

# FMO

Entrepreneurial  
Development  
Bank

ANNUAL  
REPORT  
2023



# STAYING THE COURSE

### ← Cover photo

This is Luis Fernando Arias. The name of his farm is called "El Danubio" and is located in the municipality of Anserma, Caldas in Colombia. In total, he has 4.1 hectares of which 3.9 hectares are under coffee. He's been part of the FMO program, through Sucafina, since 2020 but has had his farm for more than 22 years. In the photo, he is drying the coffee in the sun and stirring it so that the drying is uniform.

FMO supports Sucafina, a multinational coffee merchant and active across the coffee value chain. Sucafina provides direct support to smallholder farmers for the purchase, storage and transit of green coffee beans. Furthermore, they assist farmers such as Luis, with growing specialty coffees, with diversifying into other crops and by providing access to banking services and markets.

**WE ENABLE  
ENTREPRENEURS TO  
INCREASE INCLUSIVE  
AND SUSTAINABLE  
PROSPERITY**

# ABOUT THIS REPORT

This integrated annual report covers activities that took place in or had an effect on the reporting year. The report covers the period from 1 January 2023 to 31 December 2023 and was published on 22 March 2024 on FMO's website. The Annual General Meeting of Shareholders (AGM) is scheduled to be held on 24 April 2024.

This copy of the annual financial reporting of FMO for the year ended 31 December 2023 is not presented in the ESEF-format as specified in the Regulatory Technical Standards on ESEF (Delegated Regulation (EU) 2019/815). The ESEF single reporting package is available on FMO's [website](#).

The report is accompanied by one supplemental report: FMO's disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This is not part of the assurance scope.

## Presentation of information

This annual report of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) has been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and with Title 9 of Book 2 of the Dutch Civil Code. In addition, the non-financial information in this report has been prepared in accordance with the GRI Standards and by following the principles of the Integrated Reporting Framework. Furthermore, the annual report includes a disclosure on FMO's commitment to the Principles for Responsible Banking (PRB).

The Board Report consists of the chapters 'At a glance', 'Report of the Management Board', 'Report of the Supervisory Board', 'Corporate governance', 'Risk management', 'Materiality assessment and stakeholder engagement', 'External commitments', 'EU Taxonomy' and 'How we report'.

We strive to report transparently on our strategy, the way we implement it to create value for our stakeholders and the dilemmas we face along the way. The report provides a comprehensive overview of our financial and sustainability performance. Our reporting approach for the sustainability information is described in the chapter 'How we report'.

## Material topics

The materiality assessment is a formal process that aids FMO in identifying and assessing our impacts on the economy, environment, and people, and determining the organization's material topics. The result of the assessment helps us decide what information to disclose in our annual report. The assessment further serves as input for our stakeholder dialogues and strategic plans. A detailed description of the approach and results are provided in the chapter 'Materiality assessment and stakeholder engagement'.

## External assurance and audit

We have engaged Ernst & Young Accountants LLP to audit the consolidated and company financial statements, to perform a review of the sustainability information in specific chapters in scope, and to audit selected elements of this report. The scope, procedures, findings and conclusions from this engagement are summarized in the 'Independent auditor's report' and 'Assurance report of the independent auditor'.

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## FMO is the Dutch entrepreneurial development bank

FMO is the Dutch entrepreneurial development bank. As a leading impact investor, FMO supports sustainable private sector growth in emerging markets and developing economies by investing in ambitious projects and entrepreneurs.

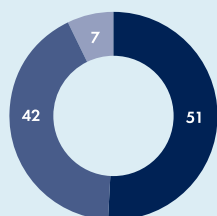
We believe in a world in which, by 2050, more than 9 billion people live well and within planetary boundaries. This is the future we are working towards in our long-term strategy towards 2030: Pioneer - Develop - Scale.

For more than 50 years we have been enabling entrepreneurs to make local economies more inclusive, productive, resilient and sustainable. We create development impact by being additional in financing the private sector in low- and middle-income countries, focusing on (1) Agribusiness, Food and Water, (2) Energy, and (3) Financial Institutions.

FMO has its head office in The Hague (the Netherlands) and local offices in Johannesburg (South Africa), Nairobi (Kenya), and San José (Costa Rica).

### Organization and ratings

Ownership structure %



- The State of the Netherlands
- Dutch banks
- Employers' associations, trade unions, corporate and individual investors

Ratings

**AAA**  
Fitch ratings

**AAA**  
Standard&Poor's

**2<sup>nd</sup>** /1026 banks  
Sustainalytics relative performance (1st=lowest risk)

**Prime**  
ISS ESG rating

Employees

**803**  
Total number of employees

**72**  
Number of nationalities

**47%**  
women in senior and middle management

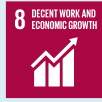
### Financial performance



<sup>1</sup> This is an alternative performance measure (APM) that is not included in the financial statements. Further details on APMs are provided in the chapter 'How we report'.

# 2023 Performance

## Investing in inclusive and sustainable prosperity<sup>1</sup>



### Decent Work and Economic Growth



### Reduced Inequalities

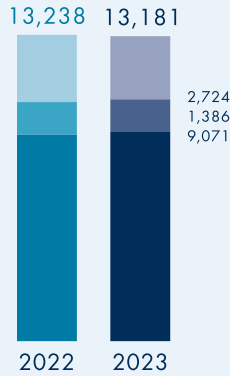


### Climate Action

#### Total committed portfolio<sup>2</sup>

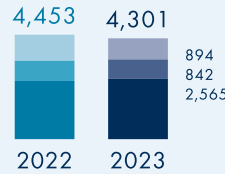
33% of our total committed portfolio aims to contribute to reduced inequalities and 36% to climate action.

- Direct mobilized funds
- Public funds
- FMO's balance sheet



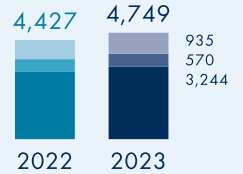
**€13,181 million**  
Total committed portfolio

of which



**€4,301 million**  
RI-labelled total committed portfolio

and

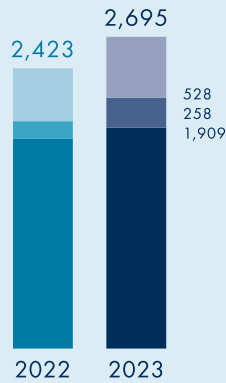


**€4,749 million**  
Green-labelled total committed portfolio

#### Total new investments<sup>2</sup>

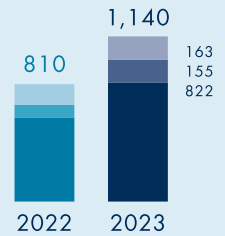
42% of the total new investment volume aims to contribute to reduced inequalities and 40% to climate action.

- Direct mobilized funds
- Public funds
- FMO's balance sheet



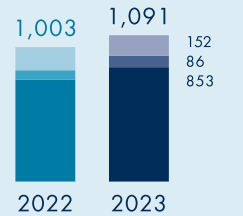
**€2,695 million**  
Total new investments

of which



**€1,140 million**  
RI-labelled total new investments

and

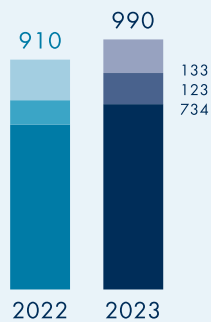


**€1,091 million**  
Green-labelled total new investments

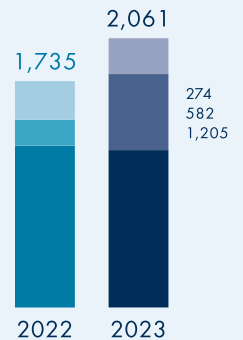
#### Other key indicators<sup>3</sup>

Our portfolio resulted in an estimated 990 thousand jobs supported and 2,061 ktCO<sub>2</sub>e financed avoided GHG emissions.

- Direct mobilized funds
- Public funds
- FMO's balance sheet



**990 thousand**  
Jobs supported



**2,061 ktCO<sub>2</sub>e**  
Total financed avoided greenhouse gas emissions

1. In addition to investments made on its own balance sheet, FMO also facilitates investments made through public funds and direct mobilized funds. The risk is for the providers of this capital.  
2. This is an alternative performance measure (APM) that is not included in the financial statements. Further details on APMs are provided in the chapter 'How we report'.  
3. The comparative figure for this indicator has been adjusted to include direct mobilized funds.







**01**

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# **REPORT OF THE MANAGEMENT BOARD**

# LETTER FROM THE MANAGEMENT BOARD .....



From left to right: Huib-Jan de Ruijter, Fatoumata Bouaré, Peter Maila, Michael Jongeneel, Franca Vossen

## Staying the course

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

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

Dutch companies can also spark new business opportunities in emerging markets, contributing to the SDGs by an often innovative way of working. We support them for instance through Invest International - as a 49 percent shareholder, and also by improving the investment ecosystem in promising markets, like Ethiopia. There, in 2023, FMO was the first investor in the financial sector, opening doors for other financiers and improving the financing circumstances for Dutch businesses.

To create more local investment opportunities, FMO is also fostering the new generation of entrepreneurs in emerging markets. We do this by building a new market creation pillar within FMO. Our aim is to help upcoming sustainable businesses grow to the level where they can absorb regular funding, first from us and ultimately from institutional investors. This will allow them to contribute to job creation, local prosperity and climate action on a larger scale. By providing technical assistance and investment partners, we will support the development of these currently unbankable, yet potentially impactful opportunities, into bankable and scalable businesses, starting in Africa.

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 the 2030 goals. Staying the course, we had similar priorities as in 2022: growing impactful business, ensuring FMO's foundations are solid, and organizational development.

## Growing impactful business

FMO invests in three sectors, namely (1) Agribusiness, Food and Water, (2) Energy, and (3) Financial Institutions. This allows us to combine climate action with socio-economic goals, focusing our impact on SDG 8 (Decent Work and Economic Growth), SDG 10 (Reduced Inequality) and SDG 13 (Climate Action).

In 2023, we supported our customers with approximately €2.7 billion in total new investments (2022: €2.4 billion) of which €1.9 billion was made through FMO, €258 million through public funds, and €528 million through direct mobilized funds (2022: €1.8 billion, €153 million, and €457 million respectively). At €13.2 billion, our total committed portfolio remained roughly the same as last year due to the level of loan repayments and exits in our portfolio as well as the negative effects of the EUR/USD exchange rate. Some of the highlights per sector are:

- Agribusiness, Food and Water – rolling out our local for local food agenda (Limbomar and Limbopack in Ecuador) and green financing agenda (Merensky Timber in South Africa).
- Energy – Expanding into areas beyond renewable energy generation with battery storage (Walo Storage in Senegal) and commercial and industrial/rooftop solar solutions (GreenYellow Smart Solutions Vietnam).
- Financial Institutions – onboarding more tech-enabled players (Cash Plus in Morocco) and continuing to roll out our risk-sharing solutions with traditional banks (Araratbank in Armenia).

To steer our portfolio, we label investments that directly contribute to Reduced Inequalities (SDG 10) and Climate Action (SDG 13). With respect to reducing inequalities (RI), our overall RI-labelled total committed portfolio amounted to €4.3 billion, achieving €1,140 million in RI-labelled total new investments in 2023 (2022: €810 million), a strong increase despite challenging global circumstances. Contributing to climate action, our Green-labelled total committed portfolio amounted to €4.7 billion. This was, among others, driven by further growth in Green-labelled total new investments which came in at €1,091 million (2022: €1,003 million).

We were grateful to see the recognition at and after COP28 of the SDG Loan Fund, an innovation widely praised as a leading example of the mobilization of private capital. The fund unlocks around US\$1 billion institutional capital towards the SDGs through a unique blended finance cooperation, set-up by Allianz, MacArthur Foundation, and FMO. We hope and expect other institutional investors, DFIs, and foundations to replicate this initiative, contributing to impact that would otherwise not be possible.

Following the launch of our Climate Action Plan, in 2023 we rolled out the required actions. This included work streams dedicated to further developing our Paris alignment approach, our data strategy, KPIs for our climate strategy and preparing to operationalize our climate risk approach. We made strong progress on all work streams and expect most to be ready for operationalization in early 2025.

Strengthening partnerships is an essential part of our strategy. In recognition of the success of two previous European Commission guarantee programs (NASIRA and FMO Ventures Program), we have received approval for three new proposals that are currently in the contracting phase. The Dutch government also strengthened its support to the funds we manage on its behalf: DFCD received a €40 million top-up, Access to Energy Fund €40 million and MASSIF €69 million plus €22 million specifically allocated to market creation.

In October 2023, we organized the Future of Finance event, with UN Secretary-General's Special Advocate for Inclusive Finance for Development Queen Máxima and Klaas Knot, Chairman of the Financial Stability Board, as keynote speakers. Following the success of this event, we hosted the Future of Energy in Amsterdam in February 2024. Following the pandemic, we highly value these opportunities to meet up with clients and partners in person and to exchange views and best practices firsthand.

## Ensuring a solid foundation

Over the year 2023, our net profit amounted to €65 million (2022: €1 million). Looking at our regular income, based primarily on dividend and interest payments, we were well in balance with our operating expenses. Loan provisions were materially lower than last year, then largely impacted by exposures in Ukraine, Sri Lanka, and Myanmar. The overall trend in the EUR/USD exchange rate had a negative effect

on our net profit due to foreign exchange losses recorded on our investment portfolios. The non-performing exposures ratio was 9.8 percent (2022: 11.9 percent). The Common Equity Tier 1 (CET-1) ratio was 22.0 percent (2022: 23.8 percent), with the movement driven primarily by regulatory changes impacting the calculation capital requirements. Combined with our impact results, these are positive numbers in a highly volatile environment.

Last year, the agreement between FMO and the Dutch State, which formalizes our mandate, was renewed for the first time since 2009. The key principles of this agreement remain the same, just like FMO's AAA rating, mirroring the ratings of the Dutch State.

To ensure FMO continues to comply with regulations, several work streams and projects are currently underway. For instance, we are in the process of implementing the Corporate Sustainability Reporting Directive (CSRD) and we intend to align with the European Central Bank's expectations for climate-related and environmental risks in 2024. We will be required to publish our first report in accordance with the CSRD and Pillar III in 2025.

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

## Organizational development

To increase our impact and meet the expectations of our stakeholders, we continued to strengthen and streamline our organization. The recruitment of new colleagues progressed well despite a challenging labor market, and we prioritized employee wellbeing and engagement. We are implementing an agile way of working in several domains. We also launched our values and updated behaviors, which marks the beginning of a multi-year program to further empower our colleagues to maximize impact.

The classification of FMO as a 'World Class Workplace' by Effectory, which conducted our bi-annual employee engagement survey, reflects the improved engagement levels and work satisfaction. Our employees are proud of our vision and goals, as well as the atmosphere and trust within their team. Efficiency remains the most important area for improvement and is high on our agenda. We would like to take this opportunity to thank our staff for their dedication to our mission, their commitment, and all the impactful work they have done in 2023.

## Looking ahead

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

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.

**Fatoumata Bouaré**, Chief Finance & Operations Officer

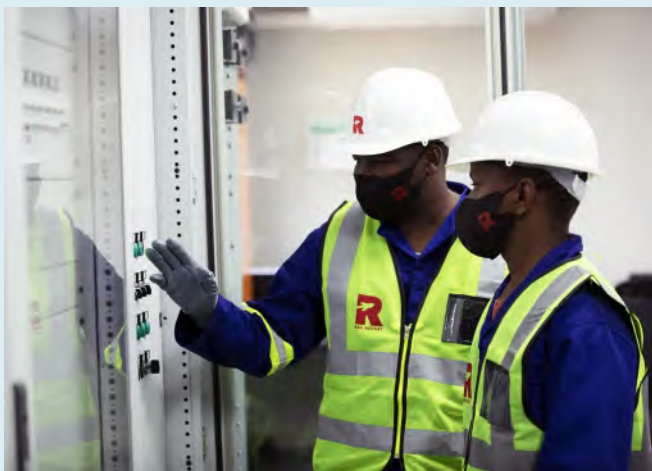
**Franca Vossen**, Chief Risk Officer

**Huib-Jan de Ruijter**, Co-Chief Investment Officer

**Michael Jongeneel**, Chief Executive Officer

**Peter Maila**, Co-Chief Investment Officer

## A selection of our investments



### Red Rocket Holding

South African renewable energy developer

US\$100 million equity | FMO | SDG 8, 13

Red Rocket is an independent power producer based in Cape Town, South Africa. It develops, owns, and operates renewable energy projects throughout the continent of Africa. To date, Red Rocket has a 2,727 megawatt project portfolio in operation, under construction, and/or ready to reach financial close. In 2023, FMO contributed a US\$100 million equity commitment to acquire, together with a consortium of investors, an interest in Red Rocket Holdings and to make a new capital injection of US\$160 million. This 100% Green financing will contribute to the long-term development, construction, and operation of (greenfield) renewable energy projects, with a focus on wind and solar to reduce the country's emissions.

### Cash Plus

Financial service provider in Morocco

€17 million equity | FMO | SDG 8, 10

Cash Plus is a licensed payment service provider in Morocco and one of the leading payment institutions in the country with around 3,900 Point of Sale locations. By providing cash-in and cash-out services for inbound (inter)national remittances, Cash Plus provides the underserved with the opportunity to make and receive payments and withdraw transferred funds in cash. As part of a consortium with MC IV and IFC, FMO provided a €17 million equity injection to support the growing demand for (digital) payment services in Morocco. The financing provided - to the tune of €57 million - will support Cash Plus' (inter)national expansion, and boost their digital financial services, such as their M-Wallet.



### Walo Storage S.A.S.U.

Battery storage project in Senegal

€31 million debt | FMO, AEF, direct mobilized funds | SDG 7, 8, 10 13

While Senegal has relatively high electrification rates of 88% in urban areas, rural regions reach only 38%. Africa REN, an independent power producer in West Africa, developed the Walo Storage project in Senegal, the first battery storage project in the region dedicated to frequency regulation. This new technology will stabilize grid frequency and reduce power outages, critical in a country that faces grid constraints due to limited spinning reserves. FMO committed €19.5 million to the project, with €8 million from the Access to Energy Fund as part of a €31 million syndicated facility. Africa REN will develop, construct, and operate a 10 MW/20MWh battery storage facility and 16 MW solar power plant in Bokhol, the north of Senegal. This will help Senegal generate 16MW of green energy, while avoiding up to 21,000 tons of CO<sub>2</sub> annually.

## Merensky Timber

Timber company in South Africa

US\$20 million equity | FMO | SDG 8, 13

Forestry plays an important role in climate change mitigation, and plantations provide significant carbon sequestration and storage opportunities. Merensky Timber is one of the leading integrated plantation and processing groups of companies in Africa with a base of 65,000 hectares of pine and eucalyptus plantations and three sawmills across South Africa. They supply a range of FSC-certified forest products to meet the demand of Africa and global markets. To support the sustainable forestry sector and bolster the local economy through job creation, FMO invested US\$20 million together with Africa Forestry Fund II (totaling US\$40 million), a forestry fund managed by Criterion Africa Partners. The co-investment also supports value creation initiatives including a gradual increase in carbon sequestration conversion from pine to eucalyptus.



## Genneia S.A.

Renewable energy generation company in Argentina

US\$85 million debt | FMO, direct mobilized funds | SDG 7, 8, 13

Genneia is a champion in the Argentinian renewable energy sector, holding roughly a quarter of the country's installed renewable energy capacity. They have a gross installed capacity of around 1,330 MW, with around 966 MW stemming from wind and solar plants. To support climate mitigation, FMO arranged a US\$85 million syndicated facility, while contributing US\$45 million to its long-term customer. The funding will finance the construction of two greenfield renewable energy projects: a 60 MW photovoltaic solar plant, and a 140 MW wind farm. Both projects will supply green electricity to corporate off-takers, enabling these companies to meet their sustainability targets.

## Dashen Bank Share Company

Universal bank in Ethiopia

US\$20 million debt | MASSIF | SDG 2, 8, 10

Ethiopia's agricultural sector employs 80% of the population, contributes 39% to the GDP and generates 90% of its foreign currency from exports. However, access to foreign exchange is severely limited. To drive agricultural exports in Ethiopia, FMO provided a senior loan of US\$20 million to its new customer Dashen Bank. It is one of the largest private banks in Ethiopia, focused on corporate and SME banking in the agricultural sector. It serves over 5 million customers through more than 850 branches and employs more than 10,000 people. FMO's first direct loan to an Ethiopian financial institution will provide much-needed capital for the expansion of growing businesses, supporting farmers to increase productivity and boost earnings. This will contribute to financially inclusive growth in the country.





## HPW Fresh & Dry Ghana

### Tropical fruit producer active in West Africa

€2 million debt + €320 thousand technical assistance | Building Prospects | SDG 2, 8, 10, 13

HPW Fresh & Dry is a responsible producer of tropical dried fruits and fruit snacks. With two subsidiaries in Ghana and Côte d'Ivoire, HPW has expanded into one of the leading dried fruit producers in West Africa that supplies the international market. Together, they employ around 2,000 workers and directly positively impact roughly 1,500 smallholder farmers. FMO provided a €2 million loan through the Building Prospects Fund to support HPW Ghana's working capital needs and factory expansion. FMO also provided a technical assistance grant to support farmers and processors in Burkina Faso to improve produce quality. This will support smallholder farmers in fragile contexts and strengthen the agribusiness value chain.

## Khan Bank JSC

### Commercial bank in Mongolia

US\$35 million debt | FMO | SDG 8, 10, 13

Mongolia faces significant environmental challenges: air pollution in Ulaanbaatar, the capital, is among the highest in the world, in part due to burning wood and coal at home and coal power plants. The average temperatures have also increased faster than the global average. As part of FMO's commitment to climate action, FMO invested US\$35 million in a US\$60 million green bond to Khan Bank, the first-ever green bond issued in the international market in Mongolia. Khan Bank is a long-term, trusted customer of FMO, and is the country's largest bank, reaching around 82% of Mongolians, even in the most remote regions. The bond, led by IFC, will support Khan Bank's goal to increase green lending to at least 10% of loan portfolio by 2030, while also avoiding tens of thousands of tons of GHG emissions annually.



## Asociación de Cooperativas Argentinas

### Cooperatives association in Argentina

US\$80 million debt | FMO, direct mobilized funds | SDG 8

The agricultural sector in Argentina has experienced significant growth in recent decades, due in part to high soil fertility, favorable climate conditions, and proximity to the main river, which reduces transport costs. ACA is an Argentinian second-grade cooperative that was founded in 1922. The company brings together 137 first-degree cooperatives and reaches more than 50,000 farmers. ACA functions as a 'one-stop shop', providing agricultural inputs, seeds, logistics, storage, and every other imaginable service farmers may need. FMO and Rabobank arranged a US\$80 million pre-export finance syndicated loan facility with its long-term customer, with FinDev Canada's participation. FMO contributed US\$40 million, which provided ACA with the hard currency needed to continue exporting grain and oilseeds and supporting its member cooperatives.

## MCE Empowering Sustainable Agriculture Fund LLC

Gender-inclusive agribusiness fund active globally

US\$10 million debt | MASSIF | SDG 5, 8, 10, 13

MCE is a US based non-profit impact investing firm that invests in rural communities through small and growing agribusinesses. MESA is the organization's first investment fund expanding on MCE's experience in scaling economic opportunities in local communities and enhancing the climate resilience of smallholder farmers. The capital will be provided to gender-inclusive agribusinesses, either through direct lending or via financial service providers (FSPs.) FMO provided a US\$10 million loan to this high-impact fund which will be on-lent to agri-focused SMEs with significant exposure to women, and rural and agricultural-focused FSPs in Sub-Saharan Africa, Latin America, and Southeast Asia.



## GreenYellow Smart Solutions

Commercial and industrial renewable energy provider in Vietnam

US\$4.5 million debt | FMO | SDG 7, 8, 13

Vietnam has immense potential for a rapid increase in renewable energy: the country has committed to going net-zero by 2050, which requires increasing its renewable energy mix by approximately 78%. To increase the supply of clean and affordable energy for commercial and industrial enterprises, FMO signed its first energy transaction in Vietnam with GreenYellow, an international energy transition services company. FMO provided US\$4.49 million in synthetic local currency through a syndicated transaction. The transaction supports the installation of rooftop solar photovoltaic installations, with a total installed capacity of up to 30 MW at its peak, reducing the country's reliance on fossil fuel-based generation capacity.

## Limbomar and Limbopack S.A.

Climate smart aquaculture company in Ecuador

US\$35 million debt | FMO, direct mobilized funds | SDG 2, 5, 8, 13

Limbomar and Limbopack are both part of Grupo Almar, one of the top five shrimp producers globally. They are a frontrunner in climate smart aquaculture with over 40 years of experience and Global Gap, ASC and SSP certification. FMO provided a US\$35 million loan to support the companies' decarbonization efforts and finance the construction of a new MSC certified processing and packaging plant. It will also create 1,000 jobs, 70% of which are earmarked for women. By electrifying the farms (replacing diesel with primarily green energy), Limbomar and Limbopack will not only meet climate action goals to reduce GHG emissions, but will also help create automatization that will allow the companies to produce more food with the same resources.





# EXTERNAL ENVIRONMENT

**The world around us is constantly changing. Social, environmental and economic effects resulting from persistent challenges require not only our customers but also FMO and its partners to become ever more resilient and adaptable to turn these challenges into opportunities to create positive change.**

This chapter outlines the most relevant external trends and developments that affected the way we do business and our ability to achieve our strategic ambitions towards the Sustainable Development Goals (SDGs).

## **Global trends affecting our markets**

### **Increasing geopolitical tensions and instability**

Heightened geopolitical tensions in certain regions have impacted the markets in which we invest. This included the ongoing war in Ukraine, new emerging conflicts in Sudan and Niger and the ongoing civil war in Myanmar. In the Middle East, the war in Gaza has raised concerns about the situation further escalating in the region. FMO remains vigilant in monitoring these situations and ensuring we provide the necessary support to our customers amid these challenging circumstances.

### **Economic growth fueled by strong debt issuance**

FMO aims to maximize its contributions towards SDG 8, Decent Work and Economic Growth. Global debt, including borrowing by governments, households and businesses, reached an all-time high.<sup>1</sup> Factors that have driven high sovereign debt levels in recent years, particularly in developing countries, include the need for increased public spending to tackle the global pandemic, the cost-of-living crisis and the effects of climate change. This is further exacerbated by an unequal access to finance, higher interest rates, currency depreciation, and sluggish growth. According to the IMF, more than half of low-income countries are at risk of distress or are already in distress.

The IMF estimated a decline in global growth from 3.5 percent in 2022 to 3.1 percent in 2023. Growth in emerging markets and developing economies was estimated to remain at 4.1 percent. There were notable regional differences, with growth in emerging and developing Asia at 5.4 percent, mainly driven by India (6.7 percent). For low-income countries GDP was estimated at 4.0 percent.<sup>2</sup>

In low- and middle-income countries, the slower than expected economic rebound and cost-of-living crisis had a downward pressure on job decency and real wages and increased the risk of poorer households slipping into poverty. In its 2023 report the ILO warns that working poverty is on the rise in low-income countries, meaning that employed people live in households that fall below the poverty threshold.

### **Inequalities remain high**

FMO continues to see a need to focus on SDG 10, Reduced Inequalities. The pandemic has exacerbated income inequality globally, marking the most significant rise in three decades. Furthermore, after 25 years of decline, the number of people living in poverty is again on the rise. Particularly in low and lower middle-income countries, income gains for the bottom 40 percent have been sluggish, contributing to a widening income gap between the poorest and wealthiest nations (between-country inequality).

With regards to *between-country inequality*, least developed countries (LDCs) are among the low-income countries that are most often faced with severe structural impediments to sustainable development. In recent years, LDCs have experienced a sharp slowdown in economic growth as they are

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1 Institute of International Finance. Debt Policy and Research.

2 International Monetary Fund (January 2024). World Economic Outlook: Navigating Global Divergences.

less equipped to absorb the effects of recent crises related to the pandemic, climate change, geopolitical tension and inflation. In 2023, the combined GDP of LDCs was estimated to be 10 percent lower than was projected before the pandemic. This is estimated to have resulted in 15 million more people living in extreme poverty compared to 2019.<sup>3</sup> The International Institute for Sustainable Development reports that while foreign investments in SDG-related sectors in developing countries increased by 70 percent in 2021, the share of investments flowing to LDCs dropped from 19 percent in 2020 to 15 percent in 2021.<sup>4</sup>

With regards to *within-country inequality*, income gains for people among the bottom 40 percent of the income distribution living in low and lower middle-income countries continue to lag. People within this group often deal with a plethora of other challenges that hinder their long-term social and economic development, including lack of access to electricity, food security and decent work. At the same time, technological developments such as digital ID, fintech, and cell phone usage offer opportunities to provide basic services to improve people's livelihood.

## Climate change will undermine SDGs if not urgently addressed

Climate action continues to be high on the agenda for FMO. In 2023, we experienced the hottest year on record and were again faced with extreme weather events, resulting in loss of life and biodiversity and entire communities being affected. Climate change, including increases in frequency and intensity of extreme weather events, reduces food and water security, hindering efforts to meet the SDGs. For instance, in the Horn of Africa, more than 300 people lost their lives due to severe flooding following a three-year drought, which left millions facing food shortages. Similarly, in Libya, prolonged heavy downpour resulted in the collapse of three dams, claiming the lives of 3,400 people and displacing many others.<sup>5</sup> Unfortunately, such events are becoming more common.

At COP28, the 'global stocktake' of the world's efforts to counter climate change concluded that "progress was too slow across all areas of climate action".<sup>6</sup> In response, commitments were made by countries to speed up climate action. A clear signal was given to transition away from the use of fossil fuels in energy systems in a just, orderly and equitable manner, although no agreement was made to fully phase out fossil fuels. In addition, it was made clear that the negative effects of climate change are not borne equally. Poor and marginalized people are more likely to be adversely affected by extreme climate events and the potential negative social impacts of transformation to a low or zero carbon economy. There was a clear call for more progress on adaptation and financial support towards poorer countries. The Loss and Damage Fund was established to help developing countries cope with losses incurred by adverse climate events.

## Funding for the SDGs is hampered by a lack of bankable projects

Achievement of the SDGs and the objectives of the Paris Agreement require an additional US\$4.2 trillion in investments each year. However, there is lack of investment-ready bankable projects. And while there is ample DFI liquidity, overall liquidity is falling short. This means private investors need to step in, in particular as risk capital for emerging markets is falling short. In addition, there is a need to unlock market potential which requires taking risks and moving away from more traditional business models. In 2023, several reports suggested a revision of the funding models of multilateral development banks (MDBs) and DFIs so they can take on more risk.<sup>7</sup> DFIs can increase the level of risk in their portfolios without recourse to new capital injections or increased use of external concessional resources.<sup>8</sup>

## New technologies enable development impact but also pose new risks

Over the past decade, emerging technologies have given rise to new business and delivery models. In addition to improving productivity and lowering marginal costs, new technologies can have a strong development impact. At the same time, new technologies give rise to risks and raise ethical questions. The use of artificial intelligence (AI), for instance, has become more popular among

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3 United Nations Conference on Trade and Development (2023). The Least Developed Countries Report 2023.

4 IISD SDG Knowledge Hub (June 2023). Bridging the SDG Financing Gap Through First-Time Fund Managers.

5 World Weather Attribution (December 2023). Climate change fueled extreme weather in 2023; expect more records in 2024.

6 United Nations Framework Convention on Climate Change (January 2024). COP28: What Was Achieved and What Happens Next?

7 OECD (September 2023). The Funding Models of Bilateral Development Finance Institutions.

8 ODI (December 2022). An Exploration of Bilateral Development Finance Institutions' Business Models.

individuals, businesses and governments. By January 2023, ChatGPT had become the fastest-growing consumer software in history. Driven by advances in large language models, AI can help people work more productively but poses threats to (cyber)security and privacy. Researchers have cautioned that AI could widen the productivity and innovation gap between and within countries. High-skilled, high-income workers and larger corporations may benefit more from the adoption of AI, increasing their capital returns and labor income<sup>9</sup>, and developed countries are more likely to be early adopters. This might create a competitive advantage and increase inequalities between countries that will be difficult to overcome.

## Sector developments

In the agribusiness, food and water sector, high food prices continued to affect global food security. Around 30 percent of the global population experience moderate to severe food insecurity<sup>10</sup> caused by the ongoing war in Ukraine. In addition, extreme weather events have severely impacted agriculture production. Yet, finance to support sustainable agriculture, climate-resilient agri-food systems and biodiversity conservation has diminished in recent years.<sup>11</sup>

In the energy sector, clean energy projects were hampered by inflation, supply chain bottlenecks and rising interest rates, particularly in developing countries, where capital is more expensive. The debt crisis faced by many of them put an additional strain on the roll-out of energy projects, limiting the ability of public entities to enter into power purchasing agreements, which can be a source of hidden public debt. On the other hand, the global energy crisis in 2022 is believed to have been a turning point, highlighting the sense of urgency to enhance policy support for and reduce costs of a clean energy transition. To further stimulate this transition, rapid developments in clean energy technologies, such as green hydrogen, could become a viable option for storing energy from renewables.

In the financial market, a meltdown of three regional banks in the US caused turbulence in the US and European banking sector, but the crisis was contained. At the same time, recovery from the pandemic progressed, albeit at a slower pace than expected. With commodity prices decreasing and with fewer supply chain disruptions, inflation started to ease in 2023.<sup>12</sup> The IMF noted that interest rate hikes did not lead to rising repayment defaults, as borrowers might have used savings or repayment delays, but the overall debt repayment capacity diminished. Demand for loans decreased globally and loan standards tightened, due to higher funding costs of financial institutions, a weaker economic outlook, and borrower risk perception. Although banks continued to be profitable, net interest margins came under pressure as a result of higher funding costs. At year end, projections were pointing towards a 'soft landing' by bringing inflation down without a major downturn of economic activity.<sup>12</sup> Developing countries have seen weaker recoveries. Low-income countries struggle most, often aggravated by higher interest rates and depreciated currencies.

## Expanding regulations that impact FMO

Financial institutions are required to responsibly manage the impact of their operations and value chains on the environment and local communities. Regulators and supervisors are continuously updating standards and setting new ones for companies to adhere to. In this section, we highlight the most important changes and updates to some of the regulations that (are likely to) impact FMO.

### Basel IV

The EU's new legislative package on the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) is aimed at implementing the Basel III (also known as Basel IV) standards within the EU. The legislative procedures are in the final stages and expected to be implemented with a phase-in approach starting from 2025. The draft text published in October 2021 and amended in February 2022 proposed a higher risk weight for equity investments. FMO will also be required to apply a higher capital charge for some types of credit risk exposures and for market risk. Further information is provided in the 'Risk management' chapter.

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9 International Monetary Fund Blog (January 2024). AI Will Transform the Global Economy. Let's Make Sure It Benefits Humanity.

10 Food and Agriculture Organization of the United Nations (February 2024). FAO Food Price Index.

11 Food and Agriculture Organization of the United Nations (2023). Climate-related development finance to agrifood systems: Global and regional trends between 2000 and 2021.

12 World Economic Outlook (October 2023). Navigating Global Divergences.

## Climate and environmental related impacts and risks

In 2020, the European Central Bank (ECB) published guidance on the safe and prudent management of climate and environmental related risks. A review conducted by the ECB in 2022 showed that banks were far from adequately managing climate-related and environmental impacts and risks and require them to fully meet expectations by the end of 2024. The ECB also published a collection of good practices. Since 2021, FMO has been integrating climate and environmental related risks into the bank's governance, strategy, risk management framework and disclosures in line with the ECB expectations. We expect to complete this work by 2024. Further information is provided in the 'Risk management' chapter and in the separate Task Force on Climate-Related Financial Disclosures (TCFD) report published on our website.

## Corporate Sustainability Reporting Directive

The Corporate Sustainability Reporting Directive (CSRD) entered into force in 2023, which revises and extends the requirements of the previous Non-Financial Reporting Directive (NFRD). As a large public interest entity, FMO is in scope of the NFRD and will be among the first group of companies required to implement the CSRD. FMO and other companies subject to the CSRD will be required to report according to the European Sustainability Reporting Standards (ESRS). FMO will issue its first report following the ESRS in 2025, for the 2024 financial year. In 2023, FMO continued monitoring the developments and has been preparing towards the implementation of the CSRD and ESRS as part of the EU Sustainable Finance project.

## EU Taxonomy

In 2020, the European Commission introduced a taxonomy for sustainable activities. This is a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and broader environmental goals other than climate. The regulation is still in development. From 2023 banks are required to report their level of Taxonomy alignment with the first two environmental objective as well as Taxonomy eligibility on all six environmental objectives. Refer to the 'EU taxonomy' section for further information.

# PIONEER DEVELOP SCALE

## 1 OUR VISION

We believe in a world in which, by 2050, more than 9 billion people live well and within planetary boundaries.

## 5 TO FULFILL OUR MISSION AND LIVE UP TO OUR PURPOSE

**MISSION**  
We enable entrepreneurs to increase inclusive and sustainable prosperity.

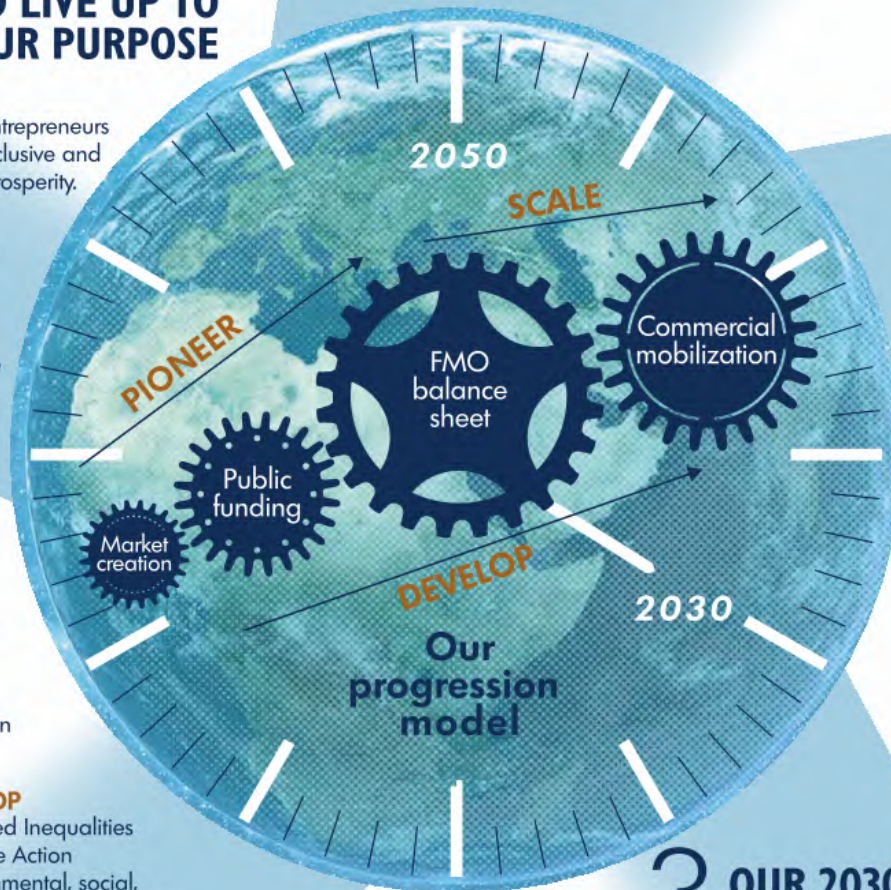
**PURPOSE**  
We create development impact by being additional in financing the private sector in low- and middle-income countries.

## 4 OUR STRATEGY

**PIONEER**  
· Market creation  
· Innovation

**DEVELOP**  
· Reduced Inequalities  
· Climate Action  
· Environmental, social, governance management

**SCALE**  
· Mobilization  
· Efficiency



## 2 THE CHALLENGES

- Inequality on the rise
- Behind on the Paris goals
- Lack of bankable opportunities
- More stringent regulations
- Customers require speed and simplicity
- Increased stakeholder expectations

## 3 OUR 2030 AMBITIONS

To maximize our impact on 3 SDGs

...across 3 sectors

...with



Agribusiness, Food & Water

10 meaningful innovations



Energy

10 bln € invested in SDG 10



Financial Institutions

10 bln € invested in SDG 13

### SDG 8

- Grow jobs supported
- Increase decency and quality of jobs

### SDG 10

- Improve economic inclusion for the B40
- Increase gender lens investments
- Invest more in LDCs / fragile states

### SDG 13

- 'Net zero' portfolio by 2050 through just and inclusive transition
- Support customer alignment with Paris goals and customer resilience
- More investments in mitigation, adaptation, resilience, biodiversity

# OUR STRATEGY

At FMO, we believe in a world in which, by 2050, more than 9 billion people live well and within planetary boundaries. This is the future we are working towards. This is the world we want to help make a reality. Our vision and our determination have not changed. But the circumstances in which we operate have. Significantly.

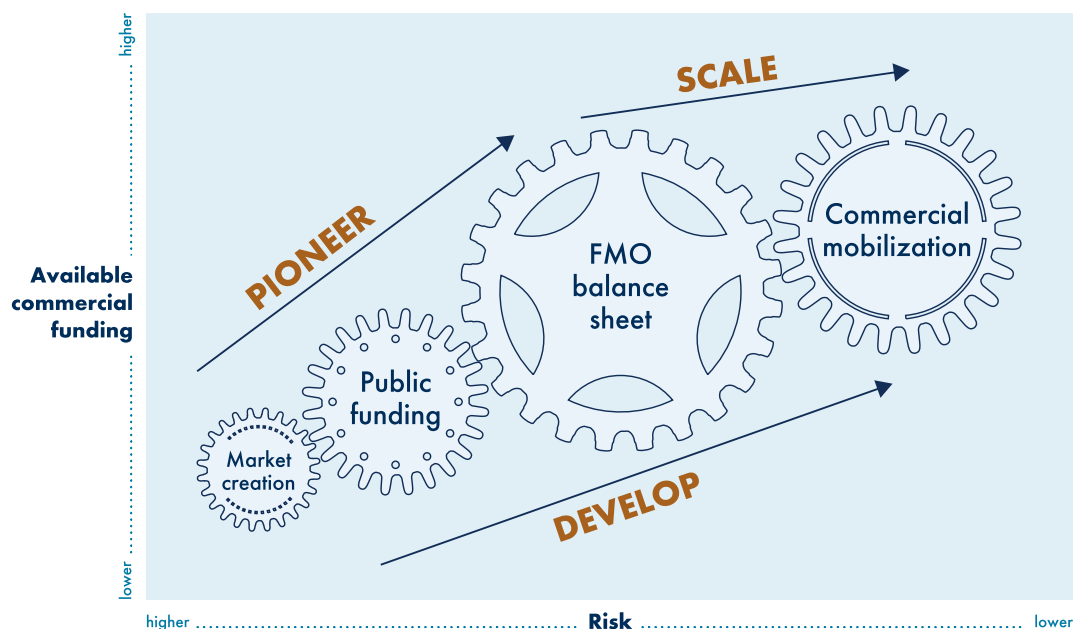
Progress towards achieving the Sustainable Development Goals (SDGs) is lagging behind worldwide: inequality is on the rise while the climate crisis continues to unfold. To counter this trend, there is an urgent need for more bankable opportunities. Some of our stakeholders expect us to develop these and other higher-risk investments, while others require us to limit our risk exposure. And while our customers ask for speed and simplicity, we are also committed to comply with increasingly stringent regulatory requirements.

Our contribution focuses on three SDGs that we can impact most through our financing of the private sector in emerging markets: Decent Work and Economic Growth (SDG 8), Reduced Inequalities (SDG 10) and Climate Action (SDG 13). We want to maximize our contribution to these SDGs and work closely with our partners to achieve this.

Our Strategy 2030 addresses the above and many other challenges. By building on what we already do; by recognizing what we are capable of; and by challenging ourselves, our customers and our partners to go where many others do not yet dare to go. The essence of our strategy is captured in just three words:

## Pioneer-Develop-Scale

This is what we do, across the organization. Through financing solutions, by supporting our customers with technical assistance and capacity development, and by helping customers enhance their capabilities around environmental, social and governance topics. Pioneer, develop and scale are at the heart of our 'progression model', where we move opportunities from market creation and public funds, through our own balance sheet, to commercial mobilization.



With **market creation**, we aim to make unbankable opportunities bankable; through business development, and by developing ecosystems that seed and nurture nascent segments and businesses. We do this by means of collaboration and partnerships.

We make high-impact and high-risk investments possible by leveraging **public funding** to support entrepreneurs working on new business models or operating in low-income countries.

We finance and support proven models through our **own balance sheet**. This is the core of our operations. It is where we provide bankable businesses and projects with e.g., debt, equity, guarantees and capacity development.

We scale our impact by **mobilizing commercial investors** and bringing opportunities into the mainstream - by introducing new fund propositions, leveraging our own balance sheet, and blending public and commercial funding.

Through this progression model of pioneer, develop and scale, we aim to maximize our impact, generate financial returns and grow a diversified portfolio in a balanced manner. It is how we are additional in financing the private sector. By focusing on three sectors - **Agribusiness, Food and Water, Energy, and Financial Institutions** - our portfolio contributes to food security, access to renewable energy and a healthy financial sector. In doing so, it also contributes to Zero Hunger (SDG 2), Gender Equality (SDG 5) and Affordable and Clean Energy (SDG 7).

To help create decent jobs and economic growth (**SDG 8**), we enable entrepreneurs to make local economies more inclusive, productive, resilient and sustainable. We will continue to work towards job creation, and increase our focus on job decency and quality.

To reduce inequalities (**SDG 10**) between countries, we will continue to invest in the world's least developed markets, and in particular look to do more in fragile states. To reduce inequalities within countries, we aim to increase the opportunities and income for people in the 'bottom 40 percent of income distribution'. We will continue to support the growth of inclusive businesses such as smallholder farmers, off-grid energy solutions and those owned by female or young entrepreneurs. We will also continue to increase our gender-lens investments.

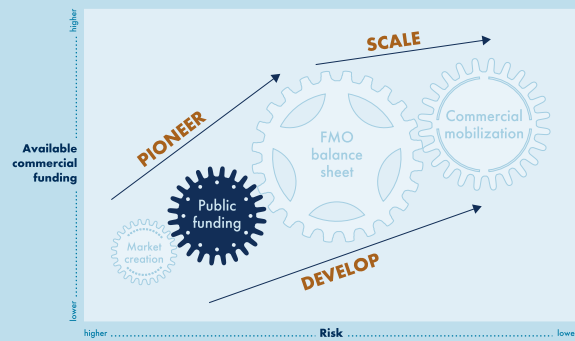
To take climate action (**SDG 13**), we remain committed to the goals of the Paris Agreement and to reach net zero by 2050 through a just and inclusive transition. We recognize the difficult challenges this poses across sectors and countries, but also see opportunities. We will engage with our customers and help them move towards a sustainable climate pathway. We will build up a portfolio that supports mitigation, adaptation and resilience, and biodiversity-positive contributions such as forestry to achieve our ambitions.

To focus the efforts of our entire organization, we have set ourselves clear ambitions that will challenge us and require us to enhance our capabilities. By 2030, our goal is to have realized ten meaningful innovations, and to have an investment portfolio of at least €10 billion in both SDG 10 and SDG 13. We expect to have doubled our public and mobilized portfolios. Also, by being a **change agent on environmental, social and governance topics**, we will create value with our customers, and together deliver impact in the societies and the local communities where they operate. By helping improve livelihoods, we will continue to contribute indirectly to alleviating poverty.

This is how we will fulfil our **mission**: to enable entrepreneurs to increase inclusive and sustainable prosperity. And how we will live up to our **purpose**: to create development impact by being additional in financing the private sector in low- and middle-income countries.

# Public funding

A key challenge in growing our impactful business is the shortage of investable and bankable assets in our target markets. FMO can play an important role to step in at an earlier stage of the development process to help stimulate the creation of more bankable projects. For FMO to be a pioneer, especially in high-risk markets, we rely on public funding to cover the higher risks that are associated with such projects.



Our public investment partners allow us to make investments with a higher risk profile and development impact. These include the Dutch Government, the UK Government, the European Commission (EC) and the Green Climate Fund (GCF). On behalf of the Dutch State, we make investments through the following programs: Building Prospects, the Access to Energy Fund (AEF), the Dutch Fund for Climate and Development (DFCD) and MASSIF. In addition, we set up the NASIRA and FMO Ventures program with guarantees from the EC and, in early 2021, the UK Government provided funding for the Mobilising Finance for Forests (MFF) program. A short summary of these are provided below.

As an accredited entity, we also receive funds from the EC and the GCF that are ultimately managed by EDFI Management Company for ElectriFi and AgriFi, by Climate Fund Managers for Climate Investor One and Climate Investor Two, and by Eversource for the Green Growth Equity Facility (GGEF).

## Access to Energy Fund (AEF)

In 2007, the Dutch Government and FMO set up AEF. AEF finances private sector projects and companies aimed at providing access to renewable energy in emerging markets and developing economies. For instance, AEF provided a €8 million loan to Walo Storage (Senegal) to help structure the overall debt package. Walo Storage is set to be the first solar plus battery storage project in West Africa. The battery will stabilize the frequency of the grid and reduce power outages.

## Building Prospects

In 2002, the Dutch Government and FMO established Building Prospects as a fund to strengthen the agribusiness value chain by increasing access to energy, water, logistics and transport and improving climate resilience and gender equality. For instance, Building Prospects provided a US\$9 million loan to Pearl Dairy Farms, one of the larger dairy processors in East Africa.

Pearl sources raw milk from smallholder farmers, cooperatives, and traders in both Uganda and Kenya and processes it into various products. Pearl will utilize the funds to expand the milk collection center network and powder processing capacity in Uganda, and expand facilities in Kenya. Pearl is an important regional employer and FMO's investment can support local job creation.

## MASSIF

MASSIF, another Dutch Government fund, was established in 2006. It finances local financial intermediaries and institutions that can contribute to the development of small businesses and micro-entrepreneurs, women, and youth entrepreneurs, as well as support innovation in inclusive business. In 2023, the Dutch Ministry of Foreign Affairs (MoFA) decided to top-up MASSIF with €69 million. In addition, MoFA decided to provide market creation funding to MASSIF in line with FMO's strategy.

For instance, MASSIF invested US\$10 million in Insitor II, a sector-agnostic private equity fund targeting investments in high-growth and scalable businesses in Cambodia, India, and Pakistan. The fund exclusively invests in companies that provide solutions to low-income consumers/households. This aligns with MASSIF's objective to support early-stage companies and to support businesses that improve the livelihood and access to basic services for underserved groups. It also aligns with FMO's strategic goal to contribute to reducing inequalities.

Along with British International Investment (BII), the UK's development finance institution, MASSIF's Technical Assistance program is supporting Africa Resilience Investment Accelerator (ARIA). This brings together 16 DFIs to unlock investments in frontier and growth markets in Africa through pipeline and investment facilitation, grants, technical assistance, and ecosystem building. In 2023, the DFIs visited DRC, Sierra Leone and Benin to understand barriers to investing and building a pipeline of investments.



## **Dutch Fund for Climate and Development (DFCD)**

Established in 2019, DFCD is a Dutch Government fund that is managed through a consortium of FMO, SNV Netherlands Development Organization, Worldwide Fund for Nature (WWF) and Climate Fund Managers. DFCD connects the project development expertise of SNV and WWF with the mobilizing and investment power of FMO and Climate Fund Managers. Through the Land Use Facility, which is managed by FMO, DFCD provided a US\$10 million loan to NMB bank in Nepal. This will enable NMB to finance green projects with a focus on climate resilient rural agriculture. SNV is closely involved and supports NMB on identifying and developing green opportunities in Nepal.

## **Mobilising Finance for Forests (MFF)**

In 2021, FMO launched Mobilising Finance for Forests (MFF) in partnership with the UK Government. This £152 million program uses blended finance to mobilize private sector investments into the forests and sustainable land use (FSLU) sectors to combat deforestation and climate change. The program does this by funding companies and funds that add value to, protect, and restore tropical forests, and that are beneficial to society and biodiversity. This meets an unmet need in the market: whilst grant-based financing supports the early-stage development of such projects, there isn't sufficient private capital for these projects to scale. This is because projects in the FSLU sector are considered too risky by commercial investors, especially in Africa, Asia, and Latin America. By providing repayable development contributions, debt and equity, MFF bridges the gap between the two sources of financing, helping to pioneer, scale and develop the sector.

As a GCF-accredited entity, FMO also facilitated &Green's application for US\$189 million Green Climate Fund financing, which the GCF Board approved in 2023. The additional funding from GCF will support the expansion of &Green's portfolio and will boost the fund's capacity to mobilize private capital.

## **NASIRA with EC guarantee**

NASIRA promotes inclusive growth, job creation and sustainable development and, through that, tackles some of the root causes of irregular migration in Sub-Saharan Africa and the European Neighborhood. The program is structured with guarantees from the EC and the Dutch Government through our MASSIF program. NASIRA helps to unlock lending to migrants, women and young entrepreneurs that financial institutions consider high-risk.

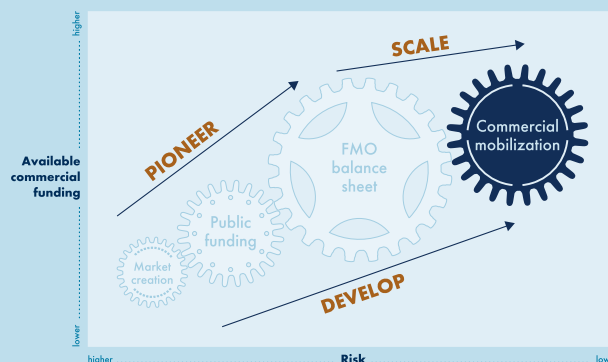
In 2023, we closed our first NASIRA deal in Georgia with Terabank that will enable it to lend to women and youth-owned MSME, as well as rural MSMEs central to the country's important agri-food.

## **FMO Ventures Program with EC guarantee**

The FMO Ventures Program set up in 2020, combines a €40 million guarantee provided by the EC, with €60 million in financing from the Access to Energy, Building Prospects and MASSIF funds and €140 million in financing from FMO's own balance sheet. The funds are invested in early-stage, technology-enabled businesses, technical assistance and the development of venture capital ecosystems in emerging markets. The EC's guarantees will allow FMO to take an equity stake in risky but growing companies, so they can become bankable and scalable in two to three years. One of this year's deals is a US\$1.5 million investment in Okra Solar, which electrifies off-grid households via a mesh-grid solution in Nigeria and Haiti. This investment enables electrification of underserved communities with solar and battery power.

# Commercial mobilization

We scale our impact by mobilizing private capital from commercial investors. Commercial funding, which is especially lacking in countries and markets that are considered high risk, is essential for achieving the SDGs. The OECD reports that the annual SDG financing gap in developing countries increased by 56 percent to US\$3.9 trillion in 2020 due to the pandemic. It is estimated that this gap could further increase to US\$4.3 trillion between 2020 and 2025.<sup>13</sup> To address this financing gap, and scale up impact towards the SDGs, we need to mobilize, among others, private sector investments. As such, mobilization is a key part of FMO's strategy.



Mobilization occurs through direct and active engagements with our public and private partners, which invest alongside FMO. Mobilization includes loan syndications, participations by several private debt funds that FMO Investment Management (FMO IM) advises for and through unfunded risk participations by commercial parties such as Munich Re. A brief description of these funds is provided below.

## ASN Green Projects Fund

FMO IM has been an investment advisor to the ASN Green Projects Fund<sup>14</sup> since 2017. The investors are Dutch private individuals. The fund initially solely participated in renewable energy transactions, but in 2021 widened its scope to include investments in green credit lines to financial institutions. By the end of 2023, the fund had participations in 14 FMO loans for a committed portfolio of €39 million (2022: €33 million). All of these loans are fully or partially labelled as Green. Around 83 percent of the committed portfolio aims to contribute to climate mitigation or adaptation, while 10 percent aims to contribute towards reducing inequalities.

## Cardano-FMO SME Finance Fund

The ACTIAM entity was acquired by Cardano in 2022 and renamed Cardano-FMO SME Finance Fund<sup>14</sup> in 2023. The fund participates in FMO loans to financial institutions to improve access to finance for SMEs in emerging markets.

The investors are mostly institutional investors based in the Netherlands. The fund's end of life is drawing closer (2025), meaning the fund has been making cash distributions for a number of years. By the end of 2023, the committed portfolio of the fund decreased to €34 million (2022: €63 million) with investments in 26 financial institutions. Some 27 percent of the committed portfolio aims to contribute towards climate mitigation or adaptation and 60 percent towards reducing inequalities.

## FMO Emerging Markets Loans Fund

GSAM acquired NN IP in 2022 and became the manager of this fund. In 2023, the fund was rebranded as FMO Emerging Markets Loans Fund.<sup>15</sup> Compartment one has been fully invested, having made over US\$400 million in commitments since 2018 and making regular cash distributions to its investors. The second compartment committed an additional US\$30 million in 2023, having invested over US\$138 million since it was launched. By year end 2023, the fund had 56 combined commitments to loans to financial institutions, renewable energy projects and agribusinesses. Of the committed portfolio, 31 percent aim to contribute towards climate mitigation or adaptation and 35 percent towards reducing inequalities.

<sup>13</sup> OECD (2023). Global Outlook on Financing for Sustainable Development.

<sup>14</sup> The FMO Privium Impact Fund, Cardano-FMO SME Finance Fund and ASN Green Project Fund are subject to the EU Sustainable Finance Disclosure Regulation (SFDR) and have been declared Article 9. While FMO itself is not in scope of the SFDR, it has the obligation to deliver information to the best of its ability. Initial disclosures have been made by the fund managers in 2021 and 2022. Some future requirements may be challenging to fulfil as many of the companies invested in are outside of the EU and thus not subject to EU disclosure directive.

<sup>15</sup> The FMO Emerging Markets Loans Fund, due to its legal structure as an unregulated securitization vehicle, does not fall under the SFDR.

## FMO Privium Impact Fund

By the end of 2023, the committed portfolio of the FMO Privium Impact Fund<sup>14</sup> amounted to €128 million (2022: €132 million). Investors in the fund are mainly family offices and private banking customers including those with managed portfolios, based in the Netherlands, UK, Spain and France. Around 42 percent of the committed portfolio aims to contribute towards climate mitigation or adaptation and 36 percent towards reducing inequalities.

## Munich Re

The Unfunded Risk Participation Program between Munich Re and FMO, which is managed by FMO, changed into a revolving structure. During its fourth investment year, Munich Re's participation in terms of committed portfolio slightly decreased from €293 million in 2022 to €286 million in 2023. By the end of 2023, the program participated in 41 FMO loans provided to financial institutions, renewable energy projects and agribusinesses. Around 28 percent of the committed portfolio aims to contribute towards climate mitigation or adaptation and 37 percent towards reducing inequalities.

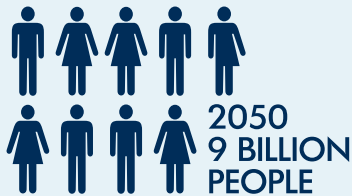
## SDG Loan Fund

Publicly announced and activated in late 2023, the US\$1.1 billion SDG Loan Fund<sup>16</sup> is the latest in FMO IM's portfolio. Commitments to the fund, including those from Allianz and Skandia, are enabled by the first loss investment from FMO and the unfunded guarantee from John D. and Catherine T. MacArthur Foundation. Together, these credit enhancements mobilize institutional investors in emerging and frontier markets. This enables a mobilization ratio of 1:9, where US\$1 of catalytic capital from FMO mobilizes US\$9 of private sector capital. Allianz Global Investors manages the fund and FMO IM manages the loan portfolio. The capital of the fund will be invested as participations in FMO loans across FMO's focus sectors. Once fully invested, the fund expects to support close to 60 thousand jobs and to avoid approximately 450 thousand tCO<sub>2</sub> eq per annum. The fund has participated in the first 11 loans at a committed portfolio of €93 million. Around 37 percent of the committed portfolio had a Green label and 48 percent had an RI label.

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14 The FMO Privium Impact Fund, Cardano–FMO SME Finance Fund and ASN Green Project Fund are subject to the EU Sustainable Finance Disclosure Regulation (SFDR) and have been declared Article 9. While FMO itself is not in scope of the SFDR, it has the obligation to deliver information to the best of its ability. Initial disclosures have been made by the fund managers in 2021 and 2022. Some future requirements may be challenging to fulfil as many of the companies invested in are outside of the EU and thus not subject to EU disclosure directive.

16 The SDG Loan Fund is an article 8 fund under the SFDR.



**Vision**  
We believe in a world in which, by 2050, more than 9 billion people live well and within planetary boundaries.

**Purpose**  
We create development impact by being additional in financing the private sector in low- and middle-income countries.

**Mission**  
We enable entrepreneurs to increase inclusive and sustainable prosperity.

**Strategy and core values**

**Our strategy:**  
pioneer-develop-scale



**Our values**  

- Making the difference
- Diversity
- Quality
- Integrity

**Inputs**



**Human & intellectual**  
Professional & skilled employees, reputation and in-depth knowledge of investing in emerging markets and developing economies.

**Business model**



**Networks & partnerships**  
With customers, knowledge institutes, governments, NGOs and financial partners.



**Financial**  
Strong capital base, triple-A rated bank, Dutch state guarantee.

**Our business activities**



- We provide finance
- We blend finance
- We mobilize finance
- We stimulate impact, ESG and value creation
- We (help others to) innovate

**Value creation**

Short-term

Long-term

Outputs

Outcomes

Impact

<b>Private sector</b>	Support received for investment-ready businesses & market ecosystems.	Strengthened businesses and market ecosystems.	<p>A more inclusive, resilient, responsible &amp; sustainable private sector</p> <p>Improved livelihoods, increased gender equality &amp; reduced poverty</p> <p>A transition towards low-carbon &amp; climate resilient economies in a just &amp; inclusive way &amp; protecting and promoting biodiversity</p>
<b>Customers</b>	Access to financial & non-financial support to strengthen customer businesses, incl. in the area of impact & ESG.	More robust & resilient businesses, attractive for commercial investors, on a path towards Paris alignment, reduced emissions and/or positive biodiversity outcomes.	
<b>People in our markets</b>		Access to better basic goods & services & income-generating opportunities   decent jobs supported   economic empowerment of women & other marginalized groups   avoided or mitigated negative E&S impacts.	
<b>FMO employees</b>	Fair & equal pay, benefits, career development.	Attract & retain skilled employees that are engaged & committed to FMO's mission.	
<b>Investors</b>	Investment opportunities with an attractive risk-return and development impact profile.	Adequate financial returns from investments with development impact.	
<b>Shareholders</b>	Risk-return profile suitable for developing sustainable businesses.	Maintain long-term financial sustainability of FMO.	

# OUR VALUE CREATION MODEL .....

**Our value creation model is based on the Integrated Reporting Framework. The model demonstrates the process through which we allocate financial and non-financial capital (resources) and how, through our activities, we intend to create value over time (outputs, outcomes and impact) for our stakeholders.**

## Operating context

Since 1970, FMO has made a positive difference by enabling entrepreneurs in low- and middle-income countries to build a better world. We create long-term value by investing in the private sector, addressing climate change, reducing inequality and supporting (in)direct jobs.

## Our mandate

FMO was established to provide financial services that the commercial market does not (sufficiently) provide, or which are only offered on terms that do not fit into a solid business model. We do this without crowding out private parties.

Therefore, our investment decisions are guided by three principles:






















1. **Additionality:** We offer financial services to the extent that the commercial market does not or does not sufficiently provide them, or which are only offered by the commercial market on terms that do not fit in a solid business model. In addition, we may demonstrate additionality through our contributions to higher environmental, social and governance (ESG) standards that are not customary in the local market, thereby achieving a transformation effect.
2. **Mobilizing:** We attract as much additional private sector funding as possible to maximize our development value. We also deploy our expertise to enhance development value with public funds.
3. **Good governance:** We apply the principles of good governance within all areas of our business operations.

We invest in emerging markets and developing economies that are often characterized by a fragile private sector, little job security and/or high poverty rates. Our customers operate in volatile markets that are significantly impacted by macroeconomic trends such as increasing commodity prices and foreign exchange fluctuations. We engage with our customers before and during the lifetime of an investment to understand their context and risks. This enables us to offer products and services that suit the needs of our customers. In turn, they embark on a long-term journey with FMO towards enhanced social, environmental and governance practices to foster impact and sustainable change.

## Where we operate

Diversification is key to our risk management approach and allows us to limit the volatility of our portfolio. We invest in 80 countries across four regions: Africa, Asia, Europe and Central Asia, and Latin America and the Caribbean. We invest in sectors in which we can take a leading role and develop strong relationships, and that we believe are crucial for supporting decent jobs (SDG 8), supporting equality between and within countries (SDG 10) and reinforcing climate action (SDG 13).

## The sectors we focus on

Sector	Themes							
 <b>Agribusiness, Food &amp; Water</b>	 <b>Inputs</b> Services & Water	 <b>Primary Production</b> Farming/Growers	 <b>Primary Production</b> Mills, Aggregators	 <b>Primary Processor</b> or Wholesale Trader	 <b>Food Manufacturer</b>	 <b>Warehousing</b> Logistics & Distribution	 <b>Forestry</b>	
 <b>Energy</b>	 <b>Wind</b>	 <b>Solar</b>	 <b>Hydro</b> (run-of-the-river)	 <b>Distributed Energy</b>	 <b>Geothermal</b>	 <b>Transmission &amp; Distribution</b>	 <b>Storage</b>	
 <b>Financial Institutions</b>	 <b>(Universal/SME) Banks</b>	 <b>Microfinance</b>	 <b>FinTech</b>	 <b>Non-bank financial institution</b>				

We also finance other sectors indirectly through our investments in financial institutions, and private equity (PE) funds.

## Our business model

### Resources

Value creation starts with the resources or 'inputs' that are key to running our business:

- *Human* | We have a professional, skilled and international workforce. At the end of 2023, we had 803 employees, representing 72 nationalities. In addition, we employed 181 external professionals. Our employees are passionate about our mission and are expected to embody our values;
- *Intellectual* | We are recognized as a leading impact investor, and for our in-depth knowledge of financing and ESG management in emerging markets and developing economies. This makes us an attractive business partner and enables us to secure public and private funding;
- *Financial* | We have a strong capital base and triple-A ratings. This allows us to obtain funding at attractive rates. Commercial investors supply capital through FMO's (sustainability) bonds;
- *Networks and partnerships* | We have strong partnerships and networks of customers, knowledge institutes, NGOs, governments and financial partners such as commercial investors and banks.

In addition, we work with suppliers that provide goods and services. We only want to work with trustworthy suppliers and have put in place a due diligence process in line with the Dutch Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft). This process applies to new or existing suppliers related to our main activities, such as consultants, legal advisors, government intermediaries and/or providers of critically outsourced services. This is set out in FMO's Procurement and Outsourcing Policy.

### FMO's business activities

Through the following business activities and interactions with others, FMO transforms resources into outputs that, over the short, medium and long term, create value for the organization, its stakeholders, local society and the environment.

*We provide finance* | We offer long-term financing and, when possible, provide funding in local currencies to mitigate the exchange rate risk of our customers. This includes:

- Offering direct medium and long-term loans at both fixed and variable interest rates, with a repayment grace period where needed;
- Investing equity directly or indirectly (through private equity funds) or co-investing with partners. We provide stable, long-term capital and usually sell our stake after five to ten years. We receive dividends and accounts for fair value gains or losses during the lifetime of an investment;
- Structuring guarantees that meet the needs of the (end) beneficiary, the market and the targeted creditors.

*We blend and mobilize finance* | On behalf of governments and multilateral organizations, we deploy public finance in higher-risk projects and programs. Such finance helps to reduce and share risks. Private and institutional capital will then be more easily attracted towards scalable but higher-risk investments that otherwise would not have been considered by commercial investors. We arrange syndicated loans by bringing together commercial banks, investors and other DFIs to raise larger financing amounts in an efficient way to scale up our impact. Commercial investors have access to FMO's expertise in impact investing in emerging markets and developing economies. FMO Investment Management provides services to several funds with different market-based, risk-return profiles to accommodate different investor risk appetites. We receive a fee for providing these services.

*We actively promote impact, ESG principles and generation of value* | Our suite of services includes advisory support and technical assistance, aimed at assisting clients in establishing sustainable and profitable enterprises. This encompasses guidance in designing and implementing ESG risk mitigation measures, conducting master classes and events, facilitating capacity development, and spearheading sector initiatives.

*We (help others to) innovate* | By fostering innovation, we encourage and participate in the evolution of new approaches, business models, and products that possess the potential for heightened impact and scalability. We enable market ecosystem development and strengthen customer business development through strategic collaborations with partners.

## Value creation

We distinguish between short term outputs, resulting directly from our activities, and the outcomes that we believe to result from those outputs. The long-term impact refers to the indirect results we believe our work will contribute to over time. We recognize that each stakeholder group has different expectations and a different interest in what we do as an organization, which will influence the (perceived) value we create for them.

For example, we adopt a balanced approach in our investments and risk-taking, allocating different sources of capital in accordance with our risk appetite. This generates financial returns and a diversified portfolio that allows us to maximize impact by growing our business, which serves the interests of our employees, investors and shareholders. Through our investments and partnerships, we create value for our customers and, indirectly, for the local communities, customers, and suppliers within their markets. It is through these activities that we contribute to long-term impact for all of our stakeholders. In addition, we create value for our employees by offering fair and equal pay, benefits and career development opportunities to ensure we attract, develop and retain skilled employees who are engaged and committed to FMO's mission.

## Creating long-term impact through working with our customers

We aim to maximize our impact by leveraging the synergies and managing the potential trade-offs between the SDGs we focus on. We have translated this into three long-term development impacts in emerging markets and developing economies that we believe our activities contribute to. In addition, we aim to minimize the negative impacts that may occur as a result of our activities.

*A more inclusive, resilient, responsible, and sustainable private sector* | To contribute towards a more inclusive private sector, we invest in countries where other investors perceive risks as too high, including LDCs and fragile states. In addition, we encourage our FI customers to increase access to finance to marginalized groups, women in particular. By providing financial capital and expertise, we aim to support customer resilience during economic downturns as well as navigate the adverse impacts of climate change and other uncertainties. We enable our customers to be more responsible and

sustainable by supporting the implementation of (improved) ESG risk identification and management and the adoption of responsible business practices within their operations. We believe these activities lead to more robust and resilient customer operations, which in turn enables them to attract additional (commercial) capital and further grow their businesses. Furthermore, we support business ideas that have not yet matured to a commercial phase and strengthen private sector ecosystems to develop more sustainable businesses and scale up impact.

*Improved livelihoods, including for the people in the bottom 40 percent of income distribution, increased gender equality, thereby reducing poverty* | We focus on three areas to improve livelihoods of the people in our markets. First, we invest in increased access to goods and services – such as food, finance and electricity – and thereby in income-generating opportunities. Second, we support our customers in growing and/or sustaining the number of jobs in their own businesses as well as in the wider economy, and we encourage them to improve the quality and inclusiveness of those jobs. Third, by investing in climate adaptation and resilience, we aim to protect and strengthen livelihoods from the adverse impacts of climate change. We believe that our approach can be particularly beneficial to the most vulnerable groups such as women, people belonging to the bottom 40 percent of income distribution, and those living in countries that are characterized by a higher proportion of (extreme) poverty.

*A transition towards low-carbon and climate resilient economies in a just and inclusive way and protecting and promoting biodiversity* | Climate change poses a threat to people's livelihoods and to the wider efforts to meet the SDGs. For this reason, we aim to contribute to a just and inclusive transition towards low-carbon and climate resilient economies. We focus on green investments and help to reduce the environmental footprint of our customers and their value chains through energy solutions, forestry and customer engagement. In addition, we target investments on climate adaptation to support our customers to mitigate physical climate risk and to reduce the impact of climate change on their activities. Through our ESG activities, we work with our customers to improve risk management practices, recognizing the linkages between climate, environment, and social risks.

