | Member |
| | **UNEP FI \| Principles for responsible banking**<br>FMO reports every year on how it has progressed towards implementing these principles. These reports are available on our website | Signatory |

1 After participating as an active member for more than 18 years in the Equator Principles, FMO has decided to discontinue its membership. More details can be found on the FMO website.

# Special purpose annual accounts

## Statement of financial position

At December 31

| | Notes | 2023 | 2022 |
|---|---|---|---|
| **Assets** | | | |
| Banks | (1) | 6,028 | 29,086 |
| Short term deposits | (2) | 20,427 | - |
| Loan portfolio | (3) | | |
| - of which: at Amortized cost | | 20,350 | 8,907 |
| - of which: at Fair value through profit or loss | | 3,730 | 4,909 |
| Equity investments | (5) | - | 2,104 |
| Other receivables | (6) | 102 | 6 |
| **Total assets** | | **50,637** | **45,012** |
| | | | |
| **Liabilities** | | | |
| Provisions | (7) | 135 | - |
| **Total liabilities** | | **135** | **-** |
| | | | |
| **Fund capital** | | | |
| Contributions DGIS | | 160,000 | 135,000 |
| Payments to other consortium Partners | | -92,601 | -79,349 |
| Contribution DGIS – Available to consortium partners | (8) | 67,399 | 55,651 |
| Undistributed results previous years | (8) | -10,639 | -3,950 |
| Net profit/(loss) | | -6,258 | -6,689 |
| **Total fund capital** | | **50,502** | **45,012** |
| | | | |
| **Total liabilities and fund capital** | | **50,637** | **45,012** |
| | | | |
| **Irrevocable facilities** | **(15)** | **16,049** | **935** |

## Statement of comprehensive income

At December 31

| | Notes | 2023 | 2022 |
|---|---|---|---|
| **Income** | | | |
| Interest income from financial instruments measured at AC | | 1,365 | 652 |
| Interest income from financial instruments measured at FVPL | | 786 | 366 |
| Net interest income | (9) | 2,151 | 1,018 |
| Fee and commission income | (10) | 7 | 5 |
| **Total income** | | **2,158** | **1,023** |
| | | | |
| **Expenses** | | | |
| Results from equity investments | (11) | -2,104 | -4,487 |
| Results from financial transactions | (12) | -3,651 | -1,492 |
| Interest expenses on bank | (13) | - | -63 |
| Operating expenses | | | |
| - Direct Personnel costs | | -1,380 | -1,415 |
| - Other direct project costs | | -373 | -411 |
| - Overhead / indirect costs | | -7 | -7 |
| Total operating expenses | (14) | -1,760 | -1,833 |
| **Total expenses** | | **-7,515** | **-7,875** |
| | | | |
| **Impairments on** | | | |
| Loans | | -901 | 163 |
| **Total impairments** | | **-901** | **163** |
| | | | |
| **Net profit/(loss)** | | **-6,258** | **-6,689** |
| | | | |
| **Total comprehensive income** | | **-6,258** | **-6,689** |

## Statement of changes in fund capital

| | Unallocated DFCD | LUF | Undistributed results previous years | Net profit/ loss | Total fund capital |
|---|---|---|---|---|---|
| **Balance at January 1, 2022** | - | 42,007 | -3,357 | -593 | 38,057 |
| Addition undistributed results | - | - | -593 | 593 | - |
| Contributions from DGIS | 53,000 | - | - | - | 53,000 |
| Transfer to LUF | -13,644 | 13,644 | - | - | - |
| Distributions to consortium partners | -39,356 | - | - | - | -39,356 |
| Results current year | - | - | - | -6,689 | -6,689 |
| **Net balance at December 31, 2022** | **-** | **55,651** | **-3,950** | **-6,689** | **45,012** |
| **Balance at January 1, 2023** | - | 55,651 | -3,950 | -6,689 | 45,012 |
| Addition undistributed results | - | - | -6,689 | 6,689 | - |
| Contributions from DGIS | 25,000 | - | - | - | 25,000 |
| Transfer to LUF | -11,748 | 11,748 | - | - | - |
| Distributions to consortium partners | -13,252 | - | - | - | -13,252 |
| Results current year | - | - | - | -6,258 | -6,258 |
| **Net balance at December 31, 2023** | **-** | **67,399** | **-10,639** | **-6,258** | **50,502** |

## 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 | - |
| Repayments on loans | (3) | 1,385 | 1,501 |
| Dividends and fees received | | 5 | 5 |
| Other received amounts | | - | 1 |
| **Outflows** | | | |
| Interest banks | | - | -63 |
| Disbursements on loans | (3) | -14,951 | -8,752 |
| Direct Personnel costs | | -1,403 | -1,415 |
| Other direct project costs | | -350 | -411 |
| Overhead / indirect costs | | -7 | -7 |
| Other paid amounts | | -72 | -76 |
| **Net cash from operating activities** | | **-13,900** | **-8,654** |
| | | | |
| **Cash flow financing activities** | | | |
| **Inflows** | | | |
| Contribution DGIS current year | | 25,000 | 53,000 |
| **Outflows** | | | |
| Contibution to Partners | | -13,252 | -39,356 |
| **Net cash from financing activities** | | **11,748** | **13,644** |
| | | | |
| **Net change in cash & cash equivalent** | | **-2,152** | **4,990** |
| Position of cash at January 1 | | 29,086 | 23,988 |
| Foreign exchange translation | | -479 | 108 |
| **Position of cash at end of period** | | **26,455** | **29,086** |

# 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 Wide Fund for Nature (WWF-NL) and Climate Fund Managers (CFM) to manage on behalf of the Dutch Ministry of Foreign Affairs.

The special purpose annual accounts comprise the activities of FMO Land-use Facility under DFCD (the "Fund").

## Basis of preperation

The 2023 special purpose financial statements of FMO Land-use Facility 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 financial statements are prepared under the historical cost convention, except for:

- Equity investments that are mandatorily measured at fair value through profit and 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.

## Adoption of new standards, interpretations and amendments

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

## Issued but not yet adopted standards

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

## Significant estimates, assumptions and judgements

In preparing the special purpose 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 amortized cost (AC), fair value through P&L (FVPL) or fair value through other comprehensive income (FVOCI)

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

## 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.

No impairment loss is recognized on equity investments.

### 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

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 draw downs 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 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 Fund's internal scale) to be classified as low credit risk. For these instruments, the low credit risk exemption is applied and irrespective of the change of credit risk (as long as it remains investment grade) a lifetime expected credit loss will not be recognized. This exemption lowers the monitoring requirements and reduces operational costs.

**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:

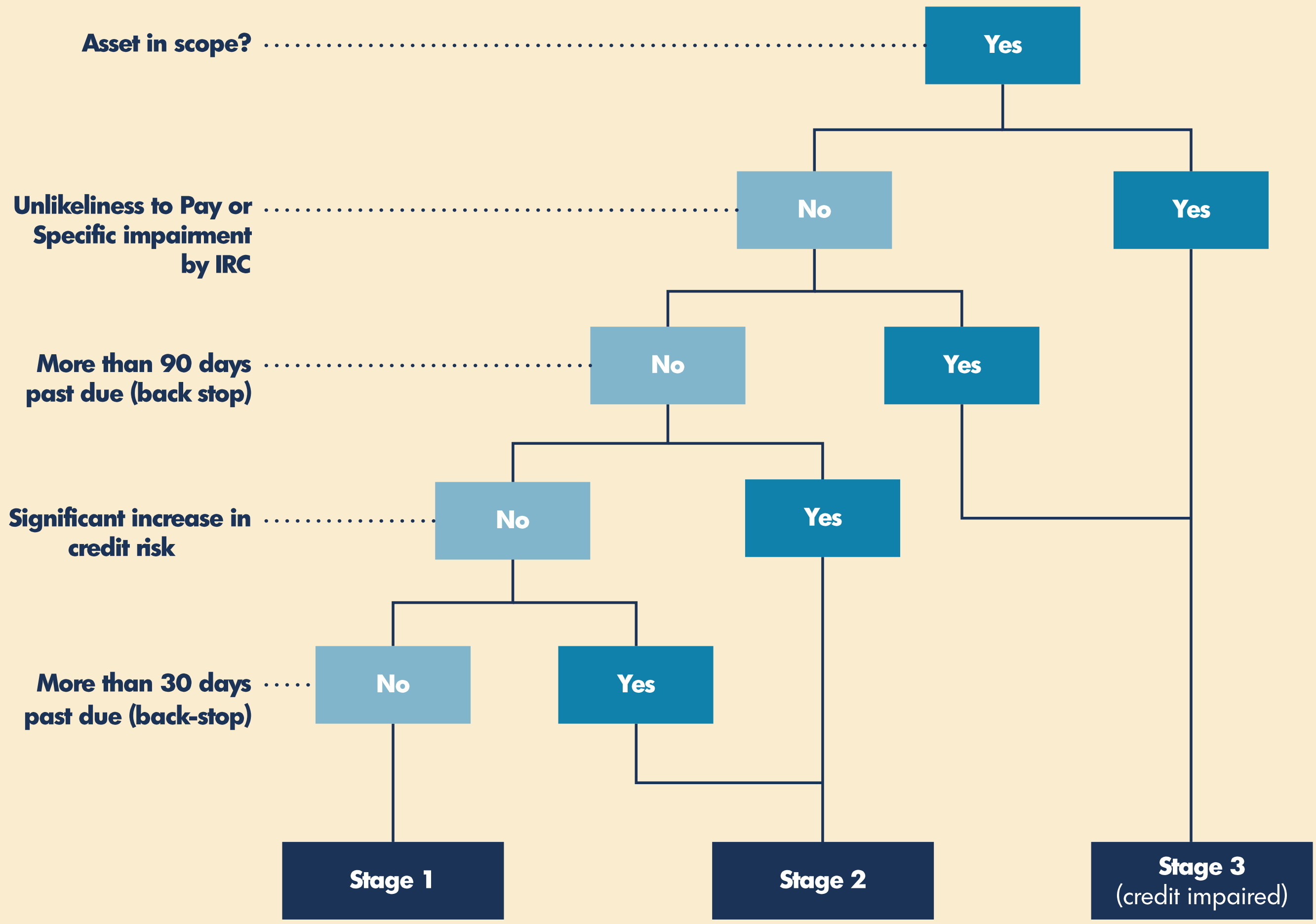
- The fact that an early warning signal has triggered financial difficulty following a transfer to the watchlist;
- The fact that the financial asset is 30 days past due or more on any material obligation to the Fund, including fees and excluding on charge expenses (unless reasonable information and supportable information is available demonstrating that the client can service its debt).

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

### Written-off financial assets
A write-off is made when a claim is deemed non-collectible, when 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 under 'interest income related to financials assets at amortized cost'. However, when the NPV of the original loan is substantially different than the NPV of the modified loan, the original loan is derecognized and rerecognized on the 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 performed due to potential higher credit risk. However for the Fund, a modification of the contractual terms is usually initiated when financial difficulty occurs or is expected. Therefore only in exceptional cases, changes in modifications of contractual terms not following from credit risk related triggers, will not lead to forbearance e.g. in case of an environmental covenant breach. 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 total capital provided by the State to finance the portfolio of loans and equity investments. Only when 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.

### Contributions available to consortium partners

Funding from the State is received directly by the consortium's lead party. Contributions received from the State that have not been drawn down by the respective consortium partners are held within a reserve called "Contributions DGIS - Available to consortium partners". Any distributions to consortium partners will be shown as a decrease in this balance.

### Contributions attributable to Land-use Facility

Funding that has been drawn down by the Land-use Facility from the overall funding received from the State is presented in the reserve called "Contributions DGIS - Attributable to Land-use Facility.