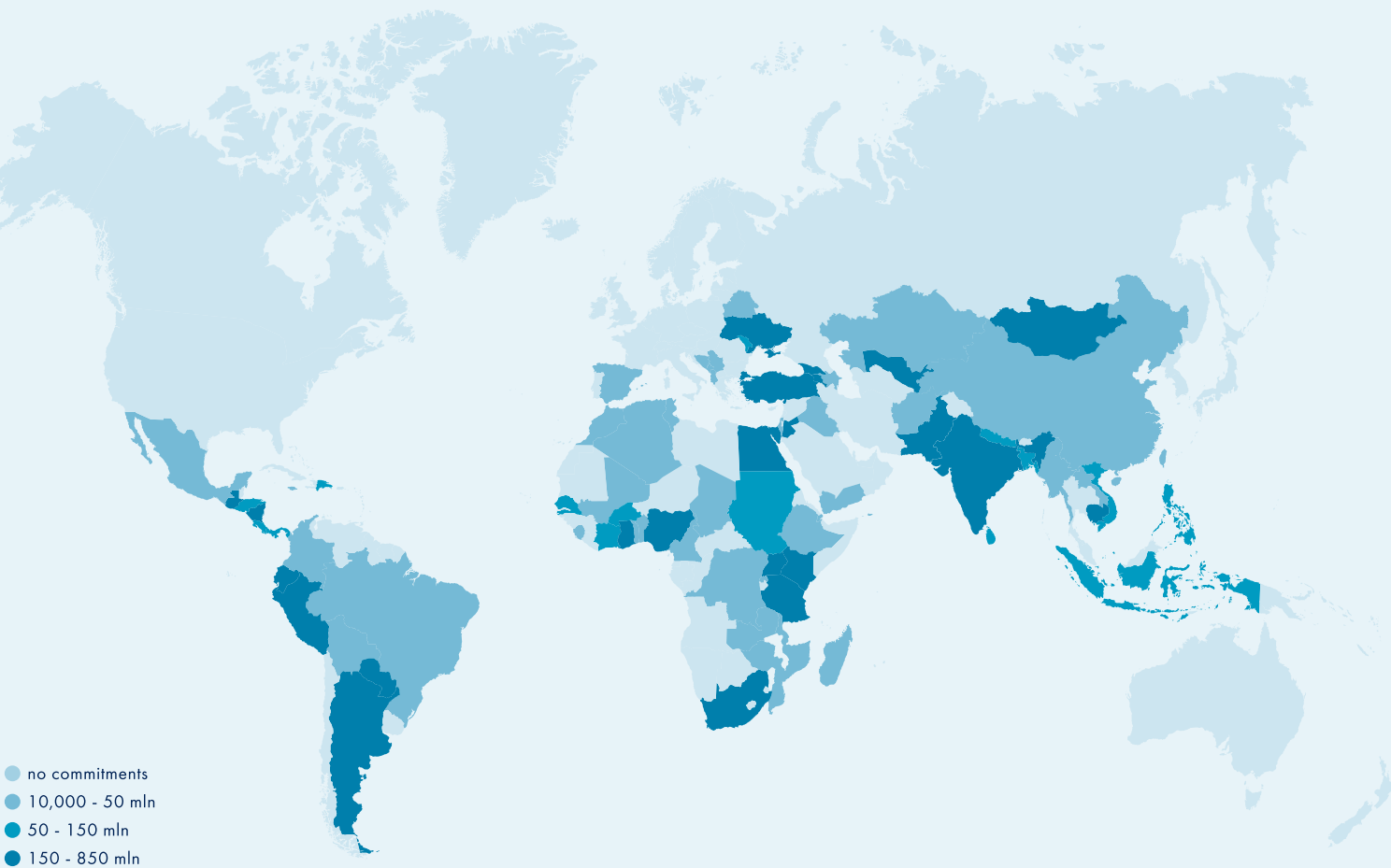
*Minimizing negative impact* | We acknowledge that the projects in which we invest may have potential negative impacts on the environment or on people. For example, whilst a hydro power investment provides clean energy, supports economic growth and improves lives overall, it may require the resettlement of surrounding communities. The ESG standards we expect our customers to apply are intended to identify, evaluate and mitigate key environmental and social risks as well as the negative impact of their activities. Furthermore, we require certain customers to put in place a grievance mechanism and to respond to community concerns.



# Total committed portfolio

## €13.2 billion

Note: Total committed portfolio consists of €9.1 billion for FMO, €1.4 billion for public funds and €2.7 billion mobilized funds

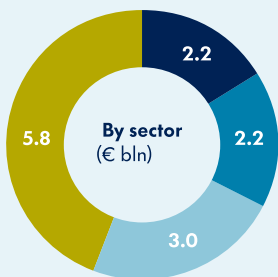


### Total committed portfolio by region (per 31 December 2023)

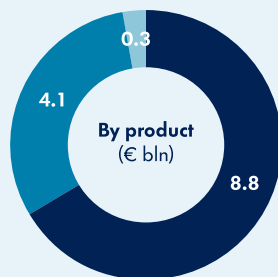
Africa	Asia	Europe & Central Asia	Latin America & the Caribbean	Non-region specific
<b>€4.4 bln</b>	<b>€2.7 bln</b>	<b>€2.0 bln</b>	<b>€2.8 bln</b>	<b>€1.3 bln</b>
34% of total	21% of total	15% of total	21% of total	9% of total

### Total committed portfolio

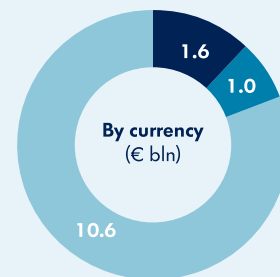
## €13.2 bln



- Agribusiness, Food & Water
- Diverse Sectors
- Energy
- Financial Institutions



- Debt
- Equity
- Guarantee



- EUR
- Local currency
- USD

# OUR INVESTMENT PROCESS

**Before and during the investment period, we research the financing opportunity. We evaluate its financial risk and assess its potential impact on the environment, employees and workers, communities and other stakeholders.**

In this section, we explain the key steps of our investment process and the key factors that are considered throughout. For more information on our risk management, refer to the 'Risk management' chapter. For information on our responsible investment policies and guidelines, refer to our [website](#).

## External events affecting our investment process

Several external events affected our investment process. As a result of the ongoing war, our customers in Ukraine continued to face adversity. The impact on our financial results this year, however, was limited as impairment levels and valuations in 2022 proved adequate. Throughout the year, we continued to work with our customers to find suitable solutions, including loan restructuring.

After the devastating earthquakes in Turkey and Syria in February 2023, we reached out to all of our customers in Turkey. We have no exposure in Syria. Several customers have exposures in the wider area affected by the earthquake, but this did not result in any reclassification of our credit risk.

Following the war in Gaza and rising tensions in the Middle East, we assessed the impact on our customers in the region. Although FMO's direct exposure in the Palestinian territories is limited, we will continue to monitor the situation closely in 2024.

We continued to monitor the situation in Sri Lanka and Myanmar. Both countries experienced economic and political instability in 2021 and 2022, respectively. Since then, the situation has improved in Sri Lanka and all customers were able to meet their payment obligations. The situation in Myanmar remained unstable, and average impairment levels in 2023 increased to reflect increased likelihood of customers not being able to honor their debt obligations. Furthermore, we continued to manage portfolios in countries faced with (partial) sovereign defaults and convertibility issues, such as Pakistan, Ghana and Argentina. We monitor these portfolios intensely and will change the investment approach when needed.

## Know your customer

FMO runs the risk of becoming involved in money laundering, financing terrorism and financing sanctioned entities or customers with a bad reputation. To mitigate such risks, we follow policies and procedures that deter criminal activity and ensure we do business with reputable customers. We evaluate our policies and procedures on an ongoing basis, enabling the investment departments to conduct in-depth customer due diligence in line with evolving applicable laws and regulations.

FMO plays an important role as gatekeeper to help prevent financial economic crime (FEC) and preserve the integrity and reputation of the financial system. We only want to deal with customers of good standing. Therefore, we obtain and monitor information and documents concerning the identity of a customer, gain insight into the business and its structure and assess customer integrity risk holistically. Referred to as Know Your Customer (KYC), this is an integral part of the investment process and the customer relationship throughout its lifecycle. We work in countries where, at times, it is hard to obtain and verify documentation and information. Nevertheless, FMO has a robust FEC framework in place, which complies with national and international FEC and KYC standards.

In 2023, we increased the number of employees involved in KYC in both the first and second lines. In the first line, a specialized KYC Department supports and works closely with the investment teams that have customer contact and are responsible for the comprehensive risk assessment of the customer. The

Compliance department, forming the second line, maintains compliance oversight and provides mandatory advice in case of high-risk customers and other situations.

New employees receive training on the prevention of FEC, as well as other integrity awareness training during their first weeks at FMO and yearly Integrity refresher trainings are mandatory for all employees. In 2023, we continued to provide additional mandatory training including on bribery and corruption and combating terrorism financing. A monthly KYC learning track shares knowledge and maintains awareness regarding the specific risks in FMO's markets.

In 2022, we conducted an integrity risk assessment on our equity fund investments following DNB's recommendation and executed an action plan to address the risks identified. In 2023, we improved our due diligence practices for new fund investments, increased risk awareness and deepened our understanding of implementing KYC policies by fund managers. In 2024, we will implement our enhanced due diligence standards in our existing fund portfolio in a risk-based manner and further support our customers in improving their KYC practices. This will mitigate our risks and expand our role as gatekeeper.

## ESG value creation

Through our environmental, social & governance (ESG) engagement we intend to create opportunities for positive impact across the SDGs while mitigating potential negative impacts of our investments. Our ESG principles and practice have evolved to a discipline operating at the intersection of risk management, positive impact, and customer value creation. We identify dilemmas or issues, establish collaborations and partnerships, utilize technical assistance, provide trainings, and engage with customers or sectors aiming to shift mindsets or approaches. These efforts enable us to influence customer practices or potentially entire industries. Customers which elevate their ESG practices and demonstrate positive outcomes can transform business operations and may improve access to funding.



FMO has adopted the IFC Performance Standards (2012) as its operating standard. In 2016, we launched the Sustainability Policy Universe, a framework of documents and tools that guides us around environmental and social (E&S) impact management and in improving the corporate governance of our customers. Our Sustainability Policy was approved by FMO's Management Board in 2016. The policy is complemented by position statements on human rights, land governance, fossil fuels and coal and on Impact and ESG for Financial

Intermediaries. We are further guided by the United Nations Guiding Principles on Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises and the Client Protection Principles.

Our policies and position statements, available on our [website](#), undergo targeted and public consultation with various stakeholder groups during the development process and are formally approved by the Management Board.

## ESG risk management

ESG risk management is a fundamental part of our investment strategy. Customer selection is evaluated on potential ESG risk exposure and client capacity on and commitment to manage the E&S impacts and risks associated with its operations. Continuous monitoring and improvement of the ESG performance of our customers is crucial to creating value.

Both E&S and corporate governance (CG) specialists are part of the deal teams to assess customer performance to identify risks and opportunities for improvement. E&S specialists are involved in all high E&S risk transactions through screening, due diligence, contracting and transaction monitoring. In addition, CG specialists are involved in high corporate governance risk transactions. Investment staff are responsible for managing low and medium risk transactions. An independent team of E&S specialists review these assessments and provide an independent opinion on the suitability of an investment. Following a positive investment decision, ESG requirements are included in a customer's contract. We monitor the implementation of ESG actions throughout the investment period by regular contact and site visits, often supported by independent consultants.

In 2023, we implemented our updated disclosure policy. Disclosure and stakeholder feedback are integral to our ESG risk management. By enabling stakeholders to provide feedback or additional information, we can make inclusive investment decisions, enhance the design and implementation of projects and policies, and strengthen development outcomes. Disclosures of proposed (high E&S risk<sup>17</sup>) investments are provided in six languages. This levels the playing field, helps to increase impact, and leads to efficiencies for customers working with multiple DFIs.

As we seek ways to improve our customers' ability to mitigate and manage ESG risk, we believe we have a role to play as ESG change agent. In 2023, we developed a free online environmental and social management system (ESMS) toolkit for financial intermediaries. This empowers banks and financial institutions to manage ESG risk on both transaction and portfolio levels. Furthermore, we organized a masterclass in Kenya for African private equity funds to share ESG best practices. In addition, FMO hosted the Autumn ESG and Development Effectiveness Network Event for the Association of European Development Finance Institutions (EDFI).

## Human rights

The protection, promotion and respect of human rights is integral to sustainable development. While human rights are enshrined in various laws, businesses can sometimes undermine these rights through their action or inaction, especially in countries where ESG conditions are generally less favorable.

FMO's ESG risk management approach is rights-based. We include perspectives of employees, affected communities and other stakeholders (or right-holders) in customer due diligence and engagement processes and take adequate measures to strengthen customers' ability to respect human rights.

FMO invests in a wide range of activities. In recent years, we performed an in-depth analysis of human rights issues in each of our investment portfolios, resulting in the identification of the following five salient human rights issues, which can be interlinked:

- Right to life | Avoid workplace and community fatalities related to customer activities, e.g. workplace accidents, traffic accidents, and threats and oppression of critics and opponents.
- Right to decent work | Respect labor rights, wages, occupational health and safety, workplace accommodation, and family life.
- Rights of vulnerable people | Ensure that vulnerable individuals or groups are identified and their rights are respected.
- Right to an adequate standard of living | Ensure adequate food, housing, water, sanitation, education, good governance of tenure of land, fisheries and forests.
- Right to not being subject to cruel and inhumane or degrading treatment | Ensure protection from rights violations related to project security.

FMO considers human rights issues salient when they have the most severe negative impact on people through our customers' activities or business relationships. The chapter 'Performance against our strategy' provides further insights on the current performance of our high E&S risk portfolio, broken down by applicable IFC Performance Standard, and an overview of our portfolio's performance gaps, including a description of how rights-holders may be affected.

FMO has developed human rights due diligence guidance, which supports our E&S staff in applying a human rights lens throughout the investment process. This guidance covers contextual risk<sup>18</sup> analysis, a broad community support check, a Free, Prior and Informed Consent (FPIC) check and a land rights assessment. In addition, we continue to strengthen our rights-based approach to ESG risk management by improving our systems and tools. This includes a serious incident register to track customer reports of fatalities, serious injuries, and environmental incidents, and a Sustainability Information System (SIS) to track our customers' E&S performance, including its most salient human rights risks. In 2023, together with Austrian DFI OeEB, FMO led the EDFI working group on human rights. This resulted in further guidance on the implementation of the UNGP, and an updated EDFI harmonized human rights and contextual risk toolkit linked to the different stages in our investment process.

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17 FMO's E&S risk categories follow the IFC's Environmental and Social Risk Categorization Framework. Category A and B+ are considered high risk. Refer to the Sustainability Policy on our website.

18 Contextual risk analyses allow us to identify drivers of risks such as human rights violations, governance (rule of law), legacy issues, dependencies on natural resources and (geo-)political issues that may be relevant specifically to a market, sector, region, country, or even a locality that should be taken into consideration when evaluating general ESG risks associated with a particular investment. Such risks are often out of the direct management control of the investment itself but could influence outcomes at the investment level.

# How we apply our investment process

**Our investment process consists of the following stages. Through case studies we illustrate how ESG risk management is an integral part of this process.**

## Step 1 | Investment selection

Within our markets, we identify investment opportunities that contribute to our three SDGs. We check geographic limitations, the exclusion list, customer capacity and commitment, the viability of the investment plan and the business itself. We also check if our investment is additional.

### In practice

FMO was asked to finance a commercial forest on native grassland. The project had uncertain land tenure due to local complexities, current law and previous displacement of local communities. In addition, the project would require not just a high conservation value (HCV) assessment, but also a credible biodiversity offsetting program with evidence of biodiversity net gain. While the project was attractive on many fronts, including the commercial one, it didn't appear as if the mitigation measures could meet FMO's exclusion list and IFC PS6 Biodiversity Requirements. As such, FMO did not move forward with the investment.

## Step 2 | Clearance in principle

We make an initial assessment of risks and opportunities, define the terms of our engagement, and scope any further assessment needs. We conduct an initial KYC assessment to ensure that we identify potential risks pertaining to the customer in relation to financial economic crime and that the customer complies with anti-money laundering, anticorruption, and anti-terrorist financing regulations. We screen potential effects on environmental, social, governance and human rights issues. We document this in a Clearance in Principle (CiP) proposal, which informs our decision to continue to prepare a final investment proposal.

### In practice

FMO was considering an investment in a debt fund aimed to provide scalable financing solutions (e.g. project and asset-based finance loans and financial lease arrangements) for small and medium-sized solar and electricity storage projects for commercial and industrial companies in Africa. The fund's investment team had significant experience in Europe. In addition to identifying key E&S risks, the due diligence process sought to understand how the fund was addressing contextual risk and how the investment team's European expertise could be extrapolated to the African context.

## Step 3 | Due diligence

We carry out a more in-depth project assessment. We document the results in a finance proposal that informs our final decision to invest. For high-risk ESG investments, we conduct a site visit and meet with various stakeholders associated with the investment. Where needed, we engage external experts. We define and negotiate further ESG requirements and conduct further ESG risk assessments when needed. This may include additional human rights studies, a look at animal welfare and consultation with local civil society.

### In practice

An African bank in a fragile state presented both high contextual risk as well as corporate governance risks. The assessments highlighted the bank's exposure and gaps, but also initiated a meaningful engagement. Recognizing the potential for improving the management of environmental and social risks in their portfolio and enhancing their corporate governance practices, FMO took proactive steps. These involved negotiating with the bank to implement additional ESG requirements and increase its awareness on opportunities to improve management of E&S risks in the portfolio and to enhance its corporate governance practices. The due diligence process resulted in an E&S and corporate governance action plan that were included in the loan agreement. The close involvement of the ESG specialists fostered a strong relationship with the key decision makers of the bank. The bank has since begun to implement both the corporate governance and E&S improvements.

## Step 4 | Financial Proposal: decision to invest

Our Credit department evaluates each financial proposal and prepares a comprehensive credit advice to guide the final investment decision. Upon approval of an investment, but before finalizing any contract, we disclose the proposed investment on the World Map page on our [website](#) per our Customer Disclosure Policy. This disclosure period is vital, as it allows (local) stakeholders to offer feedback or additional information. This enhances the quality of our investments and enables FMO to make more informed and effective decisions. This process not only ensures transparency but also fosters a collaborative approach in our investment activities.

**In practice**

FMO's Credit team endorsed an investment in an agricultural-processor and exporter with operations spanning across Asia and Africa, and emphasized the significance of ESG additionality. We identified a valuable opportunity for FMO to act as a strategic business partner and to support the customer in implementing a robust E&S supply chain management program that is aligned with the latest EU regulations concerning human rights and climate change. Our involvement is expected to enhance the E&S management practices of the customer's smallholder farmers and, simultaneously, to ensure compliance with these new EU regulations. Moreover, our corporate governance specialist proposed a comprehensive corporate governance action plan to facilitate the customer's journey towards an initial public offering.

**Step 5 | Contracting**

To make them legally binding, FMO includes ESG requirements in its contracts. We disclose a summary of the contracted investments, including an E&S rationale, on our World Map.

**In practice**

Due diligence for an energy project was concluded in early 2020, just prior to the recent pandemic. This and other complexities, prolonged the contracting process, which was only concluded in 2023. While the standard E&S requirements were integrated into previously drafted investment contracts, the delays coincided with emerging risks in the solar supply chain. To meet FMO's developing approach to solar supply chain risks, the customer was required to commit to new actions and additional E&S requirements. These new conditions were integrated into the final contract, alongside commitments to IFC Performance Standards and the World Bank EHS Guidelines. This investment shows how adaptable customers must be for projects with lengthy lead times in order to align with an increasingly challenging ESG landscape.

**Step 6 | Disbursement**

Disbursement of funds can take place upon fulfilment of the conditions, ESG and other, as set out in the contract.

**In practice**

During the recent pandemic, E&S risk management practices severely deteriorated at an existing banking customer. In 2023, refinancing came with strict E&S requirements specified in an environmental and social action plan, and conditions precedent. These were divided over two disbursements to maintain leverage. The bank responded promptly and made immediate improvements after due diligence was concluded. This led to significant improvements and to the bank being compliant with all conditions, before signing and actual disbursement.

**Step 7 | Monitoring and value creation**

Throughout the lifetime of the investment, we monitor its performance and look for opportunities to add value. We continue to work with our customers to ensure implementation of our ESG requirements. We review the customer's and consultant's ESG monitoring, as well as any accident and incident reports. We conduct regular customer visits and perform an annual customer credit review, including, where applicable, a check whether the affected community still supports the investment.

**In practice**

An existing aquaculture customer had demonstrated its willingness to adopt the latest, best available technology and science-based approaches to its business. Over the four years of working with FMO, the customer adopted a sustainability mindset and was looking into climate mitigation and adaptation strategies. The company started a decarbonization journey, developed improvement plans and looked at efficiencies and ways to curtail emissions. The customer also participated in fisheries climate adaptation studies and started to embed the recommendations into its business model. To further support value creation for this customer, our corporate governance team was engaged to improve the structure and functioning of its Board of Directors, to develop and implement succession and business continuity plans, and to enhance their internal control standards.

**Step 8 | Exit**

FMO's mission to create impact implies sustaining impact even after the relationship ends. Through our equity and non-performing investments, we may decide to exit a transaction. On occasion, there are unusual endings of transactions as well, such as prepayments of loans. Prior to exiting an investment, we carefully review and consider the implications this can have on ESG risks and the need to sustain any potential development impact as long as possible.

**In practice**

In 2023, an African energy investee was preparing to sell its assets to a new party, whilst several E&S risks were yet to be properly managed. FMO organized a monitoring visit together with an independent consultant to assess the remaining E&S and technical risks of the assets and to develop an action plan to exit the investment responsibly. Part of the action plan needs to be implemented prior to exiting the assets, and part will be negotiated with the new owner of the assets, in the event an exit occurs prior to all action items being implemented. Through this active approach, FMO is steering its investee to consider E&S aspects upon exit, ensuring that residual risks are managed appropriately.

## Key strategic challenges and opportunities



**Economic growth** has been fueled by strong debt issuance, calling into question its sustainability. In today's multipolar world, **geopolitical tensions** have been rising.



**New technologies** are enabling more effective ways to have development impact, while also creating new risks and ethical questions.



Global progress on economic growth and decent jobs has stalled; **global inequality is on the rise** (e.g. in fragile states).



**Regulations expanding** from prudential into ESG, climate and FEC risk, requiring more from Development Finance Institutions (DFIs).



**Customers** note FMO's entrepreneurial spirit is under pressure from increasingly stringent policies and compliance.



**The world is behind in reaching the Paris goals** and **adaptation finance** is increasingly **needed**; developing countries are disproportionately affected.



Funding for the SDGs is hampered by a **lack of bankable opportunities**.



**Expectations** of our **stakeholders are increasing, and often differ**; tradeoffs need to be carefully managed.









# PERFORMANCE AGAINST OUR STRATEGY

At FMO, we believe in a world in which, by 2050, more than 9 billion people live well and within planetary boundaries. To realize this vision, we engage in activities that contribute towards Decent Work and Economic Growth (SDG 8), Reduced Inequalities (SDG 10) and Climate Action (SDG 13). Our activities also have positive impacts on other SDGs, given the interconnected nature of the global goals.

We believe that access to electricity, nutrition and finance are crucial for the growth and prosperity of economies. Accordingly, we concentrate our efforts on three sectors. In Agribusiness, Food and Water (AFW), we strive to accelerate sustainable and resilient agricultural supply chains to increase food security. In Energy, we drive and support a sustainable energy access and transition. In Financial Institutions (FI), we aim to create inclusive, resilient and sustainable financial systems.

In line with our Strategy 2030, we have set three key priorities for 2023: growing impactful business, ensuring a solid foundation and organizational development. This chapter provides an overview of our performance in 2023 and highlights the progress made towards our 2023 priorities as well as our 2030 strategic goals. The table below provides an overview of our contribution towards the SDGs by strategic sector. Although innovation is an important strategic focus area for FMO, this was not prioritized for 2023 and, as such FMO is not reporting any progress in this area. For more information on the underlying definitions and methodologies on the results presented in this chapter, refer to the 'How we report' chapter.

## Contributions to the SDGs by strategic sector (in € million, unless stated otherwise)

Indicators	SDG	2022	2023	AFW	EN	FI	Diverse sectors
Total committed portfolio <sup>*</sup> , of which:		13,238	13,181	2,145	3,046	5,817	2,173
FMO		8,934	9,071	1,054	2,185	3,983	1,849
Public funds		1,401	1,386	318	347	404	317
Direct mobilized funds		2,903	2,724	774	514	1,430	6
Total new investments <sup>*</sup> , of which:		2,423	2,695	623	547	1,366	159
FMO		1,813	1,909	331	379	1,069	130
Public funds		153	258	65	88	76	29
Direct mobilized funds		457	528	227	80	221	0
Total number of jobs supported (in thousands) <sup>**</sup> , of which:		910	990	145	122	579	144
Direct jobs		51	50	19	7	8	16
Indirect jobs		859	940	126	115	571	128
RI-labelled total committed portfolio			4,453	4,301	914	766	2,381
RI-labelled total new investments	810		1,140	212	67	819	42
Green-labelled total committed portfolio		4,427	4,749	682	2,520	1,187	360
Green-labelled total new investments		1,003	1,091	253	432	341	65
Total financed avoided greenhouse gas emissions (ktCO <sub>2</sub> e) <sup>**</sup>		1,735	2,061	157	1,729	0	175
Total financed absolute greenhouse gas emissions (ktCO <sub>2</sub> e) <sup>**</sup> , of which:			8,093	8,403	1,604	1,042	4,424
Scope 1 +2	1,629		1,302	406	511	84	301
Scope 3	6,464		7,101	1,198	531	4,340	1,032
ESG target performance (%)		93%	91%	92%	91%	87%	93%

\* This is an alternative performance measure (APM) that is not included in the financial statements. Further details on APMs are provided in the chapter 'How we report'.

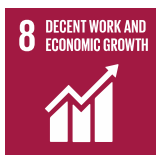
\*\* The comparative figure for this indicator has been adjusted to include direct mobilized funds.



# Our achievements in 2023

To achieve our strategic goals and objectives, we defined ambitious targets and plans for 2023. The 2023 results as well as the key drivers are further explained in this chapter.

## Sustainable economic growth and decent jobs



SDG 8 calls for promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Private business, investment and innovation are major drivers of productivity, inclusive economic growth and job creation.

Creating and safeguarding jobs is crucial for sustainable development, as employment provides a path out of poverty. According to World Bank estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, yet economic growth has not kept pace in providing employment opportunities for all. Further to that, the quality of jobs is often lagging.

As such, FMO pursues two ambitions related to SDG 8 as part of its Strategy 2030: growing the number of jobs supported and increasing the decency and quality of jobs at our customers. To realize these objectives, we help our customers to grow in a responsible manner. Through commitments anchored in our Sustainability Policy, we support our customers in meeting international standards on decent work and resource efficiency.

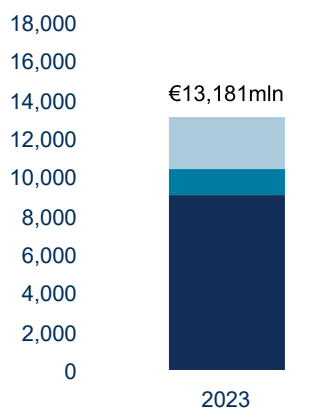
## Sustainable economic growth

Economic growth must be coupled with social and environmental considerations so that it is sustainable in the long run. We drive impact, both financial and non-financial, towards sustainable economic growth through making responsible investments. We target specific underserved markets, including micro, small and medium-sized enterprises (MSMEs).

## Responsible investments

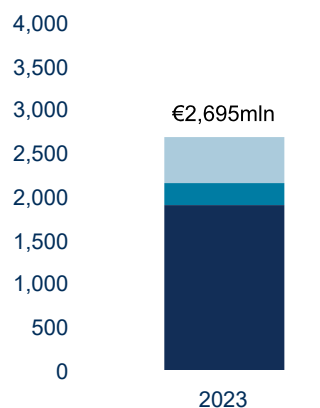
We invest with the goal of having broader economic, social, environmental and governance impact in the markets in which we invest. We work with general investment criteria to ensure that our investment decisions and processes contribute to our objectives and are in line with our mandate. Our results are expressed in terms of total committed portfolio and total new investments.<sup>19</sup>

**Total committed portfolio**



- Direct mobilized funds
- Public funds
- FMO's balance sheet

**Total new investments**



- Direct mobilized funds
- Public Funds
- FMO's balance sheet

<sup>19</sup> This is an alternative performance measure (APM) that is not included in the financial statements and is designed for steering purposes. For a definition of this APM, please refer to the chapter 'How we report'.

In 2023, we invested a total of €2.7 billion (2022: €2.4 billion) of which €1.9 billion was made through FMO's own funds (2022: €1.8 billion), €258 million was made through public funds (2022: €153 million) and €528 million was made through direct mobilized funds (2022: €457 million).

Our total committed portfolio amounted to €13.2 billion (2022: €13.2 billion), of which €9.1 billion was invested through FMO's own books (2022: €8.9 billion), €1.4 billion through public funds (2022: €1.4 billion) and €2.7 billion through direct mobilized funds (2022: €2.9 billion).

Despite facing global macroeconomic challenges in 2023, we achieved an 11 percent growth in our total new investment volume compared to 2022. This was the result of significant business development efforts in 2022, rebounding from the pandemic-induced slowdown. Production volumes, however, fell short of the €3.1 billion target resulting from high interest rates and inflation, putting downward pressure on demand for financing. Production volumes were insufficient to offset loan repayments and exits in our portfolio as well as the negative effects of the EUR/USD exchange rate. The overall portfolio, therefore, remained at 2022 levels and fell short of our target of €14 billion.

## Access to finance for MSMEs

FMO targets MSMEs, including those owned by women, youth, and other marginalized populations, because they are financially underserved and typically provide more jobs than larger corporates relative to the capital invested. We want to ensure that these beneficiaries are able to grow their businesses sustainably and are not worse off by taking credit. We require micro-enterprise customers to adhere to the Client Protection Principles (CPPs), which set the minimum standards that end-customers should expect when doing business with a financial service provider. The CPPs focus on the prevention of over-indebtedness, transparency, and responsible pricing.

The number of MSME loans represents the number of loans FMO's customers have provided to MSME customers. In 2023, our customers provided 42 million micro loans (2022: 33 million) and a total of 2.4 million SME loans (2022: 2.6 million). The increase in extended microloans by FMO's customers is largely driven by new customers entering the portfolio (new investments represent approximately half of the increase) as well as the existing customer base growing their microloan book (the other half). Both developments more than offset the few micro-loan focused customers that exited FMO's portfolio in 2023. The increase in the microloan book of existing customers is reflective of the generally resilient economic growth that emerging markets were able to realize in 2023 despite the challenging macroeconomic conditions.

## Jobs supported

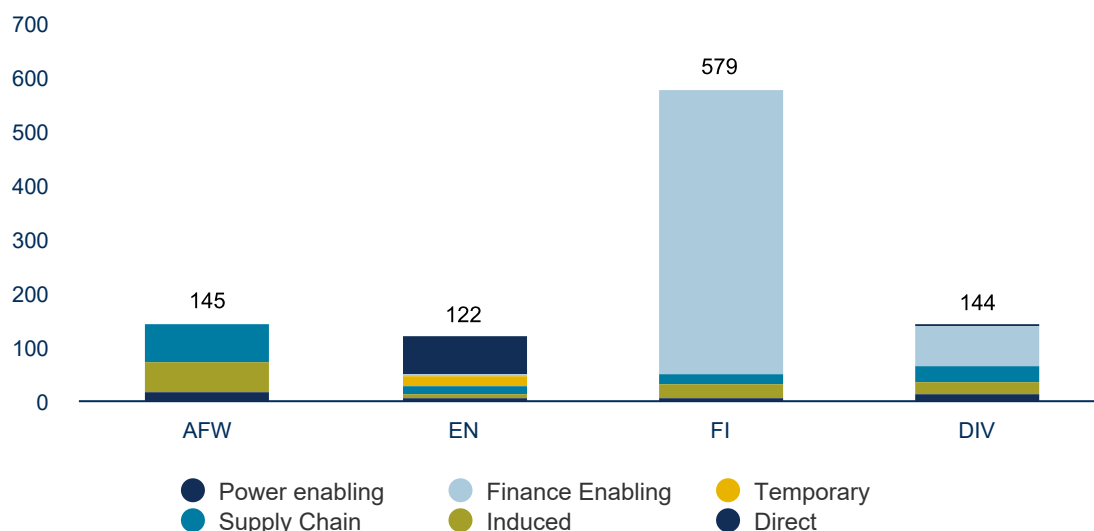
DFIs like FMO promote the development of the private sector, which is one of the most important providers of jobs in emerging markets and developing economies. The number of jobs supported provides a proxy of the employment impact of investing in the private sector. As businesses survive and grow, their outputs require direct employment and intermediary inputs. This in turn leads to activity among existing and new suppliers, thereby supporting and creating jobs. Some products and services – notably electricity, infrastructure and finance – remove constraints for other businesses, enabling them to succeed and hopefully to expand.

FMO reports on attributed<sup>20</sup> jobs supported for both direct and indirect jobs. Direct jobs refer to the number of full-time equivalent (FTE) employees working for the companies or projects we have invested in. Indirect jobs refer to those jobs that are supported by our customers through supply chains, the spending of wages, and economy-wide employment enabled by bank lending and the supply of electricity.

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20 In line with the PCAF methodology, we allocate the number of jobs supported proportionally to the share of our investment in our customer.

### Jobs supported per strategic sector (in thousands)



In 2023, FMO’s total outstanding portfolio resulted in an estimated 990 thousand attributed jobs supported (2022: 910 thousand jobs).<sup>21</sup> Of this, 74 percent of jobs supported originated from investments made through our own balance sheet, 13 percent from investments made through public funds, and 13 percent through direct mobilized funds. The majority - 940 thousand – resulted from indirect jobs. The remainder - 50 thousand – resulted from direct jobs. A total of 37 percent of direct jobs supported were held by women.

Compared to 2022, the total number of jobs supported increased by 80 thousand. This is partially the result of the addition of a higher number of jobs affiliated with new customers joining our portfolio compared to those exiting our portfolio, which resulted in an increase of 46 thousand jobs supported. In addition, we also recorded an increase in 34 thousand supported jobs for existing customers in our portfolio.

### Supporting customers to improve job quality

Not just the number of jobs supported matters but also the quality of those jobs. We require our customers to respect workers’ rights and to strive towards providing decent working terms and conditions. We uphold IFC Performance Standard 2 and the ILO Declaration on Fundamental Principles and Rights at Work, which focus on labor and working conditions. Through these commitments, we expect our customers to treat workers fairly, provide safe and healthy working conditions, avoid the use of child or forced labor, and identify and remediate risks in their primary supply chains.

Recognizing that we work in regions with weak regulation and in sectors relying heavily on subcontracting, we encourage customers to go beyond standard local practices. This includes proactive risk identification, as well as the enforcement and monitoring of requirements. We promote the quality and inclusiveness of the jobs we help support, for example by removing barriers to the employment of women and vulnerable people. Furthermore, we encourage workers’ personal development by advocating for and co-creating skills development and training.

We also try to facilitate change in working conditions through collaboration. As an investor in solar power, we need to find ways to address the challenges related to the serious human rights allegations of forced labor in the solar supply chain. By working with other DFIs we are seeking to better understand the topic and identify opportunities to jointly exercise leverage to minimize this risk. While the solar supply chain is continuously changing, FMO has developed and continues to develop

<sup>21</sup> The numbers reported may not be fully comparable across years because of differences in data quality and coverage. To estimate the attributed impact, we rely on information from our customers. To increase comparability, we try to ensure we have the most recent data and broadest data coverage.

investment criteria for all new transactions involving solar technology. While not easy, combining efforts will hopefully put pressure on the solar power supply chain and eventually eliminate forced labor.

## Reducing inequality between and within countries



Inequality is detrimental to long-term social and economic development, poverty reduction and people’s sense of fulfilment and self-worth. However, economic growth alone is not sufficient to reduce inequalities.

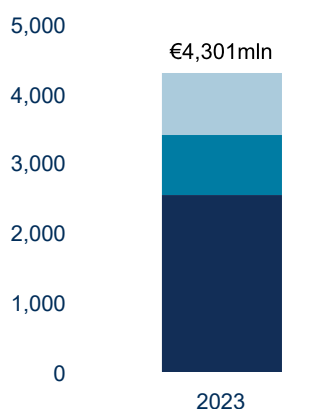
To reduce inequalities, we pursue three ambitions. First, we contribute toward improved access to better basic goods and services and income generating opportunities for those in the bottom 40 percent of the income distribution. Second, we work towards advancing gender equality through increased gender-lens investments. Third, we invest in least developed countries (LDCs) and are developing a proof of concept for successfully investing in fragile states.

We label and steer our investments towards these areas. We work with our customers to increase the income of low-income populations by promoting empowerment, inclusion, and equal opportunities and by supporting financial flows to the countries that need it the most. Through our ESG risk management activities, we identify the risks associated with inequality and try to ensure an inclusive approach in our due diligence.

### Investments to reduce inequalities

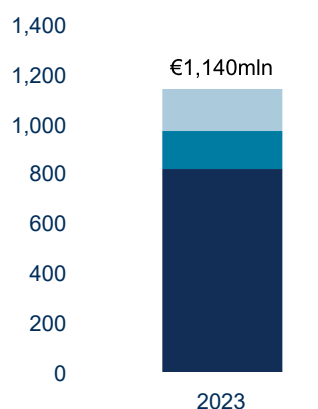
An investment receives a Reduced Inequalities (RI) label when there is an expected impact towards this objective. This includes investment flows towards LDCs or inclusive businesses that provide basic goods and services for low income and underserved groups (including micro-financial services, financial services to underserved SMEs, as well as last mile delivery of power), or that include smallholder farmers and women in their value chains.

RI-labelled total committed portfolio



- Direct mobilized funds
- Public funds
- FMO's balance sheet

RI-labelled total new investments



- Direct mobilized funds
- Public Funds
- FMO's balance sheet

In 2023, FMO invested €1.1 billion towards reducing inequalities (2022: €810 million), representing 42 percent of our total new investment volume. Of this, €822 million was invested from our own books, €155 million from funds made available by public entities and €163 million from direct mobilized funds. We invested €856 million in inclusive businesses that mostly focus on microfinance and micro-financial services, women-owned or women-led SMEs and smallholder farmers. We invested €335 million in companies and projects operating in LDCs such as Tanzania, Senegal and Nepal.

The total volume of RI-labelled total new investments increased by 41 percent compared to 2022. This was the result of improved performance in the AFW and FI sector which managed to close several large transactions in LDCs and inclusive business. Lower than expected volumes in the Energy sector, which suffered from higher interest rates and inflation, however, meant we fell short of our target of €1.2 billion.

Despite the strong growth in total new investments in 2023, our RI-labelled total committed portfolio decreased by three percent from €4.5 billion to €4.3 billion at the end of 2023 compared to 2022. We fell short of our target of €4.9 billion due to high portfolio outflows (including the exit of a large customer in Myanmar), an unfavorable development in the USD/EUR exchange rate and changes in the RI-labelled volumes following the annual monitoring cycle. The current volume of RI-labelled portfolio represents a 33 percent share of the total committed portfolio.

## Advancing gender equality

FMO considers gender equality a human right and a means to reaching sustainable growth. That is why we strive to advance gender equality through our gender-lens investments. We seek investments that encourage more women to participate in the economy, support female entrepreneurs, reach women as end-users of goods and services and include women in the labor market. We also aim to protect the rights of women and gender minorities, to understand the gender-specific impact of our investments and to contribute towards equitable access to economic opportunities.

### Gender-lens investments

We steer our investments to advance gender equality in two ways. First, we invest in companies that focus on women-owned MSMEs, women as consumers, and businesses that specifically include women in their value chain. This is covered by FMO's RI label, explained previously.

Second, we engage with customers to identify investments that are or can become eligible for the 2X Challenge, often providing development contributions to gender action plans and activities. The 2X Challenge, part of the 2X Global Initiative, is a collective commitment of DFIs to mobilize gender lens investment. The initiative developed a framework and criteria for investments that contribute to gender equality, referred to as the 2X Criteria.

In 2023, we invested €351 million in financing for women-owned or women-led SMEs (2022: €199 million). One of the projects we supported was Mibanco Banco de la Microempresa, the largest MFI bank in Peru. FMO provided a US\$50 million loan fully dedicated to supporting women-owned SME businesses.

In 2023, €114 million of new investments qualified for the 2X Challenge. A total of €80 million was on our own books, €17 million from public funds and €17 million from direct mobilized funds.

## Supporting customers to increase inclusivity

Through our ESG management activities we identify the risk of inequality and try to ensure inclusion in our potential investments by performing due diligence with a human rights lens. This is further explained in the chapter 'Our investment process'. At the end of 2023, 299 customers in our portfolio went through such an exercise (2022: 293 customers).

Our ESG engagement supports inclusivity by identifying vulnerable groups and seeking ways for our customers to create visibility for them. This can include empowering women in the workplace or in the communities, as well as addressing the rights of indigenous peoples and other vulnerable groups with impaired rights in consultation processes. In addition, our customers can encourage participative engagement through resettlement planning, trainings, or livelihood support programming. We also stimulate benefit sharing and advocate community ownership.

For instance, we identified that an existing customer in West Africa was exclusively hiring people of the same prominent ethnic group and that job sourcing was also done through channels exclusive to this group. The company was also not trying to attract more women, by promoting the company's vacancies stating the required gender of the potential candidates. While this was understood to be standard local practice, FMO is providing technical assistance to ensure the customer will increase female representation, diversify the workforce in terms of ethnicity and implement inclusive practices for a safe

working environment for all. This will be formalized into HR policies and procedures, as well as by diversifying vacancies' announcements through various channels.

## Climate action



Global temperatures are rising and the impact of climate change is evident, with developing countries facing disproportionate impacts. These countries are also part of the solution, and require substantial financing for climate adaptation and mitigation. Biodiversity, affected by human activity and climate change, requires protection to preserve ecosystems. For these reasons, we invest in activities that contribute toward SDG 13.

As part of our Strategy 2030, we outlined four core goals we aim to achieve. First, to have acted upon our commitment to reach a net zero portfolio by 2050. Second, to support customers' increased alignment with the Paris Agreement goals and increase our climate change mitigating investments. Third, to strengthen our customers' resilience to climate change and increase our solutions for adaptation and resilience. Fourth, to increase the volume of investments contributing to biodiversity preservation.

As part of our obligation under the Climate Commitment of the Dutch Financial Sector, FMO published its first Climate Action Plan in 2022. This aligns with our updated Strategy 2030 and provides a holistic framework for action that contributes towards our SDG 13 objectives. In the Climate Action Plan, we have set out three key actions: (1) aligning our portfolio and investments with the Paris Agreement goals; (2) increasing climate investments and support to our customers; and (3) active management of our climate action. The following is a summary of some of the key actions FMO has taken or which are ongoing toward these objectives.

### Aligning our portfolio and investments with the Paris Agreement

In our Strategy 2030 and Climate Action Plan, we have affirmed our commitment to a net zero portfolio in 2050. Recognizing uncertainties, including evolving climate change impacts and market dynamics, our strategy involves investing in low-emission investments or investments that contribute materially to climate mitigation (climate finance), reducing the emission intensity of our new investments, and increasing investments in carbon removals, primarily forestry. When all carbon equivalent emissions – positive and negative – are aggregated in 2050, our portfolio emissions will be 'net zero'.

Toward 2030, we have committed to align new investments with the mitigation and resilience goals of the Paris Agreement (country-level). In addition, we have committed to taking an ambitious and well-studied approach, carefully balancing both social and environmental considerations, as well as the need for a just and inclusive transition, and strive to align new transactions and our portfolio with a 1.5°C pathway.

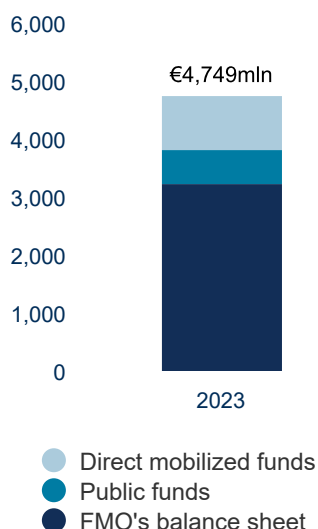
To progress toward these objectives, we set a power generation emission reduction target for 2030, whereby we will decrease our absolute emissions by 50 percent from 2021 (results included in the Energy section). Simultaneously, we exclude certain high-emitting investments in line with our Combined Position Statement on Fossil Fuels.

We are actively working on developing our principles and methodology toward aligning all new investments with country-level mitigation and resilience goals and toward higher alignment ambitions. In addition, we are developing key performance indicators (KPIs) to further steer and underpin our ambition and strategy. While we are already engaging with select customers on climate finance, Paris alignment, and climate governance and risk management through our 'business as usual' and technical assistance programs, we will also be studying how we can do more to support our strategy in the coming years.

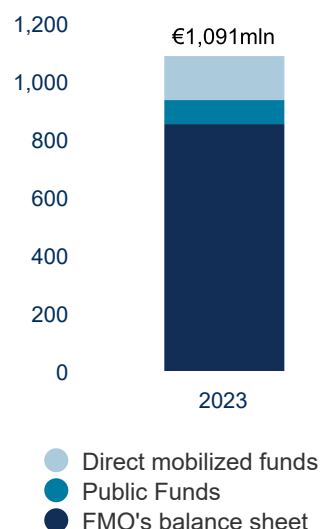
### Climate finance

Since 2015, we steer our climate financing through our Green label to capture the ex ante potential of our investments. FMO's Green label currently focuses on three components: climate change mitigation, climate change adaptation, and other (environmental) footprint reduction measures.

### Green-labelled total committed portfolio



### Green-labelled total new investments



In 2023, we invested €1.1 billion in renewable energy projects, green credit lines and sustainable agriculture (2022: €1 billion), representing 40 percent of total new investments. Of this, €853 million was invested from FMO's own balance sheet, €86 million from public funds and €152 million from direct mobilized funds.

We increased the volume of Green-labelled total new investments by nine percent. In 2023, we saw strong performance in the AFW sector and green equity investments. In addition, our inaugural forestry project in Brazil marked a promising entry into the market, which is expected to contribute to the future growth of our Forestry portfolio. Despite this, we fell short of our target of €1.4 billion. This shortfall was largely driven by lower green volumes in the EN and FI sectors as a result of challenging market conditions. This is further explained in the energy and financial institutions sector-specific sections.

However, as a result of the overall growth in Green-labelled total new investments, our Green-labelled total committed portfolio increased by seven percent from €4.4 billion to €4.7 billion at the end of 2023 as compared to the year before. This represents a 36 percent share of the total committed portfolio. Due to lower volumes of Green-labelled total new investments than anticipated and the depreciation of the US dollar, we fell short of our target of €4.9 billion.

## GHG emissions

Measuring and reporting the GHG emissions linked to FMO's activities and investments provides insights into our positive and negative climate-related impact and how to steer our investments towards more positive impact in the future.

We report on:

- Financed absolute GHG emissions generated through our investments. These give an understanding of our portfolio's overall emissions and opportunities to reduce them.
- Financed avoided GHG emissions as a result of our investments, for example through the power production of a new solar park. These emissions quantify our contributions to climate change mitigation activities, which cannot be fully captured by absolute emissions.
- Absolute GHG emissions from FMO's own operations associated with heating and electricity used in our office buildings, as well as staff business travel. These are much smaller than our financed absolute emissions but show our own operational footprint.

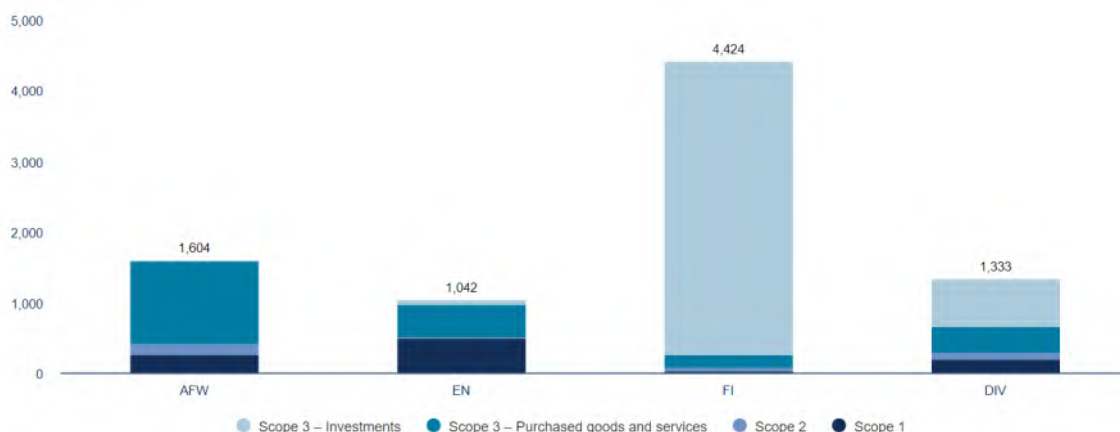
### Financed absolute GHG emissions

We report on absolute emissions scopes 1, 2 and 3 in line with the GHG Protocol. Scope 1 relates to direct emissions resulting from the activities of an organization or under its control (e.g., a power plant burning gas). Scope 2 relates to indirect emissions from energy used by an organization (electricity, heat

and steam). Scope 3 relates to all other indirect emissions in the value chain related to, for instance, business travel or purchased goods and services.

To report on financed absolute GHG emissions, we follow the Global GHG Accounting and Reporting Standard for the Financial Industry published by the Partnership for Carbon Accounting Financials (PCAF). The majority of FMO’s financed absolute GHG emissions are estimated through economic modelling using the Joint Impact Model (JIM). While we continue to improve our data collection on GHG emissions, it is important to note that such data are not yet readily available in many of our markets. In the meantime, the JIM provides insights into our portfolio and its sources of emissions.

### Financed absolute GHG emissions per strategic sector (in ktCO<sub>2</sub>e)



In 2023, our outstanding portfolio resulted in an estimated 8,403 ktCO<sub>2</sub>e financed absolute GHG emissions (2022: 8,093 ktCO<sub>2</sub>e), of which 990 ktCO<sub>2</sub>e were scope 1 emissions, 312 ktCO<sub>2</sub>e were scope 2 and 7,101 ktCO<sub>2</sub>e were scope 3. The scope 3 emissions consist of two main GHG Protocol categories: purchased goods and services (2,186 ktCO<sub>2</sub>e) and investments related to emissions in the portfolios of our customers (4,915 ktCO<sub>2</sub>e), which are particularly relevant for FIs. Overall, 71 percent of emissions were attributed to our own balance sheet, 13 percent were attributed to funding from public funds and 16 percent to direct mobilized funds.

Our portfolio scope 1 and 2 emissions declined from 1,629 ktCO<sub>2</sub>e in 2022 to 1,302 ktCO<sub>2</sub>e in 2023 as a result of lower exposure in high-emitting customers, such as fossil fuel power plants as well as more primary emissions data. Scope 3 emissions increased from 6,464 ktCO<sub>2</sub>e in 2022 to 7,101 ktCO<sub>2</sub>e in 2023 due to, among others, data refinements and better coverage.<sup>22</sup>

We do not yet report on emissions removals from, for example, our forestry activities. This is something we will work towards in the future.

### Financed avoided GHG emissions

In 2023, our portfolio resulted in an estimated 2,061 ktCO<sub>2</sub>e total avoided GHG emissions (2022: 1,735 ktCO<sub>2</sub>e). Notably, 84 percent originated from the EN sector, eight percent from AFW and eight percent from diverse sectors. A significant proportion of avoided emissions, specifically 1,310 ktCO<sub>2</sub>e, was attributable to our debt and equity portfolios in on-grid renewable power projects.

<sup>22</sup> The numbers reported may not be fully comparable across years because of differences in data quality and coverage. To estimate the attributed impact, we rely on information from our customers. To increase comparability, we try to ensure we have the most recent data and broadest data coverage



## Absolute GHG emissions from FMO's own operations

In our Climate Action Plan, we also addressed FMO's operational emissions. In 2023, the carbon footprint of our own operations amounted to 5.79 ktCO<sub>2</sub>e (2022: 3.89 ktCO<sub>2</sub>e). Scope 1 emissions amounted to 0.08 ktCO<sub>2</sub>e, which came from lease cars used by our employees. Scope 2 emissions amounted to 0.03 ktCO<sub>2</sub>e connected to district heating that we obtain for our head office. Scope 2 emissions related to the use of electricity were equal to zero since we purchase electricity from renewable sources.<sup>23</sup> Scope 3 emissions amounted to 5.68 ktCO<sub>2</sub>e, mainly from staff travel. As explained in our Climate Action Plan, for us to invest responsibly, conduct our business, and strengthen our value-add to our customers around the world, we must travel to meet our customers. As a result, 84 percent of our own emissions resulted from air travel. The easing of COVID-19 measures increased staff travel and office use, which significantly increased our carbon footprint compared to the past three years.<sup>24</sup>

In our travel policy, FMO employees are encouraged to consider the environment in planning their travel. Travel up to 500km in continental Europe must be done by train or car and all flights shorter than six hours must be economy class. FMO offsets its operational emissions by investing in a mix of different credits, including VCS REDD+ certified forestry credits, VCS Afforestation/Reforestation credits, Gold Standard Household Biogas credits and Puro Biochar credits.<sup>25</sup>

## Supporting customers' increased alignment with the Paris Agreement goals

Our customers have different circumstances from both a climate mitigation and adaptation and resilience perspectives. We already have a track-record of working with our customers on these aspects through the financing of climate-specific investments, our ESG activities, and our technical assistance. At the same time, we recognize that to meet our own impact goals, we will need to further support our customers in this period of both transition and growing physical climate risk.

Through our ESG activities we engage directly with senior management and board members of many of our customers to raise awareness and increase their understanding of the implications of climate on their businesses. We encourage active preparation for the future, both at the investment and sectoral levels.

Our assessments of environmental and biodiversity risks include requirements for impact mitigation and minimization of habitat or ecosystem degradation. Implementing protection measures for biodiversity can enhance climate change resilience.

We are also actively collaborating with many of our investees on sustainable initiatives. An example involves an existing aquaculture customer striving to decarbonize and accelerate the transition from fossil fuels to renewable energy in its business. FMO's team is supporting the customer to become a sector leader in GHG emissions reduction, through the production of low-footprint animal protein. The company is also implementing climate-smart aquaculture practices that combine technology and IT for efficient use of resources.

Through the technical assistance facilities associated with the funds FMO receives from public entities, for example the MFF and DFCD, we support our customers with tailored technical assistance for climate mitigation and adaptation and resilience solutions.

Going forward, as we develop our further Paris alignment requirements, we will continue to improve the ways we support our customers in order to have the real-world impact we seek to stimulate. Toward this, in 2023, we established both the Sustainable Finance Advisory and the Sustainability Standards Integration teams to execute on this goal.

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23 These are the market-based Scope 2 emissions. Location-based Scope 2 emissions amounted to 0.40 ktCO<sub>2</sub>e.

24 The absolute GHG emissions from FMO's own operations do not include any (additional) emissions as a result of employees working from home, such as (increased) electricity use and heating in home offices.

25 VCS is the Verified Carbon Standard, a standard for certifying carbon emissions reductions. REDD+ refers to the focus on Reducing Emissions from Deforestation and forest Degradation, including sustainable management of forests.

## Development contributions

We provide development contributions through our Technical Assistance program to contribute to impact, create value and reduce risk for our (prospective) customers as well as support business and ecosystem development efforts. Development contributions are financed by FMO, the Dutch Government, the European Commission, the UK Government, and the U.S. Development Finance Corporation.

In 2023, we provided €14 million in development contributions (2022: €16 million). In 2022, we reported an overspend under the MFF program due to a US\$2.5 million repayable development contribution. In 2023, we report an underspend, mostly for DFC and NASIRA, due to longer lead times related to more stringent procurement processes that apply to these funds.

## Customer level support

Throughout 2023, our technical assistance activities focused primarily on supporting tailor-made programs for our customers that are aligned with their strategic objectives.

For example, we have designed technical assistance frameworks that establish formal partnerships with specialized consultants. These frameworks are intended to provide customers with expert support in identifying and addressing gaps in their sustainability and impact focused practices. This included offering tailor-made advice on gender inclusion, green finance, and consumer protection.

We also continued to support customer growth and performance and to help customers deliver on their strategy. For example, we supported a company in Kenya to test and scale new electric motorbikes and design a facility to re-purchase lithium-ion batteries, thereby reducing e-waste.

Furthermore, in cooperation with DFC, we have set up the Digital Transformation TA Facility to enable financial intermediaries to use technology to improve their processes, culture, and customer experience, by adapting to evolving market needs thereby driving financial inclusion.

## Business development and ecosystem building

Business development relates to short to medium-term efforts that support FMO's and other DFI investment pipelines with bankable projects. Ecosystem building refers to long-term strategic interventions with scale potential that address market deficiencies and risks in relevant sectors and geographies for FMO. Both are key to FMO's market creation strategy.

Market creation interventions target identified barriers to bankability, and are used to develop bankable projects and enterprises. With the approval of the MASSIF market creation top-up subsidy of €22 million in 2023, we will ramp up our efforts in this space over the coming years.

## ESG performance

FMO uses several tools to track ESG performance. We set an annual ESG performance target, agree multi-year environmental and social action plans (ESAPs) or corporate governance action plans (CGAPs) with our customers, monitor ESG performance gaps in our portfolio and maintain a serious incident register. In addition, FMO has an Independent Complaints Mechanism (ICM) that allows external parties to file a complaint, including on ESG aspects, concerning investments or projects financed by FMO. For more information on how ESG risks are integrated into FMO's overall risk governance and risk management approach, refer to the 'Risk management' section.

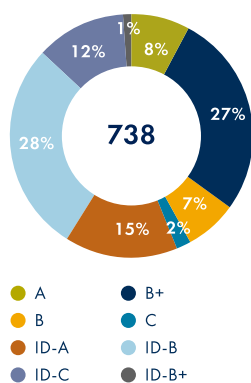
## Environmental, social, and corporate governance action plans

Given the high degree of variation in ESG regulations and practices in our markets, FMO accepts that the initial ESG performance of a customer may not meet international standards. However, we do expect improvement over time in line with agreed action plans, reflecting FMO's commitment to ESG additionality. In the case of customers with contractually agreed ESAPs and/or CGAPs, we monitor progress towards implementation to ensure that our investments comply with our policies and standards within a reasonable timeframe. Most customers show good progress and are receptive to FMO's ESG guidance and support. We consider customer progress on action items when assessing their ESG performance.

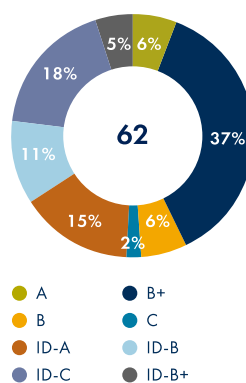
## E&S risk profile

The following charts show the risk profile for our entire portfolio and the new customers contracted in 2023. While new transactions were added to the portfolio, several others were repaid or exited throughout the year. The number of customers in the portfolio increased significantly in 2023, which was partially attributed to a change in how we define our portfolio.<sup>26</sup> In 2023, we still include customers in our portfolio if certain administrative processes remain open, even though an exit or repayment has already occurred.

E&S risk profile of full portfolio



E&S risk profile of new customers



FMO categorizes the E&S risk profile of its customers as follows: A and B+ (high risk), B (medium risk) and C (low risk) for direct investments and ID-A (high risk), ID-B+ (high risk), ID-B (medium risk) and ID-C (low risk) for indirect exposure through debt and PE funds.

## ESG performance target

We set an ESG performance target annually for high ESG risk customers in our portfolio contracted prior to 2023 (identified as the 'target list'). The ESG performance target is a combined metric of high E&S risk customers and customers with a corporate governance officer in the deal. We register and monitor the different types of ESG risks of our high-risk customers and aim to have at least 90 percent of the ESG risks managed at an adequate level by the customers in our target list.

While we monitor all ESG risks in our portfolio, the target focuses specifically on high-risk customers. Out of a total of 738 customers in our portfolio, 372 customers were classified as high E&S risk (category A or B+), a 12 percent increase from last year.

By consolidating customers within the same corporate group or group of companies and excluding those in B Loans<sup>27</sup> or contracted in 2023, we created a target list of 268 customers. These accounted for a total of 3,602 ESG risks monitored throughout the year. The 2023 results indicate that, on average, 91 percent of these risks were adequately managed. In instances where customer performance deteriorates or open action items are not implemented on time, customers receive lower ratings, which bring down the average of the entire portfolio.

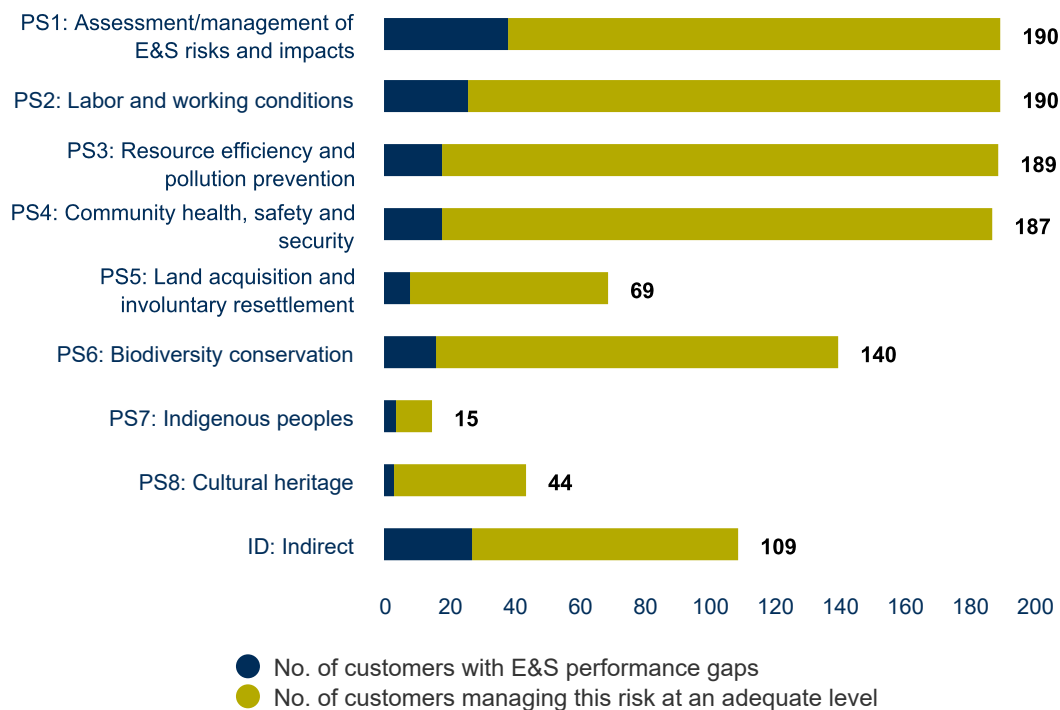
<sup>26</sup> A customer is active upon signing the relevant legal agreements. For loans, a customer remains active until the loan has been fully repaid. For equity investments, a customer is active until the assets of the fund have been fully liquidated. However, from 2023 onwards, we still consider customers as active when administrative processes are open even if their respective loans have been repaid or assets have been liquidated.

<sup>27</sup> FMO participates in 'B-loans', contractual arrangements where it has a sub-participation where another DFI/MDB manages the customer relationship. In these cases, FMO does not have a direct business relationship with the end recipient. In 2023, it was decided that, while FMO will continue to monitor B-loan performance, the results would not be included in our ESG target.

## E&S performance gaps in our portfolio

The following chart illustrates the type of E&S impacts and risks, as per the IFC Performance Standards, and the frequency with which high impacts and risks occur. The scale of potential issues in our portfolio is determined by the type, the frequency and the degree to which these risks are being managed by our customers. The frequency of E&S risks is sector agnostic in our direct and indirect financing portfolios.

### Management of E&S risks by FMO high-risk customers



In 2023, FMO identified 75 high-risk customers who did not adequately manage E&S risks, which could lead to higher environmental and social risks. In some instances, E&S non-performance may stem from broader (financial) issues, requiring loan restructuring. In such cases, we offer additional support to our customers to help them carry out the proposed improvements. In other instances, non-performance could be the result of irreversible E&S and human rights impacts. In these types of cases, we encourage the customer to undertake appropriate analyses and implement corrective actions. For the most part, we are confident that we can bring the customer back on track within a reasonable timeframe. However, if the customer is unresponsive, a complete exit may need be considered. Our E&S engagement is tailored to each customer's unique circumstances.

The following table provides an overview of the current E&S performance gaps we have identified and how we engage with these customers. It includes the number of customers for which subpar performance has been identified (denoted by 'n').

E&S performance gaps 2023	Description	Our engagement
Willingness and commitment (PS1) (n=14)	Resistance to engage on E&S issues can stem from over-reliance on DFIs to drive ESG work streams. Commitment can waver due to financial, operational and contextual difficulties. Wavering commitment can have tangible implications on human rights and the environment, for example through delays in implementing management plans or community benefits, or in conducting specialized studies.	We use contractual leverage on specific E&S items, raise issues with customers' top management and exert influence on their boards, e.g. to push for the improvement of organizational culture.
Environmental and social governance and budget (PS1) (n=18)	The customer's leadership is not fully aware of and involved with E&S performance management, and/or has not allocated sufficient budget, resources, or time. Governance issues can result in poor protection of workers' rights, a range of risks to communities, as well as damage to the environment.	We use contractual leverage and escalate the issue to top management. We may offer capacity building and advice on integrating E&S costs into financial planning and monitor frequently.
Identification and assessment of risks and impacts (PS1) (n=15)	Weak (initial and ongoing) identification and mitigation of risks. This can adversely impact human rights.	We provide customers with continuous engagement with our ESG staff and capacity building. If needed, we exert formal pressure e.g. through withholding additional financing or triggering default.
Environmental and social management system (PS1) (n=20)	Since the assessment and management of E&S risks and impacts is part of a larger set of processes that the customer uses to manage its projects, the customer needs to deploy an environmental and social management system (ESMS) to warehouse and utilize such processes. A weak system hampers the ability to identify issues or risks, and through that to improve E&S performance, and so can lead to adverse economic, financial, social, and environmental impacts.	We support customers in the development and improvement of an ESMS.
Organizational capacity and competency (PS1) (n=17)	E&S teams can be too small, change often, continue to perform poorly, or lack qualified staff. This is an issue in countries where environmental legislation is developing, and/or state human rights policy and practice are weak.	We use contractual leverage, offer capacity building and look for competent staff in our network.
Stakeholder engagement, external communication, grievance mechanisms (PS1) (n=26)	Trust and communication between FMO's customer and its stakeholders are eroding or have broken down. Ineffective channels of communication play an important part here, particularly when grievances are insufficiently captured or redressed. Poor performance in this area can infringe on the freedom of opinion and expression, and even result in inhuman treatment, retaliation, and risk to lives.	We intensify our customer engagement, offer to connect customers to experts, mediate or provide capacity building.
Voluntary land rights transfer (PS1) (n=3)	Customer needs to demonstrate that the buyer and the seller were both willing to transfer the land. Involuntary land transfer can be masked as voluntary, which can weaken community cohesion, cause tension between company and community and affect people's livelihoods.	We engage with our customers to help them establish a land acquisition process that shows both the buyer and seller are willingly transferring the land.
Working conditions and management of workers relationship (incl. third party workers) (PS2) (n=20)	Project workers working in substandard conditions, unaware of their rights or without access to grievance mechanisms. This can infringe on labor rights.	We discuss gaps with the customer, enable capacity building and set conditions, e.g. by making disbursements conditional on improvement.
Occupational health and safety (PS2) (n=16)	Gaps in ensuring safe and healthy working conditions, possibly leading to serious injuries and fatalities. This could infringe upon the right to health and safety in the workplace, and the right to life.	We discuss gaps with the customer, enable capacity building and set conditions, e.g. by making disbursements conditional on improvement.
Supply chain working conditions (PS2) (n=3)	When the customer does not monitor its primary supply chain, risks or incidents affecting vulnerable groups are not adequately addressed.	We require customers with supply chains susceptible to high human rights or environmental risks to conduct a supply chain risk assessment. In some cases, they also need to develop a leverage plan and/or action plan to mitigate those risks.
Resource efficiency and pollution prevention (PS3) (n=18)	Projects reduce the availability of water in arid regions or pollution prevention measures are inefficient. This can infringe upon the right to life, the rights of the child and the right to live in a safe, clean, and healthy environment.	We discuss gaps with the customer, enable capacity building and set conditions, e.g. by making disbursements conditional on improvement.
Community health, safety and security (PS4) (n=18)	Risks to local communities are poorly managed, especially when security forces are mandated to protect personnel and assets. The increasing fragility of political environments across the geographies we work in makes this a complex area.	We discuss gaps with the customer, enable capacity building and set conditions, e.g. by making disbursements conditional on improvement. FMO can require a root cause analysis and corrective measures or redress.
Land acquisition and involuntary resettlement (PS5) (n=8)	When resettlement and livelihood restoration plans are poorly managed or insufficiently recognize vulnerable groups and/or have ineffective grievance mechanisms. This can impoverish people and infringe on their right to an adequate standard of living, notably the right to food and adequate housing.	We find an expert to conduct gap analyses and implement recommendations. In the event of an early exit, FMO seeks to provide remedy to those impacted.
Biodiversity and living natural resources (PS6) (n=16)	Biodiversity risks have not been modeled well enough or monitoring and mitigation are insufficient, or new findings are missed or ignored. This reduces biodiversity and access to forest products, thereby infringing on the right to food and/or an adequate standard of living.	We intensify customer monitoring, engage a biodiversity expert and use our leverage to improve the situation.

E&S performance gaps 2023	Description	Our engagement
Indigenous Peoples (PS7) (n=4)	Community engagement processes do not meet FPIC requirement and/or do not allow for sufficient participation of Indigenous Peoples. In some cases, we recognize challenging operating conditions where risks to these communities are difficult to control. This may lead to the infringement of their right to food, traditions and sacred sites.	FMO encourages customers to meet FPIC standards, share benefits with communities, and include indigenous groups in livelihood restoration. We may intensify monitoring of contextual risk factors.
Cultural heritage (PS8) (n=3)	Failure to protect cultural heritage. This can infringe on the rights of people to benefit from their and other people's cultural heritage.	We use our leverage to improve the situation, looking at past and future risks.
Financial intermediaries: financial institutions and fund managers (n=27)	Substandard system for identifying and managing E&S risks of financed activities. Processes and procedures are unclear, E&S management responsibilities are insufficiently defined and/or capabilities are lacking, or inadequate E&S due diligence and monitoring is performed. This can be compounded by lack of exposure to and experience in E&S risks management by the financial sector and the lack of a level-playing field. This can lead to infringements of all types of human rights as referenced before.	We provide expertise and funding for the ESMS or sit on E&S risk management committees. We negotiate improvement plans and, in some cases, initiate or contribute to sector initiatives.

## Serious Incidents

We believe that robust occupational health and safety (OHS) management systems are integral to an employer's duty of care, improve job quality and add value to a business. Unfortunately, OHS norms and regulatory systems can be weak in emerging markets, leading to serious accidents occurring more frequently. Where a customer's mitigation practices fall short of (international) standards, we develop and agree an ESAP with the customer to close those gaps. We also help customers to develop their OHS risk management capabilities, for instance, through (funding for) training. However, given the large number of people that are employed by our customers and the challenges of operating in emerging markets and developing economies, we acknowledge that serious incidents cannot always be avoided.

FMO requires its customers to report within 72 hours any incident that occurs on or near any site, plant, equipment or facility belonging to the customer resulting in a loss of life, a material effect on the environment or a material breach of the law – inter alia – as well as how the incident has been dealt with. We follow up on each incident to ensure that a meaningful root cause analysis is conducted and corrective action is implemented.

In 2023, regrettably, 21 FMO customers reported 51 fatal incidents with a total of 60 fatalities (2022: 85 fatalities). We aim to provide a comprehensive overview of all fatalities resulting from financed activities, and expect that our customers hold themselves to the contractual agreement to report any occurrence. However, the risk remains that some incidents may not have been reported to us and have therefore not been included in these numbers.

Incident type	No. of fatal incidents	No. of fatalities	No. of workers	No. of public
Road-related	34	39	13	26
Work-related	7	9	9	0
Asset-related	2	4	4	0
Security-related	4	4	3	1
Other	4	4	4	0
<b>Total</b>	<b>51</b>	<b>60</b>	<b>33</b>	<b>27</b>

## Independent complaints mechanism

FMO has implemented an independent complaints mechanism (ICM) for project-related complaints. The ICM ensures the right to be heard for complainants who feel affected by an FMO-financed operation, facilitating dispute resolution and assist FMO in drawing lessons learned. It also monitors the implementation of measures to bring a project into compliance or agreed as outcome of a mediation process. For details on the governance of the ICM, please refer to the chapter 'Corporate governance'.

In 2023, four new project-related complaints were received. One was declared inadmissible, one is currently under assessment, and two were processed as part of an ongoing complaint (2022: one new admissible complaint). Information about the status of complaints filed in earlier years can be found on our website.

# Agribusiness, food and water sector



€623 million

*Invested towards decent work and sustainable economic growth*



€212 million

*Invested towards reducing inequalities through resilient and inclusive agricultural value chains*



€253 million

*Invested towards climate change mitigation and adaptation*

## Accelerating sustainable and resilient agricultural supply chains to increase food security

We invest in agribusiness, food and water to support and accelerate sustainable and resilient agricultural supply chains to increase food security.

More than 800 million people currently face hunger, and an even greater number of people lack access to nutritious foods. This number is expected to rise due to the current food crisis resulting from the effects of climate change and geopolitical tensions.

Improving access to food is crucial for reducing inequality, which requires higher economic development in rural areas and more investments throughout the agricultural supply chains. In addition, there is a need to transform the sector through sustainable, resource-efficient and resilient practices. The effect from climate change on food production and the contribution of the agriculture sector on rising GHG emissions, underscores the urgency of these measures.

## Towards 2030

In line with our Strategy 2030, we seek to support sustainable and resilient agricultural practices throughout the agricultural and food supply chain. We also aim to enable local agricultural and food supply chains to increase production and improve local access to food, while reducing food waste and reliance on imports. Furthermore, we want to grow the number and quality of jobs supported, focusing on decent work and inclusion of smallholders and women in supply chains.

To achieve these ambitions, we are investing in global merchants, input providers, and food companies to increase sustainable practices along the (international) agricultural supply chain. In addition, we continue to expand our integral landscape approach to sustainable land-use and ecosystem protection and restoration. We do this through our work in forestry, climate-smart and regenerative agriculture, soil improvements, and improved livelihoods. Towards 2030, we will also increase our engagement with customers, helping them improve the resilience of their supply chains and aligning with the goals of the Paris Agreement.

## Achievements in 2023

### Sustainable economic growth

In 2023, FMO invested €623 million in the agribusiness, food and water sector, of which €551 million consisted of debt and €72 million of equity investments. Half of the investment volume was directed at agricultural processing (41 percent), agricultural production (2 percent) and agricultural trading (8 percent), with the remaining half invested in other activities.

The war in Ukraine has affected both the food and fertilizer production and trade, with direct implications for our portfolio in Ukraine. The conflict has also had a detrimental impact on food security in many of our markets, but especially in Africa, which is highly dependent on food and fertilizer imports. The high interest rates, which persisted throughout 2023, also posed substantial challenges for our customers, as most of our portfolio is USD denominated. Additionally, the sector was confronted with challenges, such as a poor rice harvest in India and the coffee market experiencing backwardation.<sup>28</sup> The increasing frequency of such incidents due to climate change is expected to make agricultural production and food prices more volatile.

28 Backwardation is when the current price, or spot price, of an underlying asset is higher than prices trading in the futures market (source: Investopedia).

Despite the challenging context, we were able to significantly increase our investments in the agribusiness, food and water sector. We saw particularly strong growth in our sustainable aquaculture business this year. Another milestone was our inaugural investment in Brazil, marking a pivotal step for future growth of our portfolio in Latin America and the Caribbean, particularly in forestry. Approximately half of the investments made during the year were in new customers. The quality and impact of these deals proved to be crucial factors to be able to mobilize third party capital.

## Jobs supported, including for women

By providing investments to our customers, we support jobs. In the agribusiness, food and water sector, jobs supported stem mainly from supply chain effects through, for instance, sourcing goods and services from others as well as through employees spending their wages in the economy (induced jobs supported). Some of our customers in this sector are financial institutions that focus on providing loans to SME agribusinesses, which also result in finance-enabling jobs.

In 2023, FMO's customers in the agribusiness, food and water sector supported an estimated 145 thousand jobs (2022: 134 thousand), comprising of 19 thousand direct jobs and 126 thousand indirect jobs. A total of 35 percent of the direct jobs supported were held by women. The increase in the total number of attributed supported jobs is predominantly related to the incorporation of new customers into our portfolio and existing customers in our portfolio.

## Reducing inequalities through resilient and inclusive agricultural value chains

In 2023, RI-labelled total new investments in the agribusiness, food and water sector amounted to €212 million, of which €55 million was invested in LDCs and €173 million in inclusive business. This represents an increase compared to 2022, partially driven by a large transaction with an existing customer that supports smallholder farmers in Africa. In addition, we financed a dairy company in Uganda and a new company active in Malawi and Zambia, which are all LDCs.

FMO targets smallholder farmers because they meet more than 70 percent of the world's need for food but have a weak market position and limited means to invest in business improvements.<sup>29</sup> Smallholder farmers are marginal and submarginal farm producers that own and cultivate relatively small plots of land, have low access to technology, and have limited capital, skills, and risk management. They depend on family labor for most activities and have limited capacity for storage, marketing, and processing.<sup>30</sup>

We invest in companies that support smallholder farmers to improve their yields, and/or reduce environmental degradation, and/or improve social practices during the investment period. In 2023, companies financed by FMO supported 14 million smallholder farmers (2022: 5 million). The significant increase in the number of smallholders supported was driven by an investment in a large fund, which reported an increase in almost 10 million farmers. As we report smallholders supported as an unattributed figure, we account for all smallholders reached through the investees of funds in our reporting.

## Climate action

In 2023, Green-labelled total new investments in the agribusiness, food and water sector amounted to €253 million, a substantial increase compared to 2022 (€133 million). Green volumes were largely driven by the portfolios in Latin America, the Caribbean and in ECA and MENA. In ECA and MENA this was due to investments in sustainable aquaculture and closing several large deals with long-standing customers in, for instance, Turkey and Moldova. In Latin America and the Caribbean, we closed several large transactions with new customers in, among others, Ecuador and Brazil which helped drive green production in 2023.

In 2023, AFW investment portfolio resulted in 1,604 ktCO<sub>2</sub>e financed absolute GHG emissions. The AFW portfolio is diverse, giving rise to different sources of GHG emissions. Manufacturing and processing of food products leads to CO<sub>2</sub> emissions from energy usage. Primary agricultural production can have significant non-CO<sub>2</sub> emissions such as methane from livestock and nitrous oxide from fertilizers. Emission removals, which mainly come from forestry projects, have not been included yet since we are still waiting for final guidance from the GHG Protocol.

29 Food and Agriculture Organization of the United Nations (April 2021). Small family farmers produce a third of the world's food.

30 Definition according to UN Food and Agriculture Organization (FAO).



# Energy sector



€547 million

*Invested towards decent work and sustainable economic growth*



€67 million

*Invested towards reducing inequalities by providing access to energy*



€432 million

*Invested towards climate change mitigation and adaptation*

## Driving and supporting sustainable energy access and transition

We believe FMO can make a difference by investing in the energy sector by driving and supporting sustainable energy access and transition.

As the global population and economic activity continues to grow, demand for energy will increase. Access to reliable, clean and affordable energy is crucial for local economic prosperity and is a prerequisite for achieving the SDGs. However, many people currently still lack access to any form of energy. The United Nations Development Programme estimates that around 733 million people, roughly 10 percent of the global population, lack access to energy, especially in LDCs and rural areas. In LDCs, where the electrification rate is 52 percent, more than 500 million people lack access to energy. In rural areas, only 39 percent of the population has access to energy.

Given the recent energy crisis, investing in and building markets for low or zero-emission energy sources is important as it can reduce dependence on foreign energy and protect the local population from excessive fuel price hikes. According to the IPCC, this will be key to meeting the 1.5°C temperature goal outlined in the Paris Agreement.

## Towards 2030

We are committed to supporting a sustainable energy transition by investing in renewable energy generation and areas within the energy supply network that are currently underdeveloped and hampering progress. Our focus will be on transmission and distribution, especially in Africa and Asia, along with grids and end-use energy storage solutions, e-mobility, and rooftop solar for commerce and industry, including MSMEs.

In addition, we aim to support greater energy access for LDCs and fragile states, rural areas and the bottom 40 percent of the population.

We are committed to phasing out fossil fuels in our direct investments and implementing additional restrictions for our indirect investments. By 2030, we aim to reduce the financed absolute GHG emissions in our power generation portfolio by 50 percent.

## Achievements in 2023

### Sustainable economic growth

In 2023, we invested €547 million in energy projects, of which €366 million consisted of debt and €181 million of equity investments. Results were affected by lower demand from project developers amidst difficult market conditions and greater availability of commercial and concessional funding. Geopolitical tensions have reduced the investable space and the confidence of project developers. Markets are still recovering from the pandemic and the energy crisis resulting from the war in Ukraine. In addition, the high sovereign debt levels in many developing countries limit the ability of governments to support large energy projects such as solar or wind farms, hydroelectric dams, or thermal plants.

Furthermore, the energy market is in transition. Concessional financing for renewable energy projects has increased over the past few years. New technologies such as green hydrogen are entering the market but are not yet fully investible. Energy storage solutions are being developed and the expansion and modernization of power grids is gaining traction. These developments are prompting FMO to move from larger-scale renewable energy generation investments to financing energy sub-sectors such as transmission and distribution, commercial and industry greening projects, and energy storage solutions. This shift will take time and explains in part the lower-than-expected performance this year.

## Jobs supported, including for women

Through our investments in energy projects, we support jobs, mainly as a result of the availability of reliable energy. An increase in the energy supply leads to greater productivity of, for instance, manufacturing companies, which are able to produce more output. This stimulates the economy and creates greater employment opportunities and demand for intermediary inputs. This, in turn, leads to expansion among existing and new suppliers, thereby supporting and/or creating jobs in the value chain.

In 2023, FMO's energy customers supported an estimated 122 thousand jobs (2022: 125 thousand jobs). Some 115 thousand consisted of indirect jobs supported, mostly through power-enabling and induced effects as explained above. Only a small portion of jobs are temporary as a result of the construction of a project. Around 7 thousand were direct jobs, with people employed directly by our customers. A total of 40 percent of direct jobs supported were held by women. Compared to 2022, the number of jobs supported remained relatively stable. An exit of one of our energy customers resulted in a slight decrease but this effect was offset by an estimated increase of the number of jobs supported by other customers in the portfolio.

## Reducing inequalities through access to energy

Ensuring access to affordable, reliable, sustainable and modern energy for all is key to reducing inequalities. In 2023, €67 million of our new investments are expected to contribute towards reducing inequalities. Of this, €47 million was invested in hydro and solar energy projects in LDCs such as Senegal, Sierra Leone and Uganda. Demand in LDCs has been subdued due to the challenging market conditions that are often most prominent in these countries. €30 million was invested in energy solutions for low income or marginalized populations who lack adequate coverage, reliability, or affordability of these services.

Customers in our energy portfolio produced 47 thousand GWh (2022: 48,500 GWh), which served an equivalent of 87 million people (2022: 87 million). Some 54 percent was generated from renewable energy sources (a total of 103 customers). Approximately 12 percent came from solar, 13 percent from wind, 18 percent from hydro and 11 percent from other renewable energy sources. The remaining 46 percent came from 15 customers generating power from non-renewable sources, mainly natural gas.

## Climate action

Investments in the energy sector are needed to ramp up clean and efficient use of energy. In 2023, we invested €432 million in green energy projects. Results were lower than expected due to greater availability of concessional finance for renewable energy projects and challenging market conditions.

Most of our Green-labelled total new investments were geared towards climate change mitigation.

We estimate that our overall investment portfolio resulted in financed avoided GHG emissions of 1,729 ktCO<sub>2</sub>e (2022: 1,597 ktCO<sub>2</sub>e). This represents an increase compared to last year, which can be explained by higher avoided emissions recorded for off-grid energy investments. Around three quarters of the avoided emissions can be attributed to on-grid renewable power projects and around one quarter to off-grid energy investments.

At the same time, our energy investment portfolio also resulted in absolute GHG emissions. In 2023, financed absolute GHG emissions in the energy portfolio decreased to 1,042 ktCO<sub>2</sub>e (2022: 1,084 ktCO<sub>2</sub>e). Approximately 90 percent of scope 1 emissions come from the remaining investments we have in fossil fuel fired power plants. Scope 3 emissions, which are estimated based on economic models, are likely overestimated for renewable energy investments.<sup>31</sup>

We are committed to phasing out fossil fuels in our direct investments and implementing additional restrictions for our indirect investments. We have set an absolute emission reduction target for our power generation portfolio of 50 percent by 2030. For 2023, we report absolute GHG emissions for the power generation portfolio of 441 ktCO<sub>2</sub>e, based on 2022 emissions data and our 2023 outstanding exposures. This is a decrease compared to the 544 ktCO<sub>2</sub>e we report for 2022 and a 24 percent reduction compared to the 2021 baseline of 582 ktCO<sub>2</sub>e.<sup>32</sup> The reduction is due to an overall decrease of our outstanding exposure in operational fossil fuel plants. We will publish the final 2023 figure in the 2024 FMO Annual Report.

31 The GTAP version underlying JIM version 2.08 only has one economic sector called "Electricity; steam and air conditioning supply", which also includes fossil plants. This means that the Scope 3 emissions for renewables are based on an emission factor that also partially includes fossil assets.

32 The 2021 baseline value has been slightly adjusted to correct for a database issue that was recently identified. The 2022 value reported in the Annual Report 2022 using 2021 emissions data was 541 ktCO<sub>2</sub>e, so using the updated 2022 emissions data only lead to a small adjustment.

# Financial institutions sector



€1.4 billion

*Invested towards decent work and sustainable economic growth*



€819 million

*Invested towards reducing inequalities by providing access to finance*



€341 million

*Invested towards climate change mitigation and adaptation*

## Creating inclusive, resilient and sustainable financial sectors

A healthy financial sector and access to finance are cornerstones of a strong economy and a private sector that is capable of fostering entrepreneurship, stimulating economic growth and creating jobs. Providing access to financial products and services plays a crucial role in alleviating poverty, increasing income and promoting economic development.

In emerging markets, MSMEs contribute up to 45 percent of total employment and 33 percent of GDP. However, in our target markets, 40 percent of formal MSMEs face an unmet financing need of US\$5.2 trillion per year. Through our investments in financial intermediaries, we facilitate MSMEs to gain access to capital, support business growth and channel finance to businesses and end-beneficiaries that we cannot directly finance efficiently.

## Towards 2030

In line with our Strategy 2030, we aim to reduce inequalities by increasing access to finance for people within the bottom 40 percent of the income distribution. This includes MSMEs, women, youth and rural entrepreneurs. In addition, we invest in activities in LDCs and fragile states. We seek to grow the number of jobs supported and increase the decency of jobs at our customers.

Towards 2030, we will increase finance for financial institutions (FIs) targeting climate mitigation, climate adaptation and resilience, biodiversity and other environmental footprint reductions. We will engage with FI customers to help build their climate strategies and capacity and decarbonize their portfolios.

We use product propositions, such as the NASIRA guarantee program, alongside capabilities like ESG and Client Protection Principles, and related financing to achieve these ambitions. Our focus extends to supporting fintechs, facilitating customers' digitalization, and assisting (SME) banks and non-bank financial institutions in developing green propositions. In addition, we increasingly take on our customers' credit risk exposure to help them reach people within the bottom 40 percent of the income distribution. Furthermore, we aim to cater to large FIs with Green bond tickets, expand existing investable assets, and help our customers develop climate governance and climate risk frameworks.

## Achievements in 2023

### Sustainable economic growth

In 2023, FMO invested €1.4 billion in the FI sector, of which €1.1 billion consisted of debt, €89 million of guarantees and €147 million of equity investments. Results are in line with last year, where we were able to leverage established relationships with our FI customers and successfully (re-)enter new countries and market segments. However, there was lower overall demand for financing primarily due to the high interest and inflation rates. This led to lower-than-expected transaction sizes in the market, affecting our ability to mobilize third party capital.

In 2023, we were challenged by numerous conflicts in Africa and the Middle East, higher interest (base) rates reducing funding demand, and disruptions in energy and food markets resulting from the war in Ukraine. Although inflation decreased from its peak at the start of the year, it remained above target levels, also in emerging markets. Despite these headwinds, the global economy proved resilient, with emerging markets outperforming expectations.<sup>33</sup>

## Jobs supported, including for women

Through our investments in FI customers, we support jobs. These are primarily derived from the broader economy as a result of lending to businesses and individuals. The increased volume of capital provided by our FI customers empowers companies to increase output, creating employment opportunities and demand for intermediary inputs. This, in turn, fosters growth among both existing and new suppliers.

In 2023, FMO's FI customers supported an estimated 579 thousand jobs. This was mostly due to new FI customers we invested in and an increase of jobs supported through existing FI customers. Some 571 thousand jobs were indirect stemming from finance-enabling effects that relate to economy-wide jobs supported by lending to businesses and individuals. The remaining eight thousand were people directly employed by our FI customers. A total of 37 percent of the direct jobs supported were held by women.

## Reducing inequalities through access to finance

In 2023, RI-labelled new investments in the FI sector amounted to €819 million, of which €223 million was invested in LDCs and €621 million in inclusive business. We continued our collaboration with FI customers to identify, target and reach underserved segments of the population, including youth, women and other marginalized customer groups. The success of the NASIRA guarantee program, which largely targets economically marginalized groups, further helped increase FMO's contribution to reducing inequalities. Finally, our investment volume in LDCs saw an increase driven by a rise in investments in Asia and Africa. As a result, 60 percent of our total investment in the FI sector are expected to contribute to reducing inequalities.

## Climate action

In 2023, Green-labelled total new investments in the FI sector amounted to €341 million in line with last year's results. Unlike 2022, which was primarily driven by a few large deals, 2023 was characterized by a broader distribution of green credit lines, including a greater number of average sized deals, involving customers across different countries.

In 2023, our FI investment portfolio resulted in 4,424 ktCO<sub>2</sub>e in financed absolute GHG emissions. Similar to FMO, scope 1 and 2 emissions are limited as these mainly pertain to the energy use by the investee banks' office buildings. Most emissions stem from the banks' loan portfolios (scope 3 emissions) in sectors such as agriculture, manufacturing and energy. Within the banks' loan portfolios, the JIM-based estimates show that 56 percent come from their customers' scope 1 and 2 emissions and 44 percent from emissions related to their customers' scope 3 emissions from purchased goods and services. Specific use of proceeds, such as green credit lines, cannot yet be taken into account in emission estimations due to a lack of data.

# Organizational developments

In 2023, we grew our workforce, improved employership and launched new learning programs for both managers and (new) employees. Furthermore, we made an employee engagement survey toolkit that helps managers to work with their teams on the improvement areas from the engagement survey, launched the Values in Action and Leadership Impact programs and made progress on strategic HR projects like HR Connect and the Employee Value Proposition (EVP).

FMO is actively cultivating a culture that values diversity, quality, integrity, and making a positive impact on society. We have an ambitious strategy towards 2030 and recognize the role of culture in long-term value creation. That is why we have aligned our values and behaviors with our long-term business priorities and sustainability goals. Our four values – Diversity, Integrity, Making the difference, and Quality – continue to represent what we believe in and shape our FMO culture. The behaviors that underpin each value have been updated, driven by employee input, to provide guidance on how we act on that value. We recently launched a multi-year program to focus on embedding behaviors to encourage common understanding and ensure that behaviors are actionable and meaningful for everyone in the organization.

Through this initiative, training programs and leadership development, we aim to create an environment where we work together to maximize our impact as one FMO. FMO expects its employees to be aware of and behave according to the code of conduct and speak out when they feel that the business principles are threatened or compromised. Our commitment to an effective code of conduct is evident through regular trainings, for example our annual integrity awareness e-learning, and transparent reporting mechanisms. Our speak-up policy and our internal grievance and complaint mechanisms helps us monitor the effectiveness of the code of conduct.

## Employee developments

At the end of 2023, we had 803 employees (2022: 689 employees) who were all covered by the collective labor agreement for banks. During the year, 177 new employees joined FMO (2022: 142 new employees). Most of our employees are based in the Netherlands. We continue to employ an international staff base, which at the end of 2023 represented 72 different nationalities (2022: 63 nationalities).

Other FMO employee statistics	Dec. 31, 2023	Dec. 31, 2023	Dec. 31, 2023	Dec. 31, 2022
	total	male	female	total
Number of internal employees (headcount)	803	374	429	689
Number of permanent internal employees (headcount)	794	370	424	582
Number of temporary internal employees (headcount)	9	4	5	107
Number of full-time internal employees (headcount)	615	315	300	513
Number of part-time internal employees (headcount)	188	59	129	176
Number of internal FTEs	773	365	408	661
Percentage non-Dutch employees	40%	33%	45%	36%
Number of nationalities	72	44	60	63
Absenteeism	4.2%	2.9%	5.7%	4.1%
Number of external employees (headcount)	181	119	62	154
Total number of internal and external employees (headcount)	984	493	491	843

In 2023, diversity and inclusion training became an integral part of the onboarding program for all employees, laying the foundation for a culturally aware and inclusive environment. FMO Academy created a new onboarding journey that is better aligned with our vision, mission, and strategy and how FMO integrates the SDGs into its operations. In March 2023, we implemented a new commuting policy with the goal of making it more sustainable and with a focus on public transportation, fairness, and actual usage.

A further 181 externals were also working at FMO (2022: 154 externals). The increase compared to last year was the result from a growing project portfolio and our building back business strategy. The work performed by external employees consisted mostly of project management and support activities, ICT and data-related activities, KYC-related activities and several non-client facing activities in various areas of the organization. Approximately half of the external employees were self-employed (In Dutch: ZZP) and recruited either directly or via an agency.

## Employee engagement

We invest in the wellbeing and development of our employees, so they will be able to enjoy a healthy and inspiring working environment. This has become even more important for attracting and retaining employees in the current labor market.

In 2023, an employee engagement survey gauged the experience of our employees and obtained feedback on inclusion, team leadership, engagement, psychological safety and employership. The average employee engagement score was 7.5 (2022: 7.3). Employee perception of the Management Board has undergone a substantial improvement on role modelling our values and behaviors, scoring a 7.3 compared to 6.3 in 2021, setting a clear strategy for the future (score 7.2 compared to 5.6 in 2021) and on being open for feedback (score 7.7 compared to 6.3 in 2021). Moreover, there were noticeable improvements in employee perception regarding opportunities for learning and development, scoring 7.3 compared to 6.5 in 2021. Additionally, the company's receptiveness to using employee ideas and suggestions for improvement also increased, with a score of 6.6 compared to 5.8 in 2021.

Similar to the previous survey, employees indicated that they are passionate about FMO's mission and vision and experience pride and joy doing meaningful work. Employees experience a high level of collaboration and support within their team and consider their immediate manager as one of the key contributors towards a positive employee experience. Wellbeing initiatives, social events and our working from abroad policy are well appreciated.

Based on the survey, we identified four priorities: psychological safety, cross-team collaboration and inclusive communication, efficiency, and employee value proposition. Through our departmental and team action plans and continuous dialogue we aim to improve employee experiences in these areas.

## Diversity and inclusion

FMO aspires to be a diverse and inclusive employer. In 2020, we published a diversity and inclusion statement in which we express our commitment to a society in which everyone feels valued, respected, and included. We promote diversity of gender, gender identity and sexual orientation, culture (topics around ethnicity and race), age and generations, as well as people with occupational disabilities. Having a workforce from the countries we operate in allows us to create better solutions for our customers and have more impact on the world. We also want to create an inclusive working culture for our employees and our stakeholders. We believe this leads to better decisions, more creativity and innovation.

We strive for an equal gender distribution at the organizational and department level. It is our ambition to have an equal gender distribution in management roles. In order to achieve our target of 50 percent, we consider gender and other diversity-related factors for all positions (including management roles) along with other important criteria during our recruitment process. This also includes findings related to the gender pay gap, as explained further in this section.

To track our progress and performance on gender, we report on seven gender diversity KPIs, as follows:

7 Gender diversity & inclusion metrics					
		Total	Male	Female	% Female
<b>1. Gender balance</b>	Total number of employees per December 31, 2023 (headcount)	803	374	429	53%
	Employees in senior and middle management per December 31, 2023	87	46	41	47%
<b>2. Recruitment</b>	New Joiners January - December 2023 (headcount)	177	71	106	60%
	Net growth percentage	17%	12%	20%	
<b>3. Turnover</b>	Number of leavers January - December 2023 (headcount)	63	31	32	51%
	Turnover percentage (based on total headcount) at beginning of reporting year	9%	9%	9%	
<b>4. Reward</b>	Gender pay gap: FMO conducts periodically (at least once a year) quantitative research to analyze the gender pay gap. This involves comparing the salaries of men and women who perform equivalent work*, while also accounting for variables such as part-time work, age, job family, salary scale, and tenure to ensure a fair comparison.	Total fixed income: The gender pay gap for total fixed income showed a 2.8% difference and for total cash (fixed income and bonuses) a 2.9% difference, both in favor of men. Although the gender pay gap narrowed slightly and is relatively small compared to Dutch companies, the statistical analysis showed a statistically significant difference at a 5% significance level. The most significant differences were observed in pay differences between men and women in the categories 'part-time factor 91-100%', 'age group 35-44 years', and 'tenure 5-10 years'. These findings highlight areas where targeted interventions may be necessary to promote equity and fairness in compensation practices.			
<b>5. Bonuses**</b>	Share of bonus amount paid in 2023	100%	51%	49%	
<b>6. Promotions</b>	Promotion ratio January - December 2023	18%	16%	20%	
<b>7. Engagement</b>	Engagement score based on latest survey (May 2023)	7.5	7.4	7.7	

\* Work requiring similar skills and effort with similar complexity and responsibility and performed under similar working conditions and thus work in positions with similar job ratings (e.g., in the same pay grade).

\*\* Discretionary bonuses apply only to staff members who are not Identified Staff (i.e. senior management and staff whose professional activities have a material impact on FMO's risk profile). In accordance with FMO's remuneration policy, Identified Staff are not eligible for bonuses.

To ensure transparency and fairness in compensation practices, FMO conducts a frequent analysis of the gender pay gap by an independent external consultant. The purpose of this analysis is to identify any disparities in pay between men and women performing the same work at the same level.

According to the most recent analysis, conducted as of April 1, 2023, the adjusted gender pay gap stands at 2.8 percent. This means that men's earnings are 2.8 percent higher than women's for equivalent roles. The figure reflects a slight decrease from the previous year's gap of 3.0 percent (as of October 1, 2022). The measured pay gap remains statistically significant.

In 2023, we implemented various initiatives aimed at promoting gender-neutral pay practices. These initiatives include raising internal awareness about offering equitable pay packages during the recruitment process and conducting thorough assessments of pay levels across genders within similar job groups. Through these efforts, we have been able to identify and address discrepancies where necessary during the annual appraisal and salary adjustment process.

Looking ahead, we remain dedicated to narrowing the gender pay gap even further. We will continue to evaluate our practices, implement additional measures as needed, and foster a culture of equality and inclusivity within our organization.

## Learning and development

At FMO we consider continuous learning an important part of working. Via our internal FMO Academy, we encourage employees to develop themselves through internal and external trainings. We offer various trainings and courses, from personal skills development to (development) banking knowledge. Employees can make use of external coaching and/or sign up for our internal mentoring program. In 2024 we will implement several programs with a strong focus on leadership development.

In 2023 we launched a new one-year onboarding journey for all new employees, to make the transition into our organization as seamless as possible. It equips new employees with all the knowledge and tools they need to get up to speed. The onboarding journey combines face-to-face meetings with other new colleagues, with e-learning and a departmental buddy.

Following the launch of the updated Strategy 2030, we are continuously aligning the curriculum of the FMO Academy with the skills and capabilities needed to achieve our strategic objectives.

In 2023, we provided the following learning and development opportunities to our employees:

Learning initiatives	2023		2022	
	No. of trainings	No. of attendees*	No. of trainings	No. of attendees*
Total number of courses offered	231	851	174	674
<b>Recurring initiatives</b>				
Onboarding training	12	166	12	130
Compliance and KYC training	8	473	6	706
Diversity & Inclusion training	14	182	7	87
Udemy courses	921	527	921	494
Emerging Leaders program	0	0	1	12

\* FMO employees only

To support place and time-independent learning, we offer Udemy for Business, a virtual learning platform where employees can access trainings that support their professional and personal development.

## Strategic and regulatory projects

Our project portfolio is key to realizing our Strategy 2030. In 2023, our portfolio consisted of regulatory projects like Privacy/GDPR and Target2 and SWIFT Migration, which both finished in 2023, and EU Sustainable Finance, Environmental and Climate Risk and Basel IV, which are all ongoing. Furthermore, we are working on projects supporting FMO's business development opportunities aimed at market creation.

Our Management Board and senior management are closely involved in our projects. In 2023, the number of projects increased to 25 (2022: 20 projects). Nine were completed during the year and five new ones were prepared to be launched in 2024.

To closely align the project portfolio with our Strategy 2030 and improve our ability to execute on these projects, we merged the Portfolio Management Office into the Strategy department and added project management capability to the team. This way, we build up internal capabilities, save costs on hiring external staff and retain organizational knowledge.

In addition, we aligned the project selection process with the business plan cycle and strategic themes. Through a quarterly selection process, we aim to create project continuity and enable more flexibility. Finding the right people remained a challenge in 2023, but for 2024 we believe this will be less of an issue because we have more project continuity. Underutilization of external budget was the main reason we realized 81 percent of our project deliverables (2022: 85 percent) against a target of 85 percent.

## Business integrity

Integrity is one of FMO's core values. We believe it is important that this value is lived by our employees, our customers and our suppliers. FMO has embedded integrity into its policies, products and procedures.

## Developments

In 2023, we set up a Market Abuse Disclosure Committee to ensure compliance with the EU Market Abuse Regulation. In addition, we completed the Data Protection Project to ensure that we comply with the European General Data Protection Regulation (GDPR). Furthermore, we enhanced our FEC framework by strengthening our team, revising part of our KYC process to improve efficiency, continuous compliance monitoring, which includes monitoring of KYC files, and transaction filtering.

Further information on developments in this area is provided in the 'Risk management' chapter. In the following sections, we report the 2023 results on several relevant indicators.



## **KYC and KYS incidents**

In 2023, we registered four operational risk events related to KYC (2022: five operational risk events) and one (low-risk) operational risk event related to Know Your Supplier (KYS) (2022: one operational risk event relating to KYS). All cases resulted from relevant KYC and KYS procedures not being fully followed. Remedial actions have been completed or are in progress.

## **Alleged customer-related integrity issues**

This refers to transactions that present a higher risk to the organization. This may be due to possible involvement of money laundering, corruption, fraud, terrorist financing, or non-compliance with sanctions programs (OFAC/EU/NL/UN/UK) by customers or other counter parties such as guarantors, custodians or ultimate beneficial owners. Such transactions are escalated to the Compliance Committee, which in December 2023, was renamed the Integrity and Issue Management Committee.

In 2023, five new alleged customer-related integrity cases were reported to this committee (2022: four cases). Four of these were included on the monitoring list. In addition, on one reported case, the committee decided that further monitoring was not deemed necessary.

Issues were raised – among others – by Investment, Compliance or KYC staff, other DFIs, and partner (international) finance institutions. FMO investigates each case, with partner DFIs/IFIs where needed, to verify its legitimacy and to determine solutions. During 2023, we closed one alleged customer-related integrity case (2022: eight cases). Issues and investigations are monitored via the Compliance Committee or after December, the Integrity and Issue Management Committee.

## **Alleged employee-related integrity issues**

Alleged employee-related integrity issues refer to any indication of suspected involvement with bribery, corruption, fraud, privacy violation, conflict of interest due to outside positions, gifts, entertainment, hospitality, or market abuse. In 2023, one case (2022: two cases) of alleged integrity cases was brought to the attention of Compliance (either directly or via the Speak Up line). The case has been closed.

## **Reported data breaches**

Similar to 2022, no data breaches were reported to the Data Protection Authority in 2023.

## **Significant instances of non-compliance with laws and regulations**

Significant instances of non-compliance constitute breaches of laws and regulations that have led to enforcement measures taken towards FMO by the relevant supervisory bodies or other competent authorities.

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

# Financial performance

## Financial results

For the financial year ending on 31 December 2023, our net profit increased to €65 million compared to a net profit of €1 million we reported for the same period last year. Despite ongoing political tension within several of the regions in which we operate, FMO's markets and customers have shown resilience. Loan impairments and revaluations<sup>34</sup> recognized in the current year amount to a €23 million loss, compared to a €176 million loss in 2022. Last year, the impairments were significantly impacted by the war in Ukraine and political unrest in Myanmar and Sri Lanka.

In 2023, interest rates continued to increase in the United States, the Euro area and other parts of the world, with signs that rates may be stabilizing towards the last quarter of the year. The increasing interest rates resulted in an increase in interest income amounting to €533 million (2022: €351 million) and interest expenses amounting to €311 million (2022: €116 million). Overall, net interest and fee income decreased by €18 million, from €233 million to €215 million. This was partly driven by increases in the funding portfolio, which was subject to floating interest rates, whereas part of the lending portfolio contains fixed rate loans with rates derived in periods when interest rates were lower. The increase in short-term deposits, along with the additional floating rate funding for the year, further contributed to the overall net interest income. FMO's regular income<sup>34</sup> decreased from €310 million to €293 million, primarily as a result of the decrease in net interest and fee income, partly offset by higher dividend income.

A large share of FMO's equity portfolio is denominated in US Dollars. The overall trend in the EUR/USD exchange rate for 2023 showed a weakening of the US Dollar versus the Euro. This resulted in a negative impact on the investment portfolio, where a €46 million foreign exchange loss was recorded on the private equity portfolio, next to this local currencies showed a loss of €16 million (2022: EUR/USD €90 million gain, local currencies €7 million loss).

The revaluation of equity investments<sup>34</sup> amounted to a gain of €62 million (2022: €128 million loss), mostly driven by the following movements:

- Unrealized fair value gains on the equity portfolio of €13 million (2022: €33 million loss).
- Gains from associates of €14 million (2022: €61 million loss).
- Realized gains on the sale of investments of €9 million (2022: €1 million loss).
- Gains associated with accounting for FMO's participation in the Venture Capital program of €27 million (2022: €33 million loss).

The results for other pertinent line items were as follows:

- The results on derivatives<sup>34</sup> showed a loss of €21 million on treasury derivatives (2022: €47 million gain).
- Operating expenses increased to €178 million (2022: €152 million), mostly resulting from an increase in staff-related costs.

The NPE ratio<sup>34</sup> for the lending portfolio on 31 December 2023 was 9.8 percent, which decreased from 11.9 percent in 2022 due to write-offs on long outstanding exposures.

## Cash flow

The net cash flow for the year was an inflow of €546 million. Net cash flows from operating activities amounted to an inflow of €82 million. Cash outflows from new investments in the PE portfolio were offset by cash receipts from the lending portfolio.

## Capital position

For the year ending 31 December 2023, FMO's capital position remained above the minimum levels required by the Dutch Central Bank as well as the requirements of FMO's own internal risk appetite framework. The total capital ratio decreased to 23.0 percent (2022: 24.9 percent). The CET-1 ratio

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<sup>34</sup> This is an alternative performance measure (APM) that is not included in the financial statements. For a definition of this APM, please refer to the chapter 'How we report'.

decreased to 22.0 percent (2022: 23.8 percent).<sup>34</sup> The movement in both ratios was driven primarily by regulatory changes impacting the calculation capital requirements.

FMO's liquidity ratios remained within the predefined limits with a liquidity funding ratio (LCR) of 686 percent for the current financial year. The survival period was more than 12 months (2022: more than 12 months). The net stable funding ratio (NSFR) was 114 percent at the end of the financial year (2022: 114 percent).

FMO maintained its AAA ratings from both Fitch and Standard & Poor's during the financial year. FMO's funding portfolio increased by €489 million, where redemptions were offset by new bond issuances totaling approximately €1,536 million.

## **Proposal for appropriation of the net result**

Taking into account the conditions set out in the State-FMO Agreement of November 16, 1998, the Management Board and Supervisory Board propose allocating the net profit as follows: distribution of €2.1 million as a cash dividend (€5.38 per share) and allocating the remaining net profit of €62.8 million to the contractual reserve.

## **Risk and uncertainties**

FMO's primary risk exposures are investment risk (credit risk, equity risk, concentration risk and counterparty credit risk), market risk and liquidity risk. FMO monitors developments in these areas on an ongoing basis. This includes assessments of the impact of broader global macro-economic trends, such as increasing interest rates and foreign exchange rate movements, as well as more acute impacts arising from country or region-specific political events or environmental events. Risk levels are continuously measured against predefined risk tolerances and proactive measures are taken when challenging events take place.

Risks and uncertainties also arise in the financial reporting processes related to investment valuations, the estimation of expected credit losses and impairments on the lending portfolio and the treatment of large, structured transactions. These processes rely on professional judgement, therefore there is an inherent amount of uncertainty that arises in accounting for these items. FMO embeds controls in the financial reporting and valuation processes to ensure all estimates are reasonable and free from bias.

## **Further information**

For more details and analysis on the financial performance, please refer to the 'Consolidated statement of profit or loss' in the 'Consolidated financial statements'. For more information about developments related to equity investments, ECL allowances and impairments, funding and liquidity, refer to the 'Equity risk', 'Credit risk' and 'Liquidity risk' sections in the 'Risk management' chapter.

# Lessons learned

**FMO conducts evaluations, reviews and other studies to learn from past investments, help us achieve our impact goals and ensure accountability to our stakeholders.**

In 2023, FMO carried out several studies that will further inform the implementation of the Strategy 2030. In this section, we highlight several lessons learned from four of these studies. The studies reviewed the effectiveness of funds and investments with respect to achieving development objectives, including the degree of additionality, which is key to FMO's mandate. More information on these and other studies can be found in the FMO Reporting Center on the FMO website.

## Market creation

FMO completed a corporate evaluation and a development grants evaluation to gather lessons learned from its portfolio to inform the operationalization of market creation, a new strategic focus area in our Strategy 2030. The evaluations examined over 200 internal projects, with deep dives on 28. Around half of the projects were found to have links to market creation.

The investments analyzed in both evaluations were often considered additional. For example, one intervention addressed a lack of alternative funding available to SMEs and another addressed a lack of funding and ESG capacity to successfully develop an energy project. Results showed that 91 percent of grantees reported that there were insufficient or no funding sources available when FMO provided the grant. A full 100 percent of grantees reported that they needed funding at the time of receiving the grant, and that the grant was at least somewhat necessary for implementing project activities.

The evaluations identified the following lessons:

- Market creation cannot be achieved by doing more of the same and we cannot do it alone. We need to work with partners with specific strengths and expertise that are complementary to those of FMO.
- It is important to understand what prevents markets from developing and this requires local knowledge. This means FMO can build on its strengths, such as sector initiatives that seek to raise ESG standards across a country, rather than one company at a time.
- Market creation takes time to materialize. Hence, time horizons should be set accordingly in the design, planning, resourcing, and financing (by public partners) of each intervention.
- Market creation is a new and evolving field that requires constant experimentation and adaptation. This requires a learning agenda that addresses both internal and external barriers to market creation and a way to measure progress.

## Decent Work

Labor risks and opportunities are highly context specific and Dutch Government funds such as the Access to Energy Fund and Building Prospects often invest in high labor risk sectors (like energy or agriculture) and countries. To support FMO in identifying contextual risks and to contribute to its approach to decent work and job quality, FMO commissioned a study on this topic.

The study identified the most salient risks to decent work in the agriculture and energy sector. It also highlighted countries and sectors where the risk of child labor is high, or where enforcement of labor law is weak. The study recognized that some aspects associated with job quality can fall outside of the scope of Performance Standard 2 (Labor and Working Conditions). It also identified opportunities for FMO to contribute to job quality such as supporting customers to digitize wage payment and to modernize employment and human resource practices.

An important takeaway was the presence of clear business benefits to FMO customers by promoting job quality, including increased productivity, business growth and resilience by improving access to international capital, and enhanced compliance and risk management.

FMO is committed to using the insights of this study, together with the recommendations of its earlier SDG 8 corporate evaluation, to increase the focus of decent work and job quality towards 2030.

## Climate Investor One

FMO commissioned a study to assess the current functioning and progress of Climate Investor One (CIO) towards its investment and development impact objectives. Given CIO's early stage of implementation, this evaluation focused on assumptions underpinning the facility's operations and early indications of impact.

CIO is a blended finance facility of US\$930 million that targets the entire lifecycle of renewable energy projects worldwide. Its first close was in 2015 and will run for 20 years. Climate Fund Managers (CFM) is responsible for managing CIO's operations and investment activities. As co-founder, FMO provided an equity investment of US\$50 million in CIO and also has a stake in CFM. The Dutch Ministry of Foreign Affairs invested approximately US\$55 million in CIO.

The evaluation found that CIO is relevant, additional, and largely effective in supporting renewable energy projects to complete construction and achieve operations, especially by addressing (non-)financial barriers. CIO's additionality follows from the provision of development and (initial) construction finance as this feature is still uncommon in the renewable energy market. In addition, CIO provides additional non-financial support to developers in the development phase by addressing combinations of supply chain, grid connection, public acceptance, policy environment and/or regulatory issues through technical assistance. The study recognizes the complexity of CIO's governance structure that involves public and private investors and concluded it is functioning, but requires proactive management from CFM.

The evaluation also found that CIO operates differently than assumed in the 2019 strategy. Rather than investing in single projects, CFM has shifted towards investing in 'platforms' that include, but are not restricted to, pipelines of commercial and industrial (C&I) solar installations.

The evaluation generated several recommendations. CFM should continue to apply lessons learned within the limitations of CIO's agreed structure and expand its own operational capacities concerning ESG and monitoring. FMO was recommended to coordinate all its ongoing roles in CIO and to assess how these roles can be optimized for future funds.

## Commercial Investment in Forests and Sustainable Land Use

Forest protection and restoration is one of the key strategies in the fight against climate change, which is why more companies and funds are bringing innovative solutions to this sector. While their early-stage development is supported by public and philanthropic funding, they are struggling to unlock commercial funding to scale. Mobilising Finance for Forests (MFF) is a blended finance program funded by the UK Government to mobilize private sector capital to the sustainable forestry and land use sector. FMO acts as a program manager, directly financing companies and projects active in the sector, and indirectly financing funds.

FMO commissioned a study to understand barriers commercial investors see when it comes to investing in this sector, and what funds and companies can do to overcome them. The main finding was that an impact narrative is not enough to create impact. Instead, businesses need to be financially sustainable. This means companies and funds need to have strong business models that specify the road to long-term returns and a plausible exit strategy. In other words, the key barriers to commercial interest are financial. More specifically, this includes a mismatch in tenor preferences between investors and forestry companies or funds, and low risk-adjusted returns and liquidity challenges. Other barriers relate to management and staff expertise, including a lack of a proven track record and a competency gap, both in terms of financial expertise and technical knowledge.

These and other recommendations can go quite some way towards diminishing any skepticism that may deter investors.

**We continue to set ambitious targets for the future to meet our 2030 strategic ambitions. Considering the current and future expected market conditions, this will not be an easy feat. However, for every challenge, FMO sees an opportunity. Our role and purpose as a development finance institution is more relevant than ever before.**

## External developments and economic outlook

In January 2024, the International Monetary Fund (IMF) projected that global growth will be at 3.1 percent in 2024, consistent with the estimate for 2023. Growth in emerging markets and developing economies is also expected to hold steady at 4.1 percent in 2024. Global inflation is expected to decrease to 5.8 percent in 2024, down from 6.8 percent in 2023. However, inflation in emerging markets and developing economies is projected to remain relatively high at 8.1 percent, showing only a slight decline of 0.3 percent compared to 2023. Decreases in inflation are driven by monetary policies, softening labor markets and ongoing declines in relative energy prices. The IMF outlines several factors that could impact global growth in 2024. Among these are the extent to which low-income and emerging market economies are able to manage their high debt levels, the progression of geopolitical tensions, and productivity gains stemming from artificial intelligence. The latter may initially benefit advanced economies more than emerging markets and developing economies.<sup>35</sup>

Slower economic growth, high interest rates, and continued geopolitical tensions are forecasted for 2024 and will affect the context in which FMO operates. These factors will influence financing opportunities, while highlighting the importance of DFI action.

Several upcoming regulations require preparation in 2024, such as Basel IV, Corporate Sustainability Reporting Directive, Digital Operational Resilience Act and environmental risk-related regulations. While additional regulations will encourage sustainable practices, significant investments will be required to implement them. Artificial intelligence developments will continue to pose opportunities and threats, which could further increase the gap between developed and developing countries.

## Priorities in 2024

In 2024, FMO will continue to focus on the following three priorities: growing impactful business, improving our capabilities, and ensuring FMO's foundation is solid. We expect to leverage the momentum gained in 2023 to realize our targets.

We need to make long-term investments so we can continue to fulfill our purpose. We will continue to invest in our people, systems and processes to respond to the increasing complexity resulting from regulatory and supervisory requirements, stakeholder expectations and evolving impact management standards. In the short-term this will lead to a further increase of our cost-to-income ratio and, as such, result in a lower return on equity. Other factors that may affect our 2024 financial performance include the uncertain economic developments affecting the fair value of our private equity portfolio and the projected weakening of the US dollar in the year ahead. During the year, we will closely monitor our financial performance and make budgetary adjustments where needed.

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35 International Monetary Fund (January 2024). World Economic Outlook Update: Moderating Inflation and Steady Growth Open Path to Soft Landing.

## Growing impactful business

To achieve our 2030 ambitions, we have set the following portfolio targets for 2024:

	2030 Strategic ambition	Target	
		2024	2023
RI-labelled total committed portfolio (€ mln)*	10,000	5,000	4,900
Green-labelled total committed portfolio (€ mln)*	10,000	5,400	4,900
Total committed portfolio (€ mln)*, of which	22,300	14,400	14,000
FMO (€ mln)	13,300	10,000	9,300
Public funds (€ mln)	3,000	1,600	1,700
Direct mobilized funds (€ mln)	6,000	2,700	3,000
ESG risks managed at an adequate level (%)		90	90

\* Portfolio targets are the result of FMO's forecasting model and are strongly influenced by the EUR-USD exchange rate used by the model.

Compared to 2023, we will increase our total new investments towards reduced inequalities (SDG 10) and climate action (SDG 13) by leveraging as much as possible FMO's own capital and the funds made available by public entities ('public funds') and third-parties ('direct mobilized funds'). By investing €1.3 billion in RI-labelled total new investments and €1.5 billion in Green-labelled total new investments, we have projected that this should bring us to an RI-labelled total committed portfolio of €5.0 billion and a Green-labelled total committed portfolio of €5.4 billion by the end of 2024.

Overall, we aim to achieve a total committed portfolio of €14.4 billion by the end of 2024. In addition to our portfolio commitments, we will continue to focus on climate action initiatives and develop bankable opportunities by executing market creation projects.

## Improving our capabilities

To help us grow our impactful business, we will focus on improving FMO's organizational capabilities, especially in the area of efficiency, people and required skillsets and impact management.

We will achieve efficiency gains by optimizing and digitizing selected investment and key support processes. In addition, we will drive continuous efficiency improvements through bottom-up initiatives by teams across FMO.

We will develop our people and the skills they need by increasing employee engagement, strengthening leadership capabilities, and implementing a cultural and behavioral change management program. We will also focus on leadership development programs, employee value proposition and fit-for-purpose technology.

Embedding impact management and monitoring will involve refining our impact governance and impact management framework, integrating external requirements, strengthening impact management and improving data collection.

## Ensuring FMO's foundation is solid

Ensuring we continue to have a solid foundation remains a priority, as this is a prerequisite for our license to operate. In 2024, we will maintain and strengthen this foundation by demonstrating strong risk awareness to sustain development impact and strengthen a risk culture focused on risk-based policies, quality outcomes and efficiency. In addition, we will realize sustainable financial performance by balancing regular income and expenses. Furthermore, we will ensure regulatory compliance in all processes, by adapting to regulatory changes and further enhancing risk processes.

# IN CONTROL STATEMENT

FMO has internal risk management and control systems that enable us to take risks and control them and that are based on international best practices.

Adequate internal risk management and control systems support the attainment of objectives in the following categories:

- Realization of strategic and business objectives;
- Effectiveness and efficiency of processes;
- Reliability of financial reporting; and
- Compliance with laws and regulations.

The Management Board regularly considers the design and operation of FMO's internal risk management and control systems (taking into account the approved risk appetite) and discusses all related significant aspects with senior management. The results of the Management Board's monitoring of FMO's internal risk management and control system – including significant changes and planned major improvements – and the defined risk appetite are discussed with FMO's Audit & Risk Committee, which reports these to the Supervisory Board.

Based on our monitoring of the company's internal risk management and control systems, and cognizant of their inherent limitations described below, we have concluded that FMO is in compliance with the requirements of best practices 1.4.2 and 1.4.3 of the Dutch Corporate Governance Code. The Management Board makes the following statement:

As Management Board of FMO, we are accountable for internal risk management and control systems within FMO.

Based upon our assessment of the internal risk management and control systems of FMO and barring unforeseen adverse external and internal conditions, we are of the opinion that:

- i. The management report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
- ii. The aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- iii. Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and
- iv. The report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.

Reference is also made to the 'Risk management' chapter for an explanation on FMO's Risk management framework, which adheres to the three lines model.

We note that the proper design and implementation of internal risk management and control systems significantly reduces, but cannot fully eliminate, the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees or others, management overriding controls, or the occurrence of unforeseeable circumstances.

Another limiting factor is the need to consider the relative costs and benefits of risk responses. Properly designed and implemented internal risk management and control systems will therefore provide reasonable, but not absolute, assurance that FMO will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business.

## Responsibility Statement

We have committed to ensuring, to the best of our abilities, that this report was prepared and is presented in accordance with the Integrated Reporting framework and that the integrity of all information presented can be assured. In accordance with article 5:25c sub 2 part c of the Dutch Financial Supervision Act, we state that, to the best of our knowledge:



- The financial statements give a true and fair view of the assets, liabilities, financial position and profits of FMO and its consolidated companies;
- The annual report gives a true and fair view of the position on the balance sheet date and developments during the 2023 financial year of FMO and its consolidated companies; and
- The annual report describes the material risks that FMO faces.

The Hague, March 22, 2024

**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



**02**

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# **REPORT OF THE SUPERVISORY BOARD**

# REPORT OF THE SUPERVISORY BOARD

This was FMO's first full year dedicated to implementing its updated Strategy 2030. The organization was able to work steadily towards maximizing FMO's impact, after some turbulent years marked by the pandemic and organizational challenges.

The necessity to combat climate change, together with the urgently needed action to counter the downward spiral that leads to poverty and migration, clearly underscores that FMO's mission becomes more important by the day. Meeting some of FMO's clients in Zambia in June 2023 allowed the Supervisory Board to hear about the challenges and needs of entrepreneurs in emerging markets first-hand. It also showed the insecurities and complexities FMO's markets face and that, consequently, enabling sustainable impact is no easy task. Rather, it is an art to identify opportunities, create inclusive and sustainable growth and use scarce resources to mobilize other investors.

Looking at the impact FMO made in 2023, we are pleased to see a growth in Green and Reducing Inequality-labelled total new investments, compared to 2022. Although the highly ambitious targets were not reached, these are nonetheless good results. Looking at the critical times we live in, the Supervisory Board supports setting targets to achieve the highest impact possible, even if external circumstances may often moderate final outcomes.

Through the Impact Committee, the external debate on carbon credits is closely followed. We are pleased to see that FMO is conscious of regulation and quality control in its choices. On the topic of implementing the Corporate Sustainability Reporting Directive (CSRD), we anticipate that it may be a challenge for an organization like FMO that already has a well-functioning reporting method to implement these new European guidelines. The Impact Committee also keeps a close eye on investments that did not turn out as foreseen. These cases need attention, diligence and a learning-focused approach.

FMO achieved a modest profit of €65 million. Although the political instability in some of FMO's markets is still high, it was good to see that the non-performing loan exposure, at 9.8 percent, was lower than last year. As the Supervisory Board, we keep a keen eye on the trend in FMO's regular income in relation to its organizational expenditures. In 2023, we see the two were well balanced. The impact ambitions towards 2030 do require the regular income to stay aligned with the expected higher operating expenses, largely driven by adapting to regulations and the hiring of more staff. The (delayed) effect of the high-interest rates with FMO's customers will be an important factor as well. The renewed agreement with the Dutch State underpins FMO's stable financial base.

In the years to come, market creation will add a new dimension to FMO's work. The preparations for this new pioneering pillar have been finalized this year. We see great impact potential in aiding the growth of small businesses in emerging markets by making these businesses investment ready, leading to job creation, economic growth and stability. To be successful it will be essential for FMO to establish partnerships with parties that already hold local experience in ecosystem building and business development interventions.

Classification of FMO as a 'World Class Workplace' by Effectory and the improved engagement levels and work satisfaction of FMO's staff are a good indication that organizational development is on the right course. The launch of the updated values and behaviors are an important step as well.

The last few years FMO has heavily invested in its KYC department and the compliance process. We fully support this. Being a gatekeeper to the financial system is a responsible position, required not only by law, but also expected by society at large. FMO has become more robust in this regard and needs to keep investing in its KYC process to remain on the right level.

After completing the Management Board last year - with five members now more in balance with the size of the organization - we are pleased to nominate a candidate for the vacant Supervisory Board position that will be proposed for adoption at the upcoming Annual General Meeting of Shareholders (AGM).

Looking back on 2023, we are proud to see that the FMO team has embraced the Strategy 2030 and is staying the course towards maximizing its impact. This forms a stable and promising base for the years to come.

## Corporate governance

The Supervisory Board ensures that FMO adheres to all applicable corporate governance codes, further described in the chapter on corporate governance. Specific responsibilities include the tasks described in the Dutch Banking Code 2015 regarding sound and ethical operation.

### Composition of the Supervisory Board

FMO aims to have a balanced composition of the Supervisory Board and Management Board in terms of gender, experience, age, professional background and nationality. At the end of 2023, the Supervisory Board comprised three male and two female members. There was one vacancy. The Management Board comprised two female and three male members. Further personal details on the members of the Supervisory Board are included at the end of this chapter.

	Supervisory Board	Audit & Risk Committee	Selection, Appointment & Remuneration Committee	Impact Committee
D.J. van den Berg (Chairman)	•		•	
J.V. Timmermans	•	•		
D.K. Agble	•	•		
M. Demmers	•		•	•
R.P.F. van Haeringen	•		•	•
Vacancy	•	•		•

### Permanent education

This year, three Supervisory Board members took part in a lifelong learning journey to Zambia. The program included an update on the macroeconomic circumstances by a representative of the IMF, networking events with several business communities, visiting a variety of customers in the agriculture and financial sectors and their end-customers, a meeting with the WWF, and meetings with several ministers and government representatives. The other two members received regular updates.

Moreover, the Supervisory Board continued its more regular lifelong learning program focused on aspects required by for instance the Dutch Banking Code and other relevant topics. This included the Independent Complaint Mechanism and several of its cases, market creation, FMO's internal control framework, the values in action project, and the complexities of the KYC process.

### Evaluation

The Management Board functions in its five-member composition since December 2022. The Management Board took efforts to regularly discuss its performance and collaboration throughout the year 2023. Subsequently, the Management Board prepared a self-assessment and a team assessment of its functioning in 2023. This consisted amongst others of the achievement of the financial and non-financial targets, as well as areas of personal development. Non-financial targets included, for example, impact related targets and efforts that strengthen the foundation of FMO's operations. The Supervisory Board evaluated the individual Management Board members by means of separate interviews that were conducted by two Supervisory Board members. During those meetings, the self-assessments and the 2023 and 2024 objectives and targets were discussed, as well as the collaboration within the relatively new Management Board setting. The conclusions from these meetings will be carried forward into the 2024 team and personal goals. The Supervisory Board discussed the outcomes of the evaluation in a concluding session without the Management Board present. It was concluded that the MB functioned effectively. However, there is always room for improvement, which is being worked on in a senior leadership development program called "leadership impact" and also regularly at MB off-sites.

Regarding the evaluation of the Supervisory Board, the Banking Code requires an external evaluator to conduct such an evaluation once every three years. This was done over the year 2021. The Supervisory Board evaluated its functioning in 2023 by means of a self-assessment questionnaire and discussed the outcome, and a few additional reflections and observations, in a separate session. The functioning of the Supervisory Board, its three committees and the functioning of the individual members were part of

the evaluation. It was found that the Supervisory Board and its committees functioned effectively. The members invest extra time when the agendas require this. The individual Supervisory Board members have a diverse set of skills, which is deemed beneficial for adequate supervision. The Supervisory Board has taken broad and extensive on the ground experience into account as much as possible when nominating a new member to fill the current vacancy.

Regarding the execution of the Strategy 2030, the Supervisory Board expressed a need for a continued focus on the longer-term strategic challenges of FMO. Therefore, the Supervisory Board will amongst others continue to monitor the financial results and the pace of hiring of staff during 2024, and monitor progress more in general. Regarding the operations of FMO, the Supervisory Board will pay attention to efficiency and the digitalization process of FMO. Regarding the Supervisory Board's own organization of work, the Supervisory Board wants to create more time to reflect on topics that are not on the agenda of meetings. The energy spent on permanent education will be invested in keeping the Supervisory Board's understanding up to date regarding the developments in the complex environment in which FMO operates, and topics as required by the Banking Code.

## Appointments and reappointments

The Selection, Appointment and Remuneration Committee (SARC) continued the search to fill the vacancy in the Supervisory Board. A candidate was selected and has been shared with DNB for approval.

## Meetings of the Supervisory Board

	SB	Extraordinary SB	ARC	SARC	Impact Committee	Lifelong Learning
D.J. van den Berg (Chairman)	4 of 5	5 of 6		1 of 2		4 of 5
J.V. Timmermans	4 of 5	4 of 6	3 of 3			4 of 5
D.K. Agble	5 of 5	6 of 6	3 of 3			5 of 5
M. Demmers	5 of 5	6 of 6		2 of 2	3 of 3	5 of 5
R.P.F. van Haeringen	5 of 5	6 of 6		2 of 2	3 of 3	5 of 5
Vacancy						

The Supervisory Board held five regular meetings during 2023 and six extraordinary meetings. The Supervisory Board closely monitored progress on the 2023 Business Plan, including the pace of hiring staff. The Supervisory Board gave its approval – among others – to the Agreement with the State, the 2024 Business Plan and updated versions of the Risk Appetite Framework and Recovery Plan. Other topics that were discussed included quarterly reports on the integrated results, compliance and risk, the SREP letter of DNB, the DNB measures, progress on KYC files, the Supervisory Board's own retirement schedule and succession planning, the remuneration policy for members of the Management Board, the developments of a few complex projects and the search for a new external auditor.

## Committee activities

The Audit and Risk Committee (ARC) supervises and advises the Supervisory Board on FMO's financial position and risk. It monitors and offers expertise on issues such as our risk management policy, internal and external auditing systems and compliance with legislation and external and internal regulations. One of its tasks is to monitor the performance of internal and external auditors. The ARC held three regular meetings in 2023. In 2023, the ARC discussed recurring matters such as yearly and half yearly reporting, the business plan for the upcoming year, the risk appetite report and framework, internal and external audit plans and reporting, capital and liquidity adequacy, the status of the KYC files, the recovery plan. In addition, the ARC dealt with the selection of a new external auditor, for the fiscal years 2025 and onwards. The following key audit matters were discussed with the external auditor in March 2024: IFRS 9 impairment of loans to the private sector, valuation of equity investments at fair value and reliability and continuity of the information technology and systems.

An important task of the SARC is to advise the Supervisory Board on the proposals on the appointment and re-appointment of Supervisory Board and Management Board members. Other tasks include monitoring the remuneration policy, preparing proposed adjustments and giving advice on the remuneration of individual members of the Management Board. The SARC officially met two times in 2023 and deliberated on an ad hoc basis, and discussed, among others, the search for a new member of the Supervisory Board, the search for a new chair and further retirement planning, evaluation and goal setting, remuneration and HR topics such as the company values and quality of interaction.

The Impact Committee assists the Supervisory Board in overseeing the quality and integrity of FMO's statements regarding development impact. The Committee prepares the decision-making (and the advice) of the Supervisory Board around FMO's strategy (including policies and targets) regarding impact and ESG. The Impact Committee held three meetings in 2023. Throughout the year, it discussed amongst others, the 2022 Annual Report and 2023 Interim Report, impact focused strategy implementation, the (integrity of) carbon credits and markets, the market creation operational strategy, 2023 progress versus business plan, the Impact Management Framework review, the 2024 Business Plan, the periodic status update of the Independent Complaints Mechanism and updates on complex projects.

## **Independence, conflicts of interest and governance**

The Supervisory Board is of the opinion that all of its members are independent, as meant by Best Practice Provisions 2.1.7 up to and including 2.1.9 of the Corporate Governance Code. No direct, indirect or formal conflicts of interest were identified in 2023. FMO has specific regulations concerning private investments. Compliance by members of the Supervisory Board and Management Board and all other employees with FMO's regulations on private investments is also addressed regularly.

## **Culture, including compliance**

At FMO, the compliance function is safeguarded within the Management Board and the Supervisory Board. In 2023, the Supervisory Board continued to focus on the progress made on KYC reviews, KYC quality and improvement and efficiency of KYC procedures. The Supervisory Board received quarterly compliance updates during its meetings. In addition, the Chairman of the Supervisory Board met periodically with the Director Compliance to discuss relevant issues.

Furthermore, the Supervisory Board regularly interacted with the Works Council to discuss matters such as FMO's culture and development program as well as its duties as outlined in the Banking Code relating to sound and ethical operation.

## **Proposals and recommendations to the Annual General Meeting of Shareholders (AGM)**

Having stated all of the above, the Supervisory Board endorses the report of the Management Board. We propose that the AGM adopt the 2023 Financial Statements audited by Ernst & Young Accountants LLP. In accordance with Article 6 (2) of the State-FMO Agreement of November 16, 1998, and the current dividend policy, we propose that the AGM approve the allocation of €64.9 million net profit (2022: €1 million net profit) as follows: €62.8 million profit to Contractual Reserves and a distribution of €2.1 million as a cash dividend equal to €5.38 per share A and share B.

Another proposal for adoption by the AGM is the appointment of a new external auditor.

In addition, the Supervisory Board is pleased to nominate a candidate for the vacant Supervisory Board position. Furthermore, the reappointments of several Supervisory Board members will be proposed.

We trust that the AGM will also discharge the Management Board for its management of FMO and the Supervisory Board for its supervision during the reporting year.

# Members of the Supervisory Board

Details of the members of the Supervisory Board per 31 December 2023, including other positions, are provided in the following table.



**Dugald Agble**



**Marjolein Demmers**



**Koos Timmermans**



**Dirk Jan van den Berg (Chairman)**



**Reintje van Haeringen**

<b>D.K. (Dugald) Agble</b>	<b>M. (Marjolein) Demmers</b>	<b>J.V. (Koos) Timmermans</b>
British, Ghanaian, 1970, male	Dutch, 1967, female	Dutch, 1960, male
Appointment in current position: 2020 - 2024	Appointment in current position: 2020 - 2024	Appointment in current position: 2017 - 2025
<b>Positions:</b> 1. Director abrdn Private Equity Opportunities Trust 2. Director Black Volta limited 3. Director Black Volta Ventures UK limited	<b>Principal position:</b> Director/CEO of Dutch environmental NGO "Natuur & Milieu" <b>Other positions:</b> 1. Chair of the Supervisory Board of DRIFT (research, consultancy and education in transitions) 2. Board member of SKAO (Schemabeheerder CO2-prestatieladder) 3. Member of the Strategic Advisory Council of TNO SA&P (Strategic Advisory & Policy) 4. Member of the Supervisory Board of AquaMinerals (Reuse of recovered materials of the water sector) 5. Member of SPIL (Sustainable Pension Investments Lab) (stepped down in 2023) 6. Sustainability Board Van Oord 7. Advisory Council Environmental Sciences Group (ESG), WUR 8. Raad van Toezicht Stichting Sustainable Industry Lab, UU	<b>Positions:</b> 1. Chairman of the Supervisory Board of Stadsherstel Amsterdam (stepped down 1 December 2023) 2. Member of the Supervisory Board of PostNL 3. Member of the Supervisory Board of Havenbedrijf Rotterdam (Port Authority Rotterdam) 4. Board Member Administratie Kantoor Vopak 5. Board Member Administratie Kantoor Philips 6. Member Curatorium Post Master Controllers Opleiding UVA 7. Member Advisory Board Van Lanschot Kempen 8. Member Supervisory Board KWF Dutch Cancer Society

<b>D.J. (Dirk Jan) van den Berg (Chairman)</b>	<b>R.P.F. (Reintje) van Haeringen</b>
Dutch, 1953, male	Dutch, 1963, female
Appointment in current position: 2016 - 2024	Appointment in current position: 2020 - 2024
<b>Principal position:</b> 1. Chair of the Association of Health Insurance Companies in the Netherlands (Zorgverzekeraars Nederland) <b>Other positions:</b> 1. Member of the Supervisory Board of Air France KLM 2. Vice-Chairman of the Supervisory Board of Gasunie (stepped down per AGM 2023) 3. Chair (non-executive) of the Board of StasQ B.V. (RadarRadar) (formerly TRADESPARENT BV: TP BV) 4. President of the Atlantic Committee Netherlands (stepped down 2023) 5. Chair of the Supervisory Board of the Dutch Research Council (NWO)	<b>Principal position:</b> CEO CARE Nederland <b>Other positions:</b> 1. Board member of the Dutch Coalition for Humanitarian Innovation (DCHI) (ended in 2023) 2. Board member of the 'Samenwerkende Hulp Organisaties' (SHO/ Giro555) 3. Member of the Supervisory Board of the Dutch Relief Alliance 4. Advisory Board of TU's initiative on resilience 5. Member of Steering Committee KUNO, a platform for humanitarian knowledge exchange (as per 1 January 2023)



**Genneia**

One of Argentina's leaders in renewable energy.







**03**

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# **CORPORATE GOVERNANCE**

**Good corporate governance at FMO is crucial for two reasons. The first relates to our mission to enable entrepreneurs to increase inclusive and sustainable prosperity. We believe that to carry out this mission, a high standard of corporate governance is paramount. The second is that, as a public-private development bank, our own governance, structure and reporting lines must be both sound and transparent.**

## Governance structure

FMO's corporate governance structure is based on the premise that FMO has established a long-term partnership with various stakeholders who, directly or indirectly, influence or are influenced by the achievement of our objectives. Stakeholders include customers, the Dutch Government, shareholders and other providers of capital, employees, NGOs and local communities in the countries where we work, as well as partners.

FMO is expected to take the interests of all stakeholders into account at all times. In governance terms, this expectation is expressed through the responsibilities and accountability of the Management Board and Supervisory Board with regard to our shareholders and other stakeholders.

FMO's Supervisory Board has non-executive responsibilities, including to supervise and advise the Management Board. New members of the Supervisory Board are appointed by the General Meeting of Shareholders on the nomination of the Supervisory Board. The Supervisory Board currently has three committees: the Audit and Risk Committee, the Selection, Appointment and Remuneration Committee, and the Impact Committee, which advise and prepare decision-making. The Impact Committee deals with subjects such as ESG (including human rights), impact strategy, impact measurement, (NGO) stakeholders and communication, reporting and international developments regarding impact.

The daily management of our bank lies with the Management Board. The members of the Management Board are appointed by the Supervisory Board. They are independent and the Supervisory Board deals with any conflict of interests. Appointments of members of the Supervisory Board and Management Board are subject to approval by the Dutch Central Bank, which assesses the reliability and suitability of candidates. FMO organizes extra training where necessary and offers a lifelong learning program to its Management Board and Supervisory Board members.

In 2022, the Management Board was expanded from three to five members to spread the increasing workload. FMO faces a number of challenges, including a growing pace of change in our markets, the growth of our organization and the need to engage more actively with a larger number of stakeholders. 2023 marked the first full year in this new setting.

## Members of the Management Board

Details of the members of the Management Board per 31 December 2023, including their outside positions, are included in the following table.

F. (Fatoumata) Bouaré	F.P.C.G. (Franca) Vossen	H. (Huib-Jan) de Ruijter	M.A.S. (Michael) Jongeneel	P.P. (Peter) Maila
Chief Finance & Operations Officer	Chief Risk Officer	Co-Chief Investment Officer	Chief Executive Officer	Co-Chief Investment Officer
Ivorian (Ivory Coast), 1966, female	Dutch, 1972, female	Dutch, 1976, male	Dutch, 1973, male	South African, British, 1977, male
Appointment in current position 2017-2021, 2021-2025	Appointment in current position: 2022-2026	Appointment in current position: 2021-2025	Appointment in current position: 2021-2025	Appointment in current position: 2022-2026
Other positions: Member of the Advisory Board of One Africa	Other positions: Member Supervisory Board VGZ U.A.	Other positions: Member Steering Committee of Agri3 Finance Fund	Other positions: Treasurer of the board of Oxfam International, a Dutch "Stichting". This is a non-executive (supervisory) position. (Stepped down per July 2023.)	Other positions: None

## Organizational chart

Our organizational structure per 31 December 2023 is as follows.



## Diversity and inclusion

FMO promotes diversity at all levels, including for the Management Board and Supervisory Board. FMO's diversity policy is embedded in several documents and ways of working. The aim of our diversity policy is to have well-balanced boards, which are up to their task and can come to good solutions, while considering the members' different perspectives, backgrounds and experiences.

The Supervisory Board aims for a diverse composition with respect to gender, education, experience and age as well as relevant knowledge, expertise and experience in the business areas in which FMO is active. Similar diversity aspects apply to the composition of the Management Board with respect to experience, expertise, gender, cultural background and age. This is deemed important to ensure effective supervision and effective management, respectively, and, by extension, for long-term value creation. In line with FMO's diversity policy, included in the Supervisory Board Profile and in the Management Board Standing Rules, and in line with the Act on Gender Balance in Management and Supervisory Boards (In Dutch: 'Wet evenwichtiger verhouding tussen mannen en vrouwen in bestuur en raad van commissarissen'), FMO strives to meet the gender target.

For the Supervisory Board, the target is for the board to consist of at least one third men and at least one third women. The Supervisory Board consists of six members. In 2023, there was one vacancy. During the entire year, the Supervisory Board consisted of two women (40 percent) and three men (60 percent). The candidate considered for the vacant position is a woman. One of the Supervisory Board members is non-Dutch and holds the Ghanaian and British nationality.

FMO's Management Board consists of five members. The aim is for the board to consist of at least one third men and one third women. At year end, the Management Board consisted of two women (40 percent) and three men (60 percent). The Management Board consists of one Ivorian member, one member with the South-African and British nationality and three members with the Dutch nationality.

In both boards, the ages of the members are well distributed, and knowledge and experience comply with the applicable matrices.

When vacancies arise, the Selection, Appointment and Remuneration Committee and the Supervisory Board give due consideration to any applicable gender requirements in its search for suitable new members with respect to meeting the fit and proper requirements as stipulated in the Dutch Financial Markets Supervision Act. As a collective, the members should have the required expertise with regard to development banking and the aspects that come with it, aimed at FMO's working area. This is further described in the applicable Profile and Standing Rules and, when vacancies arise, in the respective job profiles.

## Aligned remuneration policies

The remuneration policies attach equal importance to investment and risk functions, by ensuring similar salary scale levels for both functions and avoiding bonus structures that incentivize excessive risk taking. As a purpose-driven organization, FMO does not offer identified staff (senior management and staff whose professional activities have a material impact on FMO's risk profile) any form of variable remuneration such as bonuses. Our results are mainly based on team effort, innovation, knowledge sharing and collaboration between colleagues in different disciplines, which does not align well with offering substantial bonuses for individual performance.

FMO's remuneration policy for the Management Board aims to attract, motivate and retain capable people with sufficient knowledge and experience in international development finance. The remuneration policy is aligned with the mission of FMO, the corporate values, the strategy, the risk appetite, as well as the expectations of various stakeholders. The remuneration policy does not incentivize directors to act in their self-interest or to take risks that do not fit with FMO's risk appetite. Furthermore, the policy does not reward failing Board members for such behavior after they have been discharged. The remuneration policy is based on a market median, composed of two equal proportions of a private benchmark (Dutch financial sector) and a public benchmark, considering financial sector remuneration regulation and principles applied by the Dutch Government as majority shareholder of FMO.

Employment contracts of members of the Management Board are awarded for a definite period (except for internal appointments). In the event the employment contract is terminated before the expiry date, the maximum severance payment will amount to one year's salary, unless the board member resigns voluntarily, or the termination is the result of his or her actions.

The remuneration policy for the Management Board is reviewed every three to four years and amendments are subject to approval at the AGM. During the April 2023 AGM, a few amendments to the remuneration policy were proposed or approved. These amendments were about indemnity for former, current and future Management Board members, to follow market practice, as other banks have similar arrangements. Furthermore, the appointment period of members of the Management Board has been adjusted to better align with the Memorandum State Participations, which was published in 2022. Management Board members can serve two terms of four years and thereafter - by exception only - two extra reappointments of two years are possible.

More details on the remuneration of the Supervisory Board, the Management Board and other (identified) staff members can be found on FMO's website. Aspects of Management Board members'

remuneration are also disclosed in the paragraph 'Related party information' in the 'Consolidated Financial Statements'.

The ratio between the remuneration of our CEO (the highest-paid individual) and the median of all other colleagues (including the other Management Board members) per 31 December 2023 was 0.28 (2022: 0.29). This means that the CEO receives a total fixed remuneration of 3.5 times the median of the fixed income paid to the rest of total staff population, which in comparison to the Dutch financial sector is relatively low.

## Independent complaints mechanism

FMO invests in emerging markets and developing economies and aims to create value for the organization, its stakeholders, society, and the environment. When investments lead to environmental and human rights harm, FMO is accountable to affected communities through its independent accountability mechanism. FMO has implemented an Independent Complaints Mechanism (ICM) together with the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) and the French DFI Proparco. This allows people who feel affected by an FMO-financed operation to file a complaint with an independent expert panel. The independent expert panel is part of the ICM and has a dual mandate: a fact-finding and monitoring role (compliance review) and a problem-solving role (dispute resolution). Escalating to the problem-solving role is only possible if all parties agree and there is a reasonable expectation that a mutually-agreed resolution of the complaint will be possible.

The Independent Expert Panel prepares reports in several phases of a complaint (e.g. notice of admissibility, preliminary review, compliance review, dispute resolution process, monitoring report) as specified in ICM's policy. Before publicly publishing on FMO's website on [Complaints disclosure](#), parties (complainant, client, FMO) are asked for comments to ensure adequate reflection of facts and sensitivities. These reports can be used to monitor the complaints' progress and outcomes of the process.