## Other reserves

The other reserves include the cumulative distributable net profits.

# 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:

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

## Dividend income

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

## Results from equity investments

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

## Results from financial transactions

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

## Operating expenses

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

# 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 16.

# Notes to the special purpose annual accounts

## 1. Banks

| | 2023 | 2022 |
|---|---|---|
| Banks | 6,028 | 29,086 |
| **Balance at December 31** | **6,028** | **29,086** |

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. Loans

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

| | Loan portfolio measured at AC | Loan portfolio measured at FVPL | Total 2023 |
|---|---|---|---|
| Balance at January 1, 2023 | 9,018 | 4,909 | 13,927 |
| Disbursements | 14,263 | 688 | 14,951 |
| Interest Capitalization | - | 423 | 423 |
| Repayments | -1,385 | - | -1,385 |
| Changes in amortizable fees | -211 | - | -211 |
| Changes in fair value | - | -2,202 | -2,202 |
| Changes in accrued income | 267 | 83 | 350 |
| Exchange rate differences | -740 | -171 | -911 |
| **Balance at December 31, 2023** | **21,212** | **3,730** | **24,942** |
| Impairment | -862 | - | -862 |
| **Net balance at December 31, 2023** | **20,350** | **3,730** | **24,080** |

| | Loan portfolio measured at AC | Loan portfolio measured at FVPL | Total 2022 |
|---|---|---|---|
| Balance at January 1, 2022 | 3,544 | 4,189 | 7,733 |
| Disbursements | 6,335 | 2,417 | 8,752 |
| 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 | 546 | 272 | 818 |
| **Balance at December 31, 2022** | **9,018** | **4,909** | **13,927** |
| Impairment | -111 | - | -111 |
| **Net balance at December 31, 2022** | **8,907** | **4,909** | **13,816** |

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

| 2023 | | | | | |
|---|---|---|---|---|---|
| **Loans segmented by sector** | **Stage 1** | **Stage 2** | **Stage 3** | **Fair value** | **Total** |
| Financial Institutions | 9,002 | - | 2,144 | - | 11,146 |
| Agribusiness | 9,003 | - | 201 | 3,730 | 12,934 |
| **Total balance at December 31** | **18,005** | **-** | **2,345** | **3,730** | **24,080** |

| 2022 | | | | | |
|---|---|---|---|---|---|
| **Loans segmented by sector** | **Stage 1** | **Stage 2** | **Stage 3** | **Fair value** | **Total** |
| Financial Institutions | - | 4,190 | - | - | 4,190 |
| Agribusiness | 4,717 | - | - | 4,909 | 9,626 |
| **Total balance at December 31** | **4,717** | **4,190** | **-** | **4,909** | **13,816** |

| 2023 | | | | | |
|---|---|---|---|---|---|
| **Loans segmented by geographical area** | **Stage 1** | **Stage 2** | **Stage 3** | **Fair value** | **Total** |
| Africa | - | - | 200 | 3,730 | 3,930 |
| Asia | 13,457 | - | - | - | 13,457 |
| Latin America & the Carribbean | - | - | 2,145 | - | 2,144 |
| Non - region specific | 4,548 | - | - | - | 4,549 |
| **Total balance at December 31** | **18,005** | **-** | **2,345** | **3,730** | **24,080** |

| 2022 | | | | | |
|---|---|---|---|---|---|
| **Loans segmented by geographical area** | **Stage 1** | **Stage 2** | **Stage 3** | **Fair value** | **Total** |
| Africa | - | - | - | 4,909 | 4,909 |
| Latin America & the Carribbean | - | 4,190 | - | - | 4,190 |
| **Total balance at December 31** | **4,717** | **-** | **-** | **-** | **4,717** |
| | **4,717** | **4,190** | **-** | **4,909** | **13,816** |

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

| **Changes in loans to the private sector at AC in 2023** | **Stage 1** | | **Stage 2** | | **Stage 3** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **Gross carrying amount** | **ECL allowance** | **Gross carrying amount** | **ECL allowance** | **Gross carrying amount** | **ECL allowance** | **Gross carrying amount** | **ECL allowance** |
| At December 31, 2022 | 4,737 | -20 | 4,281 | -91 | - | - | 9,018 | -111 |
| Additions | 14,035 | -270 | - | - | - | - | 14,035 | -270 |
| Exposures derecognised or matured / lapsed (excluding write-offs and modifications) | - | - | - | - | -1,158 | 4 | -1,158 | 4 |
| Transfers to Stage 1 | - | - | - | - | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - | - | - | - | - |
| Transfers to Stage 3 | - | - | -4,281 | 91 | 4,281 | -91 | - | - |
| Changes in risk profile not related to transfers | - | 75 | - | - | - | -573 | - | -498 |
| Changes in amortizable fees | -240 | - | - | - | 29 | - | -211 | - |
| Changes in accrued income | 312 | - | - | - | -45 | - | 267 | - |
| Foreign exchange adjustments | -628 | 4 | - | - | -111 | 9 | -739 | 13 |
| **At December 31, 2023** | **18,216** | **-211** | **-** | **-** | **2,996** | **-651** | **21,212** | **-862** |

| Changes in loans to the private sector at AC in 2022 | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount | ECL allowance | Gross carrying amount | ECL allowance | Gross carrying amount | ECL allowance | Gross carrying amount | ECL allowance |
| At December 31, 2021 | - | - | 3,544 | -249 | - | - | 3,544 | -249 |
| Additions | 4,538 | -14 | 1,797 | -159 | - | - | 6,335 | -173 |
| Exposures derecognised or matured / lapsed (excluding write-offs and modifications) | - | - | -1,501 | 87 | - | - | -1,501 | 87 |
| Changes in risk profile not related to transfers | - | -4 | - | 248 | - | - | - | 244 |
| Changes in amortizable fees | - | - | 10 | - | - | - | 10 | - |
| Changes in accrued income | 56 | - | 28 | - | - | - | 84 | - |
| Foreign exchange adjustments | 143 | -2 | 403 | -18 | - | - | 546 | -20 |
| **At December 31, 2022** | **4,737** | **-20** | **4,281** | **-91** | **-** | **-** | **9,018** | **-111** |

## 4. ECL allowances - assessment

ECL allowances are calculated for Interest bearing Securities, Loans at private sector at AC (including off balance loan commitments) and Guarantees Given to customers. The movement in ECL allowances for each of these items is presented in their relevant notes.