The ICM applies an approach of continuous improvement. In the ICM annual report the overall effectiveness of the mechanism is (publicly) reported. In addition, peer complaint mechanism best practices are followed to continuously improve the mechanism. Procedures are developed and/or adjusted on this basis. Furthermore, the ICM and its policy must be evaluated at least every four years. Currently, the update of the policy is in progress following an external evaluation. The policy update process includes a round of public consultation to ensure that stakeholders can provide their comments, which will be considered in the finalization of the new ICM policy. In addition, the Ministry of Foreign Affairs periodically has an independent 'FMO-A evaluation' carried out, of which the ICM is a part. This was last done in 2020.

For more information, please see the Independent complaints mechanism on [FMO's website](#).

## Corporate governance codes

FMO abides by two governance codes: the Dutch Corporate Governance Code and the Dutch Banking Code. We comply with the Banking Code or will otherwise explain where and how we diverge from this code, including concrete examples. This document can be found on our website. Monitoring of the Code and other operational risks are further described in the 'Non-financial risk' section in the 'Risk management' chapter.

The Dutch Corporate Governance Code ('the Code') only applies to organizations whose shares are listed on a regulated market. As a non-listed bank, FMO is not required to adhere to the Code, but we have chosen to do so, nonetheless. In December 2022, the Code was updated, which applies as of the fiscal year 2023. Changes related to such topics as sustainable long-term value creation, new requirements for the composition of the annual management report and diversity and inclusion. The Supervisory Board and the Management Board fully endorse the basic principle on which the Code is based, namely that the company has a long-term partnership with various stakeholders. FMO has a policy regarding bilateral contacts with our shareholders, which is provisioned by the Code and published on our website.

The relevant principles and best practice provisions of the new Corporate Governance Code have been implemented, with the exception of the following principles and best practice provisions, which can be explained as follows:

BPP 1.1.5: FMO engages with its stakeholders regarding sustainability aspects of the strategy in various forms, from day-to-day, business-as-usual engagement to more strategic and planned engagements, such as regular meetings, surveys, forums, events and stakeholder dialogues.

For example, in 2023 NGOs published assessments of FMO's performance on transparency and FMO's climate policy, on basis of which we engaged in dialogue meetings.

In 2024, we expect to publish an outline policy for effective dialogue with the relevant stakeholders.

BPP 1.3.6: This provision only applies if the company does not have an internal auditor. FMO does have an internal auditor.

BPP 2.1.5: The diversity and inclusion policies of the Supervisory Board and Management Board are included in the Supervisory Board profile and the Standing Rules of the Management Board. In practice they are well adhered to, given that the Supervisory Board consists of 40 percent female and 60 percent male members (after appointment of the new Supervisory Board member 50 percent / 50 percent) and in the five-member Management Board, the 40 percent female / 60 percent male composition. For FMO's staff, FMO has several D&I practices, a statement, communities and reports on several elements, however, the aim is to include these in a D&I policy.

BPP 2.1.6: Reporting takes place via (amongst others) the annual report, SER portal and internal gender diversity reporting. FMO does not report yet according to a D&I policy document.

BPP 2.2.2: This provision refers to the reappointment of Supervisory Board members. The third term of four years, as meant in the previous version of the Corporate Governance Code, is split into two terms of two years in the current version of the Corporate Governance Code. Section 2.7 of the Supervisory Board Standing Rules, which deals with reappointments and the duration thereof, will be amended accordingly at the next revision. None of the Supervisory Board members exceeded the eight-year term in 2023.

BPP 2.2.4: This provision requires a written (separate) succession plan, which focuses on knowledge, experience and diversity. At FMO, knowledge, experience and diversity are included in the profiles of the Supervisory Board and the Management Board. Succession and knowledge are regularly discussed in meetings of among others the SARC. The Supervisory Board retirement schedule is placed on the website. The Supervisory Board uses this as a basis for succession planning in the coming years.

BPP 2.5.3: In practice, FMO complies with this principle. However, FMO has no integral D&I policy yet.

BPP 2.3.10: This provision states that the Supervisory Board is supported by the Corporate Secretary of FMO. Section 6.1 of the Standing Rules of the Supervisory Board states that the Supervisory Board secretary might also be one of its members. In practice, it is the Corporate Secretary of FMO. This will most likely be amended at the occasion of the next amendment.

BPP 2.8.1 - 2.8.3: Stipulations on takeover bids are not implemented, given our stable majority shareholder, the State of The Netherlands.

BPP 4.1.4: The explanation of the agenda of the AGM is not published on FMO's website, since this document is sent to all shareholders of FMO.

BPP 4.1.10: The draft of the AGM minutes was published in time. However, the final version was accidentally published later than the Articles of Association require.

BPP 4.2.3: This provision relates to analysts' meetings and presentations to institutional investors. This provision is of no practical significance to FMO and therefore does not apply.



BPP 4.2.6: This best practice provision requires the Management Board to provide a survey in the annual report of all anti-takeover measures to prevent control from being relinquished. FMO has not incorporated any anti-takeover measures in its articles of association, because it has a stable majority shareholder, namely the State of The Netherlands. Therefore, an overview as meant in this provision is not incorporated in this annual report.

BPP 4.3.3: This provision does not apply, as this provision refers to a legal entity that does not apply a so-called 'structuurregime'. FMO is a so-called 'structuur' legal entity as defined in paragraph 2.4.6 of the Dutch Civil Code.

BPP 4.3.4: This provision does not apply, as it refers to financing preferred shares, which FMO does not use in its share capital.

BPP 4.3.5 and 4.3.6: These provisions are most likely not applicable, as FMO most likely does not have shareholders which can be fully characterized as institutional investors with regard to FMO. Moreover, the provision is the responsibility of the institutional investor.

BPP 4.3.7 and 4.3.8: These provisions are not applicable, as FMO's shares are not listed.

Principle 4.4. Shareholders recognizing the importance of a strategy focused on sustainable long-term value creation for the company and its affiliated enterprise, is the responsibility of the shareholder.

BPP 4.5.1 - 4.5.8: These provisions concern the issuing of depositary receipts for shares. FMO's articles of association lay down that the company is not permitted to cooperate in issuing depositary receipts of shares.

BPP 5.1.1 - 5.1.5: These provisions do not apply, as FMO does not have a one-tier board.

A few minor textual changes will be included in the relevant Standing Rules and/or policies in the course of 2024.

## **FMO Investment Management BV**

FMO Investment Management B.V. (FMO IM) is a 100 percent subsidiary of FMO. Its purpose is to build and grow investment management services for professional investors. This is part of FMO's strategic ambition to mobilize commercial investors to invest in emerging markets, thereby increasing its overall impact. FMO IM aims to scale up impact investing by providing investors access to FMO's deal flow in sustainable emerging markets.

FMO IM has a license as an investment firm and is authorized to provide investment advice. FMO IM has its own Management Board. As sole shareholder of FMO IM, FMO determines the charter and scope within which the company operates, and FMO has approval rights for specific matters.



A person wearing a white hairnet, a light blue face mask, and blue gloves is working in a cleanroom. They are handling a black tray filled with yellow, rectangular objects. The background shows metal railings and equipment, all under a blue-tinted light.

**04**

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# **RISK MANAGEMENT**

# RISK MANAGEMENT

This chapter provides an overview of FMO's risk governance and risk management approach. The sections describe the risk domains relevant to FMO and developments throughout 2023. Together with the quantitative Pillar 3 disclosures - available on FMO's website - it constitutes FMO's Pillar 3 disclosure.

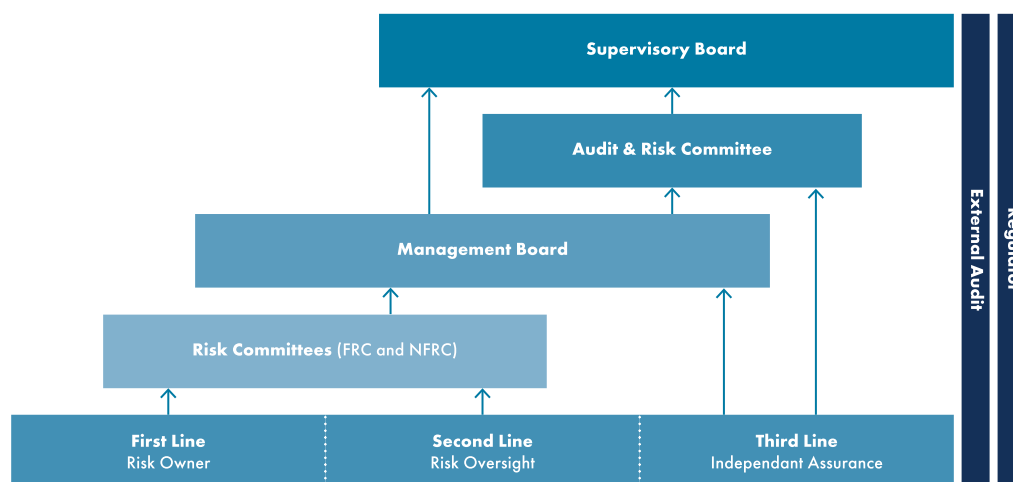
## Risk governance

FMO defines risk as the effect of uncertainty on objectives. FMO has a comprehensive framework in place to manage and control risk, reflecting its banking license, State Support Agreement and a mandate to do business in high-risk countries. The risk management framework helps us realize our ambitions and safeguard our viability. Risk management practices are integrated across the organization, from day-to-day activities to strategic planning, to ensure both compliance with relevant regulations and adherence to the risk appetite. A sound risk management framework is in place to preserve FMO's integrity, which is essential for fulfilling its mission and upholding its good reputation.

The Management Board defines and promotes the desired corporate culture and high ethical and professional standards. Employees are encouraged to take the right risks in an informed manner, with integrity and careful consideration of the interests of all stakeholders.

The risk management framework is based on the 'three lines model', where the first line (Investment department and supporting functions) is challenged and advised by the second line (Risk department, Compliance department and Credit department), and the third line (Internal Audit) that performs independent assessments of the functioning of first and second line.

The organizational structure is shown below.



The Management Board has established risk committees to assist it in fulfilling its oversight responsibilities regarding the risk appetite of FMO, the risk management framework and the governance structure that supports it. The risk committees and their responsibilities are described below.

## Developments

The risk committee structure has been reviewed and adjusted in 2023.

**The Financial Risk Committee (FRC).** The FRC is appointed by the Management Board as an independent body for the purpose of monitoring, challenging and deciding upon the execution of financial risk management within FMO.

**The Non Financial Risk Committee (NFRC).** The NFRC is appointed by the Management Board as an independent body for the purpose of monitoring, challenging and deciding upon the execution of non-financial risk and business risk management within FMO.

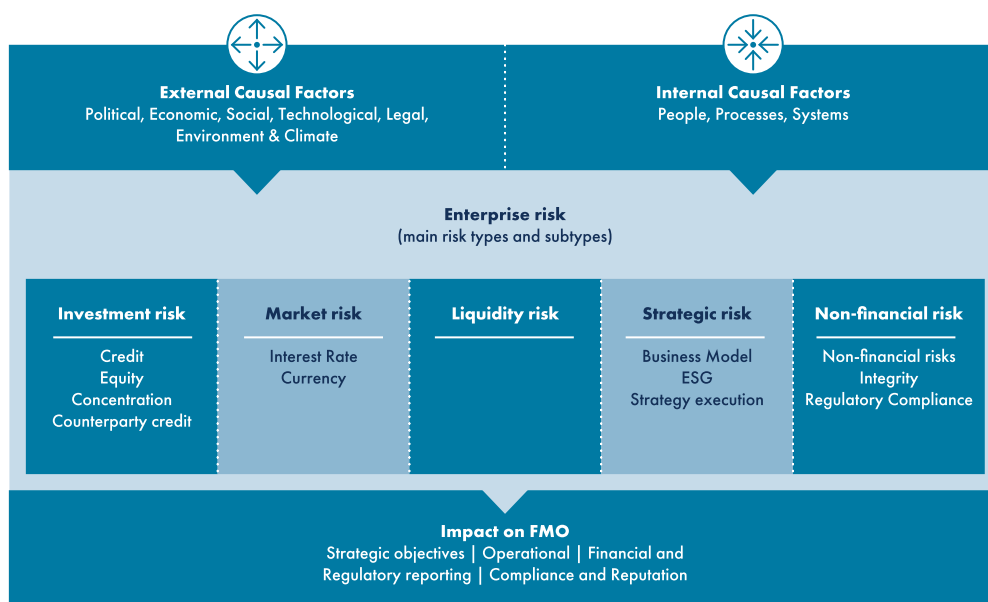
Both the FRC and NFRC are chaired by Management Board members. Several sub-committees report into the FRC and NFRC, such as the Investment Committee, the Integrity & Issue Management Committee, the Corporate Information Security Office and the Regulatory Monitoring Group. These sub-committees are chaired by directors.

## Risk appetite and taxonomy

The risk taxonomy defines the main risk types and risk subtypes FMO is exposed to in the pursuit of its objectives. This common set of risk categories, types and subtypes facilitates the structuring of other elements of the risk management framework, such as the risk appetite and risk policies.

The risk appetite defines appetite bandwidths, alert and tolerance levels for main risk types and subtypes. The Risk Appetite Framework (RAF) is reviewed by the Management Board and approved by the Supervisory Board on an annual basis. If necessary, it can be revised during the year in case of material developments or a change in the strategic goals.

The risk appetite, governance, and monitoring metrics for each risk domain are described in more detail in the sections below.



## Pillar 3 disclosure

FMO publishes the required Pillar 3 disclosures on an annual basis in conjunction with the publication of the annual report. Together, these documents fulfil the Pillar 3 disclosure requirements of the Capital Requirements Directive (CRD).

The objective of FMO's disclosure policies is to ensure maximum transparency in a practical manner. The consolidation scope for prudential reporting is equal to the accounting scope for FMO. FMO was granted the solo waiver for prudential reporting based on Article 7 and therefore only reports figures related to CRR on a consolidated basis.

## Climate-related risk

FMO defines climate-related risk as the risks posed by direct exposure to climate change, or indirect exposure through counterparties that may potentially be affected by, or contribute to, climate change. These include two strongly interlinked perspectives:

- An inside-out perspective, defined as the impact by FMO and its customers to climate (which is mainly covered by the ESG risk framework and fully integrated in FMO's investment process in credit decisioning and inclusion in some risk models);
- An outside-in perspective, defined as the impact on FMO due to physical and transition risks:
  - Physical risks arise from the physical effects of climate change, either chronic or acute.
  - Transition risks arise from the uncertainty related to the timing and speed of the process of adjustment to an environmentally sustainable economy. These risks can materialize through policies and regulations, technology, market developments, or behavioral changes.

In 2021, FMO began a project to embed climate-related and environmental risks within the organization based on the ECB Guide on Climate Related and Environmental Risks. Since 2022 FMO started piloting its methodology by performing a portfolio scan in four sectors (Financial Institutions, Energy, Agriculture, Food and Water, and Private Equity). The portfolio scan is the aggregated overview of climate related risks in FMO's investment portfolio (i.e., all loans + private equity exposures) and provides an initial assessment of climate-related risk exposures in industries and geographies providing a view of risk concentrations in the portfolio. Risk areas identified by the portfolio scan can be followed up by a more in-depth analysis of specific transactions, industries, or geographies. This is in line with the recommendations set out by the Task Force on Climate-Related Financial Disclosures (TCFD) and the ECB Guide on climate-related and environmental risks. In 2023, FMO formalized its portfolio scan on physical risks, which was submitted to the Financial Risk Committee (Investment Risk Committee prior to Q4 2023) on a quarterly basis. With regards to Transition risk, FMO has further developed its methodology for Policy and Legal and Reputational risks, while Market and Technology risks are expected to be further developed in 2024.

Throughout 2023, FMO has been developing an application to operationalize climate risk assessment further into the investment process, which will support FMO's deal teams to carry out the climate risk assessments step by step. The application will be implemented as of 2024 and FMO expects that the roll-out of this tool will significantly improve our data collection. FMO is iteratively working on improving the application before implementation. Thus far, the tool has been piloted for around 25 customers, in collaboration with investment teams from all departments.

As part of our supervisory discussions, DNB has been assessing FMO's progress in managing climate-related risks. In 2023, FMO conducted a materiality assessment and DNB provided feedback and indicated it estimates that FMO is on track to have a sound and comprehensive assessment in place by 1 April 2024. DNB noted that FMO has made significant progress in terms of embedding climate risk in its risk management and is undertaking further steps to improve its materiality assessments.

Finally, FMO has continued to work on integrating climate risks into internal policies and procedures and a climate risk policy has been established. For further information, please refer to the separate TCFD report.

## IFRS Reporting Requirement

Certain disclosures in this 'Risk Management' section are an integral part of the 'Consolidated Financial Statements' and contain audited information. The audited parts concern risk disclosures of financial instruments (IFRS 7) and capital disclosures (IAS 1). The audited section runs from this introductory section through the 'Capital adequacy' sub-section until the end of the 'Financial risk' subsection of the 'Risk Management' section of the annual report."

## Capital adequacy

### Definition

FMO aims to maintain a strong capital position that exceeds regulatory requirements and supports its AAA rating.

## Risk appetite and governance

FMO maintains a strong capital position by means of an internal capital adequacy planning and control framework. Capital adequacy metrics are calculated by the Risk department and regularly reviewed by the FRC and senior management.

FMO uses both regulatory capital ratios and an internal economic capital ratio to determine its capital position. The regulatory ratios, the Total Capital Ratio and Common Equity Tier 1 (CET1) Ratio, are calculated based on the standardized approach of the Capital Requirements Regulation (CRR) and take credit, market, operational and credit valuation adjustment risks into account. The Economic Capital Ratio is based on an economic capital approach having credit risk as the most important element. Other risks in FMO's economic capital framework are operational, market, credit value adjustment, interest rate risk in the banking book (IRRBB), concentration risk and ESG risk.

FMO has implemented a Capital Management Framework that aggregates all elements to manage FMO's current and future capital position in line with the RAF. The Capital Management Framework provides insights to FMO's management about the degree to which the strategy and capital position may be vulnerable to (unexpected) changes. These insights may require a management intervention to steer FMO's capital position against these unexpected events. Risk is responsible for flagging potential capital issues, forecasting future capital needs, and proposing and quantifying possible interventions to FRC.

## Developments

FMO's Total Capital Ratio decreased from 24.9 percent at year-end 2022 to 23.0 percent at year-end 2023, well above the Supervisory Review and Evaluation Process (SREP) minimum and other regulatory requirements. Given that FMO has no additional Tier 1 and limited Tier 2 Capital, the Total Capital ratio requirements are more restrictive than the CET-1 Ratio requirements. The reduction of the Total Capital Ratio during 2023 is mostly attributable to a regulatory change. From 1 October 2023 (following the publication of the Official Journal of The European Union on 11 September 2023) the list of closely correlated currencies for the purpose of calculating the capital ratios according to the standardized approach has changed. This amendment led to an increased market risk capital requirement of around €48 million. Overall, market risk requirement has increased with about €65 million from year-end 2022 to year-end 2023, leading to a Total Capital Ratio reduction of about 1.6 percent. Otherwise, the capital position remained strong throughout the year.

## Regulatory own funds

Under the CRR/CRD banks are required to hold sufficient capital to cover for the risks they face. FMO reports its capital ratio to the Dutch Central Bank (DNB) on a quarterly basis according to the standardized approach for all risk types. Per December 31, 2023, FMO's total available qualifying capital equals €3,245 million (2022: €3,271 million).

(€ x 1,000)	2023	2022
IFRS shareholders' equity	3,512,784	3,448,326
Tier 2 capital	250,000	250,000
Regulatory adjustments:		
-Interim profit not included in CET 1 capital	-22,047	-
-Other adjustments (deducted from CET 1)	-382,556	-321,006
-Other adjustments (deducted from Tier 2)	-113,143	-106,299
<b>Total capital</b>	<b>3,245,038</b>	<b>3,271,021</b>
Of which Common Equity Tier 1 capital	3,108,181	3,127,320
<b>Risk weighted assets</b>	<b>14,128,491</b>	<b>13,165,304</b>
Of which:		
- Credit and counterparty risk	10,794,894	10,669,034
- Foreign exchange	2,743,665	1,925,572
- Operational risk	570,780	551,389
- Credit valuation adjustment	19,152	19,309
Total capital ratio	22.97%%	24.85%
Common Equity Tier 1 ratio	22.00%%	23.75%

Following specific provisions in the CRR, FMO is required to deduct from its regulatory capital significant and insignificant stakes for subordinated loans and (in)direct holdings of financial sector entities above certain thresholds. Exposures below the thresholds are risk weighted accordingly.

As part of the SREP, DNB sets the minimum capital requirements for credit institutions, encompassing Pillar 1 and Pillar 2 risks. On top of the total SREP capital requirement, additional capital buffers are applicable according to the regulation.

The combined buffer requirement applicable to FMO consists of the capital conservation buffer and the institution specific countercyclical buffer.

The Pillar 2 guidance (P2G) determines the adequate level of capital to be maintained above the existing capital requirements for withstanding stressed situations. The P2G is a non-binding requirement, but is expected to be met under normal circumstances and a breach would represent an important early warning signal.

FMO's regulatory target capital ratio incorporates the fully phased-in capital requirement (including the P2G) supplemented by:

- A management buffer, and
- A dynamic foreign exchange (FX) buffer. The dynamic FX buffer is in place to cover variations in the regulatory capital ratio following short-term changes in the EUR/USD exchange rate not covered by the structural hedge. The structural hedge functions as a partial hedge against an adverse effect of the exchange rate on the regulatory capital ratios. Further information regarding the structural hedge is provided in the 'Currency Risk' section.

FMO's Total Capital Ratio and CET-1 Ratio remained comfortably above the appetite level throughout 2023.

## Economic capital

Economic capital is calculated in order to support an AAA rating. The economic capital framework differs in two elements from the regulatory capital ratios. First, it captures risks that are not covered under Pillar 1; such as ESG risk, interest rate risk in the banking book (IRRBB), and concentration risk. Second, the EC approach applies internal methodologies for credit risk of the loan and equity portfolio as well as for market risk. FMO invests in emerging markets, which results in a profile with higher credit risk exposure than generally applies to credit institutions in developed economies. The internal model is more risk sensitive and more conservative, leading to a higher capital requirement than the standardized approach. From the economic capital framework, an internal capital adequacy indicator (Economic



Capital Ratio) is derived. FMO's Economic Capital Ratio remained comfortably above the appetite level throughout 2023.

## Leverage ratio

The leverage ratio represents a non-risk-adjusted capital requirement, defined as Tier 1 capital as a percentage of FMO's total unweighted exposures. FMO's leverage ratio equals 29 percent (2022: 31 percent), far above the minimum requirement of 3 percent proposed by European authorities.

## 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.

### Developments

FMO has embarked on an overhaul of its credit risk policy and processes. The objective is to implement a more aligned and effective portfolio management framework across the organization. Implementation started in 2021 and is ongoing.

As part of this process, FMO has fundamentally redesigned the Credit Risk Policy and has adjusted internal processes and systems accordingly. The new Credit Risk Policy has been formally implemented in 2023. The main changes include strengthening the governance framework, alignment amongst key prudential policies, and enhancing the loan monitoring framework.

### Exposures and credit scoring

The following table shows FMO'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 €9.0 billion at year-end 2023 (2022: €8.6 billion).

<b>Maximum exposure to credit risk, including derivatives (€ x 1,000)</b>	<b>2023</b>	<b>2022</b>
<b>On-balance</b>		
Banks	49,285	26,814
Current accounts with State funds and other programs	488	956
Short-term deposits		
-of which: amortized cost	350,182	544,130
-of which: fair value through profit or loss	613,031	223,553
Interest-bearing securities	539,789	537,904
Short-term deposits – DNB	870,177	600,693
Derivative financial instruments	197,150	195,239
Loans to the private sector		
-of which: amortized cost	4,593,257	4,925,286
-of which: fair value through profit or loss	629,546	586,651
Current tax receivables	29,634	20,942
Other receivables	33,677	17,251
Deferred income tax assets	11,230	8,058
<b>Total on-balance</b>	<b>7,917,446</b>	<b>7,687,477</b>
<b>Off-balance</b>		
Contingent liabilities (guarantees issued)	154,675	138,359
Irrevocable facilities	947,126	746,271
<b>Total off-balance</b>	<b>1,101,801</b>	<b>884,630</b>
<b>Total credit risk exposure</b>	<b>9,019,247</b>	<b>8,572,107</b>

When measuring the credit risk of the emerging market portfolio at 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 'Material accounting policies' section, for details of the expected credit loss calculation methodology.

The majority of our gross loan portfolio (66 percent) remains in the F11 to F16 ratings categories.

## Credit quality analysis

2023

Indicative counterparty credit rating scale of S&P (€ x 1,000)	Stage 1	Stage 2	Stage 3	Fair value	Total	%
F1-F10 (BBB- and higher)	747,670	-	-	42,320	789,990	15%
F11-F13 (BB-,BB,BB+)	1,881,974	14,849	-	416,837	2,313,660	44%
F14-F16 (B-,B,B+)	893,297	167,248	-	95,885	1,156,430	22%
F17 and lower (CCC+ and lower)	115,174	332,233	440,812	74,504	962,723	18%
<b>Gross exposure</b>	<b>3,638,115</b>	<b>514,330</b>	<b>440,812</b>	<b>629,546</b>	<b>5,222,803</b>	<b>100%</b>
Less: amortizable fees	-34,775	-5,728	-2,626	-	-43,129	
Less: ECL allowance	-26,306	-32,811	-195,288	-	-254,405	
Plus: FV adjustments	-	-	-	-41,606	-41,606	
<b>Carrying amount</b>	<b>3,577,034</b>	<b>475,791</b>	<b>242,898</b>	<b>587,940</b>	<b>4,883,663</b>	

2022

Indicative counterparty credit rating scale of S&P (€ x 1,000)	Stage 1	Stage 2	Stage 3	Fair value	Total	%
F1-F10 (BBB- and higher)	761,017	2,690	-	-	763,707	14%
F11-F13 (BB-,BB,BB+)	1,972,889	-	-	352,305	2,325,194	42%
F14-F16 (B-,B,B+)	1,135,246	136,019	5,006	93,114	1,369,385	25%
F17 and lower (CCC+ and lower)	188,529	204,135	519,755	141,232	1,053,651	19%
<b>Gross exposure</b>	<b>4,057,681</b>	<b>342,844</b>	<b>524,761</b>	<b>586,651</b>	<b>5,511,937</b>	<b>100%</b>
Less: amortizable fees	-38,242	-4,078	-2,999	-	-45,319	
Less: ECL allowance	-32,579	-17,223	-206,597	-	-256,399	
Plus: FV adjustments	-	-	-	-100,584	-100,584	
<b>Carrying amount</b>	<b>3,986,860</b>	<b>321,543</b>	<b>315,165</b>	<b>486,067</b>	<b>5,109,635</b>	

Apart from on-balance finance activities, FMO is also exposed to off-balance credit-related commitments. Guarantees, which represent contingent liabilities to make payments if a customer cannot meet its obligations to third parties, carry similar credit risks as loans. Most of the guarantees are quoted in US dollars. Guarantees on export facilities are collateralized by the underlying letters of credit, and therefore carry less credit risk than direct uncollateralized borrowing. The following table shows the credit quality and the exposure to credit risk of the financial guarantees for the period.

2023

Indicative counterparty credit rating scale of S&P (€ x 1,000)	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	-	-	-	-
F11-F13 (BB-,BB,BB+)	246,703	8,742	-	255,445
F14-F16 (B-,B,B+)	40,235	12,111	-	52,346
F17 and lower (CCC+ and lower)	16,803	-	25,814	42,617
<b>Sub-total</b>	<b>303,741</b>	<b>20,853</b>	<b>25,814</b>	<b>350,408</b>
ECL allowance	-936	-507	-9,837	-11,280
<b>Total</b>	<b>302,805</b>	<b>20,346</b>	<b>15,977</b>	<b>339,128</b>

2022

Indicative counterparty credit rating scale of S&P (€ x 1,000)	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	-	-	-	-
F11-F13 (BB-,BB,BB+)	279,520	-	-	279,520
F14-F16 (B-,B,B+)	8,964	-	-	8,964
F17 and lower (CCC+ and lower)	16,688	-	14,023	30,711
<b>Sub-total</b>	<b>305,172</b>	<b>-</b>	<b>14,023</b>	<b>319,195</b>
ECL allowance	-1,314	-	-10,717	-12,031
<b>Total</b>	<b>303,858</b>	<b>-</b>	<b>3,306</b>	<b>307,164</b>

Financial guarantees represent €154,675 thousand (2022: €138,359 thousand) classified as contingent liabilities and €195,733 thousand (2022: €180,836 thousand) classified as irrevocable facilities.

Additionally, irrevocable facilities represent commitments to extend finance to customers and consist of contracts signed but not disbursed, yet which are usually not immediately and fully drawn.

The following table shows the credit quality and the exposure to credit risk of the loan commitments are part of the irrevocable facilities for the period.

2023

Indicative counterparty credit rating scale of S&P (€ x 1,000)	Stage 1	Stage 2	Stage 3	Other	Total
F1-F10 (BBB- and higher)	36,166	-	-	45,208	81,374
F11-F13 (BB-,BB,BB+)	243,561	13,562	-	3,018	260,141
F14-F16 (B-,B,B+)	246,573	85,786	-	6,278	338,637
F17 and lower (CCC+ and lower)	39,439	27,293	4,509	-	71,241
<b>Total nominal amount</b>	<b>565,739</b>	<b>126,642</b>	<b>4,509</b>	<b>54,504</b>	<b>751,393</b>
ECL allowance	-3,092	-6,458	-	-	-9,550
<b>Total</b>	<b>562,647</b>	<b>120,184</b>	<b>4,509</b>	<b>54,504</b>	<b>741,843</b>

2022

Indicative counterparty credit rating scale of S&P (€ x 1,000)	Stage 1	Stage 2	Stage 3	Other	Total
F1-F10 (BBB- and higher)	43,940	-	-	-	43,940
F11-F13 (BB-,BB,BB+)	242,616	-	-	6,803	249,419
F14-F16 (B-,B,B+)	114,422	88,831	-	-	203,253
F17 and lower (CCC+ and lower)	25,079	38,240	5,504	-	68,823
<b>Total nominal amount</b>	<b>426,057</b>	<b>127,071</b>	<b>5,504</b>	<b>6,803</b>	<b>565,435</b>
ECL allowance	-2,387	-6,185	-	-	-8,572
<b>Total</b>	<b>423,670</b>	<b>120,886</b>	<b>5,504</b>	<b>6,803</b>	<b>556,863</b>

The "Other" category relates to loan commitments for which no ECL is calculated (fair value loans or expired availability date).

## Non-performing exposures

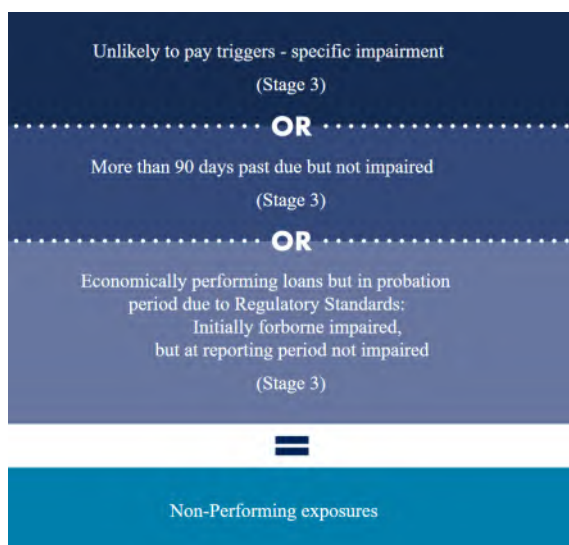
A customer is considered non-performing when it is not probable that the customer will be able to pay his payment obligations in full without realization of collateral or calling on a guarantee, regardless of the existence of any past-due amount or of the number of days past due.

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 unlikelihood to pay (UTP) trigger is in place that automatically leads to non-performing exposure (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.



During 2023, NPEs in FMO decreased from 11.9 percent as of 31 December 2022 to 9.8 percent as of 31 December 2023. In euro terms, the NPEs decreased from €653 million to €511 million. The largest contributors to the reduction were the positive developments in Sri Lanka and repayments. Write-offs also contributed to the reduction.

NPEs remain concentrated in a few large facilities. Top three NPEs are 20 percent of the total (2022: 16 percent), top ten are 52 percent (2022: 48 percent). As a result, a limited number of large new NPEs result in large movements in the NPE percentage. In terms of sector, NPEs are highest in Energy, in absolute terms at €234 million (2022: €227 million), followed by AFW at €174 million (2022: €184 million), Diverse Sectors at €54 million (2022: €143 million), and FI at €44 million (2022: €106 million). In relative terms (as percentage of the exposure in that sector) NPLs remain highest for Diverse Sectors at 35 percent, followed by AFW at 24 percent, Energy at 16 percent and FI at 2 percent. FMO stopped providing loans to Diverse Sector customers in 2017. NPEs excluding other sectors are 9.1 percent.

NPEs have traditionally been high in India. However, in 2023, FMO's NPE exposure reduced from €93 million to €4.1 million, as a result of write-offs of €63 million and repayments of €30 million. The amounts written off were to a large extent already impaired on 31 December 2022. During 2023, FMO's NPE exposure in Sri Lanka also decreased, from €62 million to zero, as all NPEs in Sri Lanka improved their performance and as a result the NPE status was lifted. At the end of 2023, the 3 countries with the highest level of NPEs were Ukraine, Uganda and Honduras, which together make up 41 percent of all NPEs.

NPE levels in FMO's portfolio partially reflect long recovery periods, which are inherent in markets in which FMO operates.

Past due information related to FMO's loans portfolio is presented in the tables below.

<b>2023</b>					
<b>(€ x 1,000)</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Fair Value</b>	<b>Total</b>
Loans not past due	3,481,802	499,523	189,482	612,534	4,783,341
Loans past due:					
-Past due up to 30 days	156,313	14,807	16,892	-	188,012
-Past due 30-60 days	-	-	-	-	-
-Past due 60-90 days	-	-	8,807	-	8,807
-Past due more than 90 days	-	-	225,631	17,012	242,643
<b>Gross exposure</b>	<b>3,638,115</b>	<b>514,330</b>	<b>440,812</b>	<b>629,546</b>	<b>5,222,803</b>
Less: amortizable fees	-34,775	-5,728	-2,626	-	-43,129
Less: ECL allowance	-26,306	-32,811	-195,288	-	-254,405
Less: FV adjustments	-	-	-	-41,606	-41,606
<b>Carrying amount</b>	<b>3,577,034</b>	<b>475,791</b>	<b>242,898</b>	<b>587,940</b>	<b>4,883,663</b>

<b>2022</b>					
<b>(€ x 1,000)</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Fair Value</b>	<b>Total</b>
Loans not past due	3,826,119	342,844	189,606	569,427	4,927,996
Loans past due:					
-Past due up to 30 days	231,562	-	24,457	-	256,019
-Past due 30-60 days	-	-	10,788	-	10,788
-Past due 60-90 days	-	-	9,116	-	9,116
-Past due more than 90 days	-	-	290,794	17,224	308,018
<b>Gross exposure</b>	<b>4,057,681</b>	<b>342,844</b>	<b>524,761</b>	<b>586,651</b>	<b>5,511,937</b>
Less: amortizable fees	-38,242	-4,078	-2,999	-	-45,319
Less: ECL allowance	-32,579	-17,223	-206,597	-	-256,399
Less: FV adjustments	-	-	-	-100,584	-100,584
<b>Carrying amount</b>	<b>3,986,860</b>	<b>321,543</b>	<b>315,165</b>	<b>486,067</b>	<b>5,109,635</b>

The table below presents the distribution of Stage 3 loans according to regions and sectors.

**Stage 3 - ECL distributed by regions and sectors (€ x 1,000)**

<b>December 31, 2023</b>	<b>Financial Institutions</b>	<b>Energy</b>	<b>Agribusiness, Food and Water</b>	<b>Infrastructure, Manufacturing, Services</b>	<b>Total</b>
Africa	4,115	25,865	6,511	6,417	42,908
Asia	8,257	23,057	2,689	4,375	38,378
Latin America & the Caribbean	15,815	12,855	43,365	3,650	75,685
Europe & Central Asia	0	6,456	31,861	0	38,317
Non-region specific	-	-	-	-	-
<b>Total</b>	<b>28,187</b>	<b>68,233</b>	<b>84,426</b>	<b>14,442</b>	<b>195,288</b>

**Stage 3 - ECL distributed by regions and sectors (€ x 1,000)**

<b>December 31, 2022</b>	<b>Financial Institutions</b>	<b>Energy</b>	<b>Agribusiness, Food and Water</b>	<b>Infrastructure, Manufacturing, Services</b>	<b>Total</b>
Africa	-	17,961	225	13,128	31,314
Asia	20,377	23,207	12,155	13,425	69,164
Latin America & the Caribbean	2,954	13,483	34,179	7,487	58,103
Europe & Central Asia	103	10,225	36,460	1,228	48,016
Non-region specific	-	-	-	-	-
<b>Total</b>	<b>23,434</b>	<b>64,876</b>	<b>83,019</b>	<b>35,268</b>	<b>206,597</b>

## 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.

The Credit department reviews modified loans periodically in accordance with the watch-list process. When a loan is deemed no longer collectible, it is written off against the related loss allowance. In 2023, FMO's write-offs including disposals equaled to €83.6 million (2022: €89.8 million).

The following table provides a summary of FMO's forborne assets, both classified as performing and non-performing, as of December 31, 2023.

<b>2023</b>			
<b>(€ x 1,000)</b>	<b>Loans to the private sector (Amortised Cost)</b>	<b>Loans to the private sector (Fair value)</b>	<b>Total</b>
Performing	4,152,445	559,168	4,711,613
of which: performing but past due > 30 days and <=90 days	37,896	-	37,896
of which: performing forborne	351,681	47,565	399,246
Non Performing	440,812	70,378	511,190
of which: non performing forborne	261,082	47,565	308,647
of which: impaired	201,823	-	201,823
Gross exposure	4,593,257	629,546	5,222,803
Less: amortizable fees	-43,129	-	-43,129
Less: ECL allowance	-254,405	-	-254,405
Plus: fair value adjustments	-	-41,606	-41,606
<b>Carrying amount at December 31</b>	<b>4,295,723</b>	<b>587,940</b>	<b>4,883,663</b>

<b>2022</b>			
<b>(€ x 1,000)</b>	<b>Loans to the private sector (Amortised Cost)</b>	<b>Loans to the private sector (Fair value)</b>	<b>Total</b>
Performing	4,400,532	458,470	4,859,002
of which: performing but past due > 30 days and <=90 days	-	-	-
of which: performing forborne	148,945	6,168	155,113
Non Performing	524,754	128,181	652,935
of which: non performing forborne	275,886	83,687	359,573
of which: impaired	268,521	-	268,521
Gross exposure	4,925,286	586,651	5,511,937
Less: amortizable fees	-45,319	-	-45,319
Less: ECL allowance	-256,399	-	-256,399
Plus: fair value adjustments	-	-100,584	-100,584
<b>Carrying amount at December 31</b>	<b>4,623,568</b>	<b>486,067</b>	<b>5,109,635</b>

The following table shows the gross carrying amount of previously modified financial assets for which the loss allowance has changed to stage 1 measurement during the period:

(€ x 1,000)	Post - modification		Pre - modification	
	Gross outstanding amount	Corresponding ECL	Gross outstanding amount	Corresponding ECL
<b>December 31, 2023</b>				
Restored loans since forbearance and now in Stage 1	18,147	-138	29,449	-611
Loans that reverted to Stage 2/3 once restored	32,217	-3,994	36,839	-2,596

(€ x 1,000)	Post - modification		Pre - modification	
	Gross outstanding amount	Corresponding ECL	Gross outstanding amount	Corresponding ECL
<b>December 31, 2022</b>				
Restored loans since forbearance and now in Stage 1	17,166	-227	30,220	-670
Loans that reverted to Stage 2/3 once restored	1,927	-17	3,853	-52

The table below includes Stage 2 and Stage 3 assets for which terms and conditions were modified including the related net modification result.

(€ x 1,000)	2023	2022
Amortized cost of financial assets modified during the period	84,965	78,845
Net modification result	799	-

## Credit risk mitigation

As per December 31, 2023, the total carrying value of the FMO's loan portfolio is €4.9 billion; of which €400.0 million is guaranteed by either the Dutch Government or highly rated guarantors. The following table shows a breakdown of guaranteed amounts received and carrying values of guaranteed loans per credit ranking of the guarantors.

Guarantor credit ranking based on rating scale S&P (€ x 1,000)	2023		2022	
	Amount of guarantees received	Guaranteed loans - carrying amount	Amount of guarantees received	Guaranteed loans - carrying amount
Dutch State	1,063	1,250	2,125	2,500
AA- and higher ratings	398,908	1,063,373	443,524	1,532,262
A+ to A-	-	-	-	-
BBB+ to B-	-	-	-	-
CCC+ and lower ratings	-	-	-	-
<b>Total</b>	<b>399,971</b>	<b>1,064,623</b>	<b>445,649</b>	<b>1,534,762</b>



The total carrying value of defaulted (Stage 3) loans in FMO's loan portfolio is €242.9 million; of which €47.3 million is guaranteed by either the Dutch Government or highly rated guarantors. The following table shows a breakdown of guaranteed amounts received and carrying values of guaranteed loans.

Stage of guaranteed loans (€ x 1,000)	2023		2022	
	Amount of guarantees received	Guaranteed loans - carrying amount	Amount of guarantees received	Guaranteed loans - carrying amount
1	322,250	847,267	390,372	1,380,001
2	30,410	64,327	7,975	17,610
3	47,311	153,029	47,302	137,141
<b>Total</b>	<b>399,971</b>	<b>1,064,623</b>	<b>445,649</b>	<b>1,534,762</b>

## 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 FMO's stake cannot be sold for a reasonable price and in a sufficiently liquid market.

### Risk appetite and governance

FMO has a long-term view on its equity portfolio, usually selling its equity stake within a period of five to 10 years. FMO 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 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 FMO 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.

### Developments

In 2023 like in the year before, de-globalization continued to put a strain on GDP growth and the realization of the SDGs. Also, the war in Ukraine continued, the war in Gaza erupted, and the US – China economic war continued. This resulted in higher prices for food and basic goods especially in Africa. Meanwhile climate risk became more evident by record high temperatures and extreme weather patterns across the globe. Central banks in US and Europe continued with aggressive monetary policies, pushing interest rates higher. USD 10-year treasury peaked at 5 percent, a level not seen since the start of this century. Many African countries have high budget deficits (50 percent has more than 5 percent deficit). This had a strong negative impact on capital flows to emerging markets and strong pressure on local currencies which further depreciated. Overall, the risk appetite of investors further declined.

Despite these difficult circumstances in 2023 we saw a good deal-flow: distributions from fund managers and exits resulted in cash distributions of € 244 million and again a strong level of dividends at € 34 million. At the same time, we also made a high level of new commitments of €510 million and invested (paid-in) capital of €334 million. Overall, our committed equity portfolio (including associates) increased to €3.1 billion (2022: €3.0 billion) which was the result of the sum of new commitments,

distributions, the weakening of the USD resulting in a €62 million loss and Fair Value gain for the portfolio of € 13 million gain. Although it is difficult to quantify, one of the main reasons for the disappointing value development is the devaluation of local currencies in some larger markets. Aside from that, our Venture Capital portfolio was also negatively impacted by a worsening sentiment around Venture Capital investments where the value reduced with €37 million.

## Exposures

The total outstanding equity portfolio on December 31, 2023, amounted to €2.7 billion (2022: €2.6 billion) of which €1.3 billion (2022 €1.3 billion) was invested in investment funds.

### Equity portfolio including Associates distributed by region and sector (€ x 1,000)

December 31, 2023	Financial Institutions		Energy		Agribusiness, Food and Water		Multi-Sector Fund Investments		Infrastructure, Manufacturing, Services		Total	
	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds
Africa	323,960	34,869	54,822	50,798	68,243	9,249	-	399,161	144,503	-	591,528	494,077
Asia	190,990	16,697	40,413	93,870	36,695	7,833	-	392,510	51,596	-	319,694	510,910
Latin America & the Caribbean	89,125	-	6,617	19,504	12,279	915	-	58,001	66,715	-	174,736	78,420
Europe & Central Asia	43,129	4,403	-	10,592	-	5,681	-	95,852	6,752	-	49,881	116,528
Non-region specific	168,220	48,317	24,117	43,151	-	2,070	-	35,863	11,512	-	203,849	129,401
<b>Total</b>	<b>815,424</b>	<b>104,286</b>	<b>125,969</b>	<b>217,915</b>	<b>117,217</b>	<b>25,748</b>	<b>-</b>	<b>981,387</b>	<b>281,078</b>	<b>-</b>	<b>1,339,688</b>	<b>1,329,336</b>

### Equity portfolio including Associates distributed by region and sector (€ x 1,000)

December 31, 2022	Financial Institutions		Energy		Agribusiness, Food and Water		Multi-Sector Fund Investments		Infrastructure, Manufacturing, Services		Total	
	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds	Direct	Funds
Africa	317,635	30,885	45,335	37,536	45,065	6,148	-	395,056	81,511	-	489,546	469,625
Asia	182,193	12,502	47,218	98,209	68,065	5,335	-	425,421	51,870	-	349,346	541,467
Latin America & the Caribbean	71,776	-	-	33,289	14,416	1,039	-	61,657	66,841	-	153,033	95,985
Europe & Central Asia	39,298	4,973	-	8,919	131	6,049	-	86,372	11,469	-	50,898	106,313
Non-region specific	143,902	57,224	23,760	37,265	-	2,337	-	20,124	38,771	-	206,433	116,950
<b>Total</b>	<b>754,804</b>	<b>105,584</b>	<b>116,313</b>	<b>215,218</b>	<b>127,677</b>	<b>20,908</b>	<b>-</b>	<b>988,630</b>	<b>250,462</b>	<b>-</b>	<b>1,249,256</b>	<b>1,330,340</b>

The equity portfolio is left unhedged for currency risk. For more information please refer to the 'Currency risk' and 'Structural hedge' sections.

## Concentration risk

### Definition

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

### Risk appetite and governance

Strong diversification within FMO'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, sector and individual counterparties is a key strategy to safeguard the credit quality of the portfolio.

## Developments

Global growth is set to decelerate from 3.5 percent in 2022 to 3.1 percent in 2023 and projected to remain at 3.1 percent in 2024 (IMF WEO January 2024). Developing economies continue to suffer from the repercussions of the pandemic and the war in Ukraine. Furthermore, global swift monetary policy tightening exacerbates the fiscal burdens. IMF highlights a growing debt concern, with 56 percent of low-income nations and a quarter of emerging markets either facing or on the brink of significant debt distress. Ghana, Sri Lanka, Belarus, Zambia, and Lebanon experienced debt defaults or ongoing default situations, while Argentina, Tunisia and Ethiopia encountered heightened risks. FMO monitored its portfolio throughout 2023 and will continue to do so. Given FMO's diverse exposure across more than 70 markets, it is well positioned to mitigate the negative effects of country specific crises.

Southern Turkey and northern Syria were struck by two potent earthquakes, causing significant devastation. FMO has a longstanding presence in Turkey and holds a substantial portfolio within the nation. While certain assets/activities of our clients were impacted by the earthquake, the overall credit risk of FMO's portfolio in Turkey remains stable. FMO has no financial engagements in Syria.

The war in Ukraine continued. The UK, US and EU have imposed sanctions on Russia and Belarus. FMO has been active in Ukraine for decades. At year-end 2023, FMO had a €65 million direct exposure in Ukraine across 12 customers in the Energy and Agribusiness Food and Water sectors. FMO received €14 million in repayments from its loans in Ukraine. Unlike the €137 million loss of last year, this year FMO has recognized a €19 million profit from its Ukraine exposure. FMO has no direct exposure and a limited indirect exposure to Russia. The exposure towards Belarus is around €17 million, in indirect equity.

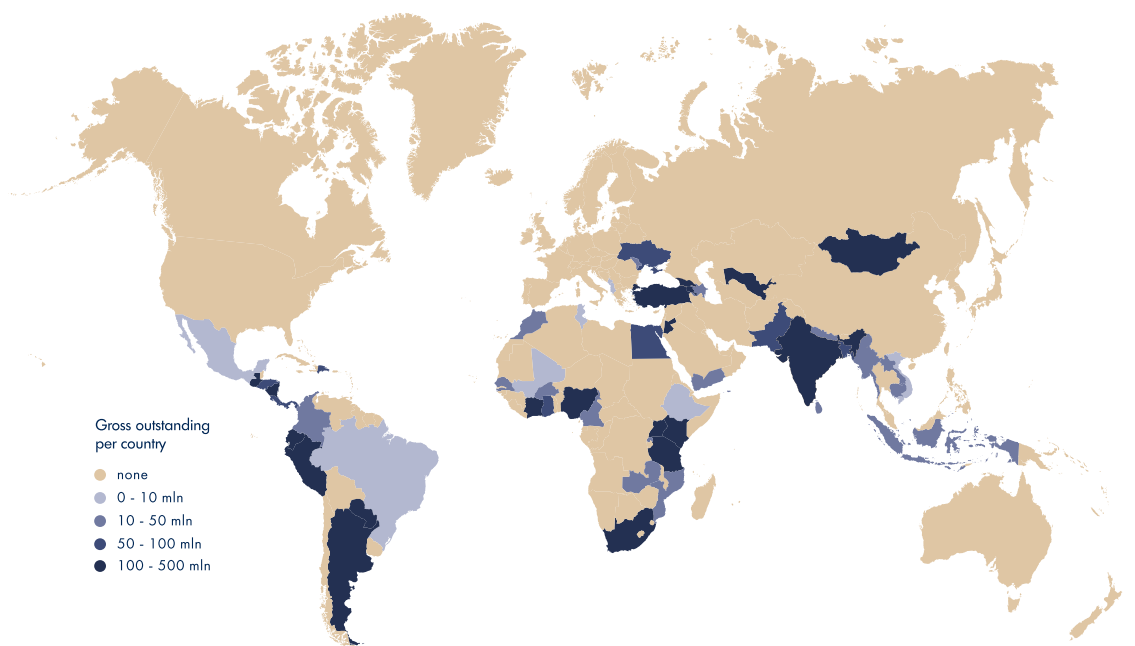
With the war erupting in Gaza and the region's intricate geopolitics, there's a tangible risk that this war could impact neighboring countries, notably Lebanon, Syria, Egypt, and Jordan. FMO's exposure in the Palestinian Territories is limited to €12 million in commitments to two microfinance customers through Nasira guarantee program, with €5 million outstanding. While FMO has no exposure to Israel, Syria, and Lebanon, it maintains commitments of €163 million in Jordan and €329 million in Egypt. FMO closely monitors developments but has so far not identified any significant financial impact on its portfolio.

## Country, regional and sector exposures

Country risk arises from country-specific events that adversely impact FMO's exposure in a specific country. Within FMO, country risk is broadly defined. It includes all relevant factors that have a common impact on FMO's portfolio such as economic, banking and currency crises, sovereign defaults and political risk events.

To ensure diversification within FMO's emerging market portfolio across regions, a country limit is in place to minimize concentration risk in the portfolio as a whole. Country limits range from 8 percent to 22 percent of FMO's shareholders equity, depending on the country rating, with higher limits in less risky countries. The assessment of the country rating (F-rating scoring in line with internal credit risk rating) is based on a benchmark of external rating agencies and other external information.

In determining the limit within a country for investments, the committed portfolio amount as well as underlying transaction specific elements - which may lead to effective reduction of country risk - are considered. The figure below provides an overview of the diversification over the countries of FMO's gross outstanding in the loan portfolio.



In general, the loan portfolio remains well diversified across different countries. The single largest country exposure is under 10 percent of the total loan book. The three largest country exposures in the loan book at the end of 2023 were India, Turkey, and Georgia, together 16 percent of the total loan exposure. In 2023, the rating of these countries remained stable. Noteworthy changes in country ratings include upgrades of the Europe & Central Asia region to F14 (2022: F15), Latin America & The Caribbean region to F13 (2022: F14), Global region to F14 (2022: F15), Armenia to F13 (2022: F14), Brazil to F12 (2022: F13), Costa Rica to F14 (2022: F15), El Salvador to F18 (2022: F19) and Vietnam to F11 (2022: F12). Furthermore, the country ratings have been downgraded for Argentina to F20 (2022: F19), Bangladesh to F14 (2022: F13), Bolivia to F16 (2022: F15), Cameroon to F16 (2022: F15), Ethiopia to F20(2022: F18), Palestine to F19 (2022: F17) and Pakistan to F18 (2022: F17).

	2023 (%)	2022 (%)
F9 and higher (BBB and higher ratings)	3.8	3.9
F10 (BBB-)	7.2	6.4
F11 (BB+)	2.9	2.6
F12 (BB)	8.6	10.9
F13 (BB-)	18.5	8.6
F14 (B+)	13.1	13.7
F15 (B)	17.9	29.6
F16 (B-)	13.9	8.8
F17 and lower (CCC+ and lower ratings)	14.1	15.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

In addition to country risk limits, FMO has limits to ensure adequate diversification across sectors and regions. Below an overview of the gross exposure of loans distributed by region and sector is given.

**Gross amount of loans distributed by region and sector (€ x 1,000)**

	Financial Institutions	Energy	Agribusiness, Food and Water	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
<b>December 31, 2023</b>						
Africa	579,919	604,728	139,438	37,682	86,949	1,448,716
Asia	533,711	283,679	80,356	-	49,461	947,207
Latin America & the Caribbean	836,277	432,242	173,912	-	25,179	1,467,610
Europe & Central Asia	734,659	164,982	221,504	-	73,149	1,194,294
Non-region specific	40,230	10,550	109,237	-	4,959	164,976
<b>Total</b>	<b>2,724,796</b>	<b>1,496,181</b>	<b>724,447</b>	<b>37,682</b>	<b>239,697</b>	<b>5,222,803</b>
<b>December 31, 2022</b>						
Africa	554,860	634,348	140,965	26,357	122,209	1,478,739
Asia	538,642	268,605	143,256	-	114,516	1,065,019
Latin America & the Caribbean	828,218	414,756	173,382	-	68,270	1,484,626
Europe & Central Asia	780,300	117,537	257,386	-	99,591	1,254,814
Non-region specific	44,374	16,089	161,521	-	6,755	228,739
<b>Total</b>	<b>2,746,394</b>	<b>1,451,335</b>	<b>876,510</b>	<b>26,357</b>	<b>411,341</b>	<b>5,511,937</b>

## Single and group risk exposures

Regarding single and group risk exposures, FMO has set stringent internal limits where the maximum loss possible for one single customer or group is set as a percentage of FMO's shareholders' equity. At year-end, all exposures were well within these limits. These internal single and group risk limits are more stringent than the regulatory limits such as the ones foreseen under the CRR norm of 25 percent of eligible regulatory capital.

## Counterparty credit risk

### Definition

Counterparty credit risk in the treasury portfolio is the risk that FMO will suffer economic losses because a counterparty fails to fulfill its financial or other contractual obligations from open positions in the portfolio.

### Risk appetite and governance

The main responsibility of FMO's Treasury department is to fund the core business of FMO and to efficiently and effectively mitigate risks in line with Treasury's mandate. Treasury's portfolio aims to maintain a liquidity buffer such that FMO can meet its liquidity needs in regular and in stressed circumstances. The Treasury department does not have its own trading book and does not actively take open positions in the pursuit of profits. FMO aims to balance between keeping losses within its limited risk tolerance and supporting FMO's business strategy, thereby minimizing credit risk and concentration risk in the treasury portfolio, derivative portfolio, and several bank accounts.

The Treasury department is responsible for day-to-day counterparty risk management. The Risk department is the second line and responsible for assessing, quantifying, and monitoring counterparty risk daily. Limit excesses and material findings are reported to the FRC on a monthly basis, together with recommended mitigations and actions. The Risk department is also responsible for updating policies and processes and for setting up limits, including minimum credit rating requirements, exposure limits, and transaction limits. The policies, processes, relevant parameters, and limits are reviewed and approved by the FRC periodically.

## Developments

There have been developments in the transition of LIBOR as well as rates for other currencies to new benchmark rates affecting the valuations of transactions with the counterparties. For more details, please refer to the 'Interest rate risk' in the 'Banking book' section.

## Exposures

Counterparty risk exposures in FMO's treasury portfolios originate from short-term investments (deposits, investment in money market funds, commercial papers, and collaterals related to transacted derivatives), interest-bearing securities (e.g., bonds), and transacted derivatives for hedging purpose. The tables below show outstanding positions as of 31 December.

### Overview interest-bearing securities based on rating scale S&P and Fitch (€ x 1,000)

	2023	2022
AAA	259,198	347,078
AA- to AA+	280,510	190,747
<b>Total</b>	<b>539,708</b>	<b>537,825</b>

### Geographical distribution interest-bearing securities

	2023 (%)	2022 (%)
Belgium	12	5
Finland	6	14
France	6	7
Germany	31	28
The Netherlands	16	12
Philippines	9	9
Sweden	-	6
Denmark	7	4
Supra-nationals	13	15
<b>Total</b>	<b>100</b>	<b>100</b>

### Overview short-term deposits based on rating scale S&P (€ x 1,000)

	2023	2022
European Central Bank	2,946	2,130
Dutch central bank	870,177	600,693
Financial institutions	-	-
A-1/A-1+	752,783	704,492
A-2	36,605	37,689
A-3	-	-
Unrated	-	-
Money market funds	-	-
A-1+	170,878	23,372
<b>Total at December 31</b>	<b>1,833,390</b>	<b>1,368,376</b>

Supra-nationals are international organizations or unions to which member states delegate part of their national powers.

FMO mitigates its counterparty credit risk through various means. Minimum requirements of credit quality are set for counterparties of treasury activities. Netting and collateral agreements are also utilized to reduce counterparty credit risk originating from derivative transactions. FMO has Credit Support Annexes (CSAs) with all derivative counterparties. Additionally, part of the derivative portfolio, particularly EUR and USD interest rate swaps, is cleared through central counterparties, as required by the European Market Infrastructure Regulations.

**Derivative financial instruments distributed by rating, based on rating scale S&P and Fitch (€ x 1,000)**

	2023		2022	
	Net exposure	CSA (%)	Net exposure	CSA (%)
AA- to AA+	-	-	-	-
A- to A+	193,014	100	191,669	100
BBB to BBB+	-	-	584	100
Central cleared	-	-	-	-
<b>Total</b>	<b>193,014</b>	<b>100</b>	<b>192,253</b>	<b>100</b>

The exposure of derivative financial instruments is presented for only derivatives with positive market value, netted with derivatives with a negative market value if it concerns the same counterparty. For this reason, the total amount shown in the table above does not equal the exposure presented in other tables.

The tables below include financial assets and financial liabilities that:

- are offset in the consolidated balance sheet of FMO; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated balance sheet.

FMO receives and pledges only cash collateral with respect to derivatives.

2023				
(€ x 1,000)		Derivatives financial assets	Derivatives financial liabilities	Total
Gross amounts recognized in balance sheet	(a)	197,150	418,839	-221,689
Gross amount of financial assets/liabilities offset in the balance sheet	(b)	-	-	-
<b>Net amount presented in the balance sheet</b>	<b>(c)=(a)-(b)</b>	<b>197,150</b>	<b>418,839</b>	<b>-221,689</b>
Related amounts not offset in the balance sheet				
Financial instruments (including non-cash collateral)	(d)	-	-	-
Cash collateral	(d)	-	-	234,457
<b>Net amount</b>	<b>(e)=(c)+(d)</b>	<b>197,150</b>	<b>418,839</b>	<b>12,768</b>

2022				
(€ x 1,000)		Derivatives financial assets	Derivatives financial liabilities	Total
Gross amounts recognized in balance sheet	(a)	195,239	610,976	-415,737
Gross amount of financial assets/liabilities offset in the balance sheet	(b)	-	-	-
<b>Net amount presented in the balance sheet</b>	<b>(c)=(a)-(b)</b>	<b>195,239</b>	<b>610,976</b>	<b>-415,737</b>
Related amounts not offset in the balance sheet				
Financial instruments (including non-cash collateral)	(d)	-	-	-
Cash collateral	(d)	-	-	468,451
<b>Net amount</b>	<b>(e)=(c)+(d)</b>	<b>195,239</b>	<b>610,976</b>	<b>52,714</b>

## Liquidity risk

### Definition

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

### Risk appetite and governance

FMO's risk appetite is to maintain adequate liquidity buffers to fulfill FMO's current and future financial obligations at all times. The appetite follows a similar rationale as for capital and it is aimed at maintaining enough liquidity to ensure FMO would never need to fall back on the guarantee provided

by the Dutch State to our investors. To realize this ambition, minimum liquidity requirements apply as prescribed by the regulator.

FMO's liquidity risk policy framework is built on four pillars:

1. Survival period and minimum liquidity buffer under stress
2. Maturity matched funding
3. Diversified funding
4. Regulatory ratio requirements

FMO's risk appetite levels are defined to ensure a minimum buffer above the seven-months minimum survival period under stress, a liquidity coverage ratio (LCR) above 135 percent, a Net Stable Funding Ratio (NSFR) above 107 percent, and restrictions on failed funding periods and cost of wholesale funding above peers. Additional thresholds such as matching funding, funding diversification and liquidity in specific currencies are also in place for managing and monitoring the risk profile of the bank. These monitoring metrics are delegated to the Director Risk and the Director Treasury and are subject to a formal sign-off procedure and reported to the FRC. The FRC is also responsible for approving the liquidity risk policy.

FMO has a conservative liquidity policy and funding strategy that is well suited to its business. Stress tests are conducted on FMO's liquidity position on a weekly basis to ensure this conservative position is maintained. During the Internal Liquidity Adequacy Assessment Process (ILAAP), FMO performs additional stress tests, including scenarios provided by DNB and reverse stress testing. A continuous review is performed on the liquidity position, FMO's assumptions, internal expectations and external market conditions to ensure that FMO's liquidity planning is accurate.

The liquidity contingency plan sets out FMO's strategy for addressing liquidity needs in the case of a crisis, ensuring that various sources of emergency liquidity are available to meet all current and future financial obligations, while avoiding excessive funding costs, incurring unacceptable losses and significantly changing the business profile. The liquidity sources include a long-term bond portfolio and a portfolio of short-term instruments such as cash, money market funds, commercial paper and treasury bills. The long-term bonds and commercial paper can be used as collateral in repurchase agreements to obtain short-term cash from the ECB.

## Developments

In the first half of 2023, significant bank failures occurred both in the United States and Switzerland, primarily stemming from deposit runs, the devaluation of liquid assets due to rapidly rising interest rates and associated reputational issues. Following these distressing events, global central banks swiftly intervened by injecting extraordinary liquidity into the financial system to preempt any potential contagion. Although apprehensions about the stability of the international banking sector heightened, the crisis has not escalated further so far.

FMO, not engaged in accepting deposits, remained unaffected by the deposit run of 2023 and had no exposure to the collapsed banks. The market values of bonds held throughout the year increased compared to the end of 2022. Collateral inflows due to derivative portfolio was €247 million (2022: €478 million outflow). Throughout the year, FMO ensured capital markets access. Overall, FMO experienced minimal impact from the developments in terms of liquidity risk, apart from the rising funding costs.

FMO is an established issuer in local currency frontier markets due to its regular presence and is keen to continue issuances in 2023, developing capital markets in line with its mandate. In total, FMO issued approximately €373 million of equivalent funding in local currency transactions during 2023, including 2-year TRY 300 million (around €15 million) of retail notes under the FMO Debt Issuance Programme.

## Liquidity position

FMO's liquidity position remained comfortably above regulatory requirements and internal managerial limits in 2023, with an LCR never falling below 197 percent.



The following table shows the categorization of the balance sheet per maturity bucket. This table shows the timing of the undiscounted principal cash flows, and not the market values, per instrument. The totals per instrument may therefore differ from the totals on the balance sheet. Expected cash flows resulting from irrevocable facilities being drawn are not included in the liquidity gap. For internal liquidity planning and management, cash flows from irrevocable facilities are included in the cash flow forecasts.

<b>2023</b>						
<b>(€ x 1,000)</b>	<b>&lt; 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>&gt;5 years</b>	<b>Maturity undefined</b>	<b>Total</b>
<b>Assets</b>						
Banks	49,273	-	-	-	-	49,273
Current accounts with State funds and other programs	-	488	-	-	-	488
Short-term deposits						
-of which: Amortized cost	870,177	15,675	-	-	330,882	1,216,734
-of which: Fair value through profit or loss	619,887	-	-	-	-	619,887
Other receivables	33,677	-	-	-	-	33,677
Interest-bearing securities	18,222	75,500	330,660	115,500	-	539,882
Derivative financial instruments	43,508	22,638	95,719	9,667	-	171,532
Loans to the private sector						
-of which: Amortized cost	201,047	676,720	2,677,324	922,800	-	4,477,891
-of which: Fair value through profit or loss	14,002	34,712	283,934	244,481	-	577,129
Equity investments						
-of which: Fair value through OCI	-	-	-	-	167,074	167,074
-of which: Fair value through profit or loss	-	-	-	-	2,193,771	2,193,771
Investments in associates	-	-	-	-	308,179	308,179
Current tax receivables	-	29,634	-	-	-	29,634
Property, plant and equipment	-	-	-	-	19,859	19,859
Intangible assets	-	-	-	-	15,325	15,325
Deferred income tax assets	-	-	-	-	11,230	11,230
<b>Total assets</b>	<b>1,849,793</b>	<b>855,367</b>	<b>3,387,637</b>	<b>1,292,448</b>	<b>3,046,320</b>	<b>10,431,565</b>
<b>Liabilities and shareholders' equity</b>						
Short-term credits	-	-	-	-	97,114	97,114
Current accounts with State funds and other programs	43	-	-	-	-	43
Current tax liabilities	-	-	-	-	-	-
Derivative financial instruments	4,431	23,525	162,656	21,507	-	212,119
Debentures and notes	587,158	587,951	4,849,200	160,414	-	6,184,723
Other financial liabilities						
-of which: Fair value through profit or loss	-	-	-	-	74,003	74,003
Wage tax liabilities	771	-	-	-	-	771
Accrued liabilities	29,498	-	-	-	-	29,498
Other liabilities	546	2,572	10,595	20	22,088	35,821
Provisions	-	-	-	-	44,922	44,922
Deferred income tax liabilities	-	-	-	-	7,943	7,943
Shareholders' equity	-	-	-	-	3,512,784	3,512,784
<b>Total liabilities and shareholders' equity</b>	<b>622,447</b>	<b>614,048</b>	<b>5,022,451</b>	<b>181,941</b>	<b>3,758,854</b>	<b>10,199,741</b>
<b>Liquidity surplus/gap 2023</b>	<b>1,227,346</b>	<b>241,319</b>	<b>-1,634,814</b>	<b>1,110,507</b>	<b>-712,534</b>	<b>231,824</b>

(€ x 1,000)	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
<b>Assets</b>						
Banks	26,807	-	-	-	-	26,807
Current accounts with State funds and other programs	-	-	-	-	956	956
Short-term deposits						
-of which: Amortized cost	600,693	20,403	-	-	521,574	1,142,670
-of which: Fair value through profit or loss	224,372	-	-	-	-	224,372
Other receivables	17,251	-	-	-	-	17,251
Interest-bearing securities	14,023	119,790	314,977	90,500	-	539,291
Derivative financial instruments	2,253	42,008	66,945	42,385	-	153,591
Loans to the private sector						
-of which: Amortized cost	166,003	818,361	2,643,875	925,077	-	4,553,316
-of which: Fair value through profit or loss	9,491	33,671	257,711	163,385	-	464,258
Equity investments						
-of which: Fair value through OCI	-	-	-	-	150,733	150,733
-of which: Fair value through profit or loss	-	-	-	-	2,130,903	2,130,903
Investments in associates	-	-	-	-	297,960	297,960
Current tax receivables	3,882	-	17,060	-	-	20,942
Property, plant and equipment	-	-	-	-	23,321	23,321
Intangible assets	-	-	-	-	11,955	11,955
Deferred income tax assets	-	-	-	-	8,058	8,058
<b>Total assets</b>	<b>1,064,775</b>	<b>1,034,211</b>	<b>3,300,568</b>	<b>1,221,347</b>	<b>3,145,460</b>	<b>9,766,361</b>
<b>Liabilities and shareholders' equity</b>						
Short-term credits	-	-	-	-	52,156	52,156
Current accounts with State funds and other programs	1,058	-	-	-	-	1,058
Current tax liabilities	-	-	-	-	-	-
Derivative financial instruments	5,758	81,218	150,461	27,941	-	265,378
Debentures and notes	26,726	950,483	3,960,574	321,885	-	5,259,668
Other financial liabilities						
-of which: Fair value through profit or loss	-	-	-	-	82,328	82,328
Wage tax liabilities	615	-	-	-	-	615
Accrued liabilities	24,466	-	-	-	-	24,466
Other liabilities	546	2,565	10,986	4,804	33,362	52,263
Provisions	-	-	-	-	42,113	42,113
Deferred income tax liabilities	-	-	-	-	13,407	13,407
Shareholders' equity	-	-	-	-	3,448,326	3,448,326
<b>Total liabilities and shareholders' equity</b>	<b>59,169</b>	<b>1,034,266</b>	<b>4,122,021</b>	<b>354,630</b>	<b>3,671,692</b>	<b>9,241,778</b>
<b>Liquidity surplus/gap 2022</b>	<b>1,005,606</b>	<b>-55</b>	<b>-821,453</b>	<b>866,717</b>	<b>-526,232</b>	<b>524,583</b>

The tables below are based on the final availability date of the contingent liabilities and irrevocable facilities.

**Contractual maturity of effective guarantees issued and irrevocable facilities (€ x 1,000)**

December 31, 2023	< 3 months	3-12 months	1-5 years	>5 years	Total
Effective guarantees issued	-	-	36,334	118,341	154,675
Irrevocable facilities	12,271	13,562	90,903	1,706,296	1,823,032
<b>Total off-balance</b>	<b>12,271</b>	<b>13,562</b>	<b>127,237</b>	<b>1,824,637</b>	<b>1,977,707</b>

#### Contractual maturity of effective guarantees issued and irrevocable facilities (€ x 1,000)

December 31, 2022	< 3 months	3-12 months	1-5 years	>5 years	Total
Effective guarantees issued	-	-	48,036	90,323	138,359
Irrevocable facilities	12,688	44,407	121,750	1,322,324	1,501,169
<b>Total off-balance</b>	<b>12,688</b>	<b>44,407</b>	<b>169,786</b>	<b>1,412,647</b>	<b>1,639,528</b>

FMO expects that not all of these off-balance items will be drawn before expiration date.

FMO complies with DNB's Pillar 2 liquidity requirements methodology for Less Significant Institutions (LSIs) which have been applied from the Supervisory Review and Evaluation Process (SREP). The liquidity requirements are a survival period of at least six months based on internal stress testing methodology, a Net Stable Funding Ratio (NSFR) of 100 percent and a specific Liquidity Coverage Ratio (LCR) requirement of 100 percent. FMO's internal liquidity appetite levels include a safety cushion over and above the minimum requirements as described in the section above.

FMO's liquidity position has been well above regulatory requirements and internal risk appetite levels throughout 2023. Per the reporting date, FMO has a survival period exceeding 12 months, an LCR of 686 percent (2022: 439 percent) and a NSFR of 114 percent (2022: 114 percent).

FMO's major liquidity exposures are in EUR and USD currencies. However, some transactions are denominated – and may be settled – in local currencies. These exposures are specifically hedged using financial instruments to minimize liquidity and settlement risks.

## Funding and sustainability bonds

Treasury aims to ensure good market access by diversifying FMO's funding sources. The result of this is a balanced funding mix in terms of currency, instrument and maturity.

Eurodollar (e.g. USD investors outside the United States) constitutes a key market for FMO. Treasury has identified USD and EUR as strategic funding markets. Other markets to attract funding include Australia, Sweden, UK, Japan and local frontier currencies. Typical investors in FMO debentures and notes, either through public or private issuances, hold these instruments till maturity. Except for our Tier II issuance, FMO funding is plain vanilla and generally senior unsecured funding.

ESG bonds are an important part of FMO's funding strategy, which accounted for about 43 percent of the funding portfolio in 2023. In October 2022 FMO priced a successful €500 million five-year fixed rate sustainability bond. FMO has accelerated this EUR sustainability bond issue, originally planned for Q1 2023, due to additional funding need stemming from a strong pipeline towards year-end and an outflow of cash collateral. The new sustainability bond has been issued under FMO's Sustainability Bonds Framework (SBF), and proceeds will be used to finance or refinance eligible green and social projects, or to repay a note issued under the FMO's Sustainability Bond Framework.

## 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 the bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII).

### Risk appetite and governance

FMO has no trading book and all assets (loans and investments) are part of the banking book. FMO's policy is to match assets and liabilities within defined limits. As the loan portfolio is more granular, loans are pre-funded and new funding is obtained periodically and matched to the asset portfolio in terms of expected maturity and interest rate sensitivity. Interest rate risk arises from the residual tenor mismatch, mismatch in fixed rate assets funded by floating rate liabilities, and differences in reference rates or

currencies resulting in basis risk. FMO has little optionality in its portfolio and has no material exposure to rates-driven prepayment risk. The volatility of the market value of assets and liabilities over the holding period due to interest rate movements is of less concern as these are held until maturity.

Interest rate risk management falls under the responsibility of the FRC. The Treasury department acts as the first line and is responsible for the day-to-day management of interest rate risk and daily transactions. The quantification, monitoring and control of market risk is the responsibility of Risk as second line. Interest rate risk is monitored using earnings-based metrics and value-based metrics.

Earnings-based methods capture short-term effects of interest rate repricing or repricing that may impact net interest incomes. The following two metrics are used for this purpose.

- The interest rate gap provides a static overview of the full balance sheet's repricing and refinancing characteristics. The gap is monitored over different time buckets with limits in place per bucket and on a cumulative level, for all currencies (aggregate and currency-by-currency).
- Net Interest Income (NII) at Risk provides a dynamic projection of net interest income sensitivity to yield curve shocks. FMO monitors NII at Risk on a two-year forward-looking basis and applies different scenarios simultaneously that allow for identification of basis risk as well.

Economic value methods capture changes in net present values of assets, liabilities and off-balance sheet items to changes in yield curves. Value-based metrics measure long-term effects of interest rate changes over the full tenor of the balance sheet. The following economic value metrics are calculated:

- Basis Point Value (BPV) provides the change in market value of assets, liabilities and interest-rate risk sensitive off-balance items for a one basis point change in yield curves. Limits are in place for the whole balance sheet, and for main currencies (EUR and USD) separately.
- Delta Economic Value of Equity (delta EVE) provides changes in the economic value of the shareholder's equity given certain shifts in yield curves. The impact of a 200 basis-points parallel shifts and SA-IRRRB scenarios are reported.

The interest rate gap and BPV exposure are monitored on weekly basis against limits set by the FRC. BPV limits are defined dynamically to accommodate a 200 basis-points shock within five percent of Tier I. The delta EVE limit is defined in the Risk Appetite Framework and set at five percent of Tier I. The NII at Risk limit is defined based on one percent of Tier 1.

The interest rate positions were within risk appetite in 2023. In spite of rates volatility in the United States, Europe and globally our positions remain within limits.

## Developments

The IBOR project was initiated in 2018 to prepare the transitioning of FMO's loans and derivatives (swaps) referencing USD LIBOR to SOFR.

**Loan transition:** About 250 loan contracts were in scope for transitioning from IBOR to SOFR. By the end of 2023, all loans were remediated, apart from a couple of contracts which - in agreement with the FMO front office and their clients - were moved to synthetic LIBOR. These synthetic LIBOR contracts will be remediated before the end of September 2024.

**Derivatives transition:** FMO adhered to the ISDA 2020 Fallback Protocol for transitioning its derivatives portfolio. In 2023, FMO's derivatives exposure to USD LIBOR has been transitioned from forward-looking USD LIBOR to backward-looking daily compounded SOFR according to the conditions set by the ISDA 2020 Fallback Protocol.

## Exposures

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

2023						
(€ x 1,000)	< 3 months	3-12 months	1-5 years	> 5 years	Non- interest- bearing	Total
<b>Assets</b>						
Banks	49,273	-	-	-	-	49,273
Current accounts with State funds and other programs	-	-	-	-	488	488
Short-term deposits	-	-	-	-	-	-
-of which: Amortized cost	1,204,694	15,665	-	-	-	1,220,359
-of which: Fair value through profit or loss	613,031	-	-	-	-	613,031
Other receivables	-	-	-	-	33,677	33,677
Interest-bearing securities	18,094	75,576	329,995	116,043	-	539,708
Derivative financial instruments <sup>1</sup>	193,948	3,202	-	-	-	197,150
Loans to the private sector	-	-	-	-	-	-
-of which: Amortized cost	1,673,116	570,571	928,867	1,123,168	-	4,295,723
-of which: Fair value through profit or loss	93,762	117,162	67,048	309,967	-	587,940
Current tax receivables	-	-	-	-	29,634	29,634
Equity investments	-	-	-	-	-	-
-of which: Fair value through OCI	-	-	-	-	167,074	167,074
-of which: Fair value through profit or loss	-	-	-	-	2,193,771	2,193,771
Investment in associates	-	-	-	-	308,179	308,179
Property, plant and equipment	-	-	-	-	19,859	19,859
Intangible assets	-	-	-	-	15,325	15,325
Deferred income tax assets	-	-	-	-	11,230	11,230
<b>Total assets</b>	<b>3,845,919</b>	<b>782,176</b>	<b>1,325,910</b>	<b>1,549,178</b>	<b>2,779,237</b>	<b>10,282,421</b>
<b>Liabilities and shareholders' equity</b>						
Short-term credits	97,114	-	-	-	-	97,114
Current accounts with State funds and other programs	-	-	-	-	43	43
Derivative financial instruments <sup>1</sup>	417,058	1,781	-	-	-	418,839
Other financial liabilities	-	-	-	-	-	-
-of which: Fair value through profit or loss	-	-	-	-	74,003	74,003
Debentures and notes	832,196	569,869	4,539,470	119,148	-	6,060,683
Wage tax liabilities	-	-	-	-	771	771
Accrued liabilities	-	-	-	-	29,498	29,498
Other liabilities	-	-	-	-	35,821	35,821
Provisions	-	-	-	-	44,922	44,922
Deferred income tax liabilities	-	-	-	-	7,943	7,943
Shareholders' equity	-	-	-	-	3,512,784	3,512,784
<b>Total liabilities and shareholders' equity</b>	<b>1,346,369</b>	<b>571,649</b>	<b>4,539,470</b>	<b>119,148</b>	<b>3,705,785</b>	<b>10,282,421</b>
<b>Interest sensitivity gap 2023</b>	<b>2,499,550</b>	<b>210,526</b>	<b>-3,213,560</b>	<b>1,430,030</b>	<b>-926,548</b>	<b>-</b>

(€ x 1,000)	< 3 months	3-12 months	1-5 years	> 5 years	Non- interest- bearing	Total
<b>Assets</b>						
Banks	26,807	-	-	-	-	26,807
Current accounts with State funds and other programs	-	-	-	-	956	956
Short-term deposits						
-of which: Amortized cost	1,122,267	22,534	-	-	-	1,144,801
-of which: Fair value through profit or loss	223,575	-	-	-	-	223,575
Other receivables	-	-	-	-	17,251	17,251
Interest-bearing securities	14,128	119,800	313,192	90,704	-	537,825
Derivative financial instruments <sup>1</sup>	127,852	67,387	-	-	-	195,239
Loans to the private sector						
-of which: Amortized cost	2,036,252	908,424	465,117	1,213,775	-	4,623,568
-of which: Fair value through profit or loss	123,015	111,506	37,482	214,064	-	486,067
Current tax receivables	-	-	-	-	20,942	20,942
Equity investments						
-of which: Fair value through OCI	-	-	-	-	150,733	150,733
-of which: Fair value through profit or loss	-	-	-	-	2,130,903	2,130,903
Investment in associates	-	-	-	-	297,960	297,960
Property, plant and equipment	-	-	-	-	23,321	23,321
Intangible assets	-	-	-	-	11,955	11,955
Deferred income tax assets	-	-	-	-	8,058	8,058
<b>Total assets</b>	<b>3,673,896</b>	<b>1,229,651</b>	<b>815,791</b>	<b>1,518,543</b>	<b>2,662,080</b>	<b>9,899,961</b>
<b>Liabilities and shareholders' equity</b>						
Short-term credits	52,156	-	-	-	-	52,156
Current accounts with State funds and other programs	-	-	-	-	1,058	1,058
Derivative financial instruments	539,971	71,005	-	-	-	610,976
Other financial liabilities						
-of which: Fair value through profit or loss	-	-	-	-	82,328	82,328
Debentures and notes	336,717	966,569	3,865,334	403,633	-	5,572,253
Current tax liabilities	-	-	-	-	-	-
Wage tax liabilities	-	-	-	-	615	615
Accrued liabilities	-	-	-	-	24,466	24,466
Other liabilities	-	-	-	-	52,263	52,263
Provisions	-	-	-	-	42,113	42,113
Deferred income tax liabilities	-	-	-	-	13,407	13,407
Shareholders' equity	-	-	-	-	3,448,326	3,448,326
<b>Total liabilities and shareholders' equity</b>	<b>928,844</b>	<b>1,037,574</b>	<b>3,865,334</b>	<b>403,633</b>	<b>3,664,576</b>	<b>9,899,961</b>
<b>Interest sensitivity gap 2022</b>	<b>2,745,052</b>	<b>192,077</b>	<b>-3,049,543</b>	<b>1,114,910</b>	<b>-1,002,494</b>	

Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant interest re-pricing category.

## **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 FMO's financial position and future cash flows. FMO also reviews currency risk in terms of impact on the capital ratios.

### **Risk appetite and governance**

FMO offers loans and attracts funding in a wide range of currencies. This is done to provide financing in the currency best fitting FMO's customers and to reduce currency risks on their side.

FMO has limited appetite for currency risk. Exposures are hedged through matching currency characteristics of assets with liabilities, or through derivative transactions such as cross-currency swaps and FX forwards conducted with either commercial parties or with The Currency Exchange Fund (TCX Fund N.V.). Most currency exposures are hedged to US dollars on a micro-hedge basis, whereby the US dollar position is managed on a portfolio basis accordingly. FMO does not take any active positions in any currency for purpose of making a profit. Each individual currency is managed within a strict position limit and an overall appetite level is set at one percent of shareholder's equity for the total open position across all currencies. Both the individual and overall open positions are monitored by Risk on a daily basis. Additionally, FMO maintains a deliberately unhedged foreign currency position for the purpose of structural hedge which is reported to the FRC monthly. Please refer to the 'Structural hedge' sub-section for further details.

### **Developments**

No material developments occurred in 2023. The overall trend in the EUR/USD exchange rate for 2023 showed a weakening of the US Dollar versus the Euro. Our positions remained well within the limits.

### **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 FMO's equity investments and investments in associates.

## 2023

(€ x 1,000)	EUR	USD	INR	ZAR	Other	Total
<b>Assets</b>						
Banks	27,415	8,774	8,472	1,101	3,510	49,273
Current accounts with State funds and other programs	404	84	-	-	-	488
Short-term deposits						-
-of which: Amortized cost	1,157,161	58,133	-	-	5,065	1,220,359
-of which: Fair value through profit or loss	25	613,006	-	-	-	613,031
Other receivables	3,122	14,737	15,004	36	778	33,677
Interest-bearing securities	405,546	134,162	-	-	-	539,708
Derivative financial instruments	415,190	-139,964	-237,223	-44,566	203,713	197,150
Loans to the private sector						-
-of which: Amortized cost	464,939	3,116,476	256,274	46,333	411,701	4,295,723
-of which: Fair value through profit or loss	116,066	470,307	-1	1,106	463	587,940
Equity investments						-
-of which: Fair value through OCI	9,956	157,118	-	-	-	167,074
-of which: Fair value through profit or loss	459,211	1,501,904	118,100	42,470	72,085	2,193,771
Investments in associates and joint ventures	2,040	306,139	-	-	-	308,179
Current tax receivables	29,622	12	-	-	-	29,634
Property, plant and equipment	19,830	29	-	-	-	19,859
Intangible assets	15,325	-	-	-	-	15,325
Deferred income tax assets	11,230	-	-	-	-	11,230
<b>Total assets</b>	<b>3,137,087</b>	<b>6,240,917</b>	<b>160,626</b>	<b>46,480</b>	<b>697,315</b>	<b>10,282,421</b>
<b>Liabilities and shareholders' equity</b>						
Short-term credits	81,869	15,245	-	-	-	97,114
Current accounts with State funds and other programs	43	-	-	-	-	43
Derivative financial instruments <sup>1</sup>	282,882	979,735	44,573	12,441	-900,792	418,839
Other financial liabilities						
-of which: Fair value through profit or loss	74,003	-	-	-	-	74,003
Debentures and notes	1,216,270	3,283,117	-	-	1,561,296	6,060,683
Current tax liabilities						
Wage tax liabilities	792	-22	-	-	-	771
Accrued liabilities	27,113	3,208	-	-83	-739	29,498
Other liabilities	13,610	6,676	15,273	20	242	35,821
Provisions	24,620	19,358	-	390	554	44,922
Deferred income tax liabilities	7,943	-	-	-	-	7,943
Shareholders' equity	3,513,491	-698	-	-10	2	3,512,784
<b>Total liabilities and shareholders' equity</b>	<b>5,242,636</b>	<b>4,306,619</b>	<b>59,845</b>	<b>12,757</b>	<b>660,563</b>	<b>10,282,421</b>
Currency gap 2023		1,934,298	100,781	33,723	36,753	
Currency gap 2023 excluding equity investments and investments in associates		-30,863	-17,319	-8,748	-35,332	



## 2022

(€ x 1,000)	EUR	USD	INR	ZAR	Other	Total
<b>Assets</b>						
Banks	11,682	12,138	48	183	2,756	26,807
Current accounts with State funds and other programs	269	687	-	-	-	956
Short-term deposits						
-of which: Amortized cost	1,034,643	89,742	-	-	20,416	1,144,801
-of which: Fair value through profit or loss	2,156	221,419	-	-	-	223,575
Other receivables	6,043	10,805	-179	78	504	17,251
Interest-bearing securities	321,895	215,930	-	-	-	537,825
Derivative financial instruments	213,524	391,796	-309,976	-53,362	-46,743	195,239
Loans to the private sector						
-of which: Amortized cost	496,104	3,319,689	293,589	47,406	466,780	4,623,568
-of which: Fair value through profit or loss	75,072	407,249	1,458	1,225	1,063	486,067
Equity investments						
-of which: Fair value through OCI	10,829	139,904	-	-	-	150,733
-of which: Fair value through profit or loss	479,562	1,422,881	105,482	44,999	77,979	2,130,903
Investments in associates	-	295,913	2,047	-	-	297,960
Current tax receivables	20,922	20	-	-	-	20,942
Property, plant and equipment	23,285	36	-	-	-	23,321
Intangible assets	11,955	-	-	-	-	11,955
Deferred income tax assets	8,058	-	-	-	-	8,058
<b>Total assets</b>	<b>2,715,999</b>	<b>6,528,209</b>	<b>92,469</b>	<b>40,529</b>	<b>522,755</b>	<b>9,899,961</b>
<b>Liabilities and shareholders' equity</b>						
Short-term credits	52,156	-	-	-	-	52,156
Current accounts with State funds and other programs	1,058	-	-	-	-	1,058
Derivative financial instruments	-656,867	2,454,971	-2,392	-28,908	-1,155,828	610,976
Other financial liabilities						
-of which: Fair value through profit or loss	82,328	-	-	-	-	82,328
Debentures and notes	1,672,052	2,224,964	-	32,056	1,643,181	5,572,253
Current tax liabilities	-	-	-	-	-	-
Wage tax liabilities	626	-11	-	-	-	615
Accrued liabilities	21,384	3,276	-	-13	-181	24,466
Other liabilities	14,848	4,573	100	32	32,710	52,263
Provisions	22,318	19,099	-	260	436	42,113
Deferred income tax liabilities	13,407	-	-	-	-	13,407
Shareholders' equity	3,448,326	-	-	-	-	3,448,326
<b>Total liabilities and shareholders' equity</b>	<b>4,671,636</b>	<b>4,706,872</b>	<b>-2,292</b>	<b>3,427</b>	<b>520,318</b>	<b>9,899,961</b>
Currency gap 2022		1,821,337	94,761	37,102	2,437	
Currency gap 2022 excluding equity investments and investments in associates		-37,361	-12,768	-7,897	-75,542	

Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant currency category.

As described above, FMO's loan assets in local currencies, such as Indian Rupee (INR), are fully swapped to the US Dollar on a cash flow basis. The positions in these currencies are therefore fully hedged. For IFRS reporting, however, the loans are recorded at (amortized) cost, while the related swaps are recorded at fair value, leading to an accounting mismatch in these currencies.

**Sensitivity of profit & loss account and shareholders' equity to main foreign currencies (€ x 1,000)**

Change of value relative to the euro	December 31, 2023		December 31, 2022	
	Sensitivity of profit & loss account	Sensitivity of shareholders' equity	Sensitivity of profit & loss account	Sensitivity of shareholders' equity
USD value increase of 10%	177,718	15,712	168,143	13,990
USD value decrease of 10%	-177,718	-15,712	-168,143	-13,990
INR value increase of 10%	10,078	-	9,476	-
INR value decrease of 10%	-10,078	-	-9,476	-
ZAR value increase of 10%	3,372	-	3,710	-
ZAR value decrease of 10%	-3,372	-	-3,710	-

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.

Shareholders' equity is sensitive to equity investments valued at fair value through other comprehensive income.

## Structural hedge

FMO maintains a deliberately unhedged foreign currency position in private equity investments to manage the volatility of the capital ratio. These foreign currency positions act as an economic hedge against an adverse effect of the exchange rate on the regulatory capital ratios. A depreciation of FMO's reporting currency (euro) can significantly affect the capital ratio since FMO's assets - and hence also the risk weighted assets - are mainly denominated in foreign currencies. The long open position in the equity portfolio thereby functions as a partial hedge for FMO's regulatory capital ratios. In addition, the uncertainty in the size and the timing of the cash flows for equity investments makes micro-hedging less effective, hence these positions are better fit for use as a capital ratio hedge.

## Business risk

### Environmental, social and governance risks

#### Definition

Environmental & Social (E&S) risk refers to 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 in 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.

## Developments

Similarly, to the 2022 ESG target, the 2023 ESG target group covers high risk customers in our portfolio contracted prior to 2023 ('target list') and those supported by a corporate governance specialist. We continue to register the ESG risk assessments of the customers with high risk and report against the ESG target.

We continue to learn from external evaluations and internal audits and implement improvements. In 2022, SIS was audited to assess the design and effectiveness of key controls ensuring completeness and accuracy of the data, as well as system governance. An action plan was designed in response to the audit findings and was implemented in 2023. Actions included the design and delivery of enhanced training to all FMO investment and ESG staff to increase awareness of processes and improve completeness and correctness of information. In addition, steps were taken to strengthen reporting items and links to supporting documentation and substantiation.

ESG regulatory requirements and voluntary standards have continued to proliferate across the globe, increasing the complexity of managing ESG risks and opportunities. In 2023, FMO implemented organizational changes to adapt to sustainable finance developments.

## Business model and strategy execution risk

### *Business model risk*

#### Definition

Business model risk is defined as the risk of a non-viable business model or strategy, in line with FMO's 2023 Risk Appetite Framework. For banks in general, long-term viability is achieved when a bank is able to cover all its costs and provide an appropriate return on equity, taking into account its risk profile. For FMO, as impact investor, business model risk is also related to the (in)ability to reach our impact goals.

#### Risk appetite and governance

FMO's appetite for business model risk is minimal: both the organization's continuity and its ability to achieve its impact targets are highly dependent on its ability to generate investments and produce impactful investments in often higher-risk environments and produce sufficient returns from these investments. At the same time, exposure to this risk cannot be entirely avoided, given the nature of FMO's business model. FMO's ability to invest is dependent on both demand- and supply-side factors (such as respectively demand for funding, and market liquidity and peers' activities), not all of which are within FMO's direct control. On the demand side, this is most notably the demand for funding provided by FMO, which is itself dependent on activity of other DFIs and impact investors as well as commercial market risk appetite. On the supply side, in addition to market liquidity FMO needs to attract public funding and funding from private investors willing to take higher risks. Additionally, the nature of FMO's investments leads to investment risks. This in turn affects FMO's ability to generate operating income and impact.

## Developments

The year 2023 commenced with considerable business model risks for our public funds and Reducing Inequalities-labelled portfolio, due to limited production in these two areas in 2022. This continued to affect the performance of our portfolio in 2023. Quarter on quarter, we noted an improvement in pipeline build-up and deal conversion. This resulted in a cautious risk reduction for these two metrics over the year. Still, FMO continued to see risks of falling behind target for our impact-labelled, public funds and mobilized portfolios. This is due to increasing geopolitical tensions (e.g., continuing war in Ukraine, conflict in Sudan, war between Israel and Hamas), inflationary pressure, high debt burden in

several LDCs, and an unfavorable global growth outlook (IMF, July 2023). By contrast, FMO-A and Total Committed Portfolio developments were in line with our ambitions. New production for the on-balance sheet portfolio remained above the previous three-year averages quarter on quarter. Yet, 2023 target was not met. On the financial side, FMO started the year slightly behind target on regular income, mainly due to lower-than-expected dividends. As of Q2, both regular income and cost-to-regular income ratio were as budgeted.

## **Strategy execution risk**

### **Definition**

Strategy execution risk is defined as the risk of failed execution of strategic projects, initiatives and decisions. FMO is willing to take only strongly justified project risks. Some uncertainty and variation are expected. We prefer options that are most likely to result in successful delivery while also providing an acceptable level of risk-reward trade-offs, where the potential rewards will clearly contribute to our strategic ambitions and objectives. Example of risks related to projects are lack of experience, resource constraints, project interdependencies and complexity and dependency on external parties.

## **Risk appetite and governance**

FMO's performance is measured against the YTD realization of agreed deliverables (total overall FMO project portfolio level). Baseline and performance are measured in the PMO model, based on quantified data from project templates/reports. Please note that no weighting is applied for different types of deliverables.

## **Developments**

In 2023, project selections were strongly aligned with FMO's priorities set out in the annual business plan, as well as driven by regulatory requirements. Due to the high complexity of many projects in the project portfolio and human resource constraints, particularly in the data, ICT and operational team, strategy execution carried considerable risks. Mandatory deadlines of regulatory projects required some prioritization during the year. External staff was recruited to support project delivery.

## **Non-financial risk**

### **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, and transaction execution. 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 Internal 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.

## **Developments**

The scope and quality of the Internal Control Framework has been further improved in 2023 through two half-yearly rounds of control monitoring and testing. Special attention has been given to the review and improvement of IT, information security and cyber risk related controls.

## **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.

### **Risk appetite and governance**

FMO acknowledges that as a financial institution it has been entrusted with a gatekeeper role. FMO attaches great value to this role and will always strive for full and timely adherence to financial economic crime regulations. In addition, we are aware that in line with FMO's mandate, the operational working environment (countries with high(er) financial crime risks) as well as the risk maturity level of its clients, risks are present and incidents within customer complexes may happen (i.e. the customer and any associated and/or third parties).

### **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.

There is always a risk that a customer is involved or alleged to be involved in illicit acts (e.g., money laundering, fraud, or corruption). When FMO is of the opinion that there is a breach of law that cannot be remedied, that no improvement by the customer will be achieved (e.g., awareness, implementing controls) or that the risk to FMO's reputation is unacceptably high, FMO may exercise certain remedies under the contract, such as the right to cancel a loan or suspend upcoming disbursements. FMO will report to the regulatory authorities when necessary. Refer to the 'Business integrity' section in the 'Performance against our strategy' chapter for recent developments in this area.

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 new 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.

## Regulatory compliance risk

### Definition

Regulatory compliance risk is the risk that FMO does not operate in accordance with applicable rules and regulations, either by not or not timely identifying applicable regulations or not adequately implementing and adhering to applicable regulations and related internal policies and procedures.

### Risk appetite and governance

FMO has a minimal appetite for regulatory compliance risk. FMO closely monitors and assesses future regulations that apply to FMO and strives for full and timely implementation of regulations.

To ensure compliance with the EU Banking Supervisory Regulations as implemented by the DNB and the ECB and other laws and regulations applicable to FMO, FMO closely monitors the regulatory developments including the supervisory authority's guidance.

FMO has a risk committee structure, accompanied by a Regulatory Monitoring Policy that defines the internal requirements, processes, roles, and responsibilities to identify, assess and implement regulatory changes.

### Developments

The new EU legislative package on the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) is aimed at implementing the Basel IV standards within EU. The legislative procedures are in the final stages and expected to be implemented with a phase-in approach starting from 2025. In addition to the implementation of Basel IV standards, the legislative package will introduce new rules requiring banks to systematically identify, disclose and manage sustainability risks (ESG risks), and stronger enforcement tools for supervision of the EU banks.

The two main proposals that are of particular relevance to FMO are the standardized approach for credit risk and capital requirements for market risk. Other parts of the EU Banking Reforms, such as a standardized approach for operational risk and the new standardized approach for CVA, are expected to have a smaller impact on the capital position. Regarding the credit risk, main capital impact is expected on the treatment of equity exposures with 250% risk weight instead of the current 150%.

Regarding market risk, the proposed draft affects the capital requirements for FMO's foreign exchange position in the banking book. Due to the size of the open position, FMO believes it will be subject to the new alternative standardized approach for market risk. As part of the CRR-2 reporting requirement, FMO has reported the results of the new methodology to DNB since September 2021. In addition to being sensitive to FMO's market risk positions at any given moment, the methodology is significantly more sensitive to movements in the currency composition, and its results are therefore also more volatile.

FMO has taken all these changes into consideration for its internal capital adequacy assessment process in 2023.

## **ESG related regulatory requirements**

The new EU legislative package includes several amendments in relation to ESG risk. It will require banks to systematically identify, disclose and manage ESG risks as part of their risk management including regular climate stress testing. The proposal also puts ESG risks in scope of the Supervisory Review and Evaluation Process (SREP). Furthermore, the proposal introduces amendments regarding the possible capitalization for ESG risks, and adjusted risk weights for assets with high levels of climate risk. Most notably, FMO is required to start disclosing ESG risks as part of its Pillar 3 disclosures on a semi-annual basis starting in 2025.

In respect to additional ESG related reporting requirements, the Corporate Sustainability Reporting Directive (CSRD) amends and expands the Non-Financial Reporting Directive (NFRD) for undertakings to disclose information on environmental, social, and governance matters. FMO must report for the first time in 2025 in its 2024 annual report. Undertakings subject to the CSRD must adhere to the European Sustainability Reporting Standards (ESRS) to report on their material sustainability related impacts, risks, and opportunities.

In line with the DNB's expectations, FMO continued to align internal processes, disclosures, business strategy, and risk management with the ECB guidance on managing climate and environmental risks issued in 2020. This guide describes how the ECB expects institutions to consider climate-related and environmental risks – as drivers of existing categories of risk – when formulating and implementing their business strategy and governance and risk management frameworks. It further explains how the ECB expects institutions to become more transparent by enhancing their climate-related and environmental disclosures.

## **The Digital Operational Resilience Act (DORA)**

DORA defines rules for the protection, detection, containment, recovery, and repair capabilities against ICT-related incidents. DORA sets rules on ICT risk-management, incident reporting, operational resilience testing and ICT third-party risk monitoring. DORA came into force in 2023 and will apply from 17 January 2025.

## **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 fulfills the requirements with regard to the protection of personal data. Overseas representative offices are fully in scope.







**05**

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**ANNEX**

# MATERIALITY ASSESSMENT AND STAKEHOLDER ENGAGEMENT

We conduct a materiality assessment every year, which enables us to validate the relevance of our strategic choices and identify topics that affect our work. We engage with a broad group of stakeholders on a regular basis. Stakeholders are individuals and organizations that are directly or indirectly affected by our operations, either positively or negatively, or that may affect our ability to create value.

## Materiality assessment

We review our material sustainability topics every reporting period to ensure they represent our organization's most significant impacts. In the chapter, we describe the process and the outcome of our materiality assessment.<sup>36</sup>

### How we determined our material topics

This year, we continued to report in accordance with the GRI Standards. At the same time, we updated our materiality assessment methodology to bring it closer in line with the terminology used by the European Sustainability Reporting Standards (ESRS). Specifically, we identified a longlist of actual and potential, positive and negative impacts resulting from our activities and business relationships and mapped them to where they occur in the value chain (our direct operations, upstream and downstream). Furthermore, we introduced a scoring methodology to determine the significance of each impact and, subsequently, our material sustainability topics. This approach allowed us to gain deeper insights into the impacts FMO has or could have on the economy, environment, and people.

We followed a six-step approach, as outlined below, to identify our material topics across our sectors, regions, value chain and business relationships.

**(1) Current state assessment:** We conducted a thorough assessment of our operating context and activities, which included a review of our previously determined material topics, internal sources (e.g. previous annual reports, Strategy 2030, and other key internal documents) and external sources (e.g. relevant reporting guidelines and standards, as well as peer and trend reports). This resulted in a longlist of sustainability topics, which was then consolidated into a shortlist. The consolidation aimed to ensure the topics accurately reflected and grouped FMO's impacts, removing topics that represent the way FMO addresses its potential impacts (e.g. innovation, mobilizing private and public capital) rather than the impact itself. During this step of the process, we also compiled an impact register, listing actual and potential, positive and negative impacts linked to the sustainability topics outlined in the shortlist.

**(2) Value chain mapping:** Based on the internal documents used for the current state assessment, we mapped our value chain by categorizing our operations and business relationships into upstream, operational, and downstream activities. This helped us understand where in the value chain FMO - through its activities, products, and services - significantly impacts the economy, environment, and people.

**(3) Stakeholder engagement:** We conducted 15 face-to-face interviews with internal and external stakeholders<sup>37</sup> to fine-tune the list of relevant impacts drafted in step one of the process, ensuring the impacts were accurately reflected and any existing gaps were addressed. The external stakeholders we interviewed included representatives from the Dutch Ministry of Foreign Affairs and Ministry of Finance, representing FMO's shareholders, as well as from the Association of European Development Finance Institutions (EDFI), representing the DFI stakeholder constituency. The internal stakeholders we

36 Our 2023 materiality assessment was executed with the support of an external party.

37 The list of stakeholders consulted during the materiality assessment was derived from the 2022 stakeholder mapping conducted by FMO.

interviewed included employees who frequently engage with other key stakeholder groups (i.e., employees, customers, NGOs and local communities, investors, public investment partners, and supervisor/regulator), which allowed them to provide a broad stakeholder perspective of FMO's impacts. For additional information on how we engage with these stakeholders, please consult the 'Stakeholder dialogue' section included in this chapter.

To facilitate a more focused discussion, we assigned each interviewee two to four sustainability topics related to his or her area of expertise. For each topic, we asked the interviewee to explain how, in their opinion, FMO is impacting the economy, environment, and people. We used the outcomes of the interviews to develop a list of actual and potential, positive and negative impacts per sustainability topic.

In addition to the interviews, we conducted an online survey among employees, customers, NGOs and other stakeholders about FMO's impact related to the sustainability topics identified in step one. We used the outcomes from the survey to sense check the input collected through the interviews.

**(4) Impact review:** We organized three workshops to review, validate and score the identified impacts. As a result of the review and validation, we refined the list of impacts by removing the ones that were found to be irrelevant and merging impacts that referred to the same issue. We scored each impact based on scale, scope, irremediable character and likelihood. Based on the score, we arranged the impacts associated with each topic from most to least significant. Internally, we agreed that impacts above a certain cut-off point or threshold, would be considered material, as these are the topics where FMO has the greatest impact. These are also the areas of greatest priority for FMO, thus they have been selected for reporting.

**(5) Topic prioritization:** We determined the materiality of the sustainability topics based on the significance of the impacts. A sustainability topic that consisted of at least one material impact was considered material and was prioritized for reporting.

**(6) Validation:** We presented the outcomes to our Management Board for validation and approval.

## Results

Our materiality assessment resulted in the following list of material sustainability topics. All topics hold equal importance for FMO and our stakeholders and are presented in alphabetical order in the table below.

<input type="radio"/> Biodiversity	<input type="radio"/> Maintaining financial sustainability
<input type="radio"/> Climate change	<input type="radio"/> Pollution
<input type="radio"/> Community investment and engagement	<input type="radio"/> Productive employment & decent work for all and inclusive & sustainable economic growth – workers in the value chain
<input type="radio"/> Diverse and inclusive organization – FMO's workforce	<input type="radio"/> Reduced inequalities
<input type="radio"/> Employee development, engagement, health and well-being – FMO's workforce	<input type="radio"/> Responsible, compliant, transparent, and accountable banking
<input type="radio"/> Gender equality – FMO's customers and workers in the value chain	<input type="radio"/> Strong governance and high ESG standards – FMO customers
<input type="radio"/> Human rights	<input type="radio"/> Water resources

We provide further information about our performance regarding the identified material topics and how we manage the impacts associated with them throughout the report. Please refer to the Connectivity Table below for the specific sections where this information is available.

## Most relevant changes compared to last year

When comparing the current list of material topics to previous years, notable additions include 'pollution', 'water resources', and 'biodiversity'. These topics are not new to FMO as we manage the risks and impacts related to these areas as part of our ESG activities. Last year, these topics were aggregated under the topic 'Promoting ESG management and value add' and emerged as standalone topics in this year's materiality assessment as we aligned the material topics, where relevant, with the terminology used by the ESRS. Other changes this year include the removal of topics such as 'cooperation and harmonization with other DFIs' and 'enabling meaningful innovation', as they represented actions to achieve impact rather than clear sustainability topics. For this same reason, we changed the names of some of our previously identified material topics. We also revised the definitions of some of the topics that had been identified as material in our 2022 materiality assessment to better reflect the impacts

identified in this year's assessment. For detailed descriptions of the material topics, please refer to appendix 'Sustainability topics' in the Indexes section available on our website.

Our involvement with 'biodiversity', 'pollution', and 'water resources' is primarily through our investments, resulting in indirect impacts. We manage impacts related to these environmental areas through our ESG risk management activities. As part of this approach, we require customers to assess investment-related risks and comply with industry standards like the IFC Performance Standards. Through our E&S practices, we apply IFC Performance Standard 3: Resource Efficiency and Pollution Prevention which is specific for water and pollution (i.e. air, noise, water) related impacts and for opportunities on efficiencies (i.e. energy or water); and IFC Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources for impacts on ecosystems services and other natural living things.

During due diligence, we use environmental and social impact studies (ESIAs) and baseline information to define materiality and assess management approach adequacy. In cases where further improvements are required around the management of risks, environmental and social action plans (ESAPs) are incorporated into the contract to address these gaps. At customer monitoring, we track impact and assess current management risks. If negative impacts occur due to gaps in the management process, we register this in a performance tracker. We report only in case of management gaps. We're currently developing KPIs to steer and monitor on our biodiversity ambitions, encompassing both positive and negative impacts.

We evaluate the effectiveness of our actions through our ESG risk management activities, systematically identifying, assessing, and mitigating ESG risks. We set an annual ESG performance target for high ESG risk customers in our portfolio and monitor the degree to which our customers are adequately managing E&S risks. The results are disclosed in the chapter 'Performance against our strategy'.

Stakeholder and community engagement is a key principle embedded within the IFC Performance Standards. This means that FMO is committed to actively engaging with stakeholders and local communities throughout the project lifecycle to understand their concerns, incorporate their perspectives into decision-making processes, and mitigate any negative impacts on them.

## Managing impacts

The Supervisory Board Impact Committee advises the Supervisory Board on its decision-making regarding impact- and ESG-related matters. The daily management of our bank lies with the Management Board, which is supported by the Impact and Sustainability Committee (ISCO).

The ISCO drives the impact and sustainability agenda through improved decision-making, coordinates implementation of sustainability related topics, and interprets external developments, with a view to implementation consequences. The Management Board has delegated the responsibility for managing impacts to different departments. The Strategy department is tasked with managing FMO's corporate strategy and implementation, including defining the impact and sustainability strategy and related policies. FMO's strategic goals and objectives are cascaded down to the investment departments, which are supported by the respective Impact and ESG+ departments. These departments are responsible for identifying the areas in which we can work with customers to minimize our negative impacts and optimize our development impacts, building customer capabilities and for the integration of sustainable standards in our investment processes. The Credit department is responsible for performing an independent review of our impact and ESG assessments at a transaction level.

The Finance, Impact & Data department, together with the Strategy department, prepares periodic reports to monitor progress on our strategic goals and operational targets, from both a financial and impact perspective. These are discussed with the Management Board on a monthly, quarterly and annual basis. Other relevant impact- and ESG-related developments can be brought to the Management Board's or ISCO's attention when deemed necessary.

Additionally, FMO is a signatory to the Operating Principles for Impact Management since 2019.

# Stakeholder dialogue

We see stakeholder engagement as a two-way dialogue. We engage with stakeholders to create partnerships, invest together, harmonize our approaches, and seek insights that inform our policies and approaches.

In addition, we strongly value the input we receive from various stakeholders on our (proposed) investments. They bring critical perspectives and alert us to different viewpoints, provide us with critical feedback and challenge us to be more transparent and accountable as an organization. Through dialogues we aim to better understand each other's perspectives and find ways to strengthen our collaboration. Our stakeholder dialogues help us to reflect and enhance our risk assessment practices.

We changed our organizational structure in 2023 to optimize the coordination of FMO's stakeholder relations. The Corporate Communications Department, which already oversaw relationships with employees, media and – to a lesser extent – the general public, was given responsibility for relationships with the Dutch Government, members of parliament, NGOs, EDFI, academia and think tanks. By bringing the coordination of these relationships closer together in this new Corporate Stakeholder Engagement Department, we hope to optimize and deepen the value we seek to bring through these partnerships.

## Our engagement per stakeholder group

The following table summarizes the material topics by stakeholder group and how we have engaged with them during 2023. Overall, most stakeholders engage with us because of the impact we aim to achieve through our investments.

Stakeholder Group	Material topics	How we engaged in 2023
Employees. All permanent and external professionals, including senior managers and members of the Management Board.	<ul style="list-style-type: none"> <li>• Diverse and inclusive organization – FMO's workforce</li> <li>• Employee development, engagement, health and well-being – FMO's workforce</li> <li>• Maintaining financial sustainability</li> <li>• Responsible, compliant, transparent, and accountable banking</li> </ul>	Management checked in with FMO employees through different means. First, direct reports had bilateral and team meetings. Second, through pulse surveys about specific topics, such as the employee value proposition FMO will be updating. Third, management regularly met with the Works Council to discuss pensions, the effects of inflation, organizational changes and the results of employee engagement surveys. Finally, the Management Board had regular all-staff meetings, employee or community events, wrap-up emails and vlogs.
Customers, including corporates, financial institutions, private equity fund managers, agribusiness and energy project developers, and workers in the value chain.	<ul style="list-style-type: none"> <li>• Biodiversity</li> <li>• Climate change</li> <li>• Gender equality – FMO's customers and workers in the value chain</li> <li>• Human rights</li> <li>• Productive employment &amp; decent work for all and inclusive &amp; sustainable economic growth – workers in the value chain</li> <li>• Pollution</li> <li>• Reduced inequalities</li> <li>• Strong governance and high ESG standards – FMO customers</li> <li>• Water resources</li> </ul>	We connect with our customers throughout the investment process. In addition to business meetings, we organized topical events and conferences and brought together customers through communities of practice. In 2023, our bi-annual Future of Finance event gathered more than 500 visitors from all over the world, including customers and stakeholders. We were honored to welcome Her Majesty Queen Máxima of the Netherlands as one of our speakers. Throughout 2023, we continued to work with customers to identify opportunities to increase impact. Furthermore, we invited customers to connect with FMO staff during all-staff meetings.
NGOs and local communities, including NGOs that represent environmental and human rights advocates, knowledge centers and banking whistle blowers, as well as local organizations, and communities.	<ul style="list-style-type: none"> <li>• Biodiversity</li> <li>• Climate change</li> <li>• Human rights</li> <li>• Pollution</li> <li>• Reduced inequalities</li> <li>• Responsible, compliant, transparent, and accountable banking</li> <li>• Strong governance and high ESG standards – FMO customers</li> <li>• Water resources</li> </ul>	We continued our dialogue with NGOs, mainly civil society organizations representing local communities around a project or investment. This can take place in the countries of our investments or, through the CSO's international partners, at a corporate level. This year FMO has launched the new customer disclosure policy, where the disclosure of project information has triggered many NGO interactions. FMO has been assessed on its transparency by the NGO Publish What You Fund and on climate policy by the NGO E3G.
Shareholders. FMO is a public-private development bank. The Dutch Government is our major shareholder, holding a 51% stake. Other shareholders include large Dutch banks (42%) and employers' associations, trade unions and individual investors (7%).	<ul style="list-style-type: none"> <li>• Climate change</li> <li>• Maintaining financial sustainability</li> <li>• Productive employment &amp; decent work for all and inclusive &amp; sustainable economic growth – workers in the value chain</li> <li>• Reduced inequalities</li> <li>• Responsible, compliant, transparent, and accountable banking</li> <li>• Strong governance and high ESG standards – FMO customers</li> </ul>	The Annual General Meeting of Shareholders (AGM) convenes once every year. However, both the Management Board and Supervisory Board can request extraordinary meetings (EGM). Shareholders representing at least 5% of FMO's issued capital can also convene a meeting.  In 2023, an AGM was held in April. During the AGM, we presented the key events and results for the 2022 financial year as well as the profit appropriation and dividend for 2022, which were adopted by our shareholders.

Stakeholder Group	Material topics	How we engaged in 2023
The Dutch Government as majority shareholder. The Dutch Minister of Finance and the Minister for Foreign Trade and Development Cooperation (part of the Ministry of Foreign Affairs) are politically responsible for FMO.	<ul style="list-style-type: none"> <li>Climate change</li> <li>Gender equality – FMO’s customers and workers in the value chain</li> <li>Productive employment &amp; decent work for all and inclusive &amp; sustainable economic growth – workers in the value chain</li> <li>Reduced inequalities</li> <li>Responsible, compliant, transparent, and accountable banking</li> <li>Strong governance and high ESG standards – FMO customers</li> </ul>	<p>The Management Board and other internal stakeholders frequently interact with the Ministry of Finance (MoF) and Ministry of Foreign Affairs (MoFA) to discuss strategic policies and how FMO fulfills its mandate. Every six months, the Management Board participates in the Strategic Policy Meeting with both Ministries.</p> <p>Notable topics discussed in 2023 included:</p> <ul style="list-style-type: none"> <li>Progress concerning action items resulting from the FMO-A evaluation;</li> <li>The Update of the Agreement between the Dutch State and FMO;</li> <li>Joint Agenda items, such as regulatory requirements (such as sustainable finance regulations), ESG, FMO’s business plan and B-loans.</li> </ul>
Investors, including bond investors, institutional and private investors.	<ul style="list-style-type: none"> <li>Climate change</li> <li>Gender equality – FMO’s customers and workers in the value chain</li> <li>Productive employment &amp; decent work for all and inclusive &amp; sustainable economic growth – workers in the value chain</li> <li>Reduced inequalities</li> <li>Responsible, compliant, transparent, and accountable banking</li> <li>Strong governance and high ESG standards – FMO customers</li> </ul>	<p>Institutional and private investors are interested in the risk-return profile and development impact of our investments. Therefore, we provide regular financial and impact reports (e.g. FMO’s Sustainability Bond Newsletter), often supplemented with case studies.</p> <p>FMO also engages with investors through investor meetings, events and conferences. In 2023, we attended or spoke at events organized by the Global Impact Investor Network and the National Sustainability Congress. At COP28 we spoke about our latest partnership with Allianz and the MacArthur Foundation, with whom we launched the SDG Loan Fund, and other climate and food-related topics.</p>
Knowledge community, including universities, think tanks, experts and independent consultants who conduct development impact evaluations.	<ul style="list-style-type: none"> <li>Biodiversity</li> <li>Climate change</li> <li>Gender equality – FMO’s customers and workers in the value chain</li> <li>Productive employment &amp; decent work for all and inclusive &amp; sustainable economic growth – workers in the value chain</li> <li>Pollution</li> <li>Reduced inequalities</li> <li>Strong governance and high ESG standards – FMO customers</li> <li>Water resources</li> </ul>	<p>FMO welcomed two leading think tanks (Clingendael and ODI) to its management offsites, ensuring it can make decisions on strategy and implementation based on inputs received from external stakeholders. In addition, FMO has opened its doors and provided two Clingendael groups with presentations about its work, supporting external stakeholders interested in learning more about the work of FMO.</p>
DFIs, international financial institutions and multilateral banks, with whom we co-invest, harmonize our approaches and share knowledge.	<ul style="list-style-type: none"> <li>Biodiversity</li> <li>Climate change</li> <li>Gender equality – FMO’s customers and workers in the value chain</li> <li>Productive employment &amp; decent work for all and inclusive &amp; sustainable economic growth – workers in the value chain</li> <li>Pollution</li> <li>Reduced inequalities</li> </ul>	<p>As a member of EDFI, the Association of European Development Finance Institutions, FMO works on the harmonization of approaches that can foster stronger collaboration, as well as on sustainable finance policy and regulatory processes with other stakeholders, such as the EU. In 2023, FMO hosted the Autumn ESG and Development Effectiveness Network Event for the EDFI. In addition, FMO also engaged non-European DFIs outside of EDFI and MDBs on the business side, as well as on climate, supporting the private sector in war-torn Ukraine, and ESG. There are ongoing topical workstreams for Sustainable Finance, ESG (including Paris Alignment, Human Rights and Gender Equality), Technical Assistance &amp; Market Creation, ICT &amp; Data harmonization, Communications and Legal, where insights are exchanged and best practices are shared.</p>
Public investment partners including the Dutch Government, the European Commission, the Green Climate Fund and the UK Government.	<ul style="list-style-type: none"> <li>Biodiversity</li> <li>Climate change</li> <li>Gender equality – FMO’s customers and workers in the value chain</li> <li>Productive employment &amp; decent work for all and inclusive &amp; sustainable economic growth – workers in the value chain</li> <li>Reduced inequalities</li> <li>Responsible, compliant, transparent, and accountable banking</li> <li>Strong governance and high ESG standards – FMO customers</li> </ul>	<p>We continue to engage with our public investment partners. In 2023, we facilitated a substantial deal with GCF for &amp; Green at the COP28. This demonstrates FMO’s role to enable others to take climate action.</p>
Supervisor and regulator.	<ul style="list-style-type: none"> <li>Climate change</li> <li>Employee development, engagement, health and well-being – FMO’s workforce</li> <li>Maintaining financial sustainability</li> <li>Responsible, compliant, transparent, and accountable banking</li> <li>Strong governance and high ESG standards – FMO customers</li> </ul>	<p>FMO is in continuous dialogue with the DNB focused on topics in relation to financial and non-financial risk management.</p>

# Connectivity table

The connectivity table links the material topics to our strategy, KPIs, targets, and performance and indicates which section(s) in the annual report cover each topic. Note that for some indicators we have not set a target. For these we only report our performance over the past two years.

We have not (yet) identified an indicator for the material topic: 'Community investment and engagement'. Community investment and engagement is embedded within our investment process and achieved in more than one way. We integrate stakeholder considerations and information, based on a meaningful consultation with stakeholders (including affected communities, in line with the IFC Performance Standards), in investment and monitoring decisions, which we believe will further contribute to the quality and positive impact of FMO's investments, as well as community support. Part of this is covered by our ESG performance monitoring (ESG performance, E&S performance gaps) that is reported in the 'ESG performance' section. More information on the material topics can be found in the chapters 'Our investment process', 'Performance against our strategy', 'Lessons learned' and 'Materiality assessment and stakeholder engagement'.

Mission: We enable entrepreneurs to increase inclusive and sustainable prosperity					
Key performance indicator	Material topic	Page	Target	Performance	
			2023	2023	2022
<b>SDG 8 - Decent work &amp; economic growth</b>					
<b>Total committed portfolio (€ mln)*, of which:</b>	Productive employment & decent work for all and inclusive & sustainable economic growth – workers in the value chain	40,41	14,000	13,181	13,238
FMO (€ mln)		40,41	9,300	9,071	8,934
Public funds (€ mln)		40,41	1,700	1,386	1,401
Direct mobilized funds (€ mln)		40,41	3,000	2,724	2,903
<b>Total new investments(€ mln)*, of which:</b>	<i>Idem</i>	40,41	3,080	2,695	2,423
FMO (€ mln)		40,41	2,175	1,909	1,813
Public funds (€ mln)		40,41	330	258	153
Direct mobilized funds (€ mln)		40,41	575	528	457
Nr. of total jobs supported (in thousands)**	<i>Idem</i>	42		990	910
<b>SDG 10 - Reduced inequalities</b>					
RI-labelled total committed portfolio (€ mln)	Reduced inequalities	43	4,900	4,301	4,453
RI-labelled total new investments (€ mln)	<i>Idem</i>	43	1,240	1,140	810
<b>SDG 13 - Climate action</b>					
Green-labelled total committed portfolio (€ mln)	Climate change	46	4,900	4,749	4,427
Green-labelled total new investments (€ mln)	<i>Idem</i>	46	1,405	1,091	1,003
Total financed absolute GHG emissions (in ktCO <sub>2</sub> e)**	<i>Idem</i>	46,47		8,403	8,093
Total financed avoided GHG emissions (in ktCO <sub>2</sub> e)**	<i>Idem</i>	46,47		2,061	1,735
<b>Other SDGs (3, 5, 8, 10, 12, 13, 14, 15)</b>					
Financing for women-owned or women-led SMEs (€ mln)	Gender equality – FMO's customers and workers in the value chain	43		351	199
ESG performance target (% of risks managed)	Strong governance and high ESG standards – FMO customers; Biodiversity; Pollution; Water resources	50	90	91	93
Nr. of new admissible complaints received	Human rights	53		0	1
Nr. of customers in portfolio for which human rights were assessed during due diligence	<i>Idem</i>	51		299	293
<b>Customer and market support</b>					
Total development contributions (€ mln)	-	49		14	16
Customer satisfaction (NPS score)***	-			71	71
<b>Organizational developments</b>					
Employee engagement score	Employee development, engagement, health and well-being – FMO's workforce	61		7.5	7.3
Gender diversity: % women in the workforce	Diverse and inclusive organization – FMO's workforce	62		53	52
Gender diversity: % women in management positions****	<i>Idem</i>	62		47	44
Realized delivery on project portfolio (%)		63	85	81	85
<b>Business integrity</b>					
Score in latest Transparency Benchmark	Responsible, compliant, transparent, and accountable banking			91	87
Nr. of alleged employee-related integrity issues	<i>Idem</i>	64		1	2
Nr. of new alleged customer-related integrity issues	<i>Idem</i>	64		5	4
Nr. of alleged customer-related integrity issues closed	<i>Idem</i>	64		1	8
<b>Financial performance</b>					
<b>Statement of profit or loss</b>					

Operating income (€ mln)	Maintaining financial sustainability	168	251	338
Operating expenses (€ mln)	<i>Idem</i>	168	178	152
Impairments (€ mln)	<i>Idem</i>	168	-40	-143
Net profit/(loss) (€ mln)	<i>Idem</i>	168	85	65
Underlying net profit/(loss) (€ mln)	<i>Idem</i>	226	125	-79
<b>Statement of financial position</b>				
Total assets (€ mln)	<i>Idem</i>	167	10,282	9,900
Shareholders' equity (€ mln)	<i>Idem</i>	167	3,513	3,448
Debentures & notes (€ mln)	<i>Idem</i>	167	6,061	5,572
<b>Ratios at end of period</b>				
Non-performing exposures (%) <sup>*</sup>	<i>Idem</i>	163	9.8	11.9
Return on average shareholders' equity (%) <sup>*</sup>	<i>Idem</i>	162	1.9	0
Return on assets (%) <sup>*</sup>	<i>Idem</i>	162	0.6	0
Common Equity Tier 1 (%) <sup>*</sup>	<i>Idem</i>	94,95	22.0	23.8

\* This is an alternative performance measure (APM) that is not included in the financial statements. Further details on APMs are provided in the chapter 'How we report'.

\*\* The comparative figure for this indicator has been adjusted to include direct mobilized funds.










\*\*\* FMO conducts a customer satisfaction survey every two years. The customer NPS reported for 2023 is based on the 2022 customer satisfaction survey. Results are therefore the same as reported in 2022.












\*\*\*\* The comparative figure for this indicator has been adjusted to reflect the change in methodology to exclude ad interim managers.




# EXTERNAL COMMITMENTS

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. FMO distinguishes between three levels of commitment or involvement: signatory, adopter and member. For the commitments where we are a signatory, we are required to make steps towards full implementation of the relevant guidelines and/or disclose progress made towards these goals.

	2X Global 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 mobilize gender lens investment in developing country markets.	Member
	Accelerating Investment in Adaptation and Resilience 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 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 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 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. We have honored that commitment with our Fossil Fuel Position Statement.	Signatory
	Corporate Governance Development Framework 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 We signed the financial sector commitment to fight climate change and support the Dutch Climate Accord to achieve a 49% CO2 reduction by 2030 in the Netherlands.	Signatory
	EDFI Principles for Responsible Financing of Sustainable Development FMO upholds the EDFI Principles for Responsible Financing of Sustainable Development.	Signatory
	EDFI statement on climate and energy finance We commit to this statement where EDFI group outlines shared commitments to phase out fossil fuels and mobilize private sector climate finance, aligning with Paris Agreement and high disclosure standards.	Signatory
	Equator Principles We have been implementing the Equator Principles (EP) since 2006. This risk management framework provides financial institutions with a minimum standard for due diligence and monitoring to determine, assess and manage environmental and social risks in projects. Our annual EP report is available <a href="#">online</a> .*	Signatory
	European Microfinance Platform 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 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 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 The GPCA 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) We report according to the standards defined by the GRI, which helps businesses and governments understand and communicate about their impact on critical sustainability issues.	Adopter
	IFC Performance Standards Our E&S approach is guided by the IFC Performance Standards of Environmental & Social Sustainability. This framework helps us understand, avoid and mitigate E&S risks and impacts, for example through stakeholder engagement and disclosure obligations of the customer in relation to project-level activities.	Adopter
	ILO Standards We follow the set of ILO legal instruments that set out basic principles and rights at work.	Adopter
	IFRS Foundation - Integrated Reporting Framework 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 We closely follow the developments of the NCFCA 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 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 We follow the OECD Guidelines on responsible business conduct, notably human rights, labor rights and the environment.	Adopter
	Operating Principles for Impact Management 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 <a href="#">website</a> .	Signatory
	Partnership for Carbon Accounting Financials 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 for Responsible Investment 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 <a href="#">website</a> .	Signatory
	Sustainable Development Goals Charter We joined the SDG Charter Network to foster cooperation between business, civil society and local governments in the Netherlands, in order to achieve the SDGs at home and abroad.	Signatory
	Task Force on Climate-Related Financial Disclosures (TCFD) 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 <a href="#">website</a> for more information.	Signatory
	The Paris Development Banks Statement on Gender Equality and Women's Empowerment	Signatory

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.

	<p>UN Guiding Principles on Business and Human Rights</p> <p>We integrate the <a href="#">set of guidelines</a> defined by the UN for states and companies to prevent, address and remedy human rights abuses in business operations.</p>	<p>Adopter</p>
	<p>UNEP FI / EBF Working Group on Banking and Taxonomy</p> <p>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.</p>	<p>Member</p>
	<p>UNEP FI   Principles for Responsible Banking (PRB)</p> <p>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.</p>	<p>Signatory</p>

\* 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.

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# EU Taxonomy

FMO is required to publish non-financial information under the Non-Financial Reporting Directive (NFRD). FMO discloses how and to what extent investments are aligned with economic activities that qualify as environmentally sustainable under the first two defined environmental objectives (climate change mitigation and adaptation) of the EU Taxonomy Regulation (Taxonomy). Moreover, FMO reports on eligibility in line with the Taxonomy for the remaining four environmental objectives as of this year. Alignment with the remaining four objectives will be disclosed in the Annual Report covering the financial year 2025 (reported in 2026).

Recognizing the importance of financing the transition to a sustainable economy, FMO supports the EU Taxonomy's objective to enhance transparency and address greenwashing by providing clear criteria and definitions for what constitutes environmentally sustainable economic activities.

FMO closely follows the developments related to the sustainable finance regulations in the EU and has been disclosing under EU Taxonomy since 2021. Despite being an EU-based organization, FMO's core business focuses on investing in low and middle-income countries. As FMO invests mostly outside of the EU, we deal with counterparties that do not fall within the scope of the NFRD and, hence, are not required to disclose their Taxonomy eligibility and alignment. As the current Taxonomy regulation stipulates that mandatory disclosure on eligibility and alignment must be based on actual information disclosed by financial or non-financial undertakings subject to the NFRD, FMO reports that zero percent of its balance sheet in 2023 is Taxonomy eligible and aligned (2022: zero percent Taxonomy eligible). As such, we report a Green Asset Ratio (GAR) of 0 percent.

The Taxonomy regulation requires FMO to disclose a breakdown of the different asset classes held on its balance sheet. In accordance with the European Commission's guidance, exposures to central governments, central banks, supranational issuers, and derivatives are excluded from the calculation of Taxonomy eligibility and alignment. Also, as mentioned, exposure to non-NFRD undertakings, which constitutes FMO's investment portfolio in low- and middle-income countries (LMICs) are not considered either. Finally, the remaining FMO assets – including cash and cash-related assets held in FMO's liquidity portfolio, tangible and intangible assets, and tax assets – are to a large extent not Taxonomy eligible as they do not finance a specific economic activity. Some securities held in FMO's treasury portfolio might be taxonomy eligible but FMO does not report on these assets as such as it is not considered to be material in the context of FMO's core business and contributions to the climate-related objectives.

In addition, the Taxonomy regulation requires FMO to disclose information on its assets under management. As mentioned in the 'Consolidated financial statements' in the section 'Related party information', in FMO's role of program manager for the assets under management, FMO holds positions with the government programs. Considering the mandate of these funds is to invest in LMICs, FMO reports 0 percent GAR for these assets, for the same reasons described above.

## Challenges in implementation

FMO supports the intention of the EU Taxonomy to redirect capital flows towards sustainable development investments. However, when analyzing the regulatory framework, gaps have been identified preventing the use of this framework as a steering instrument for sustainable activities outside of the EU.

Most notably, the mandatory reporting under the EU Taxonomy can only be reported for NFRD compliant counterparties. Since FMO invests outside of the EU, the investment portfolio cannot be assessed for its Taxonomy eligibility and alignment for mandatory disclosures. As these entities do not disclose in line with the NFRD, they are excluded from the numerator of the Green Asset Ratio and related templates.

Moreover, the direct application of the Taxonomy with regards to investments in LMICs is limited given that its requirements and thresholds have been developed with the needs of European markets in mind. For example, the Taxonomy's "Do No Significant Harm" (DNSH) principle refers to EU laws and regulations which promote consistency within the European regulatory framework. However, this presents a challenge for European investors investing in LMICs where different regulatory frameworks apply.

Additionally, data and disclosure requirements might be challenging to deliver by companies located in LMIC at the level required by the Taxonomy regulation.

If these challenges are not addressed, the EU Taxonomy could not function as an effective tool to reorientate capital flows towards sustainable investments in LMICs.

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## Impact management at FMO

In order to manage and steer capital towards sustainable investments, an internal approach has been developed fitting FMO's business model while leveraging international standards. In particular, FMO's climate action plan provides an overview of FMO's climate-related objectives. The plan provides a framework for the actions FMO will take to fulfil its Sustainable Development Goal 13 objectives (Climate Action), including increasing our investments in climate change mitigation, adaptation and resilience and biodiversity, as set out in FMO's Strategy 2030.<sup>38</sup> FMO assesses the impact of its green investments relative to its climate mitigation, climate adaptation and other footprint reductions, based on international standards such as the MDB Common Principles, by using its Green label as part of FMO's broader Impact Management Framework.

FMO mitigates possible negative social and environmental impact by screening investments using its position statements on human rights, land governance, fossil fuels and coal as well as its exclusion list<sup>39</sup>, which defines the type of activities in which FMO does not invest. Moreover, FMO manages environmental and social risks as per the IFC Performance Standards it has adopted as its operating standard. Further examples of the standards that FMO applies align with good practices relating to responsible investing include the EDFI Principles for the Responsible Financing of Sustainable Development and the Operating Principles for Impact Management. In addition to FMO's contribution to SDG 13, a large portion of its investments is focused on SDG 10 (Reduced Inequalities) and SDG 8 (Decent Work and Economic Growth).

FMO will continue to classify assets based on its internal framework and keep monitoring sustainable finance regulatory developments while it constructively engages with relevant stakeholders with a view to making the Taxonomy more inclusive for companies operating in LMICs, recognizing the different contexts and characteristics of countries outside the EU.

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## Template for the KPIs of credit institutions

For 2023, FMO discloses Taxonomy eligibility for all six environmental objectives and Taxonomy alignment for climate adaptation and mitigation following Annex VI of the Delegated Regulation (EU) 2023/2486 of 27 June 2023 (Environmental Delegated Act).

Considering the applicability of the EU taxonomy for FMO's business model, aligned exposures are reported to be zero as described at the beginning of this chapter.

FMO performed a high-level assessment to determine the materiality of exposures that might positively contribute to the GAR and be classified as taxonomy eligible or aligned. The results showed that, with respect to our Treasury portfolio, 0.11 percent of the total assets might positively contribute to the GAR. With respect to the investment portfolio, FMO has some investments in entities (mainly funds) with European's headquarters. We performed a high-level assessment of the indirect underlying exposures and six customers might have an underlying EU exposure. Of these six customers, only one reported on EU taxonomy eligibility in 2022, having 0.04 percent of their assets classified as taxonomy eligible. Accordingly, the amounts were not considered to be material for further assessment. A similar analysis was done for the assets under management, where only one customer has a legal entity located in EU, which does not report in line with the NFRD. This analysis led to the same conclusion as for FMO's investment portfolio.

In addition, FMO discloses the template on Taxonomy aligned, eligible and non-eligible exposures in nuclear and fossil gas. For the purpose of Taxonomy reporting, the regulation stipulates that mandatory disclosures must be based on actual data disclosed by financial or non-financial undertakings following NFRD. Considering FMO invests in LMICs and the vast majority of its exposures are outside of the EU, actual information disclosed according to the NFRD is not available. In the context of the EU Taxonomy, FMO therefore discloses that it has no exposure in fossil gas.

That said, FMO investments in non-NFRD undertakings has resulted in direct exposures to fossil gas activities. These are mainly the result of previous investments made prior to releasing, in 2021, of our Position Statement on Coal and Phasing out Fossil Fuel in direct investment in upstream or mid-stream standalone fossil fuel related activities. Nuclear activities are on FMO's exclusion list. None of these exposures are anyway reported as Taxonomy eligible or aligned.

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38 FMO's criteria for climate mitigation and climate adaptation are in line with the IDFC-MDB list of Green investments.

39 FMO and its clients will not finance any activity, production, use of, trade in, distribution of or including forced labor or child labor or direct investment in upstream or mid-stream stand-alone fossil fuel related activities. For a complete overview of excluded activities please refer to FMO's exclusion list and position statements.

## 0. Summary of KPIs to be disclosed by credit institutions under Article 8 Taxonomy Regulation

		Total environmentally sustainable assets	KPI****	KPI*****	% coverage (over total assets)***	% of assets excluded from the numerator of the GAR (Article 7(2) and (3) and Section 1.1.2 of Annex V)	% of assets excluded from the denominator of the GAR (Article 7(1) and Section 1.2.4 of Annex V)
Main KPI	Green asset ratio (GAR) stock		0	0	0	0,02	0,08
		Total environmentally sustainable activities	KPI	KPI	% coverage (over total assets)	% of assets excluded from the numerator of the GAR (Article 7(2) and (3) and Section 1.1.2 of Annex V)	% of assets excluded from the denominator of the GAR (Article 7(1) and Section 1.2.4 of Annex V)
Additional KPIs	GAR (flow)		0	0	0		
	Trading book*	N/A	N/A	N/A	N/A	N/A	N/A
	Financial guarantees		0	0	0	0,02	0
	Assets under management		0	0	0	0,09	0
	Fees and commissions income**	N/A	N/A	N/A	N/A	N/A	N/A

\* For credit institutions that do not meet the conditions of Article 94(1) of the CRR or the conditions set out in Article 325a(1) of the CRR

\*\* Fees and commissions income from services other than lending and AuM

Institutions shall disclose forwardlooking information for this KPIs, including information in terms of targets, together with relevant explanations on the methodology applied.

\*\*\* % of assets covered by the KPI over banks' total assets

\*\*\*\* based on the Turnover KPI of the counterparty

\*\*\*\*\* based on the CapEx KPI of the counterparty, except for lending activities where for general lending Turnover KPI is used







### 3. GAR KPI stock

#### 3a. Revenue-based KPIs

% (compared to total covered assets in the denominator)		2023																																			
		Climate Change Mitigation (CCM)			Climate Change Adaptation (CCA)			Water and marine resources (WTR)			Circular economy (CE)			Pollution (PPC)			Biodiversity and Ecosystems (BIO)			TOTAL (CCM + CCA + WTR + CE + PPC + BIO)			Proportion of total assets covered														
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)																	
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)																				
Of which use of proceeds	Of which transitional	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which transitional	Of which enabling	Of which use of proceeds	Of which transitional	Of which enabling															
<b>GAR - Covered assets in both numerator and denominator</b>																																					
Loans and advances, debt securities and equity instruments not HFI eligible for GAR calculation	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	0
<b>Financial undertakings</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Credit institutions	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Equity instruments	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Other financial corporations	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
of which investment firms	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Equity instruments	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
of which management companies	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Equity instruments	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
of which insurance undertakings	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Equity instruments	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
<b>Non-financial undertakings</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Equity instruments	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
<b>Households</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
of which loans collateralised by residential immovable property	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
of which building renovation loans	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
of which motor vehicle loans	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
<b>Local governments financing</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Housing financing	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
Other local government financing	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
<b>Collateral obtained by taking possession: residential and commercial immovable properties</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	
<b>Total GAR assets</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	0	

### 3. GAR KPI stock

#### 3b. CapEx-based KPIs

% (compared to total covered assets in the denominator)	2023																											Proportion of total assets covered			
	Climate Change Mitigation (CCM)			Climate Change Adaptation (CCA)			Water and marine resources (WTR)			Circular economy (CE)			Pollution (PPC)			Biodiversity and Ecosystems (BIO)			TOTAL (CCM + CCA + WTR + CE + PPC + BIO)												
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)												
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)															
	Of which use of proceeds	Of which transitional	Of which enabling		Of which use of proceeds	Of which enabling		Of which use of proceeds	Of which enabling		Of which use of proceeds	Of which enabling		Of which use of proceeds	Of which enabling		Of which use of proceeds	Of which enabling		Of which use of proceeds	Of which enabling		Of which use of proceeds	Of which transitional	Of which enabling						
<b>GAR - Covered assets in both numerator and denominator</b>																															
Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
<b>Financial undertakings</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Credit institutions	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Equity instruments	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Other financial corporations	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
of which investment firms	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Equity instruments	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
of which insurance undertakings	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Equity instruments	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
<b>Non-financial undertakings</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Equity instruments	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
<b>Households</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
of which loans collateralised by residential immovable property	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
of which building renovation loans	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
of which motor vehicle loans	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
<b>Local governments financing</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Housing financing	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Other local government financing	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
<b>Collateral obtained by taking possession: residential and commercial immovable properties</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0				
<b>Total GAR assets</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	

# 4. GAR KPI flow

## 4a. Revenue-based KPIs

% (compared to flow of total eligible assets)		2023																														
		Climate Change Mitigation (CCM)				Climate Change Adaptation				Water and marines resources				Circular economy (CE)				Pollution (PPC)				Biodiversity and Ecosystems (BIO)				TOTAL (CCM + CCA+ WTR + CE + PPC + BIO)				Proportion of total assets covered		
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)										
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)										
Of which use of proceeds	Of which transitional	Of which enabling		Of which use of proceeds	Of which enabling			Of which use of proceeds	Of which enabling			Of which use of proceeds	Of which enabling			Of which use of proceeds	Of which enabling			Of which use of proceeds	Of which enabling			Of which use of proceeds	Of which transitional	Of which enabling						
<b>GAR - Covered assets in both numerator and denominator</b>																																
Loans and advances, debt securities and equity instruments not HFT eligible for GAR calculation		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
<b>Financial undertakings</b>																																
Credit institutions		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Loans and advances		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Debt securities, including UoP		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Equity instruments		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Other financial corporations		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
of which investment firms		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Loans and advances		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Debt securities, including UoP		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Equity instruments		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
of which management companies		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Loans and advances		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Debt securities, including UoP		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Equity instruments		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
of which insurance undertakings		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Loans and advances		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Debt securities, including UoP		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Equity instruments		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
<b>Non-financial undertakings</b>																																
Loans and advances		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Debt securities, including UoP		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Equity instruments		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
<b>Households</b>																																
of which loans collateralised by residential immovable property		0	0	0	0	0	0	0	0	0	0				0	N/A	N/A	N/A					0	N/A	N/A	N/A		0	0	0	0	
of which building renovation loans		0	0	0	0	0	0	0	0	0	0				0	N/A	N/A	N/A					0	N/A	N/A	N/A		0	0	0	0	
of which motor vehicle loans		0	0	0	0	0	0	0	0	0	0				0	N/A	N/A	N/A					0	N/A	N/A	N/A		0	0	0	0	
<b>Local governments financing</b>																																
Housing financing		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
Other local government financing		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
<b>Collateral obtained by taking possession : residential and commercial ommovable properties</b>																																
Collateral obtained by taking possession : residential and commercial ommovable properties		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	
<b>Total GAR assets</b>		0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	

# 4. GAR KPI flow

## 4b. CapEx-based KPIs

	2023																															
	Climate Change Mitigation (CCM)			Climate Change Adaptation			Water and marines resources			Circular economy (CE)			Pollution (PPC)			Biodiversity and Ecosystems (BIO)			TOTAL (CCM + CCA+ WTR + CE + PPC + BIO)					Proportion of total assets covered								
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)													
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)													
Of which use of proceeds	Of which transitional	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which transitional	Of which enabling	Of which use of proceeds	Of which transitional	Of which enabling	Of which use of proceeds		Of which transitional	Of which enabling						
<b>GAR - Covered assets in both numerator and denominator</b>																																
Loans and advances, debt securities and equity instruments not HFT eligible for GAR calculation	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
<b>Financial undertakings</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Credit institutions	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Equity instruments	0	0		0	0	0		0	0	0	N/A		N/A	0	N/A		N/A	0	N/A		N/A	0	N/A		N/A	0	0		0	0	0	
Other financial corporations	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
of which investment firms	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Equity instruments	0	0		0	0	0		0	0	0	N/A		N/A	0	N/A		N/A	0	N/A		N/A	0	N/A		N/A	0	0		0	0	0	
of which management companies	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Equity instruments	0	0		0	0	0		0	0	0	N/A		N/A	0	N/A		N/A	0	N/A		N/A	0	N/A		N/A	0	0		0	0	0	
of which insurance undertakings	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Equity instruments	0	0		0	0	0		0	0	0	N/A		N/A	0	N/A		N/A	0	N/A		N/A	0	N/A		N/A	0	0		0	0	0	
<b>Non-financial undertakings</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Loans and advances	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Debt securities, including UoP	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Equity instruments	0	0		0	0	0		0	0	0	N/A		N/A	0	N/A		N/A	0	N/A		N/A	0	N/A		N/A	0	0		0	0	0	
<b>Households</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
of which loans collateralised by residential immovable property	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
of which building renovation loans	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
of which motor vehicle loans	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
<b>Local governments financing</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Housing financing	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
Other local government financing	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
<b>Collateral obtained by taking possession : residential and commercial ommovable properties</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	
<b>Total GAR assets</b>	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	N/A	N/A	N/A	0	0	0	0	0	0	

## 5. KPI off-balance sheet exposures

### 5a. STOCK

% (compared to total eligible off-balance sheet assets)	2023																								
	Climate Change Mitigation (CCM)			Climate Change Adaptation (CCA)			Water and marine resources (WTR)			Circular economy (CE)			Pollution (PPC)			Biodiversity and Ecosystems			TOTAL (CCM + CCA+ WTR + CE + PPC + BIO)						
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)						
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)						
	Of which use of proceeds	Of which transitional	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which transitional	Of which enabling	
Financial guarantees (FinGuar KPI)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Assets under management (AuM KPI)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

### 5b. FLOW

% (compared to total eligible off-balance sheet assets)	2023																							
	Climate Change Mitigation (CCM)			Climate Change Adaptation (CCA)			Water and marine resources (WTR)			Circular economy (CE)			Pollution (PPC)			Biodiversity and Ecosystems			TOTAL (CCM + CCA+ WTR + CE + PPC + BIO)					
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					
	Of which use of proceeds	Of which transitional	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which enabling	Of which use of proceeds	Of which transitional	Of which enabling
Financial guarantees (FinGuar KPI)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Assets under management (AuM KPI)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

### Template 1 Nuclear and fossil gas related activities

Row	Nuclear energy related activities	
1	The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	YES/NO
2	The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	YES/NO
3	The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	YES/NO
	<b>Fossil gas related activities</b>	
4	The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	YES/NO
5	The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels.	YES/NO
6	The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels.	YES/NO

# HOW WE REPORT

**We prepared the sustainability information in this integrated annual report using the GRI Standards 2021 and the principles of the Integrated Reporting Framework. We strive for transparent reporting on our strategy, the dilemmas we face and the way in which we implement our strategy in order to create value for our stakeholders.**

## Legal entity

This report covers the activities of Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), FMO Investment Management B.V. (FMO IM), and FMO's intermediate holding subsidiaries: FMO Representative Office LAC Limitada, Asia Participations B.V., and Equis DFI Feeder L.P. FMO has a 63 percent stake in Equis DFI Feeder L.P. and all other subsidiaries are 100 percent owned.