To demonstrate the sensitivity of the SICR criteria, the tables below presents the distribution of stage 2 impairments by the criteria that triggered the migration to stage 2. For 2023 there are no balances.

**December 31, 2022**

| ECL allowance - Stage 2 trigger assessment | Loan portfolio | Loan commitments | Total |
|---|---|---|---|
| More than 30 days past due | - | - | - |
| Forbearance | - | - | - |
| Deterioration in credit risk | -91 | - | -91 |
| **Total** | **-91** | **-** | **-91** |

## 5. Equity investments

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

In 2023 the equity investment in Komaza has been written off as there is no visibility for a successful fundraising and the company is running out of cash. Komaza has been in this situation since March.

| | 2023 | 2022 |
|---|---|---|
| Net balance at January 1 | 2,104 | 6,591 |
| Changes in fair value | -2,104 | -4,487 |
| **Net balance at December 31** | **-** | **2,104** |

The following table summarizes the equity investments segmented by sector:

| | 2023 | 2022 |
|---|---|---|
| Agribusiness | - | 2,104 |
| **Net balance at December 31** | **-** | **2,104** |

## 6. Other receivables

| | 2023 | 2022 |
|---|---|---|
| Debtor fees | 102 | 6 |
| **Balance at December 31** | **102** | **6** |

## 7. Provisions

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

## 8. Contributed fund capital and reserves

| | 2023 | 2022 |
|---|---|---|
| **Contributed Fund Capital** | | |
| Contributions DGIS - Available to consortium partners previous years | 55,651 | 42,007 |
| Contributions DGIS - Available to consortium partners current year | 11,748 | 13,644 |
| **Balance at December 31** | **67,399** | **55,651** |

| | 2023 | 2022 |
|---|---|---|
| **Undistributed results** | | |
| Balance at January 1 | -3,950 | -3,357 |
| Net profit / (loss) | -6,689 | -593 |
| **Balance at December 31** | **-10,639** | **-3,950** |

## 9. Net interest income

| | 2023 | 2022 |
|---|---|---|
| Interest on loans measured at AC | 953 | 652 |
| Interest on bank accounts | 412 | - |
| Total interest income from financial instruments measured at AC | 1,365 | 652 |
| Interest on loans measured at FVPL | 505 | 366 |
| Interest on short-term deposits | 281 | - |
| Total interest income from financial instruments measured at FVPL | 786 | 366 |
| **Total interest income** | **2,151** | **1,018** |

## 10. Net fee and commission income

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

## 11. Results from equity investments

| | 2023 | 2022 |
|---|---|---|
| **Results from equity investments:** | | |
| Unrealized results from changes in fair value | -2,104 | -4,487 |
| **Total results from equity investments** | **-2,104** | **-4,487** |

## 12. Results from financial transactions

| | 2023 | 2022 |
|---|---|---|
| Results on sales and valuations of FVPL loans | -2,202 | -2,336 |
| Foreign exchange results | -1,449 | 844 |
| **Total results from financial transactions** | **-3,651** | **-1,492** |

## 13. Net interest expenses

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

## 14. Operating expenses

The following table presents the operating expenses incurred in 2023 and 2022. Next to direct personnel costs, direct project costs relate mainly to audit and advisory expenses. Furthermore, overhead costs incurred relate to legal fees and costs for support staff.

| | **2023** | **2022** |
|---|---|---|
| Direct Personnel costs | -1,380 | -1,415 |
| Other direct project costs | -373 | -411 |
| Overhead / indirect costs | -7 | -7 |
| **Total operating costs** | **-1,760** | **-1,833** |

## 15. Off-Balance Sheet information

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

| **Irrevocable facilities** | **2023** | **2022** |
|---|---|---|
| **Contractual commitments for disbursements of:** | | |
| Loans | 16,049 | 935 |
| **Total irrevocable facilities** | **16,049** | **935** |

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** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

## 16. 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 under IFRS and by balance sheet heading.

| December 31, 2023 | FVPL - mandatory | Amortized cost | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Banks | - | 6,028 | 6,028 |
| Short-term deposits | 20,427 | - | 20,427 |
| Loan portfolio | 3,730 | 20,350 | 24,080 |
| Equity investments | - | - | - |
| Other receivables | - | 102 | 102 |
| **Total Financial assets** | **24,157** | **26,480** | **50,637** |
| **Financial liabilities** | | | |
| Provisions | - | 135 | 135 |
| **Total Financial liabilities** | **-** | **135** | **135** |

| December 31, 2022 | FVPL - mandatory | Amortized cost | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Banks | - | 29,086 | 29,086 |
| Loan portfolio | 4,909 | 8,907 | 13,816 |
| Equity investments | 2,104 | - | 2,104 |
| Other receivables | - | 6 | 6 |
| **Total Financial assets** | **7,013** | **37,999** | **45,012** |

## 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.

Valuation techniques include:

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

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

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

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

| | 2023 | | 2022 | |
|---|---|---|---|---|
| **At December 31** | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| Banks | 6,028 | 6,028 | 29,086 | 29,086 |
| Loans to the private sector at AC | 20,350 | 20,350 | 8,907 | 8,907 |
| **Total non fair value financial assets** | **26,378** | **26,378** | **37,993** | **37,993** |