FMO also receives funds from the Dutch government – MASSIF, Building Prospects, and the Access to Energy Fund – and executes on the Capacity Development subsidy scheme. FMO partners with SNV Netherlands Development Organization, World Wide Fund for Nature and Climate Fund Managers on the Dutch Fund for Climate and Development (DFCD) on behalf of the Dutch government. Furthermore, FMO receives funding for the 'Mobilising Finance for Forests' (MFF) from the UK government. Lastly, FMO receives funding from the European Commission for the NASIRA and Ventures Capital (VC) programs.

As the headquarters are based in the Netherlands, the FMO group falls under the Dutch tax regime. Our interest income, dividends and capital gains are subject to local tax laws, taking into account double taxation treaties between the Netherlands and the countries where we invest.

## Reporting policy

The period covered by this report is the calendar year 2023. The previous annual report was published on March 17, 2023. There have been no significant changes to our legal structure, activities, or policies in the course of 2023 that would require a restatement of information.

However, FMO has decided for attributed indicators to include the investments made through direct mobilized funds. Direct mobilized funds are provided by third parties to invest in transactions in which FMO has a direct and active role. This decision was made to improve consistency across the report with other impact indicators like Green-and RI-labelled total committed portfolio and total new investments, in line with our Strategy 2030, and taking into account the CSRD regulation which requires companies to manage impacts throughout its value chain. In this context, FMO believes that its impact reporting should include not only FMO and public funds but also direct mobilized funds. In addition, in the chapter 'Performance against our strategy', this year, we include a breakdown by strategic sector (AFW, EN, FI, Diverse) instead of by department (AFW, EN, FI, PE, Other), which was included in the 2022 annual report. This better aligns with FMO's Strategy 2030 but does affect the comparability between the 2023 and 2022 annual report.

Due to the inclusion of the impact figures related to direct mobilized funds, we have adjusted the 2022 comparative figures for jobs supported, avoided GHG emissions and absolute GHG emissions. We adjusted the number of total jobs supported to 910 thousand (from 750 thousand), the number of total avoided GHG emissions to 1,735 ktCO<sub>2</sub>e (from 1,439 ktCO<sub>2</sub>e) and the total financed absolute GHG emissions to 8,093 ktCO<sub>2</sub>e (from 6,530 ktCO<sub>2</sub>e).

The 2021 baseline value for the power generation target emissions has been slightly adjusted to correct for a database issue that was recently identified. This leads to a marginal increase of the power generation emissions from 580 ktCO<sub>2</sub>e to 582 ktCO<sub>2</sub>e for 2021.

For the gender diversity KPI % women in management positions, we adjusted the 2022 comparative figure from 43 percent to 44 percent. This was the result of a change in the underlying methodology, which, since 2023 excludes ad interim managers.

The figures and percentages in this annual report (excluding the financial statements) include the figures for FMO and its subsidiaries as well as for the public funds and direct mobilized, unless stated otherwise.

Many of our financing and investing activities take place in foreign currencies, mostly in US dollars. Unless explicitly stated otherwise, all investment amounts mentioned throughout the report have been translated into our functional currency, the Euro, based on the foreign exchange rates on the date of contracting. Figures referring to the year-end (total) committed portfolio have been converted into euros using the year-end foreign exchange rates.

For the closing-of-the-books processes, data was taken from our internal systems. Data pertaining to our portfolio was taken from our financial systems. Non-financial elements of our portfolio, specifically data for measuring impact and footprint, are based on data from customers and macroeconomic data sources. Information on human resources comes from our HR systems and is linked to our salary administration system.

Data quality is important as it forms the basis for management reporting and steering. To safeguard data quality, financial and non-financial data registration are embedded in our core investment process. The results are analyzed by an employee independent of the investment process, both on project level during the year and on an aggregated level after closing of the books. Beyond that, as a third line, FMO's Internal Audit department considers data quality and the underlying processes to be important audit areas.

The case studies included throughout the report offer insight into our activities and are not necessarily representative of our entire portfolio. They do, however, exemplify projects within our regions and strategic sectors, and highlight material activities of FMO and their inherent dilemmas from the perspective of different stakeholders.

## Standards and reporting guidelines

This report complies with the financial reporting requirements included in Title 9 of Book 2 of the Dutch Civil Code, where applicable. The report by the Management Board complies with section 2:391 of the Dutch civil code. We have used the Integrated Reporting Framework to describe how we create value for our stakeholders. We have prepared the information disclosed in this report using the GRI Standards 2021 and have chosen to report using the 'in accordance' option.

The Management Board Report consists of chapters 'At a glance', 'Letter from the Management Board', 'Report of the Supervisory Board', 'Corporate governance', 'Risk management', 'Materiality assessment and stakeholder engagement', and 'How we report'. Please refer to the separate [GRI content index](#) on our website for a detailed overview of all GRI disclosures.

The European Parliament has adopted an EU directive that requires eligible organizations and all banks to disclose non-financial and diversity information. We have incorporated this directive into this report. Please refer to the NFRD-index table on the [website](#) to find the relevant information.

We have been reporting in line with the TCFD recommendations 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.

In 2020, FMO became a signatory to the UN Principles for Responsible Banking (PRB). The PRB set out the banking industry's role and responsibility in shaping a sustainable future and aligning the banking sector with the objectives of the UN Sustainable Development Goals and the 2015 Paris Climate Agreement. Signatory banks are required to report no later than 18 months after becoming a signatory to the Principles, and annually thereafter. Please refer to FMO's third annual PRB report included at the end of this document.

## Reporting governance

The Management Board is responsible for the contents of the integrated annual report. The Management Board has entrusted the Impact Measurement and Integrated Reporting (IMIR) team with the coordination of the report. At the start of the reporting process, the Management Board agrees with IMIR on the outline of the report. IMIR collects information through interviews with the business departments, data from internal systems, and other internal and external sources. Representatives from the business departments review the draft report to assess its accuracy and completeness. IMIR safeguards compliance of the report with relevant standards and guidelines (see paragraph 'Standards and reporting guidelines'). IMIR also coordinates the external assurance engagement of the integrated annual report.

## External assurance

We have engaged Ernst & Young Accountants LLP to perform a review of the sustainability information included in specific chapters and an audit of selected elements of the board report. The following elements were subject to an audit: the materiality assessment as presented in the chapter 'Materiality assessment and stakeholder engagement', the indicator Green-labelled new investment volume as disclosed - among others in the chapter 'At a glance' - and the diversity KPIs as disclosed in the chapter 'Performance against our strategy'. The scope of the review in this report is limited to the following (sub-)chapters: 'About this report', 'At a glance', 'External environment', 'Our strategy', 'Our value creation model', 'Our investment process', 'Performance against our strategy', 'Materiality assessment and stakeholder engagement' and 'How we report'. The review has been conducted in accordance with Dutch Standard 3810N.

Furthermore, this is the first year that Ernst & Young Accountants LLP have also performed a review of FMO's disclosure on the Principles for Responsible Banking (PRB), which is included in FMO's 2023 Integrated Annual Report. The review covers the following areas in the Reporting and Self-Assessment Template provided by UNEPFI: Impact Analysis (2.1), Target Setting (2.2), Target Implementation and Monitoring (2.3) and Governance Structure for Implementation of the Principles (5.1).

## Joint Impact Model

Over the years, development finance institutions (DFIs) and multilateral development banks (MDBs) used input-output modeling to estimate indirect impact associated with their investments. In 2019, AfDB, BIO, CDC, FinDev Canada, FMO and Proparco together with Steward Redqueen (SRQ) signed a memorandum of cooperation to harmonize their methodologies on indirect jobs, value added and emissions estimations. Later, CIF, OeeB, KFW, and PIDG joined the initiative and formed the Development Panel. The initiative was named the Joint Impact Model (JIM).

In 2021, these partners worked on several work streams to further improve the JIM and align it with international standards. In November 2021, the JIM 2.0 was launched, which aligned with the PCAF Global Standard. From May of 2022, the JIM Foundation was established, managing the JIM and creating credible oversight for its development. As the JIM 3.0 was not released on time to be implemented by FMO, we are currently using the JIM version 2.08. This version had some technical corrections in comparison to the previous versions. The latest version of JIM, version 3.0, was not used for this report due to the timing of its release, which did not allow for the technical implementation at FMO. Please refer to our [website](#) for further information about how FMO applies the JIM and its methodology.

## Limitations of the model

The impact model allows quantifying the wider impact of investing in various economic regions and sectors both directly and through financial institutions and funds. The model makes use of data from international statistical sources and investment-specific information which we obtain from our customers' annual accounts. The JIM is an economic input-output model, which enables us to trace product and money flows through an economy. It can provide more complete impact insights as it is applicable to the full portfolio and has low data burden. As with any model, there are several limitations:



1. Estimates of indirect impact are based on industry averages (via input/output tables). In reality indirect effects will be different at the individual company level due to differences in individual company characteristics. As a result, model outcomes become less accurate for smaller numbers of investments.
2. Estimates are based on historical relations, while the methodology is based on the most recent (macro) economic data available, which means that the JIM does not reflect macroeconomic developments of the past years.
3. FMO's investments are treated as investments from any other lender and it has been assumed that FMO's financial support does not affect the relations of sectors within an economy.

## Local impact only

Taking these limitations into account, we report results only on portfolio (and sub portfolio) level. In addition, we perform activities to provide insight in ex-post development effects, such as monitoring of direct effects, sector evaluations, effectiveness studies and impact evaluations. More information about how we measure impact and the JIM methodology is available on our [website](#).

## JIM attribution rules

FMO provides part but not all the capital a company may need. Other investors likely also contribute to a company's business (either by providing capital or advice). In addition, external circumstances such as changing market conditions, climate change and technological developments may also influence the impact created by a business. This raises the question of attribution: which portion of results of an invested company or portfolio of companies is due to the activities of an investor, taking into account other investors and additional factors that may have influenced the achievement of the results? The JIM takes a pragmatic approach to this attribution question and applies prorating to attribute part of the impact to the investor's intervention. In line with the PCAF Global Standard we use book values for debt investments and apply an ownership percentage for equity. For a full description please see the [JIM application methodology](#).

## Reporting definitions

In this section, we provide an overview of the definitions of the key indicators reported in the Management Board report. Where possible, these have been aligned with internationally harmonized definitions.

### 2X Challenge

Eligibility for the 2X Challenge is assessed using evidence-based criteria pertaining to entrepreneurship, leadership, employment, consumption, and investments through financial intermediaries. These criteria have been translated into a set of indicators and harmonized with the Global Impact Investing Network's IRIS+ system. Each of the metrics has relevant thresholds that companies or financial intermediaries need to cross or commit to crossing for an investment to qualify.

### A/B Loan

An A/B loan is a commonly used loan structure including an A-Facility, and a B-Facility. An A-Facility is provided by the A-Lender, who retains whole or portion of the loan commitment in their books (the A-Facility). A B-Facility is provided by the B-Lender, who sells whole or portions of the loan commitment to B-Participants. FMO can assume the role of B-Participant in an A/B Loan structure of other DFI's.

### Attribution

The allocation of impact to an investor based on its capital invested compared to the total value of the company, aligning to the PCAF Global GHG Accounting and Reporting Standard for the Financial Industry.

### Bottom 40 percent

The population in the bottom 40 percent of the income distribution.

## Development contribution

A development contribution is a product used to reduce risk, create value and/or catalyze impact for customers and prospects as well as support business and/or ecosystem development in low- or middle-income markets. A development contribution can be in the form of a development contribution grant, convertible development contribution, partnership development contribution, repayable development contribution, and technical assistance.

## Energy production and equivalent number of people served

FMO tracks the amount of energy produced per year per project, based on customer reports. This is done both for direct customers such as corporates and operational projects, as well as for indirect customers, which are investees under funds. The reported energy production concerns grid production only. The off-grid energy production, for example from solar home systems provided by our customers, is excluded.

The number of people served via on-grid power generation projects is estimated by dividing the annual amount of electric energy delivered to customers by the power consumption per connected capita. The power consumption per connected capita is calculated as the electric power consumption per capita divided by the electrification rate.

## Employee statistics

### Employee developments

Employee developments included in the management report include the following:

- Total number of internal employees: the total number of employees with a definite or indefinite employment contract with FMO N.V. at the last day of the reporting period. Interns are not included.
- Number of permanent internal employees: the total number of employees with indefinite employment contracts with FMO N.V. at the last day of the reporting period. Interns are not included.
- Number of temporary internal employees: the total number of employees with definite term employment contracts with FMO N.V. at the last day of the reporting period. Interns are not included.
- Number of full-time internal employees: the total number of employees with full-time (40 hours) employment contracts with FMO N.V. at the last day of the reporting period. Interns are not included.
- Number of part-time internal employees: the total number of employees with part-time (less than 40 hours) employment contracts with FMO N.V. at the last day of the reporting period. Interns are not included.
- Number of internal FTEs: sum of the related full-time equivalents (FTE, as contractually agreed) of all internal employees at the reference date.
- Percentage non-Dutch employees: total number of employees with a nationality other than Dutch divided by the total number of employees at the reference date.
- Number of nationalities: total number of different nationalities of employees in service of FMO based on employees' passports when joining FMO. Note: if an employee has other nationalities in addition to the Dutch one, this will count as Dutch nationality.
- Absenteeism: percentage of total sick leave (short, medium and long-term sick leave) calculated as total number of sick leave days divided by the sum of working days during the indicated reporting period.

### Diversity and inclusion

- Total number of employees; male and female, with percentage female by headcount.
- Employees in senior and middle management: number of employees in a management position including members of the Management Board, directors, and managers at the end of the reporting period. Ad interim directors and managers with employment contracts with FMO are not included.
- Number of new joiners: number of new joiners during the reporting period, being between the last day of the previous reporting period and the last day of the actual reporting period. Employees joining and leaving in the same reporting period are included as new joiners and as leavers.
- Net growth percentage: number of new joiners minus number of leavers divided by the total headcount at the start of the reporting period.

- Number of leavers: number of employees leaving FMO between the first day of the reporting period and the last day of the reporting period. Employees joining and leaving in the same reporting period are included as new joiners and as leavers.
- Staff turnover percentage: number of departures during the reporting period divided by the total head count at the start of the reporting period.
- Share of bonus amount paid in the period: percentage of total bonus amount paid out to female and male employees related to the performance review over the previous year.
- Promotion ratio in the period: the percentage (of a category) of employees progressing to a higher salary scale during the reporting period divided by the total number (of a category) of employees at the start of the reporting period.
- Employee engagement score: engagement score based on latest employee engagement sent to all employees at least three months in service of FMO. FMO uses an external partner to process and report on the results.
- The gender pay-gap refers to the adjusted gender pay-gap, which is the difference in pay between women and men taking into account other factors that determine the pay such as type of work, working hours, job level, seniority, education, experience and performance.

## ESG reporting

### ESG risk categorization

During the early stages of the investment process, FMO screens all transactions on environmental and social (E&S) and corporate governance (CG) risk and categorizes them in accordance with our Sustainability Policy. This E&S classification is based on inherent risk, irrespective of how it is managed by the customer. It allows us to determine the relevant E&S requirements and the (initial) resources needed. We have the following categories available: A & B+ (high risk), B (medium risk) and C (low risk). The E&S risk category of most customers is relatively stable, but if the risk profile of a customer changes following, for example, a significant shift in a fund's portfolio or pipeline, we adjust the categorization. The corporate governance (CG) risk categorization is assigned to our customers during early stages of the investment process. Customers can be categorized carrying low, medium or high CG risk and their score determines whether a specialist needs to be involved in the transaction.

### ESG performance target

To monitor the E&S performance of our high-risk customers, we use predefined tracking sheets structured around the IFC Performance Standards and international best practices. Our E&S specialists assess customers' exposure to applicable risks (low, medium, high). Depending on how well they mitigate such risks, their efforts are rated as exemplary, good, satisfactory, caution and unacceptable. Our E&S specialists update the scoring after due diligence. The assessment is included in the financing proposal to support the investment decision. The rating gets evaluated again during annual review and when significant changes occur. In addition, before contracting, an independent validation of the information is carried out by an E&S specialist in the Credit department.

To monitor performance on CG, the maturity of the corporate governance of a customer is assessed based on five CG attributes structured around a harmonized DFI approach based on the OECD Principles and international best practices. The officer assesses whether the maturity level (basic, emerging, or developed) is adequate for the company. The conclusion on the adequacy of the corporate governance considers the size, risks, and complexity of the company, country context and (absence of) strong CG regulations, as well as the track-record with FMO. If the CG maturity is considered inadequate, FMO agrees on a CG action plan with the customer. The assessment is included in the financing proposal to support investment decisions. The CG adequacy assessment gets evaluated again during annual review and when significant changes occur. The Credit department reviews and approves the CG tracking sheet as part of the transaction approval.

### E&S performance gaps

The overview of the ESG performance gaps in our portfolio was prepared in two steps. First, as part of our ESG performance tracking, we identified activities with a potential for (serious) adverse impact on people and/or environment that are not adequately managed. Second, we summarized the performance gaps by theme and prepared a table which illustrates the high priority issues that still require attention.

The information was anonymized to respect customer confidentiality.

## Greenhouse gas (GHG) emissions

### Absolute GHG emissions from FMO's own operations

The absolute GHG emissions from FMO's own operations are reported in line with the GHG Protocol. The emissions are calculated based on measured data collected internally, such as diesel/petrol consumption by leased cars, heating consumption of the FMO office in The Hague as well as information on commuting and flights.

### Financed absolute GHG emissions

The financed absolute GHG emissions are reported in line with the Global GHG Accounting and Reporting Standard for the Financial Industry published by the Partnership for Carbon Accounting Financials (PCAF). We use the Joint Impact Model (JIM) to calculate our absolute emissions in line with the PCAF Global Standard. A full overview of the JIM application by FMO can be found on our [website](#).

The financed emissions reported contain a large margin of error due to data quality and methodological uncertainties. First, for the majority of our customers we do not yet have direct emissions data, which means the emissions have to be modelled by the JIM. In addition, the PCAF Global Standard does not yet factor in investments in funds or loans to FI. FMO has made assumptions how to classify and calculate emissions for the investees of funds and the borrowers of FI customers in its portfolio. Data improvements and methodological refinements will be made in the future, which will affect our emissions estimations. In this context, we will also explore the possibility of reporting the PCAF data quality score to quantify progress.

### Financed avoided GHG emissions

Avoided emissions are the emissions avoided as a result of a project when compared to a baseline scenario established in accordance with the GHG Protocol. For example, this can be emissions avoided by additional renewable energy capacity that is assumed to replace future fossil fuel-based power plants, or emissions avoided through the protection of forests against illegal logging. GHG avoidance for renewable energy projects is calculated as the annual electricity production during the latest available reporting year, multiplied by the country emission factors in accordance with the International Financial Institution (IFI) harmonized list of emission factors (version 2.4).

The financed avoided GHG emissions are reported in line with the PCAF Global Standard, except we report avoided emissions for all our investments and use a slightly different emission factor for renewable energy.

## Green-labelled investments

### Definition

We steer towards SDG 13 by labelling our investments Green and setting an annual target on the volume of Green-labelled total new investments and total committed portfolio. This influences our customer selection, project preparation and investment decisions.

Green-labelled investments contribute to climate mitigation, climate adaptation or other footprint reduction (in terms of water, waste, biodiversity). Green labels are applied ex-ante for the new commitments in the reporting year. Please note that we apply the labels to new commitments, but that these are referred to as *new investments* throughout the report.

Whether an investment can be labelled Green is determined based on FMO's Green criteria. For climate change mitigation and climate change adaptation, FMO's Green criteria are in line with the IDFC-MDB list of Green investments. FMO's Green definition also recognizes activities that do not directly target climate change mitigation or adaptation yet have a positive impact on the environment, including water efficiencies, water treatment, waste management and biodiversity conservation (other footprint reduction).

Green investments need to honor two principles. First, they should contribute to a genuine improvement beyond the local regulatory requirements. Second, they should not contribute to a long-term lock-in of high-carbon infrastructure. Based on this, FMO has defined a non-exhaustive list of pre-approved eligible activities such as making, installing, distributing or financing renewable energy projects/products and agriculture in line with certain certification schemes. Improvements that are not included on this list may

still be eligible if they honor the Green principles. In these cases, a minimum threshold of 20 percent improvement against a baseline needs to be substantiated. For example:

- Upgrade: if the investment is going towards an activity/equipment that is 20 percent more efficient than what it is replacing, FMO's investment will be labelled Green based on the amount of FMO's investment going towards that specific upgrade.
- Expansion: if the investment is going towards an activity that is 20 percent more resource efficient than the company's current practice, FMO's investment will be labelled Green based on the amount of FMO's investment going towards that specific expansion.
- Greenfield: if the investment is going towards an activity that is 20 percent more resource efficient than the norm in that region, FMO's investment will be labelled as Green based on the amount of FMO's investment going towards that specific greenfield.

## Approval process

Investments are labelled following a robust approval process. The deal team is responsible for assessing its investments based on FMO's Green principles and Green definition. The deal team applies for a Green label through FMO's Sustainability Information System (SIS), providing adequate substantiation for the Green eligibility of the financed activities. A credit specialist, independent of the investment teams, assesses the label request and determines the Green percentage to be applied pro-rata to the investment amount. For example, if FMO finances an agricultural holding that has 30 percent of its operations certified under a pre-approved FMO certification while the rest are not certified and don't have other underlying Green elements, then the Green percentage for that investment will only be 30 percent. The approval process is traced and documented in SIS.

## Scope

Ex-ante labelling is applied to the volume of Green-labelled new investments as well as the Green-labelled total committed portfolio. The volume of Green-labelled total new investments includes any increase in an existing commitment for an existing customer, a new commitment for an existing customer, or a new commitment for a new customer.

Our criteria, the labelling process and documentation are enforced prior to providing a credit facility or making an equity investment. A detailed description of FMO's Green methodology is available on our [website](#).

## Human rights due diligence indicator

The total number of investment agreements in FMO's portfolio for which E&S due diligence including human rights was performed or human rights clauses were included in the contract. This includes high E&S risk customers in our portfolio per 31 December 2023 with an approved E&S tracker.

## Jobs supported

Direct jobs are a common indicator for corporates and DFIs. It enables us to report on how our investments impact employment. Direct jobs are defined following the HIPS0 definition as the "number of full-time equivalent employees as per local definition working for the customer company or project". This includes directly hired individuals and individuals hired through agencies as long as those individuals provide on-site services related to the operations of the customer company. Also, this includes full-time equivalent work by seasonal, contractual and part-time employees.

Part-time jobs are converted to full-time equivalent jobs on a pro rata basis, based on local definition (e.g. if working week equals 40 hours, a 24 hour a week job would be equal to 0.6 FTE job). Seasonal or short-term jobs are prorated on the basis of the portion of the reporting period that was worked (e.g. a full-time position for three months would be equal to 0.25 FTE if the reporting period is one year). If the information is not available, the rule of thumb is two part-time jobs equal one full-time job.

By using the JIM, we model the estimated indirect jobs supported by our portfolio. The modelled data by the JIM is expressed in headcount due to the unavailability of country employment data sources in FTE. Indirect jobs encompass supported jobs through supply chains, through the spending of wages, and economy-wide employment enabled by bank lending and the supply of electricity. The additional output requires more direct employment and intermediary inputs. This, in turn, leads to expansion among existing and new suppliers, thereby supporting and/or creating jobs. Some products and services – notably electricity and finance – remove constraints for other businesses, enabling them to expand and

support and/or create jobs. In emerging markets, firm expansion is assumed not to displace employment in competing businesses to a significant extent.

All supported jobs indicators are reported using a PCAF aligned attribution factor to only report the supported jobs based on the proportional share of lending or investment in the borrower or investee.

## Net Promoter Score

Net Promoter Score (NPS) shows the extent to which customers would recommend FMO to others, on a scale of 1-10. The customer is regarded as a 'promoter' (rating 9-10), 'passive' (rating 7-8) or as 'detractor' (rating 1-6), based on the score she gives. The NPS is calculated by subtracting the percentage of detractors from the percentage of promoters. The score is expressed as an absolute number between -100 and +100. FMO has reverted to sending the Customer Survey every second year, hence no results are available for 2023. The next survey will be conducted in 2024.

## New admissible complaints received

Number of complaints filed with the Independent Complaints Mechanism (ICM) that were declared admissible by the Independent Expert Panel (IEP) are defined as 'New admissible complaints received'. When the IEP groups several complaints pertaining to the same project as one case, this is treated as one complaint. An admissible complaint is a complaint for which the IEP has decided that it meets the admissibility criteria. These are specified in the ICM policy, which can be accessed on our [website](#).

## Number of micro and SME loans

In line with the IFC definition, microloans are those that have an original value up to US\$10,000 remaining on the customer's balance sheet at the end of the reporting period, whereas SME loans have an original value between US\$10,000 and US\$1 million remaining on the balance sheet at the end of the reporting period. Both the number and volume of micro and SME loans are requested from our customers.

## Number of smallholder farmers supported

Smallholder farmers are defined as marginal and sub-marginal farm households that own and/or cultivate relatively small plots of land, have low access to technology, have limited capital, skills, and risk management, depend on family labor for most activities, and have limited storage, marketing, and processing. Smallholders are supported through our agribusiness customers who both source from the smallholders and provide technical and/or financial support, for example to improve production practices that have beneficial effects on yields, and/or reduce environmental degradation, and/or improve social practices during the reporting period. There is still limited data on smallholders economics, therefore counting the number of smallholder farmers supported can be used as a proxy. Information is collected directly from our customers via our impact questionnaires.

## Power generation target

The power generation emissions include active investments that have production of electricity (NACE code 35.11) as their main economic activity. They are calculated based on customers' Scope 1 emissions attributed in line with the PCAF Global Standard. For renewable energy customers without reported emissions data, the assumption is made that their Scope 1 emissions are zero. The outstanding amounts include FMO-A, public funds, and direct mobilized capital.

In order to compare performance year-on-year, data is aligned according to reporting year to the extent possible. Given that this annual report is published in early 2024, not all 2023 customer data (e.g. emissions data) was available. As a result, the reported 2023 power generation emissions combines 2022 customer emissions data with 2023 portfolio data from FMO (e.g. outstanding amounts). The 2023 number will be finalized in next year's annual report. The 2022 power generation emissions are, in principle, finalized in this annual report based on 2022 portfolio data and 2022 customer data.

## Reduced Inequalities-labelled investments

### Definition

We steer towards SDG 10 – Reduced Inequalities - by labelling our investments according to pre-defined criteria and setting an annual target on the volume of RI-labelled total new investments and total

committed portfolio. This influences our customer selection, project preparation and investment decisions.

FMO has defined two sub-categories of social projects through which we may contribute towards reducing inequalities: 1) investments in least developed countries (reducing inequality among countries) and 2) investments in inclusive business (reducing inequality within countries by growing the incomes of the bottom 40 percent of the population, empowering social, economic and political inclusion of all, and ensuring equal opportunity).

RI labels are applied ex-ante for the new commitments in the reporting year. Please note that we apply the labels to new commitments, but that these are referred to as new investments throughout the report.

Whether an investment can be labelled RI is determined based on FMO's label guidance. For LDCs, FMO currently uses the United Nations (UN) list of least developed countries. The UN defines LDCs as low-income countries confronting severe structural impediments to sustainable development. Although the list is updated by the UN every three years, FMO uses the June 2017 list to keep target setting and steering manageable. However, from 2024 onwards, FMO has decided it will update the list used annually on January 1 if changes are made by the UN in the previous year. Since 2017, only two countries were removed from this list: Bhutan and Vanuatu. FMO currently does not have any exposures in these countries.

Investments in inclusive businesses expand access to goods, services and livelihood opportunities on a commercially viable basis, either at scale or scalable, to people at the Base of the Pyramid. This is done by making them part of companies' value chain of suppliers, distributors, retailers or customers. Deals are eligible for inclusive business in cases where they relate to investment in inclusive business: Microfinancial services; Financial services to underserved SMEs Agriculture SMEs; Rural SMEs; Women-owned or women-led SMEs; Youth-owned or youth-led SMEs; Irregular migrant (including refugee) owned or led SMEs; SMEs owned or led by other marginalized groups; Smallholder farmers as part of the value chain; Last-mile delivery of power; Basic goods and services to low-income and marginalized populations.

## Approval process

Similar to Green labels, requests for RI labels are made through SIS. For the LDC sub-label, a request is not needed if the investment is single-country and the country of impact is the same as the country of risk exposure. A request for the LDC sub-label is only needed if the investment is multi-country with at least 50 percent of the investment expected to benefit LDC countries, or in the case the country of impact is an LDC and is different from the country of risk exposure. For the inclusive business sub-label, a request through SIS is always required. A deal team submits a request via SIS and substantiates the RI eligibility of the financed activities. For both LDC and inclusive business sub-labels requests, a credit specialist independent of the investment teams assesses the request and determines the RI percentage.

If the (sub)label is likely to be granted but more evidence is needed at contracting stage (e.g. evidence of a use of funds clause in the contract), the label request is conditionally approved. The final decision on granting the label is provided by the Credit Manager in a four-eyes principle. The approval process is traced and documented in SIS.

## Scope

The scope as mentioned for the Green-labelled investments also applies to the RI-labelled investments.

## Serious incidents

A serious incident is an occurrence/event that interrupts normal procedures related to an investment, customer, project, affected people, process and system. It can be of an environmental or social nature, occur on or near any site, plant, equipment or facility of a customer. It can result in the loss of life, have or be likely to have a material negative impact on the environment, health, safety and security situation, or the social and cultural context of a customer.

## Taxonomy eligible activities

The EU Taxonomy is a regulatory classification system encompassing a standard set of definitions for sustainable economic activities centered around six environmental objectives. The tool aims to standardize reporting, provide clarity on what is sustainable and encourage investment flows towards sustainable projects and activities.

Starting in January 2022, financial undertakings in scope of the Non-Financial Reporting Directive (NFRD) were required to disclose Taxonomy eligibility on the two first climate objectives of the EU Taxonomy: climate change mitigation and climate change adaptation. From January 2024, the requirement to disclose Taxonomy eligibility is extended to all six environmental objectives, namely climate change mitigation and climate change adaptation as well as the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.

An economic activity is a Taxonomy eligible activity when its definition corresponds to the economic activities described in the Climate Delegated Act of June 2021, the Complementary Climate Delegated Act of July 2022, the Delegated Regulation of November 2023 amending the Climate Delegated Act and the Environmental Delegated Act of November 2023. More specifically, an economic activity is eligible irrespective of whether it meets any or all the Taxonomy technical screening criteria laid down in the abovementioned delegated acts. Therefore, the fact that an economic activity is Taxonomy-eligible does not give any indication of the environmental performance and sustainability of that activity.

## Taxonomy aligned activities

In addition to Taxonomy eligibility, starting in January 2024 financial undertakings in scope of the Non-Financial Reporting Directive (NFRD) are required to disclose Taxonomy alignment on the two first climate objectives of the EU Taxonomy: climate change mitigation and climate change adaptation.

An economic activity qualifies as Taxonomy aligned where that economic activity meets all the criteria below:

- Contributes substantially to one or more of the environmental objectives of the EU Taxonomy;
- Does not significantly harm any of the environmental objectives;
- Is carried out in compliance with the minimum safeguards laid down in Article 18 of the EU Taxonomy; and
- Complies with technical screening criteria that have been established by the Commission in accordance with Article 10(3), 11(3), 12(2), 13(2), 14(2) or 15(2) of the EU Taxonomy and are included in the abovementioned Delegated Acts.

## New investments

Please refer to the section on alternative performance measures for the definition and scope of new investments.

## Committed portfolio

Please refer to the section on alternative performance measures for the definition and scope of committed portfolio.

## Alternative performance measures

An alternative performance measure (APM) is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. In disclosing our performance, FMO uses specific APMs that are not defined by IFRS and are different to what is included in the financial statements. APMs should not be considered as alternatives to the equivalent IFRS measures but rather supplementary to the most directly comparable IFRS measures. Alternative performance measures do not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. FMO distinguishes between Impact and ESG APMs and Financial Accounting APMs.



## Impact and ESG APMs

### Committed portfolio

Committed portfolio is an impact measure that is used for steering purposes. It measures FMO's contribution and expected impact towards SDG 8 Decent Work and Economic Growth, a key strategic objective of FMO, and reflects the risk exposure taken by different risk parties. We distinguish between three business lines: FMO, funds made available by public entities ('public funds') and funds made available by other third parties ('direct mobilized funds').

The measure committed portfolio is not reconcilable with information included in the financial statements as it consists of a unique set of business rules. These business rules combine a mix of financial and non-financial information and data. The non-financial information is not required by IFRS and, as such, is not reflected in the financial statements.

The following table includes a breakdown of committed portfolio per business line and financial product.

Total committed portfolio (€ mln)	2023			2022		
	Committed portfolio	Outstanding amount	Remaining commitment	Committed portfolio	Outstanding amount	Remaining commitment
<b>FMO</b>	<b>9,071</b>	<b>7,446</b>	<b>1,625</b>	<b>8,934</b>	<b>7,568</b>	<b>1,366</b>
Debt	5,411	4,769	642	5,541	5,014	527
Equity	3,359	2,555	804	3,110	2,436	674
Guarantees	301	122	179	283	118	165
<b>Public funds</b>	<b>1,386</b>	<b>1,095</b>	<b>291</b>	<b>1,401</b>	<b>1,167</b>	<b>234</b>
Debt	625	487	138	615	527	88
Equity	704	572	132	745	618	127
Guarantees	57	36	21	41	22	19
<b>Direct mobilized funds (debt only)</b>	<b>2,724</b>	<b>2,414</b>	<b>310</b>	<b>2,903</b>	<b>2,744</b>	<b>159</b>
<b>Total</b>	<b>13,181</b>	<b>10,955</b>	<b>2,226</b>	<b>13,238</b>	<b>11,479</b>	<b>1,759</b>

Committed portfolio is the sum of outstanding amounts and remaining commitment amounts of the active debt, guarantee and equity investment transactions. Debt includes commercial loans, mezzanine loans and debt funds. Equity includes direct and fund investments, as well as investments made in associates. Guarantees include guarantees issued.

The outstanding amount for debt is equal to the principal outstanding amount reduced to the amount of the used Unfunded Risk Participation (guarantees received), if any; for the equity investments this is equal to the sum of fair value of the underlying assets. For guarantees, this is equal to the effective guarantees issued. The remaining commitment consists of the committed not disbursed amounts for all financial products mentioned, or in other words the principal amount available for disbursement to the customer by the funding party.

A non-material portion (less than 0.1%) of our total committed portfolio is double counted as a result of FMO's equity investment in the SDG loan fund, which was launched in 2023 and participates solely in FMO loans. FMO's equity stake in this structure is accounted for on FMO's own books. Along with the equity provided by other investors, this is then used by the fund to participate in FMO loans that – once commitments are made – are accounted for as direct mobilized portfolio. Direct mobilized portfolio consists of funds provided by third parties that are not on FMO's own books. In 2023, the fund participated in several FMO loans. As such, a small portion of FMO's equity investment counts towards both FMO committed portfolio as well as direct mobilized committed portfolio. The impact on the 2023 results is not material and, therefore, is not corrected.

### New investments

New investments is a strategic business measure used for steering purposes to ensure funds maximize impact on SDGs 8, 10 and 13. New investment refers to the volume of new commitments made to customers at the end of the reporting year (based on signed contracts), reported per party bearing the risk (i.e. FMO, public entities, other third-parties considered as direct mobilization). Volume is reported

for all debt, equity and guarantee products and includes new facility agreements, limit increases, renewals of contracts and interest capitalization. It excludes transfers from one party to another or conversions from e.g. equity to debt. Grants provided through, for instance, the Capacity Development program and sub-delegated funds under management of third parties are excluded from the results.

The measure new investments is not reconcilable with information included in the financial statements as it consists of a unique set of business rules. These business rules combine a mix of financial and non-financial information and data. The non-financial information is not required by IFRS and, as such, is not reflected in the financial statements.

The following table includes a breakdown of new investments per business line and financial product. For a description of each financial product, refer to the section on committed portfolio.

Total new investments (€ mln)	2023	2022
<b>FMO</b>	<b>1,909</b>	<b>1,813</b>
Debt	1,356	1,412
Equity	486	297
Guarantees	67	104
<b>Public funds</b>	<b>258</b>	<b>153</b>
Debt	165	64
Equity	71	71
Guarantees	22	18
<b>Direct mobilized funds (debt only)</b>	<b>528</b>	<b>457</b>
<b>Total new investments</b>	<b>2,695</b>	<b>2,423</b>

A non-material portion (less than 0.1 percent) of our total new investments is double counted as a result of FMO's equity investment in the SDG loan fund. In 2023, the fund participated in several FMO loans that counted towards total new investments. As such, a small portion of FMO's equity investment counts towards both FMO new investments as well as direct mobilized new investments. The impact on the 2023 results is not material and, therefore, is not corrected.

## Financial Accounting APMs

### Regular income

FMO's regular income relates to income following from financing activities and administrative services. Regular income excludes income related to value adjustments of financial instruments. Regular income includes net interest income, net fee and commission income, dividend income and remuneration from services rendered. These elements are visible on the FMO's consolidated statement of profit or loss.

Regular income per consolidated profit or loss account (€ mln)	2023	2022
Net interest income	221	235
Net fee and commission income	-6	-2
Dividend income	47	44
Remuneration from services rendered	31	33
<b>Regular income</b>	<b>293</b>	<b>310</b>

### Loan impairments and revaluations

Loan impairments and revaluations relate to gains/losses following from value adjustments of FMO's loan portfolio. Impairments can be reconciled to the consolidated profit or loss account. Revaluations include fair value gains/losses (presented under line item 'results from financial transactions') arising from the loan portfolio measured at fair value through profit or loss (FVPL) and gains/losses due to derecognition.

Loan Impairments and revaluations (€ mln)	2023	2022
Expected Credit Loss Stage 1 & Stage 2	-13	-3
Expected Credit Loss Stage 3 (Impairments)	-38	-144
Recover loans written off	11	4
Total loan provisions	-40	-143
Fair value gains/losses loan portfolio measured at FVPL	15	-33
Gains and losses due to derecognition (Note 27)	2	-
<b>Loan impairments and revaluations</b>	<b>-23</b>	<b>-176</b>

## Revaluation of equity investments

Revaluation on equity investments relate to the gains/losses following from valuation adjustments of FMO's equity portfolio. These elements are visible on FMO's consolidated statement of profit or loss.

Revaluation of equity investments (€ mln)	2023	2022
Results from equity	13	-33
Realized results	9	-1
Results of associates & subsidiaries	14	-61
Venture Capital consolidation	26	-33
<b>Revaluation of equity investments</b>	<b>62</b>	<b>-128</b>

## Results on derivatives

Results on derivatives relate to gains/losses following from valuation adjustments of FMO's treasury portfolio and foreign exchange gains/losses. These are included under the line item 'results from financial transactions' in the consolidated statement of profit or loss.

Results on derivatives (€ mln)	2023	2022
Total results from financial transactions (Note 25)	8	-19
Result on sale and valuation of loans at FVPL (Note 25)	-15	33
Result on sale and valuation of derivatives related to asset portfolio (Note 25)	-3	4
Other changes (Note 25)	-11	29
<b>Results on derivatives</b>	<b>-21</b>	<b>47</b>

## Return on average shareholders' equity

A measure that indicates how the profitability is in relation to the average shareholders' equity. This metric is expressed in the form of a percentage that is equal to net profit/(loss) divided by the average shareholders' equity for the prior and current reporting year.

Return on average shareholders' equity (%)	2023	2022
Net profit/(loss) per consolidated profit or loss account (€ mln)	65	1
Opening balance: consolidated statement of shareholders' equity (€ mln)	3,448	3,434
Closing balance: consolidated statement of shareholders' equity (€ mln)	3,513	3,448
<b>Return on average shareholders' equity (%)</b>	<b>1.9%</b>	<b>0.0%</b>

## Return on assets

A measure that indicates profitability in relation to total assets. The metric is expressed in the form of a percentage that is equal to net profit/(loss) divided by the total assets for a specific reporting year.

Return on assets (%)	2023	2022
Net profit/(loss) per consolidated profit or loss account (€ mln)	65	1
Total assets per consolidated balance sheet (€ mln)	10,282	9,900
<b>Return on assets (%)</b>	<b>0.6%</b>	<b>0.0%</b>

## Non-performing exposure ratio

A measure expressed as the percentage of non-performing exposures. The ratio is calculated as gross exposure of the non-performing exposures (on balance) divided by the gross exposure of the total loan portfolio. For further details on this measure, refer to the sub-section on 'Non-performing exposures' included within the credit risk disclosures.

NPEs (%)	2023	2022
Gross exposure: NPEs to private sector (amortised cost) (€ mln)	441	525
Gross exposure: NPEs to private sector (fair value) (€ mln)	70	128
Total gross exposure: NPEs to private sector (on balance) (€ mln)	511	653
Total gross exposure: Exposures to private sector (on balance) (€ mln)	5,223	5,512
<b>NPE %</b>	<b>9.8%</b>	<b>11.9%</b>

## CET-1 ratio

CET-1 ratio compares a bank's capital against its risk-weighted assets to determine its ability to withstand financial distress. For calculation of the CET-1 ratio refer to the 'Capital Adequacy' section in the 'Risk management' chapter.

### Banco Sudameris

A medium-sized universal bank in Paraguay offering a wide range of financial products and services primarily to SME- and corporate clients.



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**06**

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**CONSOLIDATED  
FINANCIAL  
STATEMENTS**

# Consolidated statement of financial position

For the year ended December 31, 2023

Before profit appropriation	Notes	2023	2022
<b>Assets</b>			
Banks	(1)	49,273	26,807
Current accounts with State funds and other programs	(2)	488	956
Short-term deposits	(3)		
-of which: amortized cost		1,220,359	1,144,801
-of which: fair value through profit or loss		613,031	223,575
Other receivables	(4)	33,677	17,251
Interest-bearing securities	(5)		
-of which: amortized cost		539,708	537,825
Derivative financial instruments	(6)	197,150	195,239
Loans to the private sector	(7)		
-of which: amortized cost		4,295,723	4,623,568
-of which: fair value through profit or loss		587,940	486,067
Current tax receivables	(31)	29,634	20,942
Equity investments	(9)		
-of which: fair value through OCI		167,074	150,733
-of which: fair value through profit or loss		2,193,771	2,130,903
Investments in associates and joint ventures	(10)	308,179	297,960
Property, plant and equipment	(11)	19,859	23,321
Intangible assets	(12)	15,325	11,955
Deferred income tax assets	(31)	11,230	8,058
<b>Total assets</b>		<b>10,282,421</b>	<b>9,899,961</b>
<b>Liabilities</b>			
Short-term credits	(13)	97,114	52,156
Current accounts with State funds and other programs	(14)	43	1,058
Derivative financial instruments	(6)	418,839	610,976
Other financial liabilities	(15)		
-of which: fair value through profit or loss		74,003	82,328
Debentures and notes	(16)	6,060,683	5,572,253
Wage tax liabilities		771	615
Accrued liabilities	(17)	29,498	24,466
Other liabilities	(18)	35,821	52,263
Provisions	(19)	44,922	42,113
Deferred income tax liabilities	(31)	7,943	13,407
<b>Total liabilities</b>		<b>6,769,637</b>	<b>6,451,635</b>
<b>Shareholders' equity</b>			
Share capital		9,076	9,076
Share premium reserve		29,272	29,272
Contractual reserve		2,721,823	2,659,053
Development fund		657,981	657,981
Fair value reserve		65,208	38,559
Actuarial result pensions		-9,670	-6,533
Translation reserve		8,092	17,544
Other reserves		28,850	43,338
Undistributed result		2,152	36
<b>Shareholders' equity (parent)</b>		<b>3,512,784</b>	<b>3,448,326</b>
Non-controlling interests		-	-
<b>Total shareholders' equity</b>		<b>3,512,784</b>	<b>3,448,326</b>
<b>Total liabilities and shareholders' equity</b>	<b>(20)</b>	<b>10,282,421</b>	<b>9,899,961</b>



# Consolidated statement of profit or loss

For the year ended December 31, 2023

	Notes	2023	2022
<b>Income</b>			
Interest income from financial instruments measured at AC		473,938	335,256
Interest income from financial instruments measured at FVPL		58,653	15,828
Interest expenses from financial instruments measured at AC		-170,269	-128,868
Interest expenses from financial instruments measured at FVPL		-140,756	12,707
Interest expenses on leases		-122	-139
<b>Net interest income</b>	<b>(21)</b>	<b>221,444</b>	<b>234,784</b>
Dividend income	(22)	34,481	41,423
Results from equity investments	(23)	-39,814	49,266
<b>Total results from equity investments</b>		<b>-5,333</b>	<b>90,689</b>
Fee and commission income		7,737	10,912
Fee and commission expense		-14,202	-12,809
<b>Net fee and commission income</b>	<b>(24)</b>	<b>-6,465</b>	<b>-1,897</b>
Net results from financial transactions	(25)	7,629	-18,831
Remuneration for services rendered	(26)	31,335	32,937
Gains and losses due to derecognition	(27)	2,464	299
Other operating income	(28)	79	-
<b>Total other income</b>		<b>41,507</b>	<b>14,405</b>
<b>Total income</b>		<b>251,153</b>	<b>337,981</b>
<b>Operating expenses</b>			
Staff costs	(29)	-127,460	-108,393
Administrative expenses	(30)	-39,731	-32,087
Depreciation and impairment of PP&E and intangible assets	(11), (12)	-9,634	-11,450
Other operating expenses		-775	-510
<b>Total operating expenses</b>		<b>-177,600</b>	<b>-152,440</b>
<b>Impairments on</b>			
Interest-bearing instruments	(5)	-8	-34
Loans	(7), (8)	-38,622	-126,634
Loan commitments	(34)	-1,259	-5,262
Guarantees issued	(34)	243	-10,853
<b>Total impairments</b>		<b>-39,646</b>	<b>-142,783</b>
<b>Results on associates/joint ventures</b>			
Share in the result of associates/joint ventures		26,065	-58,596
<b>Profit/(loss) before taxation</b>		<b>59,972</b>	<b>-15,838</b>
Income tax	(31)	4,950	16,873
<b>Net profit/(loss)</b>		<b>64,922</b>	<b>1,035</b>
<b>Net profit/(loss) attributable to</b>			
Owners of the parent company		64,922	1,059
Non controlling interest		-	-24
<b>Net profit/(loss)</b>		<b>64,922</b>	<b>1,035</b>

# Consolidated statement of comprehensive income

For the year ended December 31, 2023

	Notes	2023	2022
<b>Net profit/(loss)</b>		<b>64,922</b>	<b>1,035</b>
<b>Other comprehensive income</b>			
Share of other comprehensive income of associates due to exchange differences		-9,452	17,936
Income tax effect		-	-
<b>Items to be reclassified to profit and loss</b>	<b>(32)</b>	<b>-9,452</b>	<b>17,936</b>
Fair value reserve of equity instruments at FVOCI		16,341	10,308
Actuarial gains/(losses) on defined benefit plans	(19)	-4,227	1,212
Income tax effect		-3,126	-2,971
<b>Items not reclassified to profit and loss</b>		<b>8,988</b>	<b>8,549</b>
<b>Total other comprehensive income, net of tax</b>	<b>(32)</b>	<b>-464</b>	<b>26,485</b>
<b>Total comprehensive income</b>		<b>64,458</b>	<b>27,520</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent company		64,458	27,544
Non-controlling interests		-	-24
<b>Total comprehensive income</b>		<b>64,458</b>	<b>27,520</b>

# Consolidated statement of changes in shareholders' equity

For the year ended December 31, 2023

	Share capital	Share premium reserve	Contractual reserve	Development fund	Fair value reserve	Actuarial result pensions	Translation reserve	Other reserves	Undistributed result	Non-controlling interests	Total
<b>Balance at January 1, 2022</b>	<b>9,076</b>	<b>29,272</b>	<b>2,658,032</b>	<b>657,981</b>	<b>30,910</b>	<b>-7,433</b>	<b>-392</b>	<b>43,338</b>	<b>12,831</b>	<b>24</b>	<b>3,433,639</b>
Exchange differences on associates	-	-	-	-	-	-	17,936	-	-	-	17,936
Fair value reserve of equity instruments at FVOCI	-	-	-	-	10,308	-	-	-	-	-	10,308
Actuarial gains/(losses) on defined benefit plans	-	-	-	-	-	1,212	-	-	-	-	1,212
Income tax effect other comprehensive income	-	-	-	-	-2,659	-312	-	-	-	-	-2,971
<b>Total other comprehensive income, net of tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,649</b>	<b>900</b>	<b>17,936</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,485</b>
Net profit/(loss) <sup>1</sup>	-	-	1,022	-	-	-	-	-	36	-24	1,035
Transfer reserves	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-12,831	-	-12,831
<b>Balance at December 31, 2022</b>	<b>9,076</b>	<b>29,272</b>	<b>2,659,053</b>	<b>657,981</b>	<b>38,559</b>	<b>-6,533</b>	<b>17,544</b>	<b>43,338</b>	<b>36</b>	<b>-</b>	<b>3,448,326</b>
Exchange differences on associates	-	-	-	-	-	-	-9,452	-	-	-	-9,452
Fair value reserve of equity instruments at FVOCI	-	-	-	-	16,341	-	-	-	-	-	16,341
Actuarial gains/(losses) on defined benefit plans	-	-	-	-	-	-4,227	-	-	-	-	-4,227
Income tax effect other comprehensive income	-	-	-	-	-4,216	1,090	-	-	-	-	-3,126
<b>Total other comprehensive income, net of tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,125</b>	<b>-3,137</b>	<b>-9,452</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-464</b>
Net profit/(loss) <sup>1</sup>	-	-	62,770	-	-	-	-	36	2,116	-	64,922
Transfer reserves	-	-	-	-	14,524	-	-	-14,524	-	-	-
Dividend declared	-	-	-	-	-	-	-	-	-	-	-
<b>Balance at December 31, 2023</b>	<b>9,076</b>	<b>29,272</b>	<b>2,721,823</b>	<b>657,981</b>	<b>65,208</b>	<b>-9,670</b>	<b>8,092</b>	<b>28,850</b>	<b>2,152</b>	<b>-</b>	<b>3,512,784</b>

<sup>1</sup> Under the Agreement State-FMO of November 16, 1998, it is required to add this part of the net profit to the contractual reserve. Therefore this profit is not distributable.

"Transfer reserves" line item relates to the transfer of unrealized fair value gains on financial assets measured at fair value through other comprehensive income to the fair value reserve. The transfer arises out of a reorganization of the underlying group of investee entities which did not result in full realization of the fair value gains.

# Consolidated statement of cash flows

For the year ended December 31, 2023

	Notes	2023	2022
<b>Operational activities</b>			
Net profit/(loss)		64,922	1,035
Adjustment for non-cash items:			
- Result of associates and joint ventures		-26,065	58,597
- Unrealized (gains)/losses arising from changes in fair value		-58,762	76,004
- Unrealized (gains)/losses arising from changes in foreign exchange rates		107,872	-181,140
- Unrealized (gains)/losses arising from other changes		47,745	-14,101
- Amortization of premiums/discounts debentures and notes		-18,135	1,294
- Impairments		39,646	142,783
- Depreciation and impairment of PP&E and intangible assets	(11),(12)	9,634	11,450
- Income tax expense/(gain)		-4,950	-16,873
Changes in:			
- Income taxes payable / receivable		-8,692	-36,929
- Loans		29,677	-267,410
- Equity investments		-109,312	-174,796
- Other assets and liabilities		-41,766	74,486
- Short-term deposits > 3 months		4,738	23,508
- Short-term credits		44,958	-76,636
<b>Net cash flow from operating activities</b>	<b>(34)</b>	<b>81,510</b>	<b>-378,728</b>
<b>Investing activities</b>			
Purchase of interest-bearing securities	(5)	-137,391	-152,653
Redemption of interest-bearing securities	(5)	132,602	86,682
Investments in PP&E and intangible fixed assets	(11),(12)	-1,877	-4,523
Disinvestments in PP&E and intangible fixed assets	(11),(12)	89	26
Investments in associates/joint ventures	(10)	-14,260	-14,715
Disinvestments in associates/joint ventures	(10)	6,657	10,929
<b>Net cash flow from investing activities</b>	<b>(35)</b>	<b>-14,180</b>	<b>-74,254</b>
<b>Financing activities</b>			
Proceeds from issuance of debt securities, debentures and notes	(16)	1,535,514	1,374,288
Redemption of debt securities, debentures and notes	(16)	-1,052,840	-1,011,379
Lease payments	(11)	-3,385	-3,367
Dividend paid		-	-12,831
<b>Net cash flow from financing activities</b>	<b>(36)</b>	<b>479,289</b>	<b>346,711</b>
<b>Net cash flow</b>		<b>546,619</b>	<b>-106,271</b>
<b>Cash and cash equivalents</b>			
Banks and short-term deposits at January 1		1,374,780	1,395,141
Net foreign exchange difference		-54,402	85,910
Total cash flow		546,619	-106,271
<b>Banks and short-term deposits at December 31</b>	<b>(33)</b>	<b>1,866,997</b>	<b>1,374,780</b>
<b>Operational cash flows from interest and dividends</b>			
Interest received		286,486	299,061
Interest paid		-311,025	-114,879
Dividend received		34,481	40,853
Interest paid for lease liabilities		-122	-139
Income tax received/(paid)		-15,501	-43,771

# Accounting policies

## Corporate information

The 2023 financial statements of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereafter referred to as 'FMO' or 'the company') were prepared by the members of the Management Board and signed by all members of the Management Board and the Supervisory Board on March 22, 2024 and will be submitted for adoption by the General Meeting of Shareholders on April 24, 2024.

FMO was incorporated in 1970 as a public limited company with 51 percent of shares held by the Dutch Government and 49 percent held by commercial banks, state unions and other members of the private sector. The company is located at Anna van Saksenlaan 71, 2593 HW The Hague, The Netherlands and is registered under ID 27078545 in the Chamber of Commerce. FMO finances activities in developing countries to stimulate private sector development. In addition, FMO provides services in relation to government funds and programs.

## Financing and investing activities

FMO is the Dutch entrepreneurial development bank. We support sustainable private sector growth in developing and emerging markets by investing in ambitious entrepreneurs. We specialize in sectors where our contribution can have the highest long-term impact: financial institutions, energy and agribusiness, food and water.

FMO's main activity consists of providing loans, guarantees and equity capital to the private sector in developing countries. Furthermore, FMO offers institutional investors access to its expertise in responsible emerging markets investing through its subsidiary FMO Investment Management B.V..

A minor part of the investment financing is guaranteed by the Dutch Government under the Faciliteit Opkomende Markten (FOM), in which FMO itself participates as a 5 percent to 20 percent risk partner. Any losses to be claimed under the guarantee are reported under 'Other receivables'.

We arrange syndicated loans to mobilize funds, by bringing together investors – commercial banks and other development finance institutions (DFIs) - with FMO for structuring these transactions. This enables us to provide our customers with increased access to finance and more diversified lending, while giving our financial partners efficient opportunities to enter new markets.

## Commercial fund management

FMO's subsidiary, FMO Investment Management B.V. (FMO IM), works with third party investment funds, which participate in FMO's transactions in emerging market and developing economies. Through these funds, FMO IM offers investors access to our expertise in responsible emerging market investing.

## Services in relation to government and public funding

Apart from financing activities from its own resources, FMO provides loans, guarantees and equity capital from government funding, within the conditions and objectives stipulated in the agreements. The Dutch Government funding consists of subsidies provided under the General Administrative Law Act regarding MASSIF, Access to Energy Fund (AEF), Building Prospects, Capacity Development Program (CD) and Dutch Fund for Climate and Development (DFCD). In addition, funding is provided by the UK Government for Mobilising Finance for Forests (MFF).

FMO incurs a risk in MASSIF as it has an equity share of 2.16 percent (2022: 2.16 percent). In addition, the subsidy agreements for certain public fund programs contain provisions for FMO to return at least 75 percent of the subsidy amounts on the end dates of the respective programs. With respect to the remaining interest in MASSIF, and the full risk in the other government programs, FMO has a contractual right and obligation to settle the results arising from the programs' activities with the Dutch Government. The economic risks related to these funds are predominantly taken by the Dutch Government, and FMO has limited control over policy issues regarding these funds. FMO receives a remuneration fee for managing these funds. Therefore, with the exception of FMO's equity share in MASSIF, the fund's assets, results and liabilities are not included in the financial statements.

The European Development Financial Institutions (EDFI) Management Company (of which FMO is one of the shareholders together with the other EDFIs) was established in Brussels to manage European Commission (EC) funding for the Electri-FI global facility, the Agri-FI investment facility and the Electri-FI Country facility. FMO, as accredited entity for the EC, acts as

the delegate (contractee) for the EC and has sub-delegated all operational activities related to these facilities to the EDFI Management Company. FMO receives a fee for facilitating these activities.

FMO is accredited by Green Climate Fund (GCF) and capitalizes on FMO's experience in mobilizing and enabling the private sector in developing countries towards low-emission and climate-resilient investments. FMO has received funds from the EU, USAID and the Dutch Government to invest directly in Climate Investor One (CIO), a facility raised by FMO and managed by Climate Fund Managers (CFM). CIO and the follow up Climate Investor Two (CI2) are blended finance, capital-recycling facilities mandated with delivering renewable energy infrastructure projects in emerging markets that contribute to each phase of a project's lifecycle. FMO receives a fee for facilitating these activities.

The EC and FMO have an agreement for the risk sharing facility NASIRA for an amount of €100 million. The facility uses guarantees to allow banks to on-lend to under-served entrepreneurs within the European Neighborhood and Sub-Saharan Africa. The guarantees are split into a loss-sharing hierarchy that is allocated between the issuing bank, the EC and FMO. The goal of these guarantees is to allow local banks to provide loans to groups they perceive as too risky.

The EC has provided €40 million in guarantees to the FMO Ventures Program, which aims to invest €200 million in both fund and direct investments in Africa, the European Neighborhood and Asia (excluding China). In addition to equity investments, the program will also have a dedicated technical assistance program, for which the EC is providing €6.5 million, to support investees of FMO Ventures Program and promote the development of local venture capital ecosystems.

Mobilising Finance for Forests (MFF) was established by the UK government as a blended finance investment program to combat deforestation and other environmentally unsustainable land use practices contributing to global climate change. Through MFF, FMO has been appointed by the UK government to invest up to £150 million across a mix of investment funds and direct investments in tropical forest regions in Africa, Asia and Latin America.

## Material accounting policies

### Basis of preparation

The consolidated financial statements (the 'financial statements') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union and with Part 9 of Book 2 of the Dutch Civil Code for the financial period ended on December 31, 2023. These financial statements are based on the 'going concern' principle.

The consolidated financial statements are measured at historical cost except for:

- Money market funds, commercial paper and all derivative instruments that are mandatorily measured at fair value;
- Equity investments which are measured mandatorily at fair value through profit and loss (FVPL) or fair value through other comprehensive income (FVOCI);
- The part of loans to the private sector which is measured (mandatorily) at fair value (refer to business model assessment and contractual cash flow assessment in this chapter below);
- The carrying value of debt issued that qualifies for hedge accounting, is adjusted for changes in fair value related to the hedged risk;
- Other financial liabilities designated at FVPL to significantly reduce an accounting mismatch with related financial assets;
- The provision for defined benefit pension obligations is calculated using the present value of the defined benefit obligation at the statement of financial position date minus the fair value of plan assets, after adjusting for unrecognized actuarial gains/losses and past service costs.

Loans to the private sector and private equity investments (including FVOCI) are recognized on the statement of financial position when funds are transferred to customer accounts. Other financial assets and liabilities are recognized on the same day that FMO becomes a party to the contractual terms and conditions of the financial instrument.

## Presentation of financial statements

FMO presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.

## Group accounting and consolidation

FMO consolidates a subsidiary when it controls it. Control is achieved when FMO is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights results in control. However, in individual circumstances, FMO may still exercise control with a less than 50 percent shareholding, or may not be able to exercise control even with ownership over 50 percent of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, FMO considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether FMO can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether FMO is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The company accounts of FMO and the company accounts of the subsidiaries Asia Participations B.V., FMO Investment Management B.V., Equis DFI Feeder L.P., FMO Representative Office LAC Limitada and the FMO Ventures Program are consolidated in these financial statements. FMO Representative Office LAC Limitada was incorporated during first half of 2022 and is FMO's representative entity in Costa Rica. This subsidiary is 100 percent owned by FMO. The consolidation of this entity does not have a material impact on FMO's statement of financial position. During the first half of 2022, Nedlinx B.V. was liquidated and is no longer part of the consolidation structure of FMO's consolidated accounts. The subsidiary was 100 percent owned by FMO. This liquidation does not have a material impact on FMO's statement of financial position or FMO's current business activities.

Asia Participations B.V. and Equis DFI Feeder L.P. provide equity capital to companies in developing economies. FMO Investment Management B.V. carries out portfolio management activities for third party investment funds, which are invested in FMO's transactions in emerging markets and developing economies. FMO has a 63 percent stake in Equis DFI Feeder L.P. and all other entities except FMO Ventures Program are 100 percent owned by FMO.

The FMO Ventures Program is a program involving FMO, the Dutch State and European Commission that facilitates investments in young startups and scale ups. The FMO Ventures Program is a structured entity that has been designed so that voting or similar rights are not a dominant factor in deciding who controls the entity and relevant activities are directed by means of contractual arrangements. For the FMO Ventures Program, FMO has control over direct relevant investment decisions and returns. Therefore, FMO consolidated the FMO Ventures program on FMO's statement of financial position starting from 2022. The State Funds' share of the program is not used by FMO to generate returns.

Non-controlling interests (NCIs) are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in FMO's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When FMO loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated.

## Fiscal Unity

FMO forms a fiscal unity for corporate income tax purposes with its fully owned Dutch subsidiaries Asia Participations B.V. and FMO Investment Management B.V. As a consequence, FMO is liable for all income tax liabilities for these subsidiaries.

## Adoption of new standards, interpretations and amendments

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

## Issued but not yet adopted standards

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

## Significant estimates, assumptions and judgments

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

For FMO, the most relevant estimates and assumptions relate to:

- The determination of the fair value of loans to private sector, derivative financial instruments and equity investments based on generally accepted modeled valuation techniques;
- The determination of the ECL allowance for loans to private sector, loans commitments, guarantees given, interest bearing securities;
- The estimation of pension liabilities.

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 models which include the various formulas and the choice of inputs, aging criteria and forward-looking information.
- Assessment of risks, rewards and control, when considering the recognition and derecognition of assets or liabilities and the consolidation, deconsolidation or equity accounting of structures.

## Foreign currency translation

The consolidated financial statements are stated in euros, which is the presentation and functional currency of FMO. 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, any foreign exchange component of the gain or loss is also recognized through FVOCI.

When preparing the financial statements, assets and liabilities of foreign subsidiaries and FMO's share in associates and joint ventures are translated at the exchange rates at the statement of financial position date, while income and expense items are translated at weighted average rates for the period. Differences resulting from the use of closing and weighted average exchange rates, and from revaluation of a foreign entity's opening net asset value at closing rate, are recognized directly in the translation reserve within shareholders' equity. These translation differences are maintained in the translation reserves until disposal of the subsidiary, associate and/or joint venture.

## 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 when there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. FMO only applies offsetting on derivatives with a master netting agreement.



## Fair value of financial instruments

Fair value is the price that would be received for 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.

In the performance of the fair value assessment for equity instruments, the exposure and impact of climate and environmental risks on the relevant investee companies are considered according to current and near-term climatic and environmental conditions, as appropriate, in developing a reasonable estimate of the fair value for these equity instruments.

## 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 profit and loss (FVPL) or fair value through other comprehensive income (FVOCI).

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

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

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

Derivatives are mandatorily held at FVPL.

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

Transaction costs related to financial assets, not measured at FVPL, are directly added to its fair value for initial recognition and therefore attributed directly to its acquisition.

## Business model assessment

FMO 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 the management of FMO;

- 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 FMO's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

## Contractual cash flow 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, FMO 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, FMO 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 FMO's claim to cash flows from specified assets – e.g. non-recourse assets;
- Contractually linked instruments.

## Financial instruments – initial recognition

Financial assets and liabilities, with the exception of loans to the private sector, are initially recognised on the trade date, i.e., the date on which FMO becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans to the private sector are recognised when funds are transferred to the customers' accounts. FMO recognises balances due to customers when funds are transferred to FMO.

## 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, FMO accounts for the Day 1 profit or loss, as described below.

## Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, FMO recognizes the difference between the transaction price and fair value in profit or loss. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred. The deferred amounts are recognised in profit or loss when there is a change in a factor (including time) that market participants would take into account when pricing the asset or liability. FMO has assessed that amortising the deferred amount on a straight-line basis over the life of the instrument is appropriate. Any outstanding amount is immediately recognised in profit or loss when the instrument is derecognised or when the input(s) becomes observable.

## Reclassification

In rare circumstances, financial assets can be reclassified but only after initial recognition. This happens if the business model for managing financial assets has changed and this change is significant to FMO's operations.

## Cash and cash equivalents (banks and short-term deposits)

Cash and cash equivalents consist of banks and short-term deposits which mature in less than three months from the date of acquisition. Short-term deposits are all measured at AC with the exception of money market funds and commercial paper which are measured at FVPL. These financial instruments are highly liquid with a high credit rating and are subject to an insignificant risk of changes in fair value. There is no restriction on these financial instruments and FMO has on demand full access to the carrying amounts. Unrealized gains or losses on the money market funds and commercial loan portfolio (including foreign exchange results) are reported in the note 'Results from financial transactions'.

## Interest-bearing securities

Interest-bearing securities include bonds which are held for long-term liquidity purposes. These securities are measured at AC since they comply with the classification requirements for AC as indicated in the section 'Financial assets – classification'. The securities are initially measured at fair value of the consideration paid, including transaction costs incurred. Subsequently, they are measured at AC using the effective interest rate method. For the interest-bearing securities an ECL allowance is estimated. For more details on ECL allowance, please refer to the section 'Financial assets – Impairment'.

## Loans to the private sector

Loans originated by FMO include:

- Loans to the private sector in developing economies for the account and risk of FMO;
- Loans provided by FMO and to a certain level, guaranteed by the Dutch Government.

Loans to the private sector on the statement of financial position of FMO 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 fair value of the consideration paid including incremental direct transaction costs incurred. Subsequently, the loans are measured at AC using the effective interest rate method;
- Loans mandatorily measured at FVPL that 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 in the statement of profit or loss.

## Equity investments

Equity investments on the statement of financial position of FMO include investments in which FMO has no significant influence:

- Equity investments are measured at FVPL. FMO 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 mandatorily at fair value with changes recognized in the statement of profit or loss;
- Equity investments designated as at FVOCI. The designation is made for investments held for long-term strategic purposes and not for trading. These investments are measured at fair value. Dividends are recognized as income in the statement of profit or loss unless the dividend clearly represents a recovery part of the cost of the investment. Other net gains and losses are recognized in the fair value reserve (OCI) and are never reclassified to the statement of profit or loss.

## Financial assets – impairment

FMO estimates an allowance for expected credit losses for all financial assets, loan commitments and financial guarantee contracts issued (off balance items) in scope of IFRS 9 impairment assessment.

No impairment loss is recognized on equity investments. Specific impairment on loans guaranteed by the Dutch Government are taken by FMO for unguaranteed amounts. However, these unguaranteed amounts can be eligible for compensation in specific cases.

## Impairment stages loans to the private sector

FMO 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 – a lifetime expected credit loss is recognized for these loans. In addition, interest income is accrued on the AC of the loan net of allowances.

## ECL measurement

The ECL model is primarily an expert-based model and is frequently benchmarked with other external sources.

### 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. FMO uses a scorecard model based on quantitative and qualitative indicators to assess current and future customers and determine PDs. The output of the scorecard model is mapped to the Moody's PD master scale based on idealized default rates. For accounting purposes a point in time adjustment is made to these PDs using a z-factor approach to account for the business cycle;
- EAD: the Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, scheduled by contract or otherwise, expected drawdowns and accrued interest from missed payments. Guarantees due to Unfunded Risk Participants are deducted from the Exposure at Default to an obligor for ECL measurement;
- LGD: the Loss Given Default is an estimate of FMO'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 FMO would expect to receive;
- Z-factor: the Z-factor is a correction factor to adjust the customer 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. Customer 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, FMO applies probability-weighted scenarios to calculate final PD estimates in the ECL model. The scenarios are applied globally and are based on the vulnerability of emerging markets to prolonged economic downturn. The scenarios and their impact are based on IMF data and research along with historical default data in emerging markets.

The three scenarios applied are:

- Positive scenario: reduced vulnerability to an emerging market economic downturn;
- Base scenario: vulnerability and accompanying losses based on FMO's 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 from the Stage 1 and Stage 2 calculation, because loan-specific impairments provide a better estimate for Stage 3 loans in FMO's diversified loan portfolio. The following steps serve as the 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 arising from liquidation processes, unfunded risk participations and firm offers into account. The cashflows from unfunded risk participations 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

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

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

All loans that 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. FMO 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:

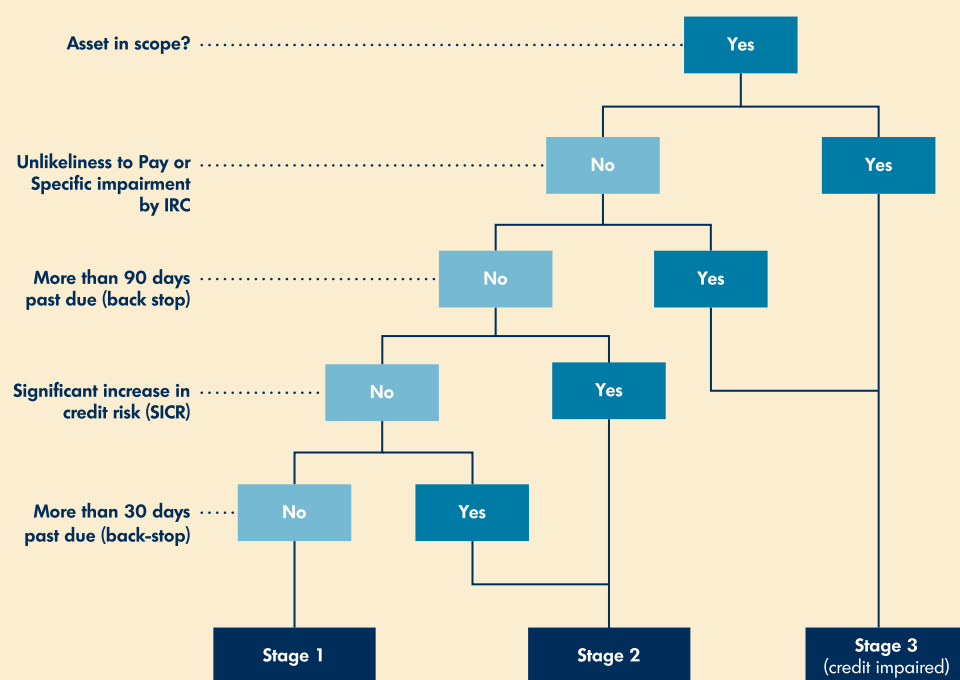
- The fact that an early warning signal has triggered financial difficulty following a transfer to the watchlist;
- The fact that the financial asset is 30 days or more past due on any material obligation to FMO, including fees and excluding on-charge expenses (unless reasonable and supportable information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

### Definition of default - Stage 3 financial assets

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

- The customer is 90 days or more past due on any material obligation to FMO, including fees (but excluding on-charged expenses);
- FMO judges that the customer is unlikely to pay its credit obligation to FMO due to occurrence of credit risk deterioration and the FRC decides on a specific impairment on an individual basis. The triggers for deciding on specific impairment include 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 IFRS 9 staging triggers at FMO:



## Reversed staging

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

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

## Climate and environmental risk impact assessment

FMO is developing a methodology to assess the materiality of climate risk across time horizons. This assessment has not been translated into direct financial impact but is monitored on a regular basis by the Financial Risk Committee (FRC). Financial impact was assessed as part of the 2023 ICAAP exercise where a stress test has been performed against the FMO portfolio. This stress test assumed multiple severe climate stress events based on countries which were rated as having a high likelihood of exposure to physical and transition risks. The results of these stress tests did not lead to additional capital requirements.

Given the current understanding of climate and environmental risks and their impact within FMO, FMO does not currently consider such risks in its ECL assessment directly. Central tendencies for the calibration of PDs do include a best-effort correction for uncertainty with a 10% increase of the assumed long-term average default rate to account for uncertainties from a variety of factors that could be considered to account for Climate-related and Environmental risks. Additionally, a review of past defaults found little direct impact of Climate-related and Environmental risks on defaults, with most issues being related to questions of governance and ability of a company to adapt; such factors are captured in FMO's current rating model.

## Written-off financial assets

A write-off is made when a claim is deemed non-collectible, when FMO has no reasonable prospects of recovery after, among others, enforcement of collateral or legal enforcement with means of lawsuits. Furthermore, a write-off is performed when the loan is being forgiven by FMO. 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 percent, the FRC is advised to consider a write-off.

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

## Modification of financial assets

FMO has defined specific event-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 on a quantitative threshold only related to differences in net present value (NPV).

Modification of contractual cashflows and terms and conditions, arise from lending operations where FMO enters into arrangements with their customers, which implies modifications to existing contractual cash flows or terms and conditions. Such arrangements are usually initiated by FMO 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, FMO will evaluate whether the modification event leads to a derecognition of the asset or to a modification accounting treatment. Generally loans that are sold to a third party or are written off lead to a derecognition. When existing debt is converted into equity, a derecognition of the debt will occur and recognized again on the statement of financial position as equity. For modifications in interest percentages or tenor changes of existing amortized cost loans that do not pass the SPPI test, the loan will also be derecognized and will be recognized as new loans on FMO'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, FMO will recalculate the gross carrying amount of the financial asset. It will do so by discounting the modified expected cash flows using the original effective interest rate and by recognizing material differences in the gross carrying amount as a modification gain or loss in the statement of profit or loss. However when the NPV of the original loan is substantially different than the NPV of the modified loan, the original loan is derecognized and re-recognized on the statement of financial position. FMO considers a variance of greater than 10 percent as substantially different.

## Modification of contractual terms versus forbearance

Forbearance is not an IFRS term but relates to arrangements with customers that imply modifications to cashflows or existing terms and conditions due to financial difficulties of the customer, such as 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 (e.g., waiver of specific covenant breaches).

Theoretically the modification of contractual cash flows or terms and conditions, does not necessarily apply to customers in financial difficulty. However, at FMO, 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. At FMO, generally, modifications will follow from financial difficulties of the borrower and will be classified as forborne assets.

## Derivative instruments

Derivative financial instruments are initially recognized at fair value on the date FMO enters into a derivative contract and are subsequently remeasured at fair value. Changes in the fair value of these derivative instruments are recognized immediately in the statement of profit or loss. All derivatives are classified as assets when fair value is positive and as liabilities when fair value is negative.

## Embedded derivatives

Part of the derivatives related to the asset portfolio concerns derivatives that are embedded in other financial instruments. Such combinations are known as hybrid instruments and arise predominantly from providing mezzanine loans and equity investments.

Derivatives embedded in host contracts, where the host is a financial asset in the scope of IFRS 9, are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification as set out in the section 'Financial assets-classification'.

Certain derivatives embedded in other contracts are measured as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss and if a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit or loss. An assessment is carried out when FMO first becomes party to the contract. When there is a change in the terms of the contract that significantly modifies the expected cash flows, the modification results in derecognition of the original instrument and leads to recognition of a new instrument again on the statement of financial position.

## Treasury derivatives

FMO uses derivative financial instruments as part of its asset and liability management to manage exposures to interest rates and foreign currencies. FMO applies micro fair value hedge accounting to the funding portfolio with the purpose of mitigating exposure to interest rate risk (please refer to the 'Hedge accounting' paragraph in this section).

Furthermore, economic hedges are conducted to hedge items that do not fulfill the criteria of hedge accounting and are presented as 'Derivatives other than hedge accounting derivatives'. Changes of market value for these derivatives are immediately recognized in the statement of profit or loss.

## Definition fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the statement of profit or loss, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest-bearing instruments, amortized through the statement of profit or loss over the remaining term of the original hedge or recognized directly when the hedged item is derecognized. For non-interest-bearing instruments, the cumulative adjustment of the hedged item is recognized in the statement of profit or loss only when the hedged item is derecognized.

## Hedge accounting

FMO applies micro fair value hedge accounting in accordance with IFRS 9 when transactions meet the specified criteria. When a financial instrument is designated as a hedge, FMO formally documents the relationship between the hedging instrument(s) and hedged item(s). Documentation includes its risk management objectives and its strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. FMO only applies micro fair value hedge accounting on the funding portfolio. Changes in the fair value of these derivatives are recorded in the statement of profit or loss under results of financial transactions. Any changes in the fair value of the hedged liability that are attributable to the hedged risk are also recorded in the statement of profit or loss. If a hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the 'unamortized fair value adjustment') is amortized and included in the statement of profit or loss over the remaining term of the original hedge. If the hedge item is derecognized, e.g. sold or repaid, the unamortized fair value adjustment is recognized immediately in the statement of profit or loss.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the statement of profit or loss, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, amortized through the statement of profit or loss over the remaining term of the original hedge or recognized directly when the hedged item is derecognized.

FMO only applies micro-hedging strategies to a part of the fixed rate funding portfolio, which is why the prospective test is conducted at hedge inception.

A hedging relationship qualifies for hedge accounting, if it meets all of the requirements below:

- There is an economic relationship between the hedged item and the hedging instrument, Economic relationship means that the hedging instrument and the hedged item must be expected to move in opposite directions as a result of a change in the hedged risk;
- The effect of credit risk does not dominate the value changes that result from that economic relationship. In other words, credit risk that can arise on both the hedging instrument and the hedged item in the form of counterparty's credit risk or the entity's own credit risk does not have a very significant effect on the fair value of the hedged item or the hedging instrument;
- The critical terms of the hedged item and hedging instrument are matched. In case the critical terms of the hedge do not match, the hedge ratio is assessed. The hedge ratio, defined as the ratio between the amount of hedged item and the



amount of hedging instrument, shall not reflect an imbalance that would create hedge ineffectiveness. For a perfect match of the underlying terms of the hedging instrument with the designated hedged risk, the hedge ratio would be 1:1 or less. The level of the hedge is discussed by Treasury and Risk Management.

Hedge accounting shall be discontinued if the qualification criteria are not met. The scenarios are as follows:

Scenario	Discontinuation
The risk management objective has changed	Full or partial
There is no longer an economic relationship between the hedged item and the hedging instrument	Full
The effect of credit risk dominates the value changes of the hedging relationship	Full
As part of rebalancing, the volume of the hedged item or the hedging instrument is reduced	Partial
The hedging instrument expires	Full
The hedging instrument is (in full or in part) sold, terminated or exercised	Full or partial
The hedged item (or part of it) no longer exists or is no longer expected to occur	Full or partial

## Rebalancing

Rebalancing aligns accounting with what has happened in the actual basis relationship, between the hedged item and hedging instrument by altering either one of them. Rebalancing only affects the expected relative sensitivity between the hedged item and the hedging instrument going forward, as ineffectiveness from past changes in the sensitivity will have already been recognized in the statement of profit or loss. FMO will rebalance a hedging relationship if that relationship still has an unchanged risk management objective but no longer meets the hedge effectiveness requirements regarding the hedge ratio.

For more details on hedge accounting we refer to Note 'Derivative financial instruments and hedge accounting'.

## Collateral received (related to derivative financial instruments)

FMO receives and pledges only cash collateral with respect to derivatives. However, because cash is fungible and the cash collateral received is not legally segregated from FMO's assets, it is impossible to determine whether it has been used by the secured party. Accordingly, all cash collateral received for derivative contracts held with positive value is recorded as an asset by FMO (as the secured party), together with a liability for the obligation to return it to the transferor. The related liability is recorded as part of Short-term credits.

On the other hand, when FMO delivers a cash collateral based on derivative contracts held with negative value, FMO derecognizes the cash collateral disbursed, and records a corresponding receivable from the recipient (the secured counterparty). The related asset is recorded as part of Short-term deposits.

## Investments in associates and joint arrangements

### Measurement and criteria

Equity investments in companies in which FMO has significant influence ('associates') are measured using the equity accounting method. Significant influence is normally evidenced when FMO has from 20 percent to 50 percent of a company's voting rights unless:

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

Equity investments where FMO has joint control are classified as joint arrangements. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are initially recorded at cost and the carrying amount is increased or decreased after the date of acquisition to recognize FMO's share of the investee's profit or loss. Distributions received from the investee reduce the carrying amount of the investment.

## Impairment of investments in associates and joint ventures

Investments in associates and joint ventures are reviewed and analyzed at least on a semi-annual basis. A net investment in an associate or joint venture is impaired or impairment losses occur where there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the net investment and the loss event has an impact on the estimated future cash flows from the net investment that can be reliably estimated. A significant or prolonged decline in the fair value of an investment in an associate or joint venture below its cost is considered as the primary objective evidence of impairment, in addition to other observable loss events. FMO considers more than 10 percent difference between fair value and its cost as significant and greater than one year as prolonged. When FMO decides to take an impairment on one of these investments, the impairment is recognized in the statement of profit or loss under 'Share in the results on associates and joint ventures'.

## Property plant and equipment

Property plant and equipment (PP&E) includes tangible assets such as buildings, vehicles, furniture, and office equipment.

## Furniture and leasehold improvements

Furniture and leasehold improvements are stated at historical cost less accumulated depreciation.

## Depreciation of furniture and leasehold improvements

Depreciation for furniture and leasehold improvement is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.

Useful life for:

- Furniture - 5 years
- Leasehold improvements - 5 to 10 years

These assets are reviewed for impairment whenever triggering events indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are reported in operating profit.

## IFRS 16 leases: right-of-use assets and lease liabilities

FMO records the right-of-use assets for its operational leases according to IFRS 16. These assets consist of buildings, lease vehicles and office equipment.

FMO assesses whether a contract is or contains a lease, at inception of a contract. FMO recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for leases of low value assets (value below €5,000). For these leases, FMO recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

FMO recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of use assets are subject to impairment testing.

Useful life for:

- Buildings - 10 years
- Vehicles - 5 years
- Office equipment - 3 to 5 years

At the commencement date of the lease FMO recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable and amounts expected to be paid under residual value guarantees. In calculating the present value of lease payments, FMO uses the incremental borrowing rate at the lease commencement date as the interest rates implicit in the lease agreements are not

readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Interest expenses on IFRS 16 leases are recognized under a separate line under net interest income. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, such as a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying value of the right-of-use asset.

## Intangible assets

### Software products

Expenditures directly associated with identifiable and unique software products or internally developed software, controlled by FMO and likely to generate economic benefits are recognized as assets. These assets include staff costs incurred to make these software products operable in the way management intended. These assets are recognized at cost less accumulated amortization and accumulated impairment losses.

Useful life for software ranges between 3 - 5 years.

Costs associated with maintaining software programs are recognized in the statement of profit or loss as it is incurred. Expenditure that enhances or extends the performance of software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software.

### Amortization and impairment

Internally developed software is amortized on the basis of the useful life on a straight-line basis. Furthermore, these assets are tested for impairment when there is an indication of impairment, or annually in the case of software that is not yet ready for use. In case an asset is no longer in use, the asset is impaired.

## Fiduciary assets

FMO provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the financial statements, as they are not assets of FMO.

## Financial liabilities

### Debentures and notes

Debentures and notes consist of medium-term notes under FMO's Debt Issuance Program or other public issues. Furthermore, a subordinated note is also included in the Debentures and Notes. Under IFRS this note is classified as financial liability, but for regulatory purposes it is considered as Tier 2 capital.

Debentures and notes can be divided into:

- Notes qualifying for hedge accounting (measured at AC and adjusted for the fair value of the hedged risk);
- Notes that do not qualify for hedge accounting (valued at AC).

### Debentures and notes measured at amortized cost

Debentures and notes are initially measured at cost, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is AC, using the effective interest rate method to amortize the cost at inception to the redemption value over the life of the debt.

### Debentures and notes eligible for hedge accounting

When hedge accounting is applied to debentures and notes, the carrying value of debt issued is adjusted for changes in fair value related to the hedged risk. The fair value changes are recorded in the statement of profit or loss. Further reference is made to sections 'Derivative instruments' and 'Hedge accounting' of this chapter.

## Other financial liabilities

Other financial liabilities reflect the Dutch State's investment in the Ventures Program (refer to the Group accounting and consolidation section of this chapter). These financial liabilities are designated at fair value through profit or loss to significantly reduce an accounting mismatch related to financial assets. The underlying equity investments (financial assets) in the Ventures Program are measured mandatorily at FVPL and the valuation of these assets form the basis of the value attributable to the program's co-investors. In order to significantly reduce the accounting mismatch in returns generated on the underlying assets versus the financial liabilities that represent the amounts attributable to the co-investors, the related financial liabilities are carried at FVPL. Refer to the 'Fair value of financial assets and liabilities' note for the description of the valuation technique applied to these financial liabilities.

Revaluation of other financial liabilities is reported under 'Results from financial transactions'.

## Derecognition of financial assets and liabilities

### Derecognition due to substantial modification of terms and conditions

As previously explained in the accounting policy for "Financial assets impairment", FMO derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financial instrument.

### Derecognition other than for substantial modification

#### Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. FMO also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

FMO has transferred the financial asset if, and only if, either:

- FMO has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby FMO retains the contractual rights to receive the cash flows of a financial asset (the original asset), but assumes a contractual obligation to pay those cash flows to one or more entities (the eventual recipients), when all of the following three conditions are met:

- FMO has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- FMO cannot sell or pledge the original asset other than as security to the eventual recipients
- FMO has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, FMO is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients

A transfer only qualifies for derecognition if either:

- FMO has transferred substantially all the risks and rewards of the asset, or
- FMO has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

FMO considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When FMO has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of FMO's continuing involvement, in which case, FMO also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that FMO has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value FMO would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

## Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

## Provisions

Provisions are recognized when:

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

A provision is made for the liability for retirement benefits, loan commitments, guarantees, legal events and severance arrangements. Further reference is made to the 'Retirement benefits' section below.

## Retirement benefits

In the past FMO provided all employees, up until 31 December 2021, with a defined benefit retirement plan. This is a pension plan defining the amount of pension benefit to be provided, as a function of one or more factors such as age, years of service or compensation.

This scheme is funded through payments to an insurance company determined by periodic actuarial calculations. The principal actuarial assumptions are set out in Note 19. All actuarial gains and losses are reported in shareholders' equity, net of applicable income taxes and are permanently excluded from the statement of profit or loss.

The net defined benefit liability or asset is the present value of the defined benefit obligation at the statement of financial position date minus the fair value of plan assets, together with adjustments for unrecognized actuarial gains/losses and past service costs. Independent actuaries perform an annual calculation of the defined benefit obligation using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using, in accordance with IAS 19, interest rates of high-quality corporate bonds, which have terms to maturity approximating the terms of the related liability. FMO has a contract with a well-established insurer, in which all nominal pension obligations are guaranteed and the downside risk of pension assets is mitigated.

When the fair value of the plan's assets exceeds the present value of the defined benefit obligations, a gain (asset) is recognized if this difference can be fully recovered through refunds or reductions in future contributions. No gain or loss is recognized solely as a result of an actuarial gain or loss, or past service cost, in the current period.

FMO recognizes the following changes in the net defined benefit obligations under staff costs:

- Service costs comprising current service costs, past-service costs (like gains and losses on curtailments and plan amendments);
- Net interest expense or income.

Past-service costs are recognized in the statement of profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that FMO recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

During 2021, FMO curtailed the defined benefit plan and introduced a defined contribution plan that is effective from 1 January 2022 onwards. The details of the amendment are described in the 'Pension schemes' section within the Provisions note.

The contributions to the defined contribution plan are expensed in the statement of profit or loss and a liability (expense accrual) is recognized in the statement of financial position.

## Taxation

Taxable income, based on the applicable tax laws in each jurisdiction, is used to calculate a tax expense. The tax expense is recognized in the period in which the taxable income arose. The tax effects of income tax losses, available for carry-forward, are recognized as a deferred tax asset if it is probable that future taxable profit will be available against which those losses can be utilized. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their amounts as measured for tax purposes, which will result in taxable amounts in future periods using the liability method. Deferred tax assets are recognized for temporary differences, resulting in deductible amounts in future periods, but only when it is probable that sufficient taxable profits will be available against which these differences can be utilized.

The main temporary differences recorded by FMO arise from the post-retirement benefits provision and the fair value movements on equity investments accounted for at FVOCI.

## Shareholders' equity

### Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by FMO's shareholders.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

### Contractual reserve

The contractual reserve consists of the cumulative part of the annual net results that FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998. This reserve cannot be freely distributed.

### Development fund

This special purpose reserve contains the allocations of risk capital provided by the Dutch Government to finance the portfolio of loans and equity investments.

### Fair value reserve

The fair value reserve includes gains and losses of equity investments designated as at FVOCI. Gains and losses on such equity investments are never reclassified to the statement of profit or loss. Cumulative gains and losses recognized in this reserve are transferred to 'Other reserves' on disposal of an investment.

### Translation reserve

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

### Actuarial result pensions

The unrealized actuarial gains and losses related to the defined benefit plans are included in the 'Actuarial result pensions'. The movements in this reserve are not reclassified to the statement of profit or loss.

### Other reserves

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

## Undistributed result

The undistributed result consists of the part of the annual result that FMO is not obliged to distribute under the Agreement Dutch State-FMO of November 16, 1998.

## Non-controlling interests

The non-controlling interest is related to the investment in Equis DFI Feeder L.P. held by other investors.

## Net interest income: interest income and interest expenses

Interest income and interest expenses from financial instruments measured at AC are recognized in the statement of profit or loss for all interest-bearing financial instruments on an accrual basis using the effective interest method based on the amortized cost at inception. Interest income and interest expenses also include amortized discounts, premiums on financial instruments and interest related to derivatives. 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 and interest expenses from financial instruments measured at FVPL reflect fair value gains and losses mainly related to the derivatives portfolio. Interest on derivatives related to loans to the private sector is classified as interest income and interest on derivatives related to debentures and notes is classified as interest expense. Moreover, interest income from loans measured at FVPL are also recognized under 'Interest income from financial instruments measured at FVPL'.

Furthermore, interest expenses on IFRS 16 leases are recognized under the interest expenses separately.

## Fee and commission income and expense

FMO earns fees from a diverse range of services. The revenue recognition for financial service fees depends on the purpose for which the fees are charged and the basis of accounting for the associated financial instrument. Fees that are part of a financial instrument carried at fair value are recognized in the statement of profit or loss. 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 FMO 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 FMO's equity investment portfolio are recognized under 'Results from equity investments'. These gains and losses include foreign exchange results of equity investments that are measured at fair value. As mentioned earlier, the foreign exchange results for equity investments, measured at fair value through OCI are recognized in the shareholder's equity.

## Results from financial transactions

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

## Remuneration for services rendered

Remuneration for services rendered relate to fees that FMO receives from the Dutch and UK Government to manage subsidized programs on their behalf. These fees are recognized in accordance with IFRS 15. The performance obligations arising out of the program agreements are established at the inception of the agreement. The performance obligations are satisfied over the course of the year.

Fee income is recognized at an amount that represents the consideration to which FMO is entitled in return for the program's management services. Fees are calculated quarterly based on a fixed rate and the value of the respective program's committed portfolio at the end of the quarter. The income relating to the fees is recognized at the end of each quarter.

## Other operating income

Other operating income relates to any other income that is not related to loans to the private sector, equity investments and treasury instruments.

## Impairments

Financial assets of FMO and off-balance items are subject to impairments. For impairment methodologies and criteria, refer to 'Financial assets' paragraph in this section above.

## Reimbursement of staff costs

FMO receives reimbursements of its staff costs for the time spent on various government initiated activities. These reimbursements are deemed to be government grants related to income in accordance with IAS 20. Based on the presentation options available in IAS 20 FMO has elected to present the reimbursements as a deduction against the expense line-items to which the grants relate. Given FMO receives the amounts as compensation for the staff costs incurred on the program, the amount is presented as a reduction against staff costs.

## Statement of cash flows

The consolidated cash flow statement shows the sources of liquidity that became available during the year and the application of this liquidity. The liquidity is measured by the statement of financial position accounts 'Banks' and 'Short term deposits'. The cash flows are broken down according to operational, investing and financing activities. The cash flow statement is prepared using the indirect method.

## Cash and cash equivalents

Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. For the purposes of the statement of cash flows, Cash and cash equivalents includes balances with banks, short-term deposits at AC and a part of short-term deposits at FVPL, which consists of commercial paper with a maturity of less than three months from the date of acquisition.

The difference between the Net cash flow in accordance with the statement of cash flows and the change between the opening and closing balance of Cash and cash equivalents is due to exchange rate differences and is presented separately in the cash flow statement. Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.



## Restricted cash and cash equivalents

Restricted cash and cash equivalents are recognized when they meet the recognition criteria for a financial asset and are included in the cash and cash equivalents presented within the statement of cash flows when they meet the definition of "cash and cash equivalents" described above. In FMO's case, the restrictions to which the applicable balances are subject to are appropriately disclosed in the relevant note on Short-term deposits.

## Net cash flow from operational activities

In the net cash flow from operating activities, the result before tax is adjusted for those items in the statement of profit or loss and changes in items per the statement of financial position, which do not result in actual cash flows during the year.

The net cash flow from operational activities includes the company's portfolio movements, such as loans to the private sector and under guarantee of the Dutch Government, equity investments, subsidiaries and associates. The net cash flow further includes the movements in working capital and current accounts with the State regarding government funds and programs.

The addition to ECL allowance which is deducted from the item loans to private sector in the statement of financial position has been adjusted accordingly from the result before tax and is shown separately in the statement of cash flows.

Fair value changes in loans to private sector, derivatives, equity investments, debentures and notes are reflected as part of non-cash items adjusted against net profit/(loss) and presented as "Unrealized (gains) losses arising from changes in fair value" on the cashflow statement.

Accrual and amortizable fees of financial assets and liabilities are reflected as part of non-cash items adjusted against net profit/(loss) and presented as "unrealized (gains) losses arising from other changes" on the cashflow statement.

The changes in other assets, other liabilities, short-term deposits greater than 1 month and short-term credit, as included in the net cash flow from operating activities, does not include the related foreign exchange results. The related foreign exchange results are included in unrealized gains (losses) arising from foreign exchange rates reflected as part of non-cash items adjusted against the net profit/(loss).

## Net cash flow from investing activities

The net cash flow from investing activities includes the movements in the investment portfolio, such as the interest-bearing securities. The movements in PP&E assets are also included in the cash flow from investing activities.

## Net cash flow from financing activities

The net cash flow from financing activities includes movements in the funding attracted from the capital market. Also included in the cash flow from financing activities are the additions to and reductions from the company's capital.

## Guarantees and undrawn loan commitments

FMO issues financial guarantee and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, issued financial guarantee contracts are measured at the higher of:

- ECL allowance or the amount of the provision under the contract; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies as set out in sections 'Interest income' and 'Fee and commission income'. These fees are recognized as revenue on an accrual basis over the period commitment.

FMO applies the same methodology as loans to the private sector for measurement of ECL allowance of guarantees. Refer to chapter 'Financial assets - impairment' in this section. Provisions resulting from guarantees are included in line item "Provisions" on the statement of financial position.

Undrawn loan commitments are commitments under which, over the duration of the commitment, FMO 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 financial guarantees and 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 34.

## Segment reporting

The operating segments are reported in a manner consistent with internal reporting to FMO's chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board. FMO presents its operating segments based on servicing units instead of strategic sector to be more aligned with internal reporting towards the Management Board. Reference is made to the section 'Segment information' for more details on operating segments

# Notes to the consolidated financial statements

## Notes to the consolidated statement of financial position: assets

### 1. Banks

	2023	2022
Banks	49,273	26,807
<b>Balance at December 31</b>	<b>49,273</b>	<b>26,807</b>

The cash on bank accounts can be freely disposed of. All bank accounts are classified as Stage 1.

### 2. Current accounts with State funds and other programs (assets)

	2023	2022
Current account EIB	231	231
Current account MFF	204	725
Current account BP	48	-
Current account MASSIF	5	-
<b>Balance at December 31</b>	<b>488</b>	<b>956</b>

Current accounts can be freely disposed of and are classified as Stage 1.

### 3. Short-term deposits

	2023	2022
Collateral delivered (related to derivative financial instruments)	331,546	521,575
Dutch Central Bank	863,825	598,369
Mandatory reserve deposit with Dutch Central Bank	6,352	2,324
Collateral delivered to European Central Bank	2,946	2,130
Other short-term deposits	15,690	20,403
<b>Short-term deposits measured at AC</b>	<b>1,220,359</b>	<b>1,144,801</b>
Commercial paper	457,794	200,203
Money market funds	155,237	23,372
<b>Short-term deposits measured at FVPL</b>	<b>613,031</b>	<b>223,575</b>
<b>Balance at December 31</b>	<b>1,833,390</b>	<b>1,368,376</b>

Mandatory reserve deposits are not available for use in FMO's day-to-day operations.

Fair value results on money market funds and commercial paper portfolio recorded in the statement of profit or loss amounts to a profit of €52k (2022: €13k loss). The amount attributable to change in credit risk is limited.

Short-term deposits have a maturity of less than three months. Other short-term deposits consist of an amount FMO provided to Invest International with a maturity of 1 year. FMO holds an equity stake in Invest International that has been recorded as an associate.

Short term deposits at amortized cost are classified as Stage 1.

## 4. Other receivables

	2023	2022
Receivables related to equity disposals	20,563	6,826
Taxes and social premiums	671	456
To be declared on State guaranteed loans	18	1,081
Transaction fee receivables and prepayments	12,425	8,888
<b>Balance at December 31</b>	<b>33,677</b>	<b>17,251</b>

Other receivables are classified as Stage 1.

## 5. Interest-bearing securities

This portfolio contains marketable bonds with fixed interest rates. All interest-bearing securities (credit quality of AA+ or higher) are classified as Stage 1. An amount of €82k (2022: €78k) is calculated for the ECL as per December 31, 2023.

	2023	2022
Bonds (listed)	539,708	537,825
<b>Balance at December 31</b>	<b>539,708</b>	<b>537,825</b>

All interest-bearing securities are measured at amortized cost. The movements can be summarized as follows:

	2023	2022
Balance at January 1	537,825	463,971
Amortization premiums/discounts	647	-111
Purchases	137,391	152,653
Redemptions	-132,602	-86,682
Changes in ECL allowances	-4	-34
Changes in accrued income	2,009	565
Exchange rate differences	-5,558	7,463
<b>Balance at December 31</b>	<b>539,708</b>	<b>537,825</b>

## 6. Derivative financial instruments and hedge accounting

### Use of derivatives and hedge accounting

Derivatives are held for both economic hedging purposes and for hedge accounting. FMO uses derivatives for hedging purposes in the management of its asset and liability portfolios and structural risk positions. These risks are hedged with interest rate swaps, cross currency swaps and cross currency interest rate swaps. The objective of hedging is to enter into positions with an opposite risk profile to an identified exposure to reduce that exposure. The objective of FMO hedging activities is to optimize the overall cost to the bank of accessing debt capital markets and to mitigate the risk that would otherwise arise from structural imbalances in the duration and other profiles of its assets and liabilities. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies under the IFRS hedge accounting rules.

Derivatives that qualify for hedge accounting under IFRS are classified and accounted for in accordance with the nature of the instrument hedged and the type of IFRS hedge model that is applicable. FMO applies fair value hedge accounting to the funding portfolio with interest rate swaps as hedging instruments. To qualify for hedge accounting under IFRS, strict criteria must be met. Certain hedges that are economically effective from a risk management perspective do not qualify for hedge accounting under IFRS. The fair value changes of derivatives relating to such non-qualifying hedges are taken to the statement of profit or loss and recorded under the line results from financial transactions. If hedge accounting is applied under IFRS, it is possible that during the hedge a hedge relationship no longer qualifies for hedge accounting and hedge accounting cannot be continued, even if the hedge remains economically effective. As a result, the volatility arising from undertaking economic hedging in the statement of profit or loss may be higher than would be expected from an economic point of view. With respect to exchange rate and interest rate derivative contracts, the notional or contractual amount of

these instruments is indicative of the nominal value of transactions outstanding at the statement of financial position date. However, they do not represent amounts at risk.

For the year ended December 31, 2023, FMO recognized a net loss of €4.5 million for hedge ineffectiveness on the micro fair value hedges (2022: €2.6 million net gain). The loss on the hedging instruments amounts to €134.2 million (2022: €339.4 million gain). The loss on hedged items attributable to the hedged risk amounts to €138.7 million (2022: €341.9 million profit). The result is mainly attributed to the mismatch in the valuation curves (e.g. USD SOFR for the hedging instruments and USD LIBOR for hedged items).

## Micro fair value hedge accounting

FMO only applies a micro-hedging strategy, hence at hedge inception the test is conducted. FMO's micro fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. Gains and losses on derivatives designated under fair value hedge accounting and hedged items are recognized in the statement of profit or loss.

## Derivatives other than hedge accounting instruments

These derivatives are held to reduce interest rate risks and currency risks but do not meet the specified criteria to apply hedge accounting for the reporting period. The following table also includes derivatives related to the asset portfolio. These derivatives are used to manage FMO interest rate and foreign exchange risks within the risk appetite and are subject to the risk governance and policy framework.

The table below presents the amounts relating to derivatives designated as fair value hedging instruments, hedge ineffectiveness, as well as balances related to derivatives not applied as hedge accounting instruments:

2023						
	Notional amount	Assets	Liabilities	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recorded in profit or loss	Carrying amount Line item in P&L that includes hedge ineffectiveness
<b>Derivatives hedge accounting instruments:</b>						
Interest rate swaps	5,438,525	36,638	186,929	134,237	-4,462	Results from financial transactions
<b>Derivatives other than hedge accounting instruments:</b>						
Currency swaps	609,876	355	10,498			
Interest rate swaps	1,810,968	48,057	6,610			
Cross-currency interest rate swaps	3,030,180	112,100	203,931			
Subtotal	5,451,024	160,512	221,039			
Embedded derivatives related to asset portfolio		-	10,871			
Total derivative assets /(liabilities) other than hedge accounting instruments	5,451,024	160,512	231,910			
<b>Balance at December 31</b>	<b>10,889,549</b>	<b>197,150</b>	<b>418,839</b>			

2022

Carrying amount						
	Notional amount	Assets	Liabilities	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recorded in profit or loss	Line item in P&L that includes hedge ineffectiveness
<b>Derivatives hedge accounting instruments:</b>						
Interest rate swaps	5,004,270	17,685	275,931	-339,323	2,573	Results from financial transactions
<b>Derivatives other than hedge accounting instruments:</b>						
Currency swaps	69,999	550	402			
Interest rate swaps	950,141	56,697	3,611			
Cross-currency interest rate swaps	3,626,236	120,307	317,144			
Subtotal	4,646,376	177,554	321,157			
Embedded derivatives related to asset portfolio	-	-	13,888			
Total derivative assets /(liabilities) other than hedge accounting instruments	4,646,376	177,554	335,045			
<b>Balance at December 31</b>	<b>9,650,646</b>	<b>195,239</b>	<b>610,976</b>			

The amounts relating to items designated as hedged items were as follows:

2023

Balance sheet line item	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Change in fair value used for calculating hedge ineffectiveness	Accumulated amount remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses
	Liabilities	Assets	Liabilities	Assets		
Debentures and notes	5,301,915	-	-	-	-138,699	-
<b>Balance at December 31</b>	<b>5,301,915</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-138,699</b>	<b>-</b>

2022

Balance sheet line item	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Change in fair value used for calculating hedge ineffectiveness	Accumulated amount remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses
	Liabilities	Assets	Liabilities	Assets		
Debentures and notes	4,695,248	-	-	-	341,896	-
<b>Balance at December 31</b>	<b>4,695,248</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>341,896</b>	<b>-</b>

Hedge of debentures and notes:

<b>2023</b>					
<b>Risk category: Interest rate</b>	<b>Maturity</b>				
	<b>Less than 1 month</b>	<b>1-3 months</b>	<b>3 months - 1 year</b>	<b>1-5 years</b>	<b>more than 5 years</b>
Nominal amount (in millions of euro)	-	542	539	4,209	149
Average fixed interest rate (%)	-	2.4	2.2	2.6	1.8

<b>2022</b>					
<b>Risk category: Interest rate</b>	<b>Maturity</b>				
	<b>Less than 1 month</b>	<b>1-3 months</b>	<b>3 months - 1 year</b>	<b>1-5 years</b>	<b>more than 5 years</b>
Nominal amount (in millions of euro)		-	702	3,887	415
Average fixed interest rate (%)	-	-	0.4	2.0	1.5

## 7. Loans to the private sector

These loans to the private sector include:

- Loans to the private sector in developing economies are for the account and risk of FMO;
- Loans in developing economies that are individually guaranteed by the Dutch Government for 80 percent to 95 percent or other financial guarantors. Any losses will be compensated by the guarantors up to the guaranteed amount. Refer to the Credit risk section in the 'Risk Management' chapter for details of these guarantees received.

### Loan movements

	Loans measured at AC	Loans measured at FVPL	Total
Balance at January 1, 2023	4,623,568	486,067	5,109,635
Disbursements	1,251,260	145,046	1,396,306
Interest capitalization	8,936	4,266	13,202
Conversion from loan to equity	-	-1,879	-1,879
Part sold	-138,783	-2,700	-141,483
Repayments	-1,249,673	-48,029	-1,297,702
Write-offs / disposals	-41,359	-42,200	-83,559
Derecognized and /or restructured loans	935	-	935
Changes in amortizable fees	824	-495	329
Amortized premium / discount	-44	-	-44
Changes in fair value	-	56,863	56,863
Changes in accrued income	5,939	6,706	12,645
Exchange rate differences	-167,874	-15,705	-183,579
Movement of impairments	1,994	-	1,994
<b>Balance at December 31, 2023</b>	<b>4,295,723</b>	<b>587,940</b>	<b>4,883,663</b>

	Loans measured at AC	Loans measured at FVPL	Total
Balance at January 1, 2022	4,152,713	621,978	4,774,691
Disbursements	1,564,511	13,533	1,578,044
Interest capitalization	1,204	6,746	7,950
Conversion from loan to equity	-	-17,239	-17,239
Part sold	-56,747	-487	-57,234
Repayments	-1,122,096	-139,254	-1,261,350
Write-offs / disposals	-88,347	-1,450	-89,797
Derecognized and /or restructured loans	-49	-	-49
Changes in amortizable fees	2,341	-227	2,114
Amortized premium / discount	45	-	45
Changes in fair value	-	-31,240	-31,240
Changes in accrued income	16,891	4,185	21,076
Exchange rate differences	207,398	29,522	236,920
Movement of impairments	-54,296	-	-54,296
<b>Balance at December 31, 2022</b>	<b>4,623,568</b>	<b>486,067</b>	<b>5,109,635</b>

The contractual amount of assets that were written off during the period are still subject to enforcement activity.



## Loans segmented by sector

2023					
	Stage 1	Stage 2	Stage 3	Fair value	Total
Financial Institutions	2,259,763	30,305	15,292	353,658	2,659,018
Energy	745,478	402,029	148,523	66,001	1,362,031
Agribusiness, Food and Water	442,259	13,817	53,485	104,596	614,157
Multi-Sector Fund Investments	32,721	-	-	4,213	36,934
Infrastructure, Manufacturing and Services	96,813	29,640	25,598	59,472	211,523
<b>Balance at December 31</b>	<b>3,577,034</b>	<b>475,791</b>	<b>242,898</b>	<b>587,940</b>	<b>4,883,663</b>

2022					
	Stage 1	Stage 2	Stage 3	Fair value	Total
Financial Institutions	2,369,606	14,967	76,893	215,096	2,676,562
Energy	900,733	209,615	134,738	77,394	1,322,480
Agribusiness, Food and Water	536,759	51,837	64,372	110,005	762,973
Multi-Sector Fund Investments	21,119	-	-	4,327	25,446
Infrastructure, Manufacturing and Services	158,643	45,124	39,162	79,245	322,174
<b>Balance at December 31</b>	<b>3,986,860</b>	<b>321,543</b>	<b>315,165</b>	<b>486,067</b>	<b>5,109,635</b>

## Loans segmented by geographical area

2023					
	Stage 1	Stage 2	Stage 3	Fair value	Total
Africa	843,793	208,854	123,257	174,334	1,350,238
Asia	692,757	112,446	9,216	68,921	883,340
Latin America & the Caribbean	1,033,829	152,815	67,062	98,554	1,352,260
Europe & Central Asia	897,315	1,676	43,363	192,349	1,134,703
Non - region specific	109,340	-	-	53,782	163,122
<b>Balance at December 31</b>	<b>3,577,034</b>	<b>475,791</b>	<b>242,898</b>	<b>587,940</b>	<b>4,883,663</b>

2022					
	Stage 1	Stage 2	Stage 3	Fair value	Total
Africa	937,717	212,875	101,415	130,768	1,382,775
Asia	703,671	24,410	112,136	90,340	930,557
Latin America & the Caribbean	1,213,142	74,306	48,756	51,253	1,387,457
Europe & Central Asia	974,077	787	52,858	154,945	1,182,667
Non - region specific	158,253	9,165	-	58,761	226,179
<b>Balance at December 31</b>	<b>3,986,860</b>	<b>321,543</b>	<b>315,165</b>	<b>486,067</b>	<b>5,109,635</b>

## Loans to private sector - other information

	2023	2022
Gross amount of loans to companies in which FMO has equity investments	342,031	338,935
Gross amount of subordinated loans	216,192	91,642

The movements in the gross carrying amounts and ECL allowances for loans to the private sector 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
Balance at January 1, 2023	4,019,439	-32,579	338,766	-17,223	521,762	-206,597	4,879,967	-256,399
Additions	1,158,476	-8,839	92,904	-9,840	-	-	1,251,380	-18,679
Exposure derecognized or matured/lapsed (excluding write offs)	-1,216,793	3,162	-85,688	1,605	-85,975	61,637	-1,388,456	66,404
Transfers to Stage 1	42,060	-1,673	-33,812	738	-8,248	935	-	-
Transfers to Stage 2	-225,869	5,116	287,726	-15,003	-61,857	9,887	-	-
Transfers to Stage 3	-38,567	209	-82,672	5,314	121,239	-5,523	-	-
Modifications of financial assets (including derecognition)	-8,059	-	4,743	-	13,069	-	9,753	-
Changes in risk profile (including changes in accounting estimates)	-	7,281	-	674	-	-102,521	-	-94,566
Amounts written off/disposals	-	-	-	-	-41,359	41,359	-41,359	41,359
Changes in amortizable fees	-911	-	703	-	1,032	-	824	-
Premium / discount	-44	-	-	-	-	-	-44	-
Changes in accrued income	11,414	-	1,345	-	-6,821	-	5,938	-
Foreign exchange adjustments	-137,806	1,017	-15,413	924	-14,656	5,535	-167,875	7,476
<b>Balance at December 31, 2023</b>	<b>3,603,340</b>	<b>-26,306</b>	<b>508,602</b>	<b>-32,811</b>	<b>438,186</b>	<b>-195,288</b>	<b>4,550,128</b>	<b>-254,405</b>

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
Balance at January 1, 2022	3,194,012	-20,486	803,935	-29,522	356,869	-152,095	4,354,816	-202,103
Additions	1,506,232	-8,234	57,714	-3,975	566	-106	1,564,512	-12,315
Exposure derecognized or matured/lapsed (excluding write offs)	-1,020,325	3,171	-98,862	993	-57,067	96,225	-1,176,254	100,389
Transfers to Stage 1	349,377	-11,850	-349,387	11,850	10	-	-	-
Transfers to Stage 2	-74,774	572	77,287	-606	-2,513	34	-	-
Transfers to Stage 3	-133,325	1,469	-151,186	3,771	284,511	-5,240	-	-
Modifications of financial assets (including derecognition)	22,751	-	-22,222	-	-1,961	-	-1,432	-
Changes in risk profile (including changes in accounting estimates)	-	3,706	-	1,936	-	-224,540	-	-218,898
Amounts written off/disposals	-	-	-	-	-88,348	88,348	-88,348	88,348
Changes in amortizable fees	-888	-	1,335	-	1,893	-	2,340	-
Premium / discount	45	-	-	-	-	-	45	-
Changes in accrued income	18,635	-	2,215	-	-3,961	-	16,889	-
Foreign exchange adjustments	157,699	-927	17,937	-1,670	31,763	-9,223	207,399	-11,820
<b>Balance at December 31, 2022</b>	<b>4,019,439</b>	<b>-32,579</b>	<b>338,766</b>	<b>-17,223</b>	<b>521,762</b>	<b>-206,597</b>	<b>4,879,967</b>	<b>-256,399</b>

## Total impairments on loans in the consolidated profit and loss account

	2023	2022
Additions	-18,679	-12,315
Exposure derecognized or matured / lapsed (excluding write - offs)	66,404	100,389
Changes in risk profile (including changes in accounting estimates)	-94,566	-218,898
Recoveries (written off loans)	-11,181	-4,108
Other	19,400	8,298
<b>Total at December 31</b>	<b>-38,622</b>	<b>-126,634</b>

ECL allowances across sectors remain largely consistent between 2022 and 2023. However, ECL allowances in 2023 as a result of stage 3 classification showed a significant regional shift from Asia to South America. The reason is that the banking sector in Latin America is following a difficult 2023. The Asia-Pacific region on the other hand remained a key driver of economic growth. Refer to the Credit risk section in the 'Risk Management' chapter for more details.

## 8. ECL allowances - assessment

FMO calculates ECL allowances for interest-bearing securities, loans to the 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 'Significant Increase in Credit Risk' criteria, the tables below present the distribution of Stage 2 impairments by the criteria that triggered the migration to Stage 2.

	Loans to private Sector	Guarantees	Loan Commitments	Total
More than 30 days past due	-	-	-	-
Deterioration in credit risk - financial difficulties	-32,811	-507	-6,458	-39,776
<b>Total at December 31, 2023</b>	<b>-32,811</b>	<b>-507</b>	<b>-6,458</b>	<b>-39,776</b>

	Loans to private Sector	Guarantees	Loan Commitments	Total
More than 30 days past due	-17	-	-	-17
Deterioration in credit risk - financial difficulties	-17,206	-	-6,185	-23,391
<b>Total at December 31, 2022</b>	<b>-17,223</b>	<b>-</b>	<b>-6,185</b>	<b>-23,408</b>

The table below shows the values of the IMF GDP forecasts used in each of the economic scenarios for the ECL calculations for 2022 and 2023. The upside and downside scenario calculations are derived from the base case scenario, adjusted based on an indicator of public debt to GDP in emerging markets.

The macro-economic scenarios' model was updated following the publication of the new macro-economic outlook data by the IMF in October 2023. The updates of the model based on more recent GDP forecast, caused new point-in-time adjustments to probability of defaults in the impairment model, leading to a slight increase in combined Stage-1 and Stage-2 impairment charge.

**IMF GDP % Growth Forecasts (the figures are based on the latest forecast in October 2023)**

	2023	2022
Turkey	3.18	4.97
India	6.33	6.84
Georgia	5.20	8.98
Argentina	3.25	4.04
Nigeria	3.06	3.17
Uganda	7.47	4.41
Bangladesh	6.60	7.25
Ghana	4.59	3.59
Armenia	4.50	6.98
Costa Rica	3.19	3.81

The following tables outline the impact of multiple scenarios on the ECL allowance. The probabilities of macro-economic scenarios (making point-in-time adjusted probability of default) were updated using the data provided by the IMF, as published in October 2023.

	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector	Guarantees	Bonds and cash	Total
ECL scenario:						
Upside	249,680	2%	4,778	213	2	4,994
Base case	€275,327	50%	€131,977	5,640	47	€137,664
Downside	307,082	48%	141,513	5,840	45	147,399
<b>Total at December 31, 2023</b>			<b>277,397</b>	<b>11,693</b>	<b>94</b>	<b>289,186</b>

	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector	Guarantees	Bonds and cash	Total
ECL scenario:						
Upside	256,484	2%	4,899	229	2	5,130
Base case	277,089	50%	132,486	6,015	43	138,544
Downside	309,902	48%	142,522	6,190	41	148,753
<b>Total at December 31, 2022</b>			<b>279,907</b>	<b>12,434</b>	<b>86</b>	<b>292,427</b>

The total unweighted amount for the base scenario of €275 million (2022: €277 million) is an aggregation of €254 million (2022: €256 million) ECL allowances related to Loans to private sector (refer to Note 7), €11 million (2022: €12 million) ECL off balance items for financial guarantees (refer to Note 34), €10 million (2022: €9 million) ECL off balance for loan commitments (refer to Note 34).

Loans to private sector in the tables above include amounts related to ECL allowances for off balance loan commitments (refer to Note 34).

Reference is made to the 'Accounting policies' chapter on macro-economic scenarios on PD estimates.

## 9. Equity investments

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

	Equity measured at FVOCI	Equity measured at FVPL	Total
Balance at January 1, 2023	150,733	2,130,903	2,281,636
Purchases and contributions	-	333,825	333,825
Conversion of loans to equity	-	1,879	1,879
Transfer associate/FVPL	-	-	-
Return of capital (including sales)	-	-224,513	-224,513
Changes in fair value	16,341	-48,323	-31,982
Other changes	-	-	-
<b>Balance at December 31, 2023</b>	<b>167,074</b>	<b>2,193,771</b>	<b>2,360,845</b>

	Equity measured at FVOCI	Equity measured at FVPL	Total
Balance at January 1, 2022	140,425	1,876,825	2,017,250
Purchases and contributions	-	279,815	279,815
Conversion of loans to equity	-	938	938
Transfer associate/FVPL	-	-18,923	-18,923
Return of capital (including sales)	-	-105,019	-105,019
Changes in fair value	10,308	49,808	60,116
Other changes	-	47,459	47,459
<b>Balance at December 31, 2022</b>	<b>150,733</b>	<b>2,130,903</b>	<b>2,281,636</b>

Other changes relate to consolidation of FMO's Ventures Program (refer to the section group accounting and consolidation in the accounting policies chapter).

#### Equity investments segmented by sector

	2023	2022
Financial Institutions	682,684	627,292
Energy	287,203	270,532
Agribusiness	142,965	148,585
Multi-Sector Fund Investments	966,915	984,765
Infrastructure, Manufacturing and Services	281,078	250,462
<b>Balance at December 31</b>	<b>2,360,845</b>	<b>2,281,636</b>

FMO has designated the investments shown in the following table as equity investments at FVOCI. The FVOCI designation was made because the investments are expected to be held for long-term strategic purposes.

	2023		2022	
	Fair value	Dividend income	Fair value	Dividend income
The Currency Exchange Fund N.V.	157,118	-	139,904	-
Seed Capital	9,916	-	10,789	-
EDFI Management Company	40	-	40	-
<b>Total at December 31</b>	<b>167,074</b>	<b>-</b>	<b>150,733</b>	<b>-</b>

# 10. Investments in associates and joint ventures

## Movements carrying amounts of the Associates and Joint ventures

	2023	2022
Balance at January 1	297,960	298,737
Purchases and contributions	14,260	14,715
Conversion from loans to equity	-	16,770
Conversion Associates/FVPL		18,924
Return of capital (including sales)	-6,657	-10,929
Share in net results	26,065	-58,596
Exchange rate differences	-23,449	18,339
<b>Balance at December 31</b>	<b>308,179</b>	<b>297,960</b>

All investments in associates and joint ventures are measured based on the equity accounting method. Cash dividends received from associates amount to €12.4 million (2022: €2.7 million).

The following tables summarize FMO's share in the total assets, liabilities, total income and total net profit/loss of the associates and segments the associates by sector.

	Carrying amount	Economic ownership %	Total assets	Total liabilities	Total income	Total profit/loss
Banyantree Growth Capital LLC	2,781	27%	-	-	-	-
Arise BV	234,985	27%	241,349	6,364	2,661	46,562
JCM Power Corporation	14,172	24%	-	-	-	-
BE C&I Solutions Holding Pte. Ltd.	32,564	24%	58,039	25,488	-	-
Invest International B.V.	2,040	49%	161,197	-	-	70
<b>Balance at December 31, 2023</b>	<b>286,542</b>					

	Carrying amount	Economic ownership %	Total assets	Total liabilities	Total income	Total profit/loss
Banyantree Growth Capital LLC	1,819	27%	-	-	-	-
Arise BV	233,096	27%	214,049	2,521	2,853	-10,932
JCM Power Corporation	16,327	24%	-	-	-	-
BE C&I Solutions Holding Pte. Ltd.	37,238	24%	46,333	11,146	2,062	-2,013
Vinca Developer Private Limited	2,047	34%	9,160	7,113	-	-1
Invest International B.V.	-	49%	2,040	-	-	-2,484
<b>Balance at December 31, 2022</b>	<b>290,527</b>					

	2023	2022
Financial Institutions	237,026	233,095
Energy	46,735	60,999
Multi-Sector Fund Investments	2,781	3,866
<b>Net balance at December 31</b>	<b>286,542</b>	<b>297,960</b>

Invest International was established on July 28, 2021. Share capital is split between A-shares where the Dutch Government owns 51 percent and FMO 49 percent and B-shares which are owned 100 percent by the Dutch Government.

During the course of the year FMO deposited €15.6 million (2022: €20.4 million) with Invest International. The deposit has a 1-year maturity and accrues interest at a market-based rate after adjusting for non-applicable internal costs. Expected credit loss is not expected to be material taking into account the support offered to Invest International from the Dutch State. The deposit is presented in the short-term deposits statement of financial position line item, refer to Note 3.

JCM Power Corporation was transferred from the equity investments to investments in associates in 2022. This is due to a reorganization of JCM Power Corporation in October 2022 in which FMO has acquired significant influence through a 24% economical ownership. The transfer took place at fair value.

In 2016 FMO signed an agreement to set up an investment vehicle, Arise B.V., together with Norfund and Rabobank. This investment vehicle is set up to invest in African financial institutions. FMO's commitment amounts to US\$266 million. As of December 31, 2023, our remaining commitment towards Arise B.V. amounts to US\$12.5 million.

Arise B.V. is a private limited liability company incorporated in the Netherlands whose statutory seat is registered at Croeselaan 18, 3521 CB Utrecht, the Netherlands and is registered in the Dutch commercial register under number 64756394. FMO's share and voting rights in Arise B.V. is 27 percent .

The following tables summarize FMO's share in the total assets, liabilities, total income and total net profit/loss in joint ventures.

	Carrying amount	Economic ownership %	Total assets	Total liabilities	Total income	Total profit/loss
Climate Fund Managers B.V.	9,946	50%	15,051	5,105	12,876	2,363
SDG Loan Fund S.C.A SICAV-SIF	11,691	10%	11,954	186	11	-5
<b>Balance at December 31, 2023</b>	<b>21,637</b>					

	Carrying amount	Economic ownership %	Total assets	Total liabilities	Total income	Total profit/loss
Climate Fund Managers B.V.	7,433	50%	13,988	6,286	15,594	5,576
<b>Balance at December 31, 2022</b>	<b>7,433</b>					

For material joint ventures, the above amounts of assets and liabilities include the following:

	SDG Loan Fund S.C.A SICAV SIF	
	2023	2022
Cash and cash equivalents	28,440	-
Current financial liabilities (excluding trade and other payables and provisions)	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	-	-

For material joint ventures, the above profit and loss amounts include the following:

	SDG Loan Fund S.C.A SICAV SIF	
	2023	2022
Interest income	122	-
interest expense	-	-
Income tax expense	-	-

Reconciliation of summarized financial information to carrying amount for material joint ventures:

	SDG Loan Fund S.C.A SICAV SIF	
	2023	2022
Net assets of joint venture	130,161	-
Economic ownership	10%	-
Goodwill	-	-
Carrying amount	11,691	-

During the current financial year FMO made an initial investment of US\$13 million into the SDG Loan Fund S.C.A. SICAV SIF. This investment is treated as a joint venture in accordance with IAS 28 and IFRS 11 as FMO exercises joint control over the Fund, in cooperation with the other co-investors via the Fund investment committee and shareholders advisory committee.

FMO also has rights to the net assets of the Fund. FMO's share of the capital of the Fund is 10%. FMO's total commitment to the Fund is US\$111 million.

The Fund is an investment fund which co-invests with FMO in loans in emerging markets. It is incorporated under the laws of the Grand Duchy of Luxembourg, having its registered office at 6A, route de Trèves, L-2633 Senningerberg, Luxembourg and registered under number B259701 with the Luxembourg Trade and Companies' Register.

## 11. Property, plant and equipment

Property, plant and equipment (PP&E) includes tangible assets that are used by FMO. These assets include buildings, office equipment and vehicles that are rented by FMO from third parties. These leases have been recognized on the statement of financial position following the implementation of IFRS 16.

Furthermore, PP&E includes furniture owned by FMO and costs related to leasehold improvements.

	Furniture	Leasehold improvement	Other	Right-of-use assets	Total
Cost at December 31, 2022	9,462	8,695	38	29,023	47,218
Accumulated amortization at December 31, 2022	-8,600	-2,186	-2	-13,109	-23,897
<b>Balance at December 31, 2022</b>	<b>862</b>	<b>6,509</b>	<b>36</b>	<b>15,914</b>	<b>23,321</b>
Carrying amount at January 1, 2023	862	6,509	36	15,914	23,321
Investments	193	-	-	881	1,074
Depreciation	-331	-894	-8	-3,274	-4,507
Disposals	-	-	-	-29	-29
Accumulated depreciation on disposals	-	-	-	-	-
<b>Balance at December 31, 2023</b>	<b>724</b>	<b>5,615</b>	<b>28</b>	<b>13,492</b>	<b>19,859</b>
Cost at December 31, 2023	9,655	8,695	38	29,875	48,263
Accumulated amortization at December 31, 2023	-8,931	-3,080	-10	-16,383	-28,404
<b>Balance at December 31, 2023</b>	<b>724</b>	<b>5,615</b>	<b>28</b>	<b>13,492</b>	<b>19,859</b>

Right-of-use assets consist of operational leases and include buildings, vehicles and office equipment.

	Buildings	Office equipment	Vehicles	Total right-of-use assets	Lease liabilities
Balance at January 1, 2022	16,276	349	2,090	18,715	18,915
Additions	85	18	367	470	470
Disposals	-	-	-11	-11	-11
Depreciation	-2,374	-118	-768	-3,260	-
Finance costs	-	-	-	-	139
Payments	-	-	-	-	-3,369
<b>Balance at December 31, 2022</b>	<b>13,987</b>	<b>249</b>	<b>1,678</b>	<b>15,914</b>	<b>16,144</b>
Additions	474	24	382	880	880
Disposals	-	-	-29	-29	-29
Depreciation	-2,428	-122	-723	-3,273	-
Finance costs	-	-	-	-	122
Payments	-	-	-	-	-3,385
<b>Balance at December 31, 2023</b>	<b>12,033</b>	<b>151</b>	<b>1,308</b>	<b>13,492</b>	<b>13,732</b>



### Maturity breakdown of the leases

	< 1 year	1-5 years	>5 years	Total
Buildings	2,422	9,832	-	12,254
Office Equipment	76	61	20	157
Vehicles	620	701	-	1,321
<b>Total at December 31, 2023</b>	<b>3,118</b>	<b>10,594</b>	<b>20</b>	<b>13,732</b>
	< 1 year	1-5 years	>5 years	Total
Buildings	2,325	9,461	2,410	14,196
Office Equipment	96	135	22	253
Vehicles	690	1,005	-	1,695
<b>Total at December 31, 2022</b>	<b>3,111</b>	<b>10,601</b>	<b>2,432</b>	<b>16,144</b>

## 12. Intangible assets

Intangible assets include costs associated with identifiable and unique software products or internally developed software, controlled by FMO. For internally developed software, only costs related to the development phase are capitalized. Expenses related to the research phase are immediately recognized in the statement of profit or loss under 'Temporary staff expenses'.

	ICT software	Internally developed software	Total
Cost at December 31, 2022	7,195	33,130	40,325
Accumulated amortization at December 31, 2022	-5,606	-22,764	-28,370
<b>Balance at December 31, 2022</b>	<b>1,589</b>	<b>10,366</b>	<b>11,955</b>
Carrying amount at January 1, 2023	1,589	10,366	11,955
Investments	803	7,839	8,642
Amortization	-718	-4,494	-5,212
Impairment/disposals	-	-60	-60
Accumulated depreciation on disposals	-	-	-
<b>Accumulated amortisation at December 31, 2023</b>	<b>1,674</b>	<b>13,651</b>	<b>15,325</b>
Cost at December 31, 2023	7,998	40,909	48,907
Accumulated amortization at December 31, 2023	-6,324	-27,258	-33,582
<b>Balance at December 31, 2023</b>	<b>1,674</b>	<b>13,651</b>	<b>15,325</b>

Impairment relates to software that is not in use anymore.

## Notes to the consolidated statement of financial position: liabilities and equity

### 13. Short-term credits

	2023	2022
Collateral received (related to derivative financial instruments)	97,114	52,156
<b>Balance at December 31</b>	<b>97,114</b>	<b>52,156</b>

Short-term credits reflect the cash collateral received for derivative contracts held with positive value. Refer also to the section 'Counterparty credit risk' in the 'Risk management' chapter.

## 14. Current accounts with State funds and other programs (liability)

	2023	2022
Current account MASSIF	-	148
Current account BP	-	493
Current account AEF	31	405
Current account GCF	12	12
<b>Balance at December 31</b>	<b>43</b>	<b>1,058</b>

## 15. Other financial liabilities

### Other liabilities at fair value through profit or loss

	2023	2022
Balance at January 1	82,328	-
Purchases and contributions	2,916	5,681
Return of Capital (including sales)	-	-26
Changes in fair value	-23,741	29,214
Other changes	12,500	47,459
<b>Balance at December 31</b>	<b>74,003</b>	<b>82,328</b>

Other changes in 2023 relate to the recognition of liabilities for FMO's obligations to the public fund programs managed on behalf of the Dutch State. Other changes in 2022 relate to consolidation of FMO's Ventures Program (refer to section Group accounting and consolidation; 'Other financial liabilities' in the accounting policies chapter).

## 16. Debentures and notes

Debentures and notes include issued debt instruments in various currencies under FMO's debt issuance programs. In addition, a subordinated note of €250 million is also included in the debentures and notes. Under IFRS this note is classified as a financial liability, but for regulatory purposes it is considered Tier 2 capital. This note was issued on July 15, 2020 with a maturity date of January 15, 2031. The note is issued at 99.764 percent of the aggregated nominal amount at a fixed coupon rate of 0.625 percent. The note is non-convertible and can be called on first call date after five years until July 15, 2026.

	2023	2022
Balance at January 1	5,572,253	5,426,596
Amortization of premiums/discounts	-18,135	1,294
Proceeds from issuance	1,535,514	1,374,288
Redemptions	-1,052,840	-1,011,379
Changes in fair value	138,699	-341,896
Changes in accrued expense	25,096	8,978
Exchange rate differences	-139,904	114,372
<b>Balance at December 31</b>	<b>6,060,683</b>	<b>5,572,253</b>

Line item 'Changes in fair value' represents the fair value changes attributable to the hedge risk in connection with the debentures and notes used for hedge accounting purposes.

### Carrying value of the debentures

	2023	2022
Debentures and notes under hedge accounting	5,301,915	4,695,248
Debentures and notes valued at AC	758,768	877,005
<b>Balance at December 31</b>	<b>6,060,683</b>	<b>5,572,253</b>

## Nominal amounts of the debentures and notes

	2023	2022
Debentures and notes under hedge accounting	5,384,764	4,942,729
Debentures and notes valued at AC	745,281	865,670
<b>Balance at December 31</b>	<b>6,130,045</b>	<b>5,808,399</b>

## 17. Accrued liabilities

	2023	2022
Personnel payables	3,200	2,719
Tax refund credits	7,312	6,048
Accrued costs	3,772	14,099
Payables to third parties	15,214	1,600
<b>Balance at December 31</b>	<b>29,498</b>	<b>24,466</b>

## 18. Other liabilities

	2023	2022
Costs related to guarantees	1,311	1,153
Payments to third parties	197	78
Lease liabilities	13,733	16,144
Other liabilities	20,580	34,888
<b>Balance at December 31</b>	<b>35,821</b>	<b>52,263</b>

Lease liabilities relate to IFRS 16 leases. For a breakdown of the lease liabilities, refer to the 'Property, plant and equipment' note.

## 19. Provisions

The amounts recognized in the statement of financial position are as follows.

	2023	2022
Pension schemes	21,367	18,783
Allowance for loan commitments	9,549	8,572
Allowance for guarantees	11,279	12,031
Other provisions	2,727	2,727
<b>Balance at December 31</b>	<b>44,922</b>	<b>42,113</b>

The movements in allowance for loan commitments and liabilities for guarantees are set out in 'Off-balance sheet information' section.

### *Pension schemes*

FMO's pension schemes cover all its employees. Up to 2022 the pension schemes were according to defined benefit plans and were mostly based on average-pay-schemes. FMO has a contract with a well-established insurer, by which all nominal pension obligations are guaranteed.

Due to the expiration on December 31, 2021, of FMO's pension agreement and taking into account upcoming changes in regulations impacting defined benefit pension plans, FMO made the decision during 2021 to amend its pension plan for existing and future employees. Starting from January 1, 2022, employees participate in a defined contribution plan. The defined benefit obligation reflects the net pension liability attributable to members of the defined benefit plan that ended on December 31, 2021.

The actuarial loss on the pension liability amounts to €4,2m (2022: €1,2m profit). This loss is mainly due to the decrease of the discount rate and the increase of the expected indexations for inactive participants.

The amounts recognized in the statement of financial position are as follows:

	2023	2022
Present value of funded defined benefit obligations	200,131	179,041
Fair value of plan assets	-178,764	-160,258
<b>Liability included in provisions</b>	<b>21,367</b>	<b>18,783</b>

#### Defined benefit obligations

	2023	2022
Present value at January 1	179,041	275,888
Service cost	-	-
Interest cost	6,275	3,454
Actuarial (gains)/losses due to changes in financial assumptions	18,401	-109,072
Actuarial (gains)/losses due to changes in demographic assumptions	-	3,070
Actuarial (gains)/losses due to experience assumptions	-	9,287
Past service cost (curtailment)	-	-
Benefits paid	-3,586	-3,586
<b>Present value at December 31</b>	<b>200,131</b>	<b>179,041</b>

#### Plan assets

	2023	2022
Fair value at January 1	-160,258	-254,407
Expected return on plan assets	-5,650	-3,194
Employer contribution	-2,269	-1,746
Plan participants' contributions	-	-
Actuarial (gains)/losses due to changes in financial assumptions	-14,671	101,745
Actuarial (gains)/losses due to changes in demographic assumptions	-	-2,577
Actuarial (gains)/losses due to experience assumptions	498	-3,665
Benefits paid	3,586	3,586
<b>Fair value at December 31</b>	<b>-178,764</b>	<b>-160,258</b>

No direct asset allocation is held in relation to the new pension insurance contract. Therefore, the fair value of the plan assets can no longer be determined based on a certain asset allocation. Due to this, paragraph 115 of IAS 19 has been applied in estimating the fair value of plan assets based on accrued pension rights and actuarial rates.

The movement in the liability recognized in the statement of financial position is as follows:

	2023	2022
Balance at January 1	18,783	21,481
Annual expense	696	331
Contributions paid	-2,339	-1,817
Actuarial gains/losses	4,227	-1,212
<b>Balance at December 31</b>	<b>21,367</b>	<b>18,783</b>

The amounts recognized in the statement profit or loss account as net periodic pension cost are as follows:

	2023	2022
Current service cost	71	71
Net interest cost	625	260
<b>Subtotal</b>	<b>696</b>	<b>331</b>
Contribution by plan participants	-	-
Past service cost (curtailment)	-	-
<b>Total annual expense</b>	<b>696</b>	<b>331</b>

The principal assumptions used for the purpose of the actuarial valuations at year-end are as follows:

	2023 (%)	2022 (%)
Defined benefit obligation	3.1	3.5

Significant actuarial assumption is the discount rate. Reasonably possible changes to the discount rate, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Increase (+0.5%)	Decrease (-0.5%)
Discount rate	-19,799	20,923

## Other provisions

Other provisions mainly consists of legal provisions.

	2023	2022
Balance at January 1	2,727	2,075
Additions	250	1,310
Releases	-	-
Paid out	-250	-658
<b>Balance at December 31</b>	<b>2,727</b>	<b>2,727</b>

Legal provisions are based on the assessments of individual uncertain issues and are determined on the best estimate of the individual most likely outcome

## 20. Shareholders' equity

### Share capital

The authorized capital amounts to €45,380k, consisting of A shares of €22.69 each, which are held by the Dutch Government, and B shares of €22.69 each, which are held by commercial banks and private investors. The Dutch Government holds 51 percent of the total shares of FMO, while commercial banks and private investors hold the remaining 49 percent. The voting rights for A shares and B shares are equal. In addition, the equity of the company comprises of three reserves, in line with the Agreement State-FMO of November 16, 1998. These are the share premium reserve, the development fund and the contractual reserve. As long as the company continues its activities, these reserves are not available to the shareholders. Upon liquidation of FMO these reserves fall to the Dutch Government, after settlement of the contractual return to the shareholders.

Authorized share capital	2023	2022
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
<b>Balance at December 31</b>	<b>45,380</b>	<b>45,380</b>
Issued and paid-up share capital	2023	2022
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
<b>Balance at December 31</b>	<b>9,076</b>	<b>9,076</b>

### Share premium reserve

Share premium reserve is solely contributed by shareholders of A shares on the transfer to the company of investments administrated on behalf of the Dutch Government at the time of the financial restructuring and amounts to €29,272k (2022: €29,272k).

### Contractual reserve

The addition relates to that part of the annual profit that FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998 (see section 'Additional information').

## Development fund

This special purpose reserve contains the allocation of risk capital provided by the Dutch Government to finance the portfolio of loans and equity investments.

## Fair value reserve

	2023	2022
Balance at January 1	38,559	30,910
Fair value reserve of equity instruments at FVOCI	16,341	10,308
Income tax effect other comprehensive income	-4,216	-2,659
Transfer reserve	14,524	-
<b>Balance at December 31</b>	<b>65,208</b>	<b>38,559</b>

"Transfer reserve" line item relates to the transfer of unrealized fair value gains on financial assets measured at fair value through other comprehensive income to the fair value reserve. The transfer arises out of a reorganization of the underlying group of investee entities which did not result in full realization of the fair value gains.

## Actuarial result pensions

	2023	2022
Balance at January 1	-6,533	-7,433
Gains/(losses) during the period	-3,137	900
<b>Balance at December 31</b>	<b>-9,670</b>	<b>-6,533</b>

## Translation reserve

	2023	2022
Balance at January 1	17,544	-392
Change	-9,452	17,936
<b>Balance at December 31</b>	<b>8,092</b>	<b>17,544</b>

## Other reserves

	2023	2022
Balance at January 1	43,338	43,338
Transfer reserve	-14,524	-
Allocation of undistributed result prior year	36	-
<b>Balance at December 31</b>	<b>28,850</b>	<b>43,338</b>

"Transfer reserve" line item relates to the transfer of unrealized fair value gains on financial assets measured at fair value through other comprehensive income to the fair value reserve. The transfer arises out of a reorganization of the underlying group of investee entities which did not result in full realization of the fair value gains.

## Capital Adequacy

FMO's Total Capital Ratio decreased from 24.9 percent at year-end 2022 to 23.0 percent at year-end 2023, well above the Supervisory Review and Evaluation Process (SREP) minimum and other regulatory requirements.

## Non-controlling interests

Equis DFI Feeder L.P.	2023	2022
Balance at January 1	-	24
Fair value changes	-	-
Changes in subsidiary	-	-
Share in net profit	-	-24
<b>Balance at December 31</b>	<b>-</b>	<b>-</b>

## Notes to the consolidated statement of profit or loss

### 21. Net interest income

#### Interest income

	2023	2022
Interest on loans measured at AC	434,357	329,034
Interest on collateral delivered	14,606	1,282
Interest income related to banks	17,506	1,849
Interest on interest-bearing securities	7,469	3,091
<b>Total interest income from financial instruments measured at AC</b>	<b>473,938</b>	<b>335,256</b>
Interest on loans measured at FVPL	43,905	43,488
Interest on short-term deposits at FVTPL	31,605	8,646
Interest on derivatives related to asset portfolio	-16,857	-36,306
<b>Total interest income from financial instruments measured at FVPL</b>	<b>58,653</b>	<b>15,828</b>
<b>Total interest income</b>	<b>532,591</b>	<b>351,084</b>

Included in the interest income on loans is €30.7m (2022: €28.8m) related to Stage 3 loans (adjusted on basis of net carrying amount).

#### Interest expense

	2023	2022
Interest on debentures and notes in hedge accounting	-106,940	-67,235
Interest on debentures and notes not in hedge accounting	-63,329	-59,437
Interest on short-term credits	-	-140
Interest expenses related to banks (assets)	-	-2,056
<b>Total interest expense from financial instruments measured at AC</b>	<b>-170,269</b>	<b>-128,868</b>
Interest on derivatives related to funding portfolio	-140,756	12,707
<b>Total interest expense from financial instruments measured at FVPL</b>	<b>-140,756</b>	<b>12,707</b>
Interest on leases	-122	-139
<b>Other interest expenses</b>	<b>-122</b>	<b>-139</b>
<b>Total interest expense</b>	<b>-311,147</b>	<b>-116,300</b>

Interest expense related to banks is incurred on balances held at central banks. In 2022 overnight deposit rates at central banks were negative for part of the year in the Eurozone, implying interest expense on assets.

In the derivatives related to funding FMO usually receives fixed EUR/USD/other currency and pays floating rate (e.g., USD SOFR). As the USD, EUR, SEK and AUD interest rates increased in 2023 compared with 2022 (due to the interest rate increase by central banks) interest expense for these derivatives was significantly higher in 2023.

### 22. Dividend income

Dividend income relates to income from equity investments.

	2023	2022
Dividend income direct investments	18,587	33,666
Dividend income fund investments	15,894	7,757
<b>Total dividend income</b>	<b>34,481</b>	<b>41,423</b>

## 23. Results from equity investments

	2023	2022
<b>Results from equity investments</b>		
Unrealized results from capital results	13,208	-32,816
Unrealized results from FX conversions - capital results	-2,005	9,269
Unrealized results from FX conversions - cost price	-59,526	73,356
<b>Net results from fair value re-measurements</b>	<b>-48,323</b>	<b>49,809</b>
<b>Results from sales</b>		
Realized results	42,573	6,124
Release unrealized results	-34,064	-6,667
<b>Net results from sales</b>	<b>8,509</b>	<b>-543</b>
<b>Net results from equity investments</b>	<b>-39,814</b>	<b>49,266</b>

## 24. Net fee and commission income

	2023	2022
Prepayment fees	347	4,774
Fees for FVPL loans	691	170
Administration fees	1,674	1,955
Other fees (for example: arrangement, cancellation and waiver fees)	5,025	4,013
<b>Total fee and commission income</b>	<b>7,737</b>	<b>10,912</b>
Custodian fees and charges for the early repayment of debt securities	-969	-1,077
Guarantee fees related to unfunded risk participants	-13,112	-11,644
Other fee expenses	-121	-88
<b>Total fee and commission expense</b>	<b>-14,202</b>	<b>-12,809</b>
<b>Net fee and commission income</b>	<b>-6,465</b>	<b>-1,897</b>

## 25. Results from financial transactions

	2023	2022
Gains/(losses) on remeasurement on valuation of hedged items	-138,699	341,896
Gains/(losses) on remeasurement of hedging instruments	134,237	-339,323
<b>Net result on hedge accounting</b>	<b>-4,462</b>	<b>2,573</b>
Result on sale and valuation of treasury derivatives not under hedge accounting	-23,096	42,768
Result on sale and valuation of derivatives related to asset portfolio	2,933	-3,989
Result on sale and valuation of loans at FVPL	14,662	-32,706
<b>Net result on financial instruments mandatory at FVPL</b>	<b>-5,501</b>	<b>6,073</b>
Foreign exchange results loans at FVPL	-15,705	-29,522
Foreign exchange results derivatives	57,500	-165,603
Foreign exchange results on other financial assets/liabilities	-35,500	196,703
<b>Net foreign exchange results</b>	<b>6,295</b>	<b>1,578</b>
Other financial results	57	159
Other changes	11,240	-29,214
<b>Other results from financial transactions</b>	<b>11,297</b>	<b>-29,055</b>
<b>Net result from financial transactions</b>	<b>7,629</b>	<b>-18,831</b>

Other changes in 2023 relate to the recognition of liabilities for FMO's obligations to the public fund programs managed on behalf of the Dutch State. Other changes in 2022 relate to consolidation of FMO's Ventures Program (refer to section Group accounting and consolidation; 'Other financial liabilities' in the accounting policies chapter).



## 26. Remuneration for services rendered

	2023	2022
Funds and programs managed on behalf of the State:		
- MASSIF	10,073	11,518
- Building Prospects	9,456	9,332
- Access to Energy Fund	3,471	3,933
Syndication fees, remuneration from directorships and others	8,335	8,154
<b>Total remuneration for services rendered</b>	<b>31,335</b>	<b>32,937</b>

Remuneration for managing funds and programs is assessed for market conformity and expressed in gross amounts. Related management expenses are included in operating expenses.

## 27. Gains and losses due to derecognition

Gains and losses due to derecognition arise from loans measured at amortized cost when sold to a third party or when terms and conditions of a loan arrangement have been modified significantly.

	2023	2022
Gains and losses due to derecognition	2,464	299
<b>Total gains and losses due to derecognition</b>	<b>2,464</b>	<b>299</b>

## 28. Other operating income

	2023	2022
Other operating income	79	-
<b>Total other operating income</b>	<b>79</b>	<b>-</b>

## 29. Staff costs

The number of FTE at December 31, 2023, amounted to 773 (2022: 661 FTEs). All FTE are employed in the Netherlands except for 1 FTE, which is employed in our Costa Rican office.

	2023	2022
Salaries	-74,487	-61,885
Social security costs	-9,433	-7,527
Pension costs	-16,377	-13,652
Temporaries	-17,805	-17,236
Travel and subsistence allowances	-5,069	-3,889
Other personnel expenses	-4,289	-4,204
<b>Total staff costs</b>	<b>-127,460</b>	<b>-108,393</b>

The Pension costs line item 2023 includes an amount of €15,681k related to the defined contribution plan expenses.