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 | - | - | - | - |
| **Total financial assets at fair value** | **20,427** | **-** | **3,730** | **24,157** |

| **December 31, 2022** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets at FVPL | | | | |
| Loans portfolio | - | - | 4,909 | 4,909 |
| Equity investments | - | - | 2,104 | 2,104 |
| **Total financial assets at fair value** | **-** | **-** | **7,013** | **7,013** |

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

| | **Loans portfolio** | **Equity investments** | **Total** |
|---|---|---|---|
| Balance at January 1, 2023 | 4,909 | 2,104 | 7,013 |
| Total gains or losses | | | |
| · In profit and loss (changes in fair value) | -2,202 | -2,104 | -4,306 |
| Purchases/disbursements | 688 | - | 688 |
| Interest Capitalization | 423 | - | 423 |
| Accrued income | 83 | - | 83 |
| Exchange rate differences | -171 | - | -171 |
| **Balance at December 31, 2023** | **3,730** | **-** | **3,730** |

| | **Loans portfolio** | **Equity investments** | **Total** |
|---|---|---|---|
| Balance at January 1, 2022 | 4,189 | 6,591 | 10,780 |
| Total gains or losses | | | |
| · In profit and loss (changes in fair value) | -2,336 | -4,938 | - |
| Purchases/disbursements | 2,417 | - | - |
| Interest Capitalization | 177 | - | - |
| Accrued income | 190 | - | - |
| Exchange rate differences | 272 | 451 | - |
| **Balance at December 31, 2022** | **4,909** | **2,104** | **7,013** |

| 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 €0.1m. |
| **Total** | **3,730** | | | |

## 17. Related party information

The Fund defines the Dutch Government as related parties.

### Dutch Government:

The Dutch Ministry of Foreign Affairs, in particular Directoraat-Generaal Internationale Samenwerking (DGIS), sets up and administers the investment funds ("State Funds"), including the DFCD Land-use Facility, according to the Dutch Government's development agenda. DGIS is the main contributor to the DFCD facilities, providing funding upon FMO's request for a net amount of  €25.0 million  in 2023 (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 focus areas - agribusiness, food & water, energy, financial institutions, Dutch business - 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 and the Land Use Facility of DFCD are under FMO's direct management; the execution of Access to Energy – II and the other facilities of DFCD are performed by third parties under FMO's supervision.

The operating expenses of the Fund represent payments made to FMO to reimburse FMO for the costs incurred on the programme.

## 18. 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

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

The LUF Facility Manager 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 and environmental, social and governance ("ESG") 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, clients are subject to a periodic client review, which are in general executed annually. Exposures requiring specific attention are reviewed by the Financial Risk Committee (FRC). The large 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 closely monitored.

# 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

Adverse changes in credit quality can develop within FMO’s emerging market loan portfolio due to specific customer and product risk, or risks relating to the country in which the customer conducts its business. The main source of credit risk arises from investments in emerging markets and off-balance instruments such as loan commitments and guarantees.

Credit risk management is important when selecting and monitoring projects. In this process, a set of investment criteria per sector and product is used that reflects minimum standards for the required financial strength of FMO’s customers. This is further supported by credit risk models that are used for risk quantification, calculations of expected credit loss allowance, and the determination of economic capital use per transaction. Funding decisions depend on the risk profile of the customer and financing instrument. As part of regular credit monitoring, FMO customers are subject to annual reviews at a minimum. Customers that are identified as having financial difficulties fall under an intensified monitoring regime to proactively manage loans before they become non-performing, including quarterly portfolio monitoring meetings. For distressed assets, the Special Operations department actively manages workout and restructuring.

FMO has set internal appetite levels for non-performing exposures and specific impairments on loans. If any of the metrics exceed the appetite levels, Credit will assess the underlying movements and analyze trends per sector, geography, and any other parameter. Credit will also consider market developments and peer group benchmarks. Based on the analysis, Credit will propose mitigating measures to the FRC. If any of the indicators deteriorate further, the Risk department will be involved to assess to what extent the trend is threatening FMO’s capital and liquidity ratios.

### Exposures and credit scoring

The following table shows LUF's total gross exposure to credit risk at year-end. The exposures, including derivatives, are shown gross, before impairments and the effect of mitigation using third-party guarantees, master netting, or collateral agreements. Regarding derivative financial instruments, only the ones with positive market values are presented. The maximum exposure to credit risk increased during the year to €72.2 million at year-end 2023 (2022: €46.3 million).

**Maximum exposure to credit risk**

| | 2023 | 2022 |
|---|---|---|
| **On balance** | | |
| Banks | 6,029 | 29,086 |
| Short term deposits | 20,427 | - |
| Loans to the private sector | | |
| - of which: Amortized cost | 21,450 | 9,052 |
| - of which: Fair value through profit or loss | 8,182 | 7,247 |
| Current accounts with FMO | - | - |
| Other receivables | 102 | 6 |
| **Total on-balance** | **56,190** | **45,391** |
| **Off-balance** | | |
| Commitment | 16,049 | 935 |
| **Total credit risk exposure** | **72,239** | **46,326** |

When measuring the credit risk of the emerging market portfolio at the customer level, the main parameters used are the credit quality of the counterparties and the expected recovery ratio in case of defaults. Credit quality is measured by scoring customers on various financial and key performance indicators. FMO uses a Customer Risk Rating (CRR) methodology. The model follows the EBA guidelines regarding the appropriate treatment of a low default portfolio and uses an alternative for statistical validation to perform the risk assessment of the models when there is limited or no default data.

The CRR models are based on quantitative and qualitative factors and are different for respective customer types. The models for banks and non-banking financial institutions use factors including the financial strength of the customer, franchise value, and the market and regulatory environment. The model for corporates uses factors including financial ratios, governance, and strategy. The project finance model uses factors such as transaction characteristics, market conditions, political and legal environment, and financial strength of the borrower.

Based on these scores, FMO assigns ratings to each customer on an internal scale from F1 (lowest risk) to F20 (default) representing the probability of default. This rating system is equivalent to the credit quality rating scale applied by Moody's and S&P. Likewise, the loss given default is assigned by scoring various dimensions of the product-specific risk and incorporating customer characteristics. The probability of default and loss given default scores are also used as parameters in the IFRS9 expected credit loss model. Please refer to the 'Significant accounting policies' section, for details of the expected credit loss calculation methodology.

## Credit quality analysis

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

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

| Loan portfolio at December 31, 2023 Indicative counterparty credit rating scale of S&P | Stage 1 | Stage 2 | Stage 3 | Fair Value | Total |
|---|---|---|---|---|---|
| F11-F13 (BB-,BB,BB+) | 13,781 | - | - | - | 13,781 |
| F17 and lower (CCC+ and lower) | 4,668 | - | 3,001 | 8,182 | 15,851 |
| **Sub-total** | **18,449** | **-** | **3,001** | **8,182** | **29,632** |
| Less: amortizable fees | -233 | - | -5 | - | -238 |
| Less: ECL allowance | -211 | - | -651 | - | -862 |
| Less: FV adjustments | - | - | - | -4,452 | -4,452 |
| **Carrying value** | **18,005** | **-** | **2,345** | **3,730** | **24,080** |

| Loans commitments at December 31, 2023 Indicative counterparty credit rating scale of S&P | Stage 1 | Stage 2 | Stage 3 | Other | Total |
|---|---|---|---|---|---|
| F14-F16 (B-,B,B+) | 15,823 | - | - | - | 15,823 |
| **Total nominal amount** | **15,823** | **-** | **-** | **-** | **15,823** |
| ECL allowance | -135 | - | - | - | -135 |
| **Total** | **15,688** | **-** | **-** | **-** | **15,688** |

| Loan portfolio at December 31, 2022 Indicative counterparty credit rating scale of S&P | Stage 1 | Stage 2 | Stage 3 | Fair Value | Total |
|---|---|---|---|---|---|
| **F11-F13 (BB-,BB,BB+)** | **4,737** | **-** | **-** | **-** | **4,737** |
| F14-F16 (B-,B,B+) | - | 4,316 | - | 7,247 | 11,563 |
| **Sub-total** | 4,737 | 4,316 | - | 7,247 | 16,300 |
| Less: amortizable fees | - | 35 | - | - | 35 |
| Less: ECL allowance | -20 | -91 | - | - | -111 |
| Less: FV adjustments | - | - | - | -2,338 | -2,338 |
| **Carrying value** | **4,717** | **4,190** | **-** | **4,909** | **13,816** |

| Loans commitments at December 31, 2022 Indicative counterparty credit rating scale of S&P | Stage 1 | Stage 2 | Stage 3 | Other | Total |
|---|---|---|---|---|---|
| F14-F16 (B-,B,B+) | - | - | - | 935 | 935 |
| **Total nominal amount** | **-** | **-** | **-** | **935** | **935** |
| ECL allowance | - | - | - | - | - |
| **Total** | **-** | **-** | **-** | **935** | **935** |

## 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.

NPE is applied at customer level.

The Fund’s NPE ratio increased from 0.0% in 2022 to 10.1% in 2023, mainly caused by Sembrar Sartawi Institución Financiera de Desarrollo.

**Loans past due and impairments 2023**

| | Stage 1 | Stage 2 | Stage 3 | Fair value | Total |
|---|---|---|---|---|---|
| Loans not past due | 18,449 | - | 227 | 8,182 | 26,859 |
| Loans past due: | | | | | |
| -Past due up to 30 days | - | - | - | - | - |
| -Past due 30-60 days | - | - | - | - | - |
| -Past due 60-90 days | - | - | - | - | - |
| -Past due more than 90 days | - | - | 2,773 | - | 2,773 |
| **Subtotal** | **18,449** | **-** | **3,001** | **8,182** | **29,632** |
| Less: amortizable fees | -233 | - | -5 | - | -238 |
| Less: ECL allowance | -211 | - | -651 | - | -862 |
| Less: FV adjustments | - | - | - | -4,452 | -4,452 |
| **Carrying amount** | **18,005** | **-** | **2,345** | **3,730** | **24,080** |

**Loans past due and impairments 2022**

| | Stage 1 | Stage 2 | Stage 3 | Fair value | Total |
|---|---|---|---|---|---|
| Loans not past due | 4,737 | 4,316 | - | 7,247 | 16,300 |
| Loans past due: | | | | | |
| -Past due up to 30 days | - | - | - | - | - |
| -Past due 30-60 days | - | - | - | - | - |
| -Past due 60-90 days | - | - | - | - | - |
| -Past due more than 90 days | - | - | - | - | - |
| **Subtotal** | **4,737** | **4,316** | **-** | **7,247** | **16,300** |
| Less: amortizable fees | - | -35 | - | - | -35 |
| Less: ECL allowance | -20 | -91 | - | - | -111 |
| Less: FV adjustments | - | - | - | -2,338 | -2,338 |
| **Carrying amount** | **4,717** | **4,190** | **-** | **4,909** | **13,816** |

### 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 section.

## 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 its equity portfolio, usually selling its equity stake within a period of 5 to 10 years. The fund can accommodate an increase in the average holding period of its equity investments and wait for markets to improve before pursuing an exit. The equity investment portfolio consists of direct investments, largely in the financial institutions and energy sectors, co-investments with aligned partners (mainly in cooperation with funds), and indirect investments in private equity funds. Equity investments are approved by the Investment Committee. In close cooperation with the Credit and Finance departments, the Private Equity department assesses the valuation of equity investments on a periodic basis, which are approved by the FRC. Diversification across geographical area, sector, and equity type across the total portfolio is evaluated before new investments are made. Based on this performance and the market circumstances, direct exits are pursued by involving intermediaries. In the case of co-investments, our fund managers initiate the exit process as they are in the lead. Exits are challenging due to the limited availability of liquidity in some markets and the absence of well-developed stock markets.

The risk of building an equity portfolio is driven by two factors:

- Negative value adjustments due to currency effects (EUR/USD and USD/local currencies), negative economic developments in emerging markets (EM), and specific investee-related issues. This would negatively affect the profitability of FMO.
- Liquidity of the portfolio – in case the fund is not able to liquidate (part) of its maturing equity portfolio by creating sufficient exits for its direct and co-investment portfolio. This is also reflected in the fund portfolio where some fund managers have to hold longer to their portfolio due to the lack of good exit opportunities

# Concentration risk

## Definition

Concentration risk is the risk that the fund's exposures are too concentrated within or across different risk categories. Concentration risk may trigger losses large enough to threaten the fund's health or ability to maintain its core operations or trigger a material change in our risk profile.

## Risk appetite and governance

Strong diversification within the fund's emerging market portfolio is ensured through stringent limits on individual counterparties (single and group risk limits), sectors, countries, and regions. These limits are monitored by Risk, reviewed regularly, and approved by the FRC, the Managing Board, and the Supervisory Board. Diversification across countries, sectors, and individual counterparties is a key strategy to safeguard the credit quality of the portfolio.

## Country, regional and sector exposures

Diversification within the Fund's portfolio is ensured through limits on country, region and maximum exposures per client/project. The fund has a limit that no more than thirty percent (30%) of the total aggregate funding commitments can be allocated to a single mandate country. In addition, no more than fifty (50%) of total commitments can be allocated to a specific region: Africa, Asia, or Latin America. In the fund risk appetite, the maximum customer exposure for investment is set at EUR 10 million.

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

**Overview country ratings**

| Indicative external rating equivalent 2023 | LUF (%) | FMO-A (%) |
|---|---|---|
| F9 and higher (BBB and higher ratings) | - | 3.8 |
| F10 (BBB-) | - | 7.2 |
| F11 (BB+) | - | 2.9 |
| F12 (BB) | - | 8.6 |
| F13 (BB-) | - | 18.5 |
| F14 (B+) | 18.6 | 13.1 |
| F15 (B) | 38.2 | 17.9 |
| F16 (B-) | 0.0 | 13.9 |
| F17 and lower (CCC+ and lower ratings) | 43.2 | 14.1 |
| **Total** | **100.0** | **100.0** |

**Gross exposure of loans distributed by region and sector**

| | Agribusiness | Financial Institutions | Total |
|---|---|---|---|
| **At December 31, 2023** | | | |
| Africa | 8,409 | - | 8,409 |
| Asia | 4,668 | 9,200 | 13,868 |
| Latin America & the Carribbean | - | 2,773 | 2,773 |
| Non - region specific | 4,582 | - | 4,582 |
| **Total** | **17,659** | **11,973** | **29,632** |

| | Agribusiness | Financial Institutions | Total |
|---|---|---|---|
| **At December 31, 2022** | | | |
| Africa | 7,247 | - | 7,247 |
| Latin America & the Carribbean | - | 4,316 | 4,316 |
| Non - region specific | 4,737 | - | 4,737 |
| **Total** | **11,984** | **4,316** | **16,300** |

## 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 | 6,028 | - | - | - | - | 6,028 |
| Short-term deposits | 20,427 | - | - | - | - | 20,427 |
| Loans fair value through profit or loss | - | - | - | 3,730 | - | 3,730 |
| Loans at amortized cost | 11,241 | - | 4,560 | 4,549 | - | 20,350 |
| Equity investments fair value through profit or loss | - | - | - | - | - | - |
| Other receivables | - | - | - | - | 102 | 102 |
| **Total assets** | **37,696** | **-** | **4,560** | **8,279** | **102** | **50,637** |
| **Liabilities and Fund Capital** | | | | | | |
| Accrued liabilities | - | - | - | - | - | - |
| Provisions | - | - | - | - | 135 | 135 |
| Fund Capital | - | - | - | - | 50,502 | 50,502 |
| **Total liabilities and Fund capital** | **-** | **-** | **-** | **-** | **50,637** | **50,637** |
| | | | | | | |
| **Interest sensitivity gap 2023** | **37,696** | **-** | **4,560** | **8,279** | **-50,535** | |

**Interest re-pricing characteristics**

| December 31, 2022 | <3 months | 3-12 months | 1-5 years | >5 years | Non-interest-bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Banks | 29,086 | - | - | - | - | 29,086 |
| Short-term deposits | - | - | - | - | - | - |
| Loans fair value through profit or loss | - | - | - | 4,909 | - | 4,909 |
| Loans at amortized cost | - | - | 4,224 | 4,683 | - | 8,907 |
| Equity investments fair value through profit or loss | - | - | - | - | 2,104 | 2,104 |
| Other receivables | - | - | - | - | 6 | 6 |
| **Total assets** | **29,086** | **-** | **4,224** | **9,592** | **2,110** | **45,012** |
| **Liabilities and Fund Capital** | | | | | | - |
| Accrued liabilities | - | - | - | - | - | - |
| Provisions | - | - | - | - | - | - |
| Fund Capital | - | - | - | - | 45,012 | 45,012 |
| **Total liabilities and Fund capital** | **-** | **-** | **-** | **-** | **45,012** | **45,012** |
| | | | | | | |
| **Interest sensitivity gap 2022** | **29,086** | **-** | **4,224** | **9,592** | **-42,902** | **-** |

# 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

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 | 2,850 | 3,178 | 6,028 |
| Short-term deposits | 15,002 | 5,425 | 20,427 |
| Loans portfolio | - | 24,080 | 24,080 |
| Equity investments | - | - | - |
| Other receivables | - | 102 | 102 |
| **Total assets** | **17,852** | **32,785** | **50,637** |
| **Liabilities and Fund Capital** | | | |
| Accrued liabilities | - | - | - |
| Provisions | - | 135 | 135 |
| Fund Capital | 50,502 | - | 50,502 |
| **Total liabilities and fund capital** | **50,502** | **135** | **50,637** |

| | | | |
|---|---|---|---|
| Currency sensitivity gap 2023 | | 32,651 | |
| Currency sensitivity gap 2023 excluding equity investments | | 32,651 | |

**Currency risk exposure (at carrying values)**

| December 31, 2022 | EUR | USD | Total |
|---|---|---|---|
| **Assets** | | | |
| Banks | 28,084 | 1,002 | 29,086 |
| Short-term deposits | - | - | - |
| Loans portfolio | - | 13,816 | 13,816 |
| Equity investments | - | 2,104 | 2,104 |
| Other receivables | - | 6 | 6 |
| **Total assets** | **28,084** | **16,928** | **45,012** |
| **Liabilities and Fund Capital** | | | |
| Accrued liabilities | - | - | - |
| Provisions | - | - | - |
| Fund Capital | 45,012 | - | 45,012 |
| **Total liabilities and fund capital** | **45,012** | **-** | **45,012** |

| | | | |
|---|---|---|---|
| Currency sensitivity gap 2022 | | 16,928 | |
| Currency sensitivity gap 2022 excluding equity investments | | 14,824 | |

**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% | 3,265 |
| USD value decrease of 10% | -3,265 |

**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% | 1,693 |
| USD value decrease of 10% | -1,693 |

The sensitivities employ simplified scenarios. The sensitivity of profit and loss account and shareholders' equity to possible changes in the main foreign currencies is based on the immediate impact on the financial assets and liabilities held at year-end. This includes the effect of hedging instruments.

## Business Risk

## Environmental, Social and Governance risks

### 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

FMO has a cautious appetite for ESG risk in investments. FMO strives for investments to be brought in line with our ESG risk mitigation requirements in a credible and reasonable time frame. It is understood and accepted that customers/investees need knowledge and resources to implement ESG improvements, so full adherence cannot generally be expected at the start of the relationship. Consequently, the appetite for ESG risk is open during the initial phases of an investment and reduces over time. The appetite for unmitigated ESG risk is minimal for repeat investments. At the portfolio level, FMO also has a cautious appetite for ESG risk. In view of FMO's own capacity to support and monitor customers/investees in improving their ESG risk mitigation, FMO seeks a manageable mix of customers/investees with (partially) unmitigated ESG risk and customers/investees with adequate risk mitigation in place. FMO accepts a limited gap in successful ESG risk management to our standards. This gap acknowledges residual risk posed by contextual and implementation challenges in our markets.

As part of its investment process, FMO screens and categorizes all customers on ESG risk. For a detailed description of our ESG risk management process, refer to the chapter 'Our investment process'.

Our ESG assessment of high-risk customers is integrated into the investment process. FMO monitors and rates gross risk exposure and customer performance on key ESG risks using FMO's proprietary Sustainability Information System (SIS). SIS ratings are revised throughout the lifetime of the investment as part of the annual review cycle of each customer, enabling FMO to have an up-to-date portfolio-wide view of the ESG risks in its portfolio.

FMO's ESG target indicates portfolio alignment with our ESG risk appetite. Our ESG target of 90% refers to 90% of the ESG risks of our high ESG risk portfolio managed adequately by our customers/investees. Our methodology is further elaborated in the 'ESG target' section.

# 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 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

### 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, due to delayed 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 the 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. Throughout 2023, FMO concentrated on the continuous improvement of its FEC framework, which included periodic reviews 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.

Building a better working world

## Independent auditor's report

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

## Report on the audit of the special purpose accounts for the year ended 31 December 2023 included in the annual report

### Our opinion

We have audited the special purpose annual accounts of the Land Use Facility (hereinafter: LUF) prepared by Nederlandse Financierings-maatschappij voor Ontwikkelingslanden N.V. (hereinafter: FMO), based in The Hague, as of 31 December 2023 (hereinafter: the special purpose annual accounts).

In our opinion the special purpose annual accounts of LUF as of 31 December 2023 have been prepared, in all material respects, in accordance with the grant requirements.

The applicable criteria on the basis of which FMO has prepared the special purpose annual accounts are the grant requirements as described in Grant decision Dutch Fund for Climate Development (hereinafter: DFCD) activity number 4000002735 (hereinafter: grant requirements).

The special purpose annual accounts comprise:

- The Statement of Financial Position as at 31 December 2023
- the Statement of Comprehensive Income
- the Statement of Changes in fund capital
- the Statement of Cash Flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

### Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing, and the guidelines as included in the Audit Protocol of DFCD. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the special purpose annual accounts section of our report.

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

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

### Emphasis of the basis for financial reporting and the restriction on use and distribution

The special purpose annual accounts have been prepared based on the accounting principles as described in the grant requirements and is intended for the Dutch State with the aim to assist FMO to comply with the grant requirements. As a result, the special purpose annual accounts may not be suitable for other purposes. Therefore, our auditor's report is intended solely for FMO and the Dutch State and should not be distributed to or used by others. Our opinion is not modified in respect of this matter.

## Report on other information included in the annual report

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

- The management report
- Performance on our strategy
- International principles

Based on the following procedures performed, we conclude that the other information is consistent with the special purpose annual accounts and does not contain material misstatements.

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

## Description of responsibilities regarding the special purpose annual accounts

### Responsibilities of management for the special purpose annual accounts

Management is responsible for the preparation of the special purpose annual accounts in accordance with the grant requirements. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the special purpose annual accounts that is free from material misstatement, whether due to fraud or error.

### Our responsibilities for the audit of the special purpose annual accounts

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

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

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

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, the guidelines as included in the Audit Protocol of DFCD, ethical requirements and independence requirements.

Our audit included among others:

- Identifying and assessing the risks of material misstatement of the special purpose annual accounts, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Evaluating the overall presentation, structure and content of the special purpose annual accounts, including the disclosures
- Evaluating whether the special purpose annual accounts represent the underlying transactions and events free from material misstatements

Communication

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

Amsterdam, 28 March 2024

Ernst & Young Accountants LLP

signed by J.G. Kolsters

# Colophon

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

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