Other personnel expenses include reimbursements on staff costs amounting to €4,888k (2022 €4,904k) which relate to activities performed on behalf of various government agencies. These reimbursements are treated as government grants related to income and are presented as a reduction against staff costs.

## 30. Administrative expenses

	2023	2022
IT expenses	-11,172	-8,920
Advisory costs	-14,741	-8,060
Other operational expenses	-13,818	-15,107
<b>Total administrative expenses</b>	<b>-39,731</b>	<b>-32,087</b>

These expenses consist primarily of services from third parties and other operational expenses. The remuneration paid to the Supervisory Board is included in these expenses. At December 31, 2023, the Supervisory Board consisted of five members (2022: five). The members of the Supervisory Board were paid a total remuneration of €120k (2022: €115k).

With reference to Section 2:382a(1) and (2) of the Netherlands Civil Code, the following fees for the financial year have been charged by Ernst & Young Accountants LLP (2022: Ernst & Young Accountants LLP) to the company and its subsidiaries. Other assurance services include assurance in respect of sustainability disclosures, regulatory reporting, specific financial reporting of government and EU funds and capital market transactions. Ernst & Young Accountants LLP has not provided any non-assurance services to FMO.

### Total fees charged by auditors

	2023	2022
Statutory audit of annual accounts	-908	-930
Other assurance services	-1,099	-950
<b>Total</b>	<b>-2,007</b>	<b>-1,880</b>

## 31. Income taxes

### Income tax by type

	2023	2022
Current income taxes	2,869	19,653
Deferred income taxes	2,081	-2,780
<b>Total income tax</b>	<b>4,950</b>	<b>16,873</b>

The reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	2023	2022
Profit/(loss) before taxation	59,972	-15,838
Income taxes at statutory rate of 25.8% (2022 25.8%)	-15,473	4,086
Increase/decrease resulting from:		
Settlement with local withholding taxes	2,510	2,186
Non-taxable income (participation exemption facility)	15,034	10,785
Tax adjustments to prior periods	2,977	83
Other	-98	-267
<b>Total income tax</b>	<b>4,950</b>	<b>16,873</b>
Effective income tax rate	-8.3%	106.5%

### Current income tax

FMO paid €15,501 (2022: €43,771) to the tax authorities. The remaining current income tax receivable amounts to €29,634 (2022: €20,942). Per year end 2023 unused tax losses amount to €0 (2022: €0) and unused tax credits amount to €0 (2022: €0)

### Deferred tax

FMO's deferred income tax assets and liabilities are summarized as follows:

	2023	2022
<b>Deferred tax assets</b>		
Pension provision	2,154	2,573
Actuarial gains and losses on defined benefit plans	3,363	2,272
Unused tax credits	5,655	3,158
Leases	58	55
<b>Total deferred tax assets</b>	<b>11,230</b>	<b>8,058</b>
<b>Deferred tax liabilities</b>		
Fair value movements equity investments	-7,943	-13,407
<b>Total deferred tax liabilities</b>	<b>-7,943</b>	<b>-13,407</b>
<b>Net balance at December 31</b>	<b>3,287</b>	<b>-5,349</b>

## Notes to the consolidated statement of comprehensive income

### 32. Other comprehensive income

#### Tax effects relating to each component of other comprehensive income

	2023		
	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	-9,452	-	-9,452
Fair value reserve of equity instruments at FVOCI	16,341	-4,216	12,125
Actuarial gains/losses on defined benefit plans	-4,227	1,090	-3,137
Release from fair value reserve	-	-	-
<b>Total</b>	<b>2,662</b>	<b>-3,126</b>	<b>-464</b>

	2022		
	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	17,936	-	17,936
Fair value reserve of equity instruments at FVOCI	10,308	-2,659	7,649
Actuarial gains/losses on defined benefit plans	1,212	-312	900
Release from fair value reserve	-	-	-
<b>Total</b>	<b>29,456</b>	<b>-2,971</b>	<b>26,485</b>

## Notes to the consolidated statement of cash flows

### 33. Banks and short-term deposits

The balance as mentioned in the cash flow statement corresponds with the following items in the consolidated statement of financial position:

	2023	2022
Banks	49,273	26,807
Short-term deposits measured at AC	1,220,359	1,144,801
Short-term deposits measured at FVPL	613,031	223,575
-of which > 3 months	-15,665	-20,403
<b>Banks and short-term deposits &lt; 3 months at December 31</b>	<b>1,866,997</b>	<b>1,374,780</b>

Cash and cash equivalents include banks, short-term deposits at AC and a part of short-term deposits at FVPL, which consists of commercial paper with a maturity of less than three months. For breakdown of short-term deposits, refer to the 'Short-term deposits' note.

## Off-balance sheet information

### 34. Irrevocable and contingent liabilities

To meet the financial needs of borrowers, FMO enters into various irrevocable commitments (loan commitments, equity commitments and guarantee commitments) and contingent liabilities. These contingent liabilities consist of financial guarantees, which oblige FMO to make payments on behalf of the borrowers in case the borrower fails to fulfill payment obligations. Though these obligations are not recognized on the statement of financial position, they are subject to credit risk similar to loans to the private sector. Therefore, provisions are calculated for financial guarantees and loan commitments according to the ECL measurement methodology.

Furthermore, the contingencies include an irrevocable payment commitment (IPC) to the Single Resolution Board (SRB) in Brussels. In April 2016, the SRB provided credit institutions with the option to fulfill part of their obligation to pay the annual ex-ante contributions to the Single Resolution Fund through IPCs.

Moreover, FMO receives guarantees from various guarantors, which participate in the risk FMO takes. For more details refer to section 'Credit risk' within the 'Risk management' chapter.

The outstanding amount for financial guarantees issued by FMO and the amount of guarantees received by FMO is as follows:

	2023	2022
<b>Contingent liabilities</b>		
Encumbered funds (Single Resolution Fund)	2,946	2,130
Effective guarantees issued	154,675	138,359
<b>Total guarantees issued</b>	<b>157,621</b>	<b>140,489</b>
Effective guarantees received	-403,008	-449,913
<b>Total guarantees received</b>	<b>-403,008</b>	<b>-449,913</b>

Nominal amounts for irrevocable facilities are as follows:

	2023	2022
Irrevocable facilities		
Contractual commitments for disbursements of:		
· Loans	751,393	565,435
· Equity investments and associates	875,906	754,898
· Contractual commitments for financial guarantees given	195,733	180,836
<b>Total irrevocable facilities</b>	<b>1,823,032</b>	<b>1,501,169</b>

The movement in exposure for the financial guarantees issued (including contractual commitments) and ECL allowance is as follows:

### Movement financial guarantees in 2023

	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance
Balance at January 1, 2023	305,172	-1,314	-	-	14,023	-10,717	319,195	-12,031
Additions	193,805	-1,084	978	-3	-	-	194,783	-1,087
Exposures matured (excluding write-offs)	-112,260	515	-16,376	28	-	-	-128,636	543
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-42,260	210	42,260	-210	-	-	-	-
Transfers to Stage 3	-8,414	29	-	-	8,414	-29	-	-
Changes to models and inputs used for ECL calculations	-	540	-	-327	4,255	580	4,255	793
Foreign exchange adjustments	-32,302	168	-6,009	5	-878	329	-39,189	502
<b>Balance at December 31, 2023</b>	<b>303,741</b>	<b>-936</b>	<b>20,853</b>	<b>-507</b>	<b>25,814</b>	<b>-9,837</b>	<b>350,408</b>	<b>-11,280</b>

	Stage 1		Stage 2		Stage 3		Total	
	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance	Outstanding exposure/ Nominal amount	ECL allowance
Balance at January 1, 2022	203,653	-723	2,138	-36	-	-	205,791	-759
Additions	283,786	-801	-	-	-	-	283,786	-801
Exposures matured (excluding write-offs)	-169,544	611	-2,169	783	-27,799	202	-199,512	1,596
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-13,182	117	-	-	13,182	-117	-	-
Changes to models and inputs used for ECL calculations	398	-524	-	-744	27,807	-10,382	28,205	-11,650
Foreign exchange adjustments	61	6	31	-3	833	-420	925	-417
<b>Balance at December 31, 2022</b>	<b>305,172</b>	<b>-1,314</b>	<b>-</b>	<b>-</b>	<b>14,023</b>	<b>-10,717</b>	<b>319,195</b>	<b>-12,031</b>

Financial guarantees represent €154,675k (2022: €138,359k) classified as contingent liabilities and €195,733k (2022: €180,836k) classified as irrevocable facilities.

## Movement of loan commitments and ECL allowances 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
Balance at January 1, 2023	426,057	-2,387	127,071	-6,185	5,504	-	558,632	-8,572
Additions	2,043,510	-5,183	13,665	-994	-	-	2,057,175	-6,177
Exposures derecognized or matured (excluding write-offs)	-1,831,516	3,778	-65,547	5,709	-1,176	-	-1,898,239	9,487
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-56,473	484	56,473	-484	-	-	-	-
Transfers to Stage 3	-	-	-394	-	394	-	-	-
Changes to models and inputs used for ECL calculations	-	134	-	-4,704	-	-	-	-4,570
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	-15,839	82	-4,626	200	-213	-	-20,678	282
<b>Balance at December 31, 2023</b>	<b>565,739</b>	<b>-3,092</b>	<b>126,642</b>	<b>-6,458</b>	<b>4,509</b>	<b>-</b>	<b>696,890</b>	<b>-9,550</b>

	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
Balance at January 1, 2022	532,219	-2,397	64,972	-880	10,477	-	607,668	-3,277
Additions	1,876,065	-4,684	171,114	-3,837	297	-	2,047,476	-8,521
Exposures derecognized or matured (excluding write-offs)	-1,984,850	3,912	-133,783	3,329	-5,565	-	-2,124,198	7,241
Transfers to Stage 1	46,138	-506	-46,138	506	-	-	-	-
Transfers to Stage 2	-67,946	456	67,946	-456	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	950	-	-4,932	-	-	-	-3,982
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	24,431	-118	2,960	85	295	-	27,686	-33
<b>Balance at December 31, 2022</b>	<b>426,057</b>	<b>-2,387</b>	<b>127,071</b>	<b>-6,185</b>	<b>5,504</b>	<b>-</b>	<b>558,632</b>	<b>-8,572</b>

## Related party information

FMO defines the Dutch Government, FMO's subsidiaries, associates, the Management Board (MB) and Supervisory Board (SB) as related parties.

## Dutch Government

The Dutch Government holds 51 percent of FMO's share capital. The remaining 49 percent is held by commercial banks and other private investors. FMO received its last contribution to the development fund from the Dutch Government in 2005.

FMO has a support agreement with the Government which is detailed in the 'Additional Information' section. This agreement sets out the conditions for when the Government is obliged to support FMO in meeting its obligations. The agreement includes an arm's length amount that is payable by FMO annually. This amount is not material to the financial results of FMO. The updated agreement introduces a limitation on the amount that can be borrowed by FMO in financial markets. This limitation is currently set at 2.5 times FMO's current total debt.

FMO stimulates the development of small and medium Dutch-sponsored enterprises in selected emerging markets through the 'Faciliteit Opkomende Markten' (FOM). This is a joint initiative with the Dutch Government. The Dutch Government acts as a guarantor for 80 percent to 95 percent of the outstanding loans. As of 1 July 2016, the mandate of this facility has

been transferred to the 'Rijksdienst voor Ondernemend Nederland'. After the transfer, only existing loans in the portfolio and pipeline were serviced. These loans are included in the consolidated financial statements under 'Loans to the private sector'.

FMO manages several government programs at the risk and expense of the Dutch Government. Below is a description of the various programs:

1. *MASSIF*: FMO manages the MASSIF program on behalf of the Dutch Government. MASSIF enhances financial inclusion for micro-entrepreneurs and small- and medium-sized enterprises (MSMEs) in the poorest social-economic segments, which are underserved by the local financial sector. The program supports financial intermediaries that reach out to MSME's in fragile and low-income countries, in rural areas and agriculture, female and young entrepreneurs and in innovative sectors. FMO has a 2.16 percent (2022: 2.16 percent) stake in this program. For 2023, FMO received a fixed remuneration of €10.1 million (2022: €11.5 million). In 2023, no loans or equity investments were transferred from MASSIF to FMO (2022: one equity investment (€32.7 million)).

2. *Building Prospects*: Through this program, FMO focuses on the development of the social and economic infrastructure in least developed countries. The objective is to stimulate private investors to invest in private or public-private infrastructure projects in these countries. For 2023, FMO received a fixed remuneration for services rendered of €9.5 million (2022: €9.3 million). In 2023, no loans and private equity investment positions were transferred from Building Prospects to FMO.

3. *Access to Energy Fund (I and II)*: The Access to Energy Fund I was set up by the Dutch Government and FMO in 2007 to support private sector projects aimed at providing long-term access to energy services in Sub-Saharan Africa. FMO provides financing through equity, local currency loans, subordinated debt and grants to facilitate projects that generate, transmit or distribute sustainable energy. In 2017, the Access to Energy Fund II committed US\$55.6 million to Climate Investor One, an investment vehicle with three interlinked funds that invest in projects during their whole lifetime. For 2023, FMO received a fixed remuneration for services rendered of €3.5 million (2022: €3.9 million). In 2023, no loans and private equity positions were transferred from Access to Energy Fund I and II to FMO (2022: one equity investment (€13.9 million)).

4. *Dutch Fund for Climate and Development: Land Use Facility*: In 2019, the Dutch Government awarded a tender to manage the €160,0 million Dutch Fund for Climate and Development (DFCD) to the consortium of FMO, Stichting SNV Nederlandse Ontwikkelingsorganisatie, Stichting Het Wereld Natuur Fonds-Nederland, and Coöperatief Climate Fund Managers U.A. (through Climate Investor Two). FMO is the lead partner in the DFCD consortium and responsible for the management of the DFCD's Land Use Facility. In 2023, the Dutch Government provided €11.7 million for the Land Use Facility, in addition to the aggregate amount of €56.3 million, disbursed in previous years (2022: providing €13.6 million in addition to €42.7 million).

In our role of program manager for the assets under management, FMO holds current account positions with the government programs mentioned above. The balances of those current account positions are disclosed under Note 14.

## Subsidiaries

The consolidated subsidiaries FMO Representative Office LAC Limitada, Asia Participations B.V. and Equis DFI Feeder L.P. are used for intermediate holding purposes. The subsidiary FMO Investment Management B.V. carries out portfolio management activities for third party investment funds that are invested in FMO's transactions in emerging market and developing economies.

## Associates and joint ventures

We hold stakes directly in private equity companies or indirectly via fund structures. These equity stakes are held as a part of FMO's overall investing activities, or in some cases, for strategic purposes. Investments are treated as associates or joint ventures when the criteria in the accounting policies are met.

Reference is made to the significant accounting policies and the 'Investments in associates and joint ventures' note for transactions during the year.

During the 2023 financial year FMO made an initial contribution of EUR 13 million in the SDG Loan Fund S.C.A. SICAV SIF. This investment is accounted for as a joint venture. In addition to the initial investment, FMO sold EUR 102 million worth of private sector loans to the fund. The loans were sold based on their outstanding nominal amounts, which is deemed to be an arm's length price for these investments.

# Remuneration of the Management Board

## General

FMO's remuneration policy for the Management Board aims to attract, motivate and retain capable directors with sufficient knowledge and experience in international development finance. The remuneration policy is aligned with the mission of FMO, the corporate values, the strategy, the risk appetite as well as with the expectations of the various stakeholders. The remuneration policy is based on a market median, composed of two equal proportions of a private benchmark (Dutch financial sector) and a public benchmark, taking into account the principles as applied by the Dutch Government as majority shareholder of FMO.

Furthermore, the policy aims to be unambiguous and transparent and should never encourage of directors to act in their own interest, or to take risks that do not fit within the mission and established strategy of the company. Neither should the policy reward behavior of failing directors upon discharge.

Employment contracts of members of the Management Board are awarded for a definite period of time (with exception of one internal appointment). In the event the employment contract is terminated before the expiry date, the maximum severance payment will amount one year's salary, unless the board member resigns voluntary, or the termination is the result of his or her actions.

The remuneration policy for the Management Board will be reviewed every three to four years and amendments will be subject to approval of the AGM. In 2023 a benchmark review has been conducted by an external consultant. During the 2023 AGM amendments to the remuneration policy were made with respect to indemnity arrangement for former, current and future Management Board members in alignment with standard business practice. Secondly, the number and duration of possible re-appointments of Management Board members has been amended. Depending on the outcome of a recent policy review amendments may be proposed during the 2024 AGM.

## Changes in Management Board

The board consists of five functions: a Chief executive officer, two Co-Chief Investment Officers, a Chief Risk Officer and a Chief Finance & Operations Officer. In 2023, the composition of the board has not changed.

All Management Board members have been appointed for four years. The compensation related to these appointments are aligned with the remuneration policy of the Management Board.

## Remuneration package

The total remuneration consists of a fixed salary (including holiday allowance), a pension arrangement and other benefits. A summary of the employment arrangements and amounts constituting the total remuneration per Management Board member in 2023 are provided below.

## Fixed salary remuneration

As per January 1, 2023 the maximum salary cap-applicable to the CEO increased by 3.5% and per July 1, 2023 by 1% (in conformity with the structural salary adjustment of the collective labor agreement, CLA Banks) to €314k (2022: €300k). During 2023, the fixed remuneration for the CEO was equal to the maximum cap. For the other members of the Management Board this salary cap was €267k and for Directors the salary cap was €230k (as per July 1, 2023). In the future only structural salary adjustments as indicated by the CLA Banks will be applicable to the salary caps.

## Variable compensation

Members of the senior management (Management Board members and Directors) and other members of the identified staff are not entitled to any form of variable income (e.g. individual bonuses).

## Pension arrangements

FMO offers all its employees, including members of the Management Board, a defined contribution pension scheme. For pensionable salary up to the applicable threshold, which for 2023 amounted to €129k, a defined contribution is made by the employer. Accrued pension entitlements in the previous defined benefit scheme remain in the former scheme, in which the nominal pension obligations are guaranteed by a pension insurer.



## Other benefits

The other benefits include accident and disability insurance, appropriate expense allowances and the use of a company car, Dutch national business card or mobility allowance. The company has also taken out a directors' and officers' liability insurance on behalf of the Management Board members.

The members of the Management Board have no options, shares or loans related to the company. Acceptance of ancillary positions requires the explicit approval of the Supervisory Board.

## Tenure

Management Board members can serve two terms of four years and thereafter - by exception only - two extra reappointments of two years can be possible.

All members of the Management Board are appointed for a period of 4 years, which can be renewed. Mrs. Bouaré serves in her second term of appointment, ending in October 2025 and has an employment contract for a definite period of time.

Mr. De Ruijter is serving in his first term and has an employment contract for an indefinite period of time (related to his internal promotion). Mr. Jongeneel is serving in his first term, which ends in September 2025. Ms. Vossen and Mr. Maila started in their first term in 2022, per 1 September and 1 December respectively.

## Remuneration ratios

There are no employees at FMO who earn more than the CEO. In accordance with the GRI Standards, the ratio between the total fixed remuneration of the highest-paid individual, the CEO, and the median of the rest remained 0.28 (2022: 0.29). Or in other words the highest-paid individual received a total fixed remuneration of 3.5 times the amount paid to the median of (the rest of) the total staff population. Compared to what is seen in the financial sector in the Netherlands this ratio remained relatively low.

## Remuneration of the Management Board

On December 31, 2023, the Management Board consisted of five statutory members (2022: five). The total remuneration of the Management Board in 2023 amounts to €1,635k (2022: €1,112k) and is specified as follows:

2023				
	Fixed remuneration	Other short term employee benefits	Pension	Total
Michael Jongeneel (CEO)	312	14	41	367
Fatoumata Bouaré (CFOO)	266	21	47	334
Huib-Jan de Ruijter (CCIO)	266	18	43	327
Peter Maila (CCIO)	266	7	26	299
Franca Vossen (CRO)	266	15	27	308
<b>Total</b>	<b>1,376</b>	<b>75</b>	<b>184</b>	<b>1,635</b>

2022				
	Fixed remuneration	Other short term employee benefits	Pension	Total
Michael Jongeneel (CEO)	299	18	35	352
Fatoumata Bouaré (CFOO)	254	24	44	322
Huib-Jan de Ruijter (CCIO)	254	18	44	316
Peter Maila (CCIO)	21	1	2	24
Franca Vossen (CRO)	85	5	8	98
<b>Total</b>	<b>913</b>	<b>66</b>	<b>133</b>	<b>1,112</b>

Because the number of Management Board members has been extended in 2022 the total numbers are not comparable with the 2023 numbers.

Except for pensions of €184k (2022: €133k) all components above are short term employee benefits.

## Remuneration of Supervisory Board

The remuneration policy for the Supervisory Board will be reviewed every three to four years, taking into account the principles as applied by the Dutch Government as majority shareholder. Amendments will be subject to the approval of the AGM. The members of the Supervisory Board have no shares, options, or loans related to the company.

The annual remuneration of the members of the Supervisory Board is as follows:

Annual remuneration of Supervisory Board members				
	2023			2022
	Remuneration member <sup>1)</sup>	Committees	Total	Total
Dirk Jan van den Berg <sup>2)</sup>	26	3	29	28
Koos Timmermans <sup>3)</sup>	18	4	22	21
Dugald Agble <sup>4)</sup>	18	3	21	20
Reintje van Haeringen <sup>5)</sup>	17	7	24	23
Marjolein Demmers <sup>6)</sup>	17	7	24	23
<b>Total</b>	<b>96</b>	<b>24</b>	<b>120</b>	<b>115</b>

1 As per January 1, 2023, the remuneration of SB members has increased by 3.5 percent and per July 1, 2023 by 1 percent (in alignment with the structural salary increases of the CLA banks).

2 Dirk Jan van den Berg is Chair of the SB and member of the SARC.

3 Koos Timmermans is the Chair of the ARC.

4 Dugald Agble is member of the ARC.

5 Reintje van Haeringen is Chair of the SARC and member of the Impact Committee.

6 Marjolein Demmers is member of the Impact Committee and member of the SARC.

## Subsequent events

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

# Segment information

## Segment reporting by operating segments

The Management Board sets performance targets, approves and monitors the budgets prepared by servicing units. Servicing units are not identical to the strategic sectors.

FMO's strategic sectors represent the economic sectors in which FMO operates. The three strategic sectors are Agribusiness Food and Water, Financial Institutions and Energy, which represent economic sectors. As per December 31, 2023, FMO's Management Board steers on the following four operating segments: Financial Institutions, Energy, Agribusiness Food and Water and Private Equity.

In 2023, two transactions were partly transferred from Agribusiness, Food and Water to Private Equity due to the fact that two loans were converted to equity. The total amount of the transfer was €2 million.

FMO presents the results of the operating segments using a financial performance measure called underlying profit. Underlying profit excludes the EUR/USD currency effects related to the results from equity investments, since all fair value changes including currency effects are now recorded in the profit and loss account instead of shareholder's equity since the adoption of IFRS 9.

Underlying profit as presented below is an alternative performance measure. A reconciliation of the underlying net profit to the net profit as reported under the statement of profit and loss is performed in the table here below.

	<b>2023</b>					
	<b>Financial Institutions</b>	<b>Energy</b>	<b>Agribusiness, Food and Water</b>	<b>Private Equity</b>	<b>Other</b>	<b>Total</b>
Interest income	230,946	147,269	78,717	3,353	72,306	532,591
Interest expenses	-86,665	-51,446	-29,214	-73,276	-70,546	-311,147
Net fee and commission income	-3,558	1,758	-3,969	375	-1,071	-6,465
Dividend income	-	-	-	34,481	-	34,481
Results from equity investments	-	-	-	21,717	-	21,717
Results from financial transactions	8,199	1,361	5,397	26,628	-33,956	7,629
Remuneration for services rendered	4,905	5,650	4,590	12,511	3,679	31,335
Gains and losses due to derecognition	-	2,237	-41	268	-	2,464
Other operating income	-	-	-	-	79	79
Allocated income	-11,534	-6,847	-3,888	-9,752	32,021	-
<b>Total underlying income</b>	<b>142,293</b>	<b>99,982</b>	<b>51,592</b>	<b>16,305</b>	<b>2,512</b>	<b>312,684</b>
Operating expenses	-48,828	-40,017	-30,799	-55,100	-2,856	-177,600
<b>Total operating expenses</b>	<b>-48,828</b>	<b>-40,017</b>	<b>-30,799</b>	<b>-55,100</b>	<b>-2,856</b>	<b>-177,600</b>
Impairments on loans and guarantees	-10,990	-10,723	-18,073	-125	265	-39,646
<b>Total impairments</b>	<b>-10,990</b>	<b>-10,723</b>	<b>-18,073</b>	<b>-125</b>	<b>265</b>	<b>-39,646</b>
<b>Profit/(loss) before taxation</b>	<b>82,475</b>	<b>49,242</b>	<b>2,720</b>	<b>-38,920</b>	<b>-79</b>	<b>95,438</b>
Share in the result of associates/joint ventures	-	-	-	26,065	-	26,065
Taxation	-9,312	-5,560	-307	18,533	9	3,363
<b>Underlying net profit/(loss)</b>	<b>73,163</b>	<b>43,682</b>	<b>2,413</b>	<b>5,678</b>	<b>-70</b>	<b>124,866</b>
Currency effect equity investments	-	-	-	-59,944	-	-59,944
<b>Net profit/(loss)</b>	<b>73,163</b>	<b>43,682</b>	<b>2,413</b>	<b>-54,266</b>	<b>-70</b>	<b>64,922</b>

## 2022

	Financial Institutions	Energy	Agribusiness, Food and Water	Private Equity	Other	Total
Interest income	152,832	118,082	62,123	2,916	15,131	351,084
Interest expenses	-23,104	-25,349	-10,969	-42,986	-13,892	-116,300
Net fee and commission income	-2,354	2,957	-2,511	533	-522	-1,897
Dividend income	-	-	-	41,423	-	41,423
Results from equity investments	-	-	-	-33,354	-	-33,354
Results from financial transactions	-11,798	-1,382	-18,870	-33,860	47,079	-18,831
Remuneration for services rendered	5,705	6,543	3,921	12,695	4,073	32,937
Gains and losses due to derecognition	3	299	-	-3	-	299
Other operating income	-	-	-	-	-	-
Allocated income	10,956	12,021	5,202	20,384	-48,563	-
<b>Total underlying income</b>	<b>132,240</b>	<b>113,171</b>	<b>38,896</b>	<b>-32,252</b>	<b>3,306</b>	<b>255,361</b>
Operating expenses	-40,942	-35,065	-25,829	-48,154	-2,450	-152,440
<b>Total operating expenses</b>	<b>-40,942</b>	<b>-35,065</b>	<b>-25,829</b>	<b>-48,154</b>	<b>-2,450</b>	<b>-152,440</b>
Impairments on loans and guarantees	-15,395	-77,571	-49,171	-402	-244	-142,783
<b>Total impairments</b>	<b>-15,395</b>	<b>-77,571</b>	<b>-49,171</b>	<b>-402</b>	<b>-244</b>	<b>-142,783</b>
<b>Profit/(loss) before taxation</b>	<b>75,903</b>	<b>535</b>	<b>-36,104</b>	<b>-80,808</b>	<b>612</b>	<b>-39,862</b>
Share in the result of associates/joint ventures	-	-	-	-58,596	-	-58,596
Taxation	-13,716	-97	6,524	26,402	-109	19,004
<b>Underlying net profit/(loss)</b>	<b>62,187</b>	<b>438</b>	<b>-29,580</b>	<b>-113,002</b>	<b>503</b>	<b>-79,454</b>
Currency effect equity investments	-	-	-	80,489	-	80,489
<b>Net profit/(loss)</b>	<b>62,187</b>	<b>438</b>	<b>-29,580</b>	<b>-32,513</b>	<b>503</b>	<b>1,035</b>

## Segment assets

## 2023

	Financial Institutions	Energy	Agribusiness, Food and Water	Private Equity	Other	Total
Loans to the private sector	2,595,261	1,516,403	737,279	29,023	5,697	4,883,663
Equity investments and investments in associates	-	-	-	2,669,024	-	2,669,024
Other assets	937,994	548,067	266,472	975,143	2,058	2,729,734
<b>Total assets</b>	<b>3,533,255</b>	<b>2,064,470</b>	<b>1,003,751</b>	<b>3,673,190</b>	<b>7,755</b>	<b>10,282,421</b>
Contingent liabilities – Effective guarantees issued	112,079	17,842	24,222	532	-	154,675
Assets under management (loans and equity investments) managed for the risk of the state	111,065	156,505	138,766	542,654	-	948,990

## Segment assets

## 2022

	Financial Institutions	Energy	Agribusiness, Food and Water	Private Equity	Other	Total
Loans to the private sector	2,590,592	1,524,168	961,131	22,521	11,223	5,109,635
Equity investments and investments in associates	-	-	-	2,579,596	-	2,579,596
Other assets	744,821	438,213	276,335	748,135	3,226	2,210,730
<b>Total assets</b>	<b>3,335,413</b>	<b>1,962,381</b>	<b>1,237,466</b>	<b>3,350,252</b>	<b>14,449</b>	<b>9,899,961</b>
Contingent liabilities – Effective guarantees issued	90,403	19,308	28,098	550	-	138,359
Assets under management (loans and equity investments) managed for the risk of the state	123,867	187,927	160,730	545,225	-	1,017,749

## Information about regions

FMO operates in the following four regions: Africa, Asia, Europe & Central Asia, Latin America & the Caribbean.

The following table shows the allocation of FMO's income based on the country risks arising from the regions in which FMO invests. As FMO obtains revenues from customers in developing economies, no revenues are derived from FMO's country of domicile, the Netherlands.

2023						
	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Results from debt products	70,980	35,606	49,337	53,766	5,290	214,979
Results from equity investments	20,459	-39,651	6,396	15,884	-8,421	-5,333
Share in the result of associates/joint ventures	17,885	3,523	-	-	4,657	26,065
Other income	-3,148	19,601	421	22,043	2,590	41,507
<b>Total income</b>	<b>106,176</b>	<b>19,079</b>	<b>56,154</b>	<b>91,693</b>	<b>4,116</b>	<b>277,218</b>

2022						
	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Results from debt products	71,541	40,975	50,258	60,407	9,706	232,887
Results from equity investments	48,686	74,047	38,932	-41,483	-29,493	90,689
Share in the result of associates/joint ventures	-38,947	-18,963	-	-	-686	-58,596
Other income	2,570	-17,550	-2,153	33,472	-1,934	14,405
<b>Total income</b>	<b>83,850</b>	<b>78,509</b>	<b>87,037</b>	<b>52,396</b>	<b>-22,407</b>	<b>279,385</b>

## Disaggregation of revenue

The following table sets out the disaggregation of the remuneration for services rendered based on the primary region. The table also includes a reconciliation of the remuneration of services rendered with FMO's operating segments.

2023						
	Financial Institutions	Energy	Agribusiness, Food and Water	Private Equity	Other	Total
Primary region						
Africa	342	450	14	-	13	819
Asia	137	202	-47	-	8	300
Latin America & Caribbean	1,787	664	205	-	13	2,669
Europe & Central Asia	2,618	4,301	4,349	12,511	3,643	27,422
Non-region specific	21	33	69	-	2	125
<b>Total remuneration for services rendered</b>	<b>4,905</b>	<b>5,650</b>	<b>4,590</b>	<b>12,511</b>	<b>3,679</b>	<b>31,335</b>

2022						
	Financial Institutions	Energy	Agribusiness, Food and Water	Private Equity	Other	Total
Primary region						
Africa	495	697	-	-	18	1,210
Asia	100	661	63	-	13	837
Latin America & Caribbean	924	269	54	-	16	1,263
Europe & Central Asia	4,186	4,878	3,756	12,695	4,023	29,538
Non-region specific	-	38	48	-	3	89
<b>Total remuneration for services rendered</b>	<b>5,705</b>	<b>6,543</b>	<b>3,921</b>	<b>12,695</b>	<b>4,073</b>	<b>32,937</b>

## Segment reporting of funds and programs managed for the risk of the Dutch Government and for other public funding

### Funds managed for the risk of the Dutch Government and other public funding

Apart from financing from its own resources, FMO provides loans, guarantees and equity investments from special government funds, within the conditions and objectives of these programs. The funds consist of subsidies provided under the General Administrative Law Act and other official third parties. In case of MASSIF, FMO has an equity stake of 2.16 percent (2022: 2.16 percent). FMO does not consolidate the assets and liabilities, of the Funds managed for the risk of the Dutch Government, in FMO's financial statements. In section 'Related parties', the arrangements between the Dutch Government and FMO regarding these funds and programs are described in detail.

Furthermore, FMO provides guarantees and equity investments with resources obtained from other public organizations, such as the European Commission (EC) and the United Kingdom Government. The mandate financing is conducted in line with conditions and objectives of these programs.

### Loans and equity managed for the risk of the Dutch Government and other public funding

These loans and equity investments are managed for the risk of the Dutch Government and other programs.

	<b>2023 Gross exposure</b>	<b>2022 Gross exposure</b>
Loans to the private sector	471,960	525,319
Equity investments	397,753	418,564
<b>Total</b>	<b>869,713</b>	<b>943,883</b>

### Loans managed for the risk of the Dutch Government and other public funding

The loan portfolio comprises the loans issued by the following funds:

	<b>2023 Gross exposure</b>	<b>2022 Gross exposure</b>
MASSIF	142,625	173,784
Building Prospects	236,640	259,261
Access to Energy Fund	63,063	75,974
Land Use Facility	29,632	16,300
<b>Total</b>	<b>471,960</b>	<b>525,319</b>

### Equity investments managed for the risk of the Dutch Government and other public funding

The equity investments have been made by the following funds:

	<b>2023 Gross exposure</b>	<b>2022 Gross exposure</b>
MASSIF	224,874	232,115
Building Prospects	122,208	118,689
Access to Energy Fund	50,671	62,151
Land Use Facility	-	5,609
<b>Total</b>	<b>397,753</b>	<b>418,564</b>

# 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 provides a breakdown of the carrying amounts of the financial assets and financial liabilities by category as defined by balance sheet heading.

2023

	FVPL - mandatory	Fair value hedging instruments	FVOCI- equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
<b>Financial assets</b>						
Banks	-	-	-	49,273	-	49,273
Current accounts with state funds and other programs	-	-	-	488	-	488
Short-term deposits	613,031	-	-	1,220,359	-	1,833,390
Other receivables	-	-	-	33,677	-	33,677
Interest-bearing securities	-	-	-	539,708	-	539,708
Derivative financial instruments	160,512	36,638	-	-	-	197,150
Loans to the private sector	587,940	-	-	4,295,723	-	4,883,663
Equity investments	2,193,771	-	167,074	-	-	2,360,845
<b>Total Financial assets</b>	<b>3,555,254</b>	<b>36,638</b>	<b>167,074</b>	<b>6,139,228</b>	<b>-</b>	<b>9,898,194</b>
<b>Financial liabilities</b>						
Short-term credits	-	-	-	97,114	-	97,114
Current accounts with state funds and other programs	-	-	-	43	-	43
Derivative financial instruments	231,910	186,929	-	-	-	418,839
Other financial liabilities	74,003	-	-	-	-	74,003
Debentures and notes	-	-	-	758,768	5,301,915	6,060,683
Accrued liabilities	-	-	-	29,498	-	29,498
Other liabilities	-	-	-	35,821	-	35,821
<b>Total Financial liabilities</b>	<b>305,913</b>	<b>186,929</b>	<b>-</b>	<b>921,244</b>	<b>5,301,915</b>	<b>6,716,001</b>



	FVPL - mandatory	Fair value hedging instruments	FVOCI- equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
<b>Financial assets</b>						
Banks	-	-	-	26,807	-	26,807
Current accounts with state funds and other programs	-	-	-	956	-	956
Short-term deposits	223,575	-	-	1,144,801	-	1,368,376
Other receivables	-	-	-	17,251	-	17,251
Interest-bearing securities	-	-	-	537,825	-	537,825
Derivative financial instruments	177,554	17,685	-	-	-	195,239
Loans to the private sector	486,067	-	-	4,623,568	-	5,109,635
Equity investments	2,130,903	-	150,733	-	-	2,281,636
<b>Total Financial assets</b>	<b>3,018,099</b>	<b>17,685</b>	<b>150,733</b>	<b>6,351,208</b>	<b>-</b>	<b>9,537,725</b>
<b>Financial liabilities</b>						
Short-term credits	-	-	-	52,156	-	52,156
Current accounts with state funds and other programs	-	-	-	1,058	-	1,058
Derivative financial instruments	335,045	275,931	-	-	-	610,976
Other financial liabilities	82,328	-	-	-	-	82,328
Debentures and notes	-	-	-	877,005	4,695,248	5,572,253
Accrued liabilities	-	-	-	24,466	-	24,466
Other liabilities	-	-	-	52,263	-	52,263
<b>Total Financial liabilities</b>	<b>417,373</b>	<b>275,931</b>	<b>-</b>	<b>1,006,948</b>	<b>4,695,248</b>	<b>6,395,500</b>

## Fair value of financial assets and liabilities

### 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 processes

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

FMO's fair value methodology and governance over its methods includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. The responsibility of ongoing measurement resides with the relevant departments. Once submitted, fair value estimates are also reviewed and challenged by the Financial Risk Committee (FRC). The FRC approves the fair values measured including the valuation techniques and other significant input parameters used.

## Valuation techniques

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:

1. Recent broker/price quotations;
2. Discounted cash flow models;
3. 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 not market observable (level 3). A substantial part of fair value (level 3) is based on net asset values.

FMO uses internal valuation models to value all (derivative) financial instruments. Due to model imperfections, there are initial differences between the transaction price and the calculated fair value. These differences are not recorded in the profit and loss at once, but are amortized over the remaining maturity of the transactions.

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, multiples are applied as input for the valuation. For the valuation process of the equity investments we further refer to the accounting policies and related notes within these financial statements. The determination of the timing of transfers is embedded in the quarterly valuation process, and therefore recorded at the end of each reporting period.

Other financial liabilities carried at FVPL represent amounts attributable to the Dutch State in return for their co-investment in the FMO Ventures Program (refer to the 'Group accounting and consolidation section' of the 'Accounting policy' chapter). The management of FMO's Ventures Program has the mandate to engage in transactions and also to realize any positions at a given time and call out the Program at reporting date. The amount attributable to co-investors is based on a predefined value sharing waterfall which utilizes the values of the underlying investments in the program. The underlying investments in the program are valued using the existing equity investment fair valuation techniques described in the paragraphs above. The waterfall calculation defines the timing and amount of distributions to respective co-investors and is therefore applied to estimate the fair values of the related financial liabilities.

IFRS 9 requires the adjustments in the valuation of FVPL financial liabilities related to FMO's own credit risk to be recorded in the statement of other comprehensive income. The impact of this treatment is however negligible due to the Support Agreement between the Dutch State and FMO.

The table below presents the carrying value and estimated fair value of FMO's financial assets and liabilities, not measured at fair value.

The carrying values of the financial asset and liability categories in the table below are measured at AC except for the funding in connection with hedge accounting. The underlying changes to the fair value of these assets and liabilities are therefore not recognized in the balance sheet.

The valuation technique we use for the fair value determination of these financial instruments is the discounted cash-flow method. The discount rate we apply is a spread curve based on the average spread of the portfolio. The fair value calculation is mainly based on level 3 inputs.

**Financial assets and liabilities not measured at fair value**

At December 31	2023		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets not measured at fair value</b>				
Short term deposits at AC	1,220,359	1,220,359	1,144,801	1,144,801
Banks	49,273	49,273	26,807	26,807
Interest-bearing securities	539,708	522,820	537,825	504,720
Loans to the private sector at AC	4,295,723	3,790,288	4,623,568	4,662,490
Current accounts with state funds and other programs	488	488	956	956
Other receivables	33,677	33,677	17,251	17,251
<b>Total financial assets not measured at fair value</b>	<b>6,139,228</b>	<b>5,616,905</b>	<b>6,351,208</b>	<b>6,357,025</b>
<b>Financial liabilities not measured at fair value</b>				
Short-term credits	97,114	97,114	52,156	52,156
Debentures and notes	6,060,683	5,986,337	5,572,253	5,530,569
Current accounts with state funds and other programs	43	43	1,058	1,058
Accrued liabilities	29,498	29,498	24,466	24,466
Other liabilities	35,821	35,821	52,263	52,263
<b>Total financial liabilities not measured at fair value</b>	<b>6,223,159</b>	<b>6,148,813</b>	<b>5,702,196</b>	<b>5,660,512</b>

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
<b>Financial assets mandatorily at FVPL</b>				
Short-term deposits	170,901	442,130	-	613,031
Derivative financial instruments	-	197,150	-	197,150
Loans to the private sector	87,482	-	500,458	587,940
Equity investments	32,965	-	2,160,806	2,193,771
<b>Financial assets at FVOCI</b>				
Equity investments	-	-	167,074	167,074
<b>Total financial assets at fair value</b>	<b>291,348</b>	<b>639,280</b>	<b>2,828,338</b>	<b>3,758,966</b>
<b>Financial liabilities mandatorily at FVPL</b>				
Derivative financial instruments	-	407,968	10,871	418,839
<b>Financial liabilities designated at FVPL</b>				
Other financial liabilities	-	-	74,003	74,003
<b>Total financial liabilities at fair value</b>	<b>-</b>	<b>407,968</b>	<b>84,874</b>	<b>492,842</b>

<b>December 31, 2022</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets mandatorily at FVPL</b>				
Short-term deposits	223,575	-	-	223,575
Derivative financial instruments	-	195,239	-	195,239
Loans to the private sector	53,917	-	432,150	486,067
Equity investments	33,851	-	2,097,052	2,130,903
<b>Financial assets at FVOCI</b>				
Equity investments	-	-	150,733	150,733
<b>Total financial assets at fair value</b>	<b>311,343</b>	<b>195,239</b>	<b>2,679,935</b>	<b>3,186,517</b>
<b>Financial liabilities mandatorily at FVPL</b>				
Derivative financial instruments	-	597,088	13,888	610,976
<b>Financial liabilities designated at FVPL</b>				
Other financial liabilities	-	-	82,328	82,328
<b>Total financial liabilities at fair value</b>	<b>-</b>	<b>597,088</b>	<b>96,216</b>	<b>693,304</b>

The following table shows the movements of financial assets measured at fair value based on level 3. All other financial liabilities are level 3 positions (refer to other financial liabilities note 15).

<b>Movements in financial instruments measured at fair value based on level 3</b>	<b>Derivative financial instruments</b>	<b>Loans to the private sector</b>	<b>Equity investments</b>	<b>Total</b>
Balance at December 31, 2021	-	562,147	1,947,116	2,509,263
Total gains or losses				
-In profit and loss (changes in fair value)	-	-21,252	6,045	-15,207
-In other comprehensive income (changes in fair value)	-	-	10,308	10,308
Purchases / disbursements	-	10,964	279,815	290,779
Sales/repayments	-	-139,741	-105,019	-244,760
Interest capitalization	-	6,746	-	6,746
Write-offs	-	-1,450	-	-1,450
Accrued income	-	3,822	-	3,822
Exchange rate differences	-	25,583	80,047	105,630
Derecognition and/or restructuring FVPL versus AC	-	2,570	-	2,570
Conversion from loans to equity	-	-17,239	938	-16,301
Conversion associate/FVPL	-	-	-18,924	-18,924
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
Other changes	-	-	47,459	47,459
<b>Balance at December 31, 2022</b>	<b>-</b>	<b>432,150</b>	<b>2,247,785</b>	<b>2,679,935</b>
Total gains or losses				
-In profit and loss (changes in fair value)	-	48,772	13,533	62,305
-In other comprehensive income (changes in fair value)	-	-	16,341	16,341
Purchases / disbursements	-	117,126	333,825	450,951
Sales/repayments	-	-50,729	-224,513	-275,242
Interest capitalization	-	4,964	-	4,964
Write-offs	-	-42,200	-	-42,200
Accrued income	-	6,010	-	6,010
Exchange rate differences	-	-13,058	-60,970	-74,028
Derecognition and/or restructuring FVPL versus AC	-	-698	-	-698
Conversion from loans to equity	-	-1,879	1,879	-
Conversion associate/FVPL	-	-	-	-
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
Other changes	-	-	-	-
<b>Balance at December 31, 2023</b>	<b>-</b>	<b>500,458</b>	<b>2,327,880</b>	<b>2,828,338</b>

Other changes relate to consolidation of FMO's Ventures Program (refer to section 'Group accounting and consolidation' in the 'Accounting policies' chapter).

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	73,170	Discounted cash flow model	Based on client spread	A decrease/increase of the used spreads with 1% will result in a higher/lower fair value of approx €2.6 million
	113,596	ECL measurement	Based on client rating	An improvement / deterioration of the Client Rating with 1 notch will result 0.4% increase/decrease
	42,173	Credit impairment	n/a	n/a
Debt Funds	271,519	Net Asset Value	n/a	n/a
<b>Total</b>	<b>500,458</b>			

Type of equity investment	Fair value at December 31, 2023	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity based on the significant unobservable inputs
Private equity fund investments	1,319,228	Net Asset Value	n/a	n/a
Private equity direct investments	22,182	Recent transactions	Based on at arm's length recent transactions	n/a
	651,617	Book multiples	1.0 – 1.9	A decrease/increase of the book multiple with 10% will result in a lower/higher fair value of €65 million.
	182,160	Earning Multiples	Depends on several unobservable data such as EBITDA multiples (range 1.0 - 12.7)	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €18million.
	51,115	Discounted Cash Flow (DCF)	Based on discounted cash flows	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €5 million.
	32,449	Put option	The guaranteed floor depends on several unobservable data such as IRR, EBITDA multiples, book multiples and Libor rates	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €3 million.
	69,129	Firm offers	Based on offers received from external parties	n/a
<b>Total</b>	<b>2,327,880</b>			

## Transfers between levels 1 and 2

There were no material transfers between levels 1 and 2.

## Transfers from levels 1 and 2 to level 3

There were no material transfers between level 1 and 2 to level 3.

## Merensky

Pine and Eucalyptus timber supplier to southern African and international markets.







A person wearing a blue shirt is shown from the side, pointing their right hand towards a field of young green plants in a greenhouse. The background is a blurred view of the greenhouse structure and more plants. The overall image has a blue tint.

**07**

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# **COMPANY FINANCIAL STATEMENTS**

# Accounting policies

## Activities

The activities of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereafter referred to as FMO) consist of financing activities in developing countries to stimulate private-sector development. Furthermore, FMO provides services in relation to government funds and programs. For more information, please refer to the consolidated financial statements.

## Material accounting policies

### Principles of valuation and determination of results

The financial statements are prepared in accordance with the financial reporting requirements as included in Part 9 of Book 2 of the Dutch Civil Code with the allowed application of the accounting policies (EU-IFRS) as set forth in the consolidated financial statements. The principles of valuation and determination of results stated in the consolidated statement of financial position and statement of profit or loss are also applicable to the company statement of financial position and statement of profit or loss. Investments in group companies are initially recognized at cost and subsequently accounted for by the equity method.

Intercompany accounts with subsidiaries consist of current accounts. These current accounts can be freely disposed of. Low credit risk exemption is applied due to limited credit risk and expected credit loss is not calculated.

### Reference to the consolidated financial statements

As mentioned above, the accounting policies applied in the financial statements correspond with the consolidated financial statements. Furthermore, the consolidated financial statements have a limited consolidation scope and accordingly the notes to the statement of financial position and statement of profit or loss are almost similar in both the company financial statements and the consolidated financial statements. Please refer to the disclosure notes and information provided in the consolidated financial statements for details. For the mandatory disclosure notes and notes with larger discrepancies, information is included in the notes to the company's financial statements.

### Estimates and assumptions

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in 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 financial statements. The most relevant estimates and assumptions relate to the determination of the fair value of financial instruments based on generally accepted modeled valuation techniques and the determination of specific and portfolio-level value adjustments. Estimates and assumptions are also used for the pension liabilities, determination of tax and depreciation of PP&E assets and others.

# Company statement of financial position

For the year ended December 31, 2023

Before profit appropriation	Notes	2023	2022
<b>Assets</b>			
Banks	(A)	43,280	21,089
Current accounts with State funds and other programs	(2)	488	956
Short-term deposits	(3)		
-of which: amortized cost		1,220,359	1,144,801
-of which: fair value through profit or loss		613,031	223,575
Other receivables	(B)	39,738	23,231
Interest-bearing securities	(5)		
-of which: amortized cost		539,708	537,825
Derivative financial instruments	(6)	197,150	195,239
Loans to the private sector	(7)		
-of which: amortized cost		4,295,723	4,623,568
-of which: fair value through profit or loss		587,940	486,067
Current tax receivables	(31)	29,634	20,942
Equity investments	(C)		
-of which: fair value through OCI		167,074	150,733
-of which: fair value through profit or loss		2,033,303	1,942,125
Other financial assets	(D)	87,767	91,484
Subsidiaries	(E)	11,114	14,771
Investments in associates	(10)	308,179	297,960
Intangible assets	(12)	15,325	11,955
Property, plant and equipment	(11)	19,830	23,285
Deferred income tax assets	(31)	11,230	8,058
<b>Total assets</b>		<b>10,220,873</b>	<b>9,817,664</b>
<b>Liabilities</b>			
Short-term credits	(13)	97,114	52,156
Current accounts with State funds and other programs	(14)	43	1,058
Derivative financial instruments	(6)	418,839	610,976
Debentures and notes	(16)	6,060,683	5,572,253
Current tax liabilities	(31)	-	-
Wage tax liabilities		775	615
Accrued liabilities	(17)	29,447	24,445
Other liabilities	(18)	35,823	52,315
Other financial liabilities at FV	(15)	12,500	
Provisions - pensions, other provisions	(19)	44,922	42,113
Deferred income tax liabilities	(31)	7,943	13,407
<b>Total liabilities</b>		<b>6,708,089</b>	<b>6,369,338</b>
<b>Shareholders' equity</b>			
Share capital		9,076	9,076
Share premium reserve		29,272	29,272
Development fund		657,981	657,981
Total contractual reserve			
-of which: other Contractual reserve		1,550,203	1,659,976
-of which: other Revaluation reserve		1,171,620	999,077
Fair value reserve		65,208	38,559
Translation reserve		8,092	17,544
Other reserves		19,180	36,805
<b>Undistributed result</b>		<b>2,152</b>	<b>36</b>
<b>Total shareholders' equity</b>		<b>3,512,784</b>	<b>3,448,326</b>
Total liabilities and shareholders' equity	(F)	10,220,873	9,817,664

# Company statement of profit or loss

For the year ended December 31, 2023

	Notes	2023	2022
<b>Income</b>			
Interest income from financial instruments measured at AC		457,008	335,256
Interest income from financial instruments measured at FVPL		75,509	15,828
Interest expenses from financial instruments measured at AC		-170,269	-128,850
Interest expenses from financial instruments measured at FVPL		-140,756	12,707
Interest expenses on leases		-122	-139
<b>Net interest income</b>	<b>(21)</b>	<b>221,370</b>	<b>234,802</b>
Dividend Income	(22)	34,481	41,423
Results from equity Investments		934	78
Share in the result of subsidiaries	(E)	-3,657	894
Share in the result of associates	(10)	26,065	-58,597
<b>Total results from equity Investments, subsidiaries and associates</b>		<b>57,823</b>	<b>-16,202</b>
Fee and commission income		7,737	10,912
Fee and commission expense		-14,202	-12,809
<b>Net fee and commission income</b>	<b>(24)</b>	<b>-6,465</b>	<b>-1,897</b>
Results from financial transactions	(G)	-29,291	29,817
Remuneration for services rendered	(26)	28,878	30,518
Gains and losses due to recognition	(27)	2,464	299
Other operating income	(28)	79	-
<b>Total other income</b>		<b>2,130</b>	<b>60,634</b>
<b>Total income</b>		<b>274,858</b>	<b>277,337</b>
<b>Operating expenses</b>			
Staff costs	(29)	-125,278	-106,674
Administrative expenses	(30)	-39,618	-31,887
Depreciation and impairment of fixed assets	(11), (12)	-9,628	-11,448
Other operating expenses		-774	-509
<b>Total operating expenses</b>		<b>-175,298</b>	<b>-150,518</b>
<b>Impairments on</b>			
Interest-bearing instruments	(5)	-8	-34
Loans	(7),(8)	-38,622	-126,634
Loan commitments	(34)	-1,259	-5,262
Guarantees issued	(34)	243	-10,853
<b>Total impairments</b>		<b>-39,646</b>	<b>-142,783</b>
<b>Profit/(loss) before taxation</b>		<b>59,913</b>	<b>-15,964</b>
Income tax	(31)	5,008	17,022
<b>Net profit/(loss)</b>		<b>64,922</b>	<b>1,058</b>

# Notes to the company financial statements

## Notes to the company statement of financial position

The company financial statements of FMO should be read in conjunction with the consolidated financial statements including the risk management information, segment information and the notes to the consolidated financial statements. The FMO company financial statements are, due to the limited investments activities of our consolidated subsidiaries almost the same as the consolidated financial statements. Therefore, for notes of specific items of the statement of financial position and the statement of profit or loss, we refer to the consolidated financial statements to the extent these are not specifically disclosed hereafter.

For information related to the maturity of the assets and liabilities recorded in the statement of financial position of the company financial statements, we refer to the table with the categorization of principal cash flow per maturity bucket in the section 'Liquidity risk' of the 'Risk management' chapter.

### A. Banks

	2023	2022
Banks	43,280	21,089
<b>Balance at December 31</b>	<b>43,280</b>	<b>21,089</b>

The cash on bank accounts can be freely disposed of.

### B. Other Receivables

	2023	2022
Receivables related to equity disposals	20,563	6,826
Taxes and social premiums	659	452
To be declared on State guaranteed loans	18	1,081
Transaction fee receivables and prepayments	11,731	8,185
Intercompany receivables from subsidiaries	6,767	6,687
<b>Balance at December 31</b>	<b>39,738</b>	<b>23,231</b>

### C. Equity investments

	Equity measured at FVOCI	Equity measured at FVPL	Total
Balance at January 1, 2023	150,733	1,942,125	2,092,858
Purchases and contributions	-	321,066	321,066
Reclassification from loans	-	1,879	1,879
Reclassification associate/FVPL	-	-	-
Sales	-	-224,192	-224,192
Changes in fair value	16,341	-7,575	8,766
Other changes	-	-	-
<b>Balance at December 31, 2023</b>	<b>167,074</b>	<b>2,033,303</b>	<b>2,200,377</b>

	Equity measured at FVOCI	Equity measured at FVPL	Total
Balance at January 1, 2022	140,425	1,862,403	2,002,828
Purchases and contributions	-	261,314	261,314
Reclassification from loans	-	938	938
Reclassification associate/FVPL	-	-18,924	-18,924
Sales	-	-104,819	-104,819
Changes in fair value	10,308	620	10,928
Other changes	-	-59,407	-59,407
<b>Balance at December 31, 2022</b>	<b>150,733</b>	<b>1,942,125</b>	<b>2,092,858</b>

Other changes relate to the reclassification of FMO's Ventures Program (refer to section 'Group accounting and consolidation' in the 'Accounting policies' chapter).

## D. Other financial assets

Other financial assets reflect FMO's investment in FMO's Ventures Program. The Program is a structured entity and is a co-investment between FMO, the Dutch Government and the European Commission. FMO has not inserted any share capital in the program and invests cash when purchasing underlying assets.

Amounts attributable to FMO are based on a predefined value sharing waterfall that utilizes the values of the underlying equity investments in FMO's Ventures Program and are carried at FVPL. The underlying investments in the program are valued using the existing equity investment fair valuation techniques described in the fair value. The waterfall calculation defines the timing and amount of distributions to the various co-investors.

	2023	2022
Balance at January 1	91,484	-
Purchases and contributions	9,772	12,820
Return of Capital (including sales)	-311	-173
Changes in fair value	-13,178	19,430
Other changes	-	59,407
<b>Balance at December 31</b>	<b>87,767</b>	<b>91,484</b>

Other changes relate to the reclassification of FMO's Ventures Program (refer to section 'Group accounting and consolidation' in the 'Accounting policies' chapter).

## E. Subsidiaries

	2023	2022
Balance at January 1	14,771	13,876
Purchases and contributions	-	-
Share in other comprehensive income	-	-
Share in net results	-3,657	894
Return of capital	-	1
<b>Balance at December 31</b>	<b>11,114</b>	<b>14,771</b>

The investments in subsidiaries consist of the following interests in the share capital of:

1. Asia Participations B.V.: 100 percent;
2. FMO Investment Management B.V.: 100 percent;
3. FMO Representative Office LAC Limitada: 100 percent;
4. Equis DFI Feeder L.P.: 63 percent.

FMO Ventures Program is a structured entity and is a co-investment between FMO, the Dutch Government and the European Commission

The following table summarizes the carrying amount of the subsidiaries.

	2023	2022
Asia Participations B.V.	5,179	8,940
FMO Investment Management B.V.	6,081	5,917
Costa Rica	-119	-121
Equis DFI Feeder L.P.	-27	35
<b>Balance at December 31</b>	<b>11,114</b>	<b>14,771</b>

## F. Shareholders' equity

### Share capital

The authorized capital amounts to €45,380k, consisting of A shares of €22.69 each, which are held by the Dutch Government, and B shares of €22.69 each, which are for held by commercial banks and private investors. The Dutch Government holds 51 percent of the total shares of FMO, while commercial banks and private investors hold the remaining 49 percent. The voting rights for A shares and B shares are equal.

Authorized share capital	2023	2022
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
<b>Balance at December 31</b>	<b>45,380</b>	<b>45,380</b>

In addition, the shareholders' equity of the company comprises three reserves, in line with the Agreement State-FMO of November 16, 1998. These are the share premium reserve, the development fund and the contractual reserve. As long as the company continues its activities, these reserves are not available to the shareholders. Upon liquidation of FMO these reserves fall to the Dutch Government, after settlement of the contractual return to the shareholders.

Issued and paid-up share capital	2023	2022
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
<b>Balance at December 31</b>	<b>9,076</b>	<b>9,076</b>

### Share premium reserve

Share premium reserve is sole contributed by Shareholders of A shares on the transfer to the company of investments administrated on behalf of the State at the time of the financial restructuring and amounts to €29,272k (2022: €29,272k).

	2023	2022
Share premium reserve shareholder A, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	8,061	8,061
Share premium reserve shareholder B, contributed on the transfer to the company of investments administered on behalf of the State on the financial restructuring	21,211	21,211
<b>Balance at December 31</b>	<b>29,272</b>	<b>29,272</b>

## Statutory reserves

### Development fund

This special purpose reserve contains the annual budgetary allocations made by the Dutch Government to finance the portfolio of loans and equity investments.

### Other contractual reserve

The addition relates to that part of the net result, which FMO is obliged to reserve under the Agreement State-FMO of November 16, 1998 (see section 'Additional information').

## Legal reserves

Legal reserves include the fair value, other revaluation, and translation reserves.

	<b>2023</b>	<b>2022</b>
Fair value reserve	65,208	38,559
Other revaluation reserve	1,171,620	999,077
Translation reserve	8,092	17,544
<b>Total legal reserves</b>	<b>1,244,920</b>	<b>1,055,180</b>

### ***Fair value reserve***

The fair value reserve is the part of the revaluation reserve and includes gains and losses of equity investment measured at FVOCI. Gains and losses on such equity investments are never reclassified to profit or loss. Cumulative gains and losses recognized in this reserve are transferred to other reserves on disposal of the investment.

### ***Other revaluation reserve***

The Other revaluation reserve (as a part of the total contractual reserve) includes unrealized gains related to financial assets measured at FVPL. The revaluation reserve in the company financial statements follows from differences in presentation requirements between IFRS and Part 9 of the Dutch Civil Code. This revaluation reserve has been created against the other reserves. At the same time, a same amount is added to the Other reserves and compensated by the contractual reserve.

The Other revaluation reserve includes the unrealized fair value gains of our equity investments, loans to the private sector at FVPL, derivatives for which the valuations are not determined based on quoted market prices and the internally developed software.

	<b>2023</b>	<b>2022</b>
Equity investment FVPL	1,009,272	843,208
Loans to private sector FVPL	28,313	12,337
Derivatives other than hedge accounting instruments	120,384	133,166
Legal reserve internally developed software	13,651	10,366
<b>Total other revaluation reserve</b>	<b>1,171,620</b>	<b>999,077</b>

### ***Translation reserve***

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

At December 31, 2023 the translation reserve (as a part of the legal reserve) has a balance of €8.092k (2022: €17.544k).

### ***Other reserves***

Pursuant to Dutch reporting requirements in Part 9 of Book 2 the Dutch Civil Code, the table reflects the other reserves included in the total Shareholders' equity. According to the Support Agreement with the Dutch Government, FMO allocates the net results after dividend pay-out to the contractual reserve. The contractual reserve is a statutory reserve, against which no legal reserves can be created. The Other revaluation reserve is recorded through Other reserves. At the same time Other reserves are compensated via the contractual reserve.

	<b>2023</b>	<b>2022</b>
Actuarial gain/loss on defined benefit plans	-9,670	-6,533
Retained earnings	28,850	43,338
<b>Total other reserves</b>	<b>19,180</b>	<b>36,805</b>

## **Changes in Shareholders' equity**

The table below presents changes in Shareholders' equity for line items that are only relevant to the company-only equity. Remaining line items are reflected in the FMO's consolidated financial statements.



	Legal reserve - Other revaluation reserve	Other reserves
Balance at January 1, 2022	740,055	35,905
Actuarial gains/(loss) on defined benefit plans net of tax <sup>1</sup>	-	900
Addition/(release) to other reserves	-	-
Addition/(release) to other revaluation reserve	259,022	-259,022
Addition/(release) from contractual reserve	-	259,022
<b>Balance at December 31, 2022</b>	<b>999,077</b>	<b>36,805</b>
Actuarial (gain)/(loss) on defined benefit plans net of tax	-	-3,137
Addition/(release) to other reserves	-	-14,488
Addition/(release) to other revaluation reserve	172,543	-172,543
Addition/(release) from contractual reserve	-	172,543
<b>Balance at December 31, 2023</b>	<b>1,171,620</b>	<b>19,180</b>

This item refers to line item Actuarial result pension in the consolidated statement of changes in Shareholders' equity.

## G. Result of financial transactions

	2023	2022
Gains/(losses) on remeasurement of on valuation of hedged items	-138,699	341,896
Gains/(losses) on remeasurement of hedging instruments	134,237	-339,323
<b>Result on hedge accounting</b>	<b>-4,462</b>	<b>2,573</b>
Result on sale and valuation of treasury derivatives not under hedge accounting	-23,096	42,768
Result on sale and valuation of derivatives related to asset portfolio	2,933	-3,989
Result on sale and valuation of loans at FVPL	14,662	-32,706
<b>Result on financial instruments mandatory at FVPL</b>	<b>-5,501</b>	<b>6,073</b>
Foreign exchange results loans at FVPL	-15,705	-29,522
Foreign exchange results Derivatives	57,500	-165,603
Foreign exchange results on other financial assets/liabilities	-35,500	196,707
<b>Foreign exchange results</b>	<b>6,295</b>	<b>1,582</b>
Other financial results	56	159
Other changes	-25,679	19,430
<b>Total result from financial transactions</b>	<b>-29,291</b>	<b>29,817</b>

Other changes relate to consolidation of FMO's Ventures Program (refer to section Group accounting and consolidation in the accounting policies chapter).

## Proposal for appropriation of the net result

A company net profit of €64.9 million is recorded in 2023. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €62.8 million to the contractual reserve. Therefore the 2023 profit is not completely distributable. The distributable element of the net profit amounts to €2.1 million (2022: €0.04 million). The Management Board and the Supervisory Board propose distributing a sum of €2.1 million as cash dividend equaling €5.38 per A and B share. This proposal for dividend distribution can be withdrawn if FMO's economical and financial conditions deteriorate significantly in the period up to the moment of distribution of the dividend. This reservation is the result of the recommendation of the European Central Bank and adopted by the Dutch Central Bank.

## Subsequent events

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



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# PRINCIPLES FOR RESPONSIBLE BANKING

## Principle 1: Alignment

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

### Business model

FMO invests in over 80 countries. We provide finance, blend and mobilize finance, actively promote impact, ESG principles and the generation of value and (help others to) innovate. For further insights into our business model, we invite you to explore 'Our Value Creation Model' chapter, as well as the accompanying World Map visualization, which provides additional details on our portfolio composition.

### Strategy alignment

**Does your corporate strategy identify and reflect sustainability as strategic priority/ies for your bank?**

Yes

No

Please describe how your bank has aligned and/or is planning to align its strategy to be consistent with the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

**Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?**

**UN Guiding Principles on Business and Human Rights**

**International Labour Organization fundamental conventions**

UN Global Compact

UN Declaration on the Rights of Indigenous Peoples

**Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk - please specify which ones: European Central Bank Guide on climate-related and environmental risks**

Any applicable regulatory reporting requirements on social risk assessments, e.g. on modern slavery - please specify which ones:

None of the above

In 2022, we launched our updated Strategy 2030, emphasizing our commitment to contribute to the Sustainable Development Goals (SDGs). Our contribution focuses specifically on SDGs 8 (Decent Work and Economic Growth), 10 (Reduced Inequalities), and 13 (Climate Action), recognizing these as the areas where we believe we can make the most significant difference. While our efforts primarily target these three goals, our activities also have a positive impact on the other SDGs, given their interlinked nature.

Following the launch of our updated strategy, we also published our [Climate Action Plan](#), a comprehensive roadmap detailing our initiatives until 2030 to achieve our SDG 13 objectives. This plan underscores our unwavering commitment to ambitious climate action. At the portfolio level, we are committed to reaching a 'net zero' portfolio by 2050. Moreover, we aim to align all new investments with the mitigation and resilience goals of the Paris Agreement<sup>1</sup> (country level) as well as ensuring alignment with a 1.5°C pathway for both transactions and our existing portfolio. This entails increased climate investments and supporting our customers in aligning with the Paris Agreement goals. Formulated as part of our obligations under the Climate Commitment of the Dutch Financial Sector, the plan further elaborates on our Strategy 2030. For more information about our updated strategy and approach toward our climate commitments, please refer to chapters 'Our strategy' and 'Performance against our strategy'.

1 UNFCCC. The Paris Agreement.

## Principle 2: Impact and Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

### Impact Analysis

**Scope:** In 2023, we conducted an impact materiality assessment to identify our most significant impact areas, validate our strategic choices, and pinpoint emerging topics with potential impacts on our organization. Our materiality approach aligned with the GRI Standards, which focus on an organization's actual and potential, positive and negative impacts on people and the environment. Our assessment covered all business areas, products, and services across our value chain. For a full overview of the process we followed to identify our impacts, please refer to chapter 'Materiality assessment and stakeholder engagement'.

**Portfolio composition:** During the materiality assessment, we considered the regions and sectors in which we operate, covering our entire portfolio. This provided the necessary context to properly identify and assess our impacts on people and the environment and determine the areas where our impacts are most significant. Explore our portfolio composition further in 'Our value creation model' chapter and the World Map visual showing FMO's total committed portfolio.

**Context:** Since 1970, we have invested in emerging markets and developing economies that are often characterized by fragile governments, limited environmental and social regulation, and high contextual, environmental and human rights risks. Our customers operate in volatile markets significantly impacted by macroeconomic trends like rising commodity prices and currency fluctuations. Amid economic and humanitarian crises, evolving technology, and increasing regulatory pressures, FMO's environment is becoming more complex. These factors informed our impact materiality assessment, which included a review of our sustainability context and engagement with key stakeholder groups to ensure a comprehensive analysis.

The impact materiality assessment conducted in 2023 identified 14 sustainability topics representing areas where FMO has or could potentially generate significant positive or negative impacts. Among these topics, reduced inequalities and climate change were prioritized for target setting. For more information, please refer to chapters 'External environment', 'Performance against our strategy', and 'Materiality assessment and stakeholder engagement', as well as the Indexes section of the 2023 annual report.

**Performance measurement:** The impact materiality assessment indicates that Energy and Agribusiness, Food, and Water are the sectors with the strongest actual positive or negative impacts on climate change. FMO's financing of energy generation projects, renewable energy initiatives, energy efficiency, and smart agriculture practices contribute positively to improving access to energy, reducing carbon emissions, and supporting alignment with the Paris Agreement. Although no material negative impacts were identified during the assessment, notable relevant potential negative impacts included investments in conventional energy projects due to limited renewable alternatives and prioritizing engagement over exclusion in projects with possible environmental impacts, which may delay decarbonization efforts, potentially leading to short-term negative impacts on climate change.

In addressing inequalities, the assessment highlights the Financial Institutions sector as having the most significant impact. FMO's investment activities target underserved or marginalized groups such as women, youth, rural populations, disabled individuals, and immigrants, filling gaps in financial services where the commercial banking sector is lacking (e.g., energy transition projects). This approach fosters positive impacts in reducing inequalities within and between countries. Similar to the topic of climate change, there were no material negative impacts identified related to the reduced inequalities topic. However, relevant considerations included FMO's microfinance initiatives for financial inclusion which may unintentionally lead to over-indebtedness and the need for FMO to prevent investments in Fragile and Conflict-Affected States that could lead to exacerbating conflict fault-lines or inequalities.

We manage (negative) environmental and social impacts, encompassing SDG-related topics, through our ESG risk management activities. Our approach consists of the continuous identification, assessment, and mitigation of such risks and includes also the systematic monitoring of contractually agreed action items. We require customers to assess investment-related risks and adhere to industry standards such as the IFC Performance Standards and other relevant additional standards as defined in our Sustainability

Policy Universe. Additionally, stakeholder and community engagement is a fundamental principle outlined in the IFC Performance Standards. This entails active involvement with stakeholders and local communities throughout the project lifecycle to address concerns, incorporate diverse perspectives into decision-making, and mitigate any adverse impacts.

To mitigate risks related to over-indebtedness (as identified in the impact materiality assessment), FMO has integrated the Client Protection Principles (CPPs) into its core sustainability and risk management policies, ensuring responsible lending practices to reduce reputational and credit risk. FMO assesses all financial institutions, non-banking financial institutions, and corporates providing finance to natural persons or micro-enterprises against these principles, utilizing tools aligned with CPP standards. In addressing impacts associated with investments in Fragile and Conflict-Affected States, we conduct contextual risk analyses as part of our ESG risk management activities.

We use several tools to track the ESG performance of our investments. We set an annual ESG performance target, agree multi-year environmental and social action plans (ESAPs) or corporate governance action plans (CGAPs) with our customers, monitor ESG performance gaps in our portfolio and maintain a serious incident register. In addition, we have implemented an Independent Complaints Mechanism (ICM) that allows external parties to file a complaint, including on ESG aspects, concerning investments or projects financed by FMO. Results are disclosed in the 'Performance against our strategy' chapter.

For more information on our impact materiality assessment please refer to the chapter 'Materiality assessment and stakeholder engagement'. For further details on how ESG risks are integrated into FMO's overall risk governance and risk management approach, refer to chapters 'Our investment process' and 'Risk management'.

### Self-assessment summary

#### Which of the following components of impact analysis has your bank completed, in order to identify the areas in which your bank has its most significant (potential) positive and negative impacts?

Scope:	<b>Yes</b>	In progress	No
Portfolio composition:	<b>Yes</b>	In progress	No
Context:	<b>Yes</b>	In progress	No
Performance measurement:	<b>Yes</b>	In progress	No

#### Which most significant impact areas have you identified for your bank, as a result of the impact analysis?

Biodiversity, Climate change, Community investment and engagement, Diverse and inclusive organization – FMO's workforce, Employee development, engagement, health and well-being – FMO's workforce, Gender equality – FMO's customers and workers in the value chain, Human rights, Maintaining financial sustainability, Pollution, Productive employment & decent work for all and inclusive & sustainable economic growth – workers in the value chain, Reduced inequalities, Responsible, compliant, transparent, and accountable banking, Strong governance and high ESG standards – FMO customers, Water resources

#### How recent is the data used for and disclosed in the impact analysis?

##### Up to 6 months prior to publication

Up to 12 months prior to publication

Up to 18 months prior to publication

Longer than 18 months prior to publication

## Target Setting

**Alignment:** FMO is committed to aligning with key national and international sustainability frameworks to achieve its vision of a world in which, by 2050, more than 9 billion people live well and within planetary boundaries. Central to this commitment is the Sustainability Policy, supported by a comprehensive set of Position Statements, together comprising the Sustainability Policy Universe. These documents guide FMO's activities and ensure adherence to standards such as the UN Guiding Principles on Business and Human Rights and the application of the IFC Performance Standards. Specific KPIs and targets across our priority SDGs (8, 10 and 13) and connected to our strategic ambitions are currently under development and expected to be introduced in 2024.

Our Sustainability Policy Universe applies across FMO's operations, including new investments and organizational activities, reflecting our dedication to responsible business practices. Clear ambitions drive our efforts, including a goal to achieve a €10 billion investment portfolio in each SDG 10 (Reduced

Inequalities) and SDG 13 (Climate Action) by 2030. More information is available in chapter 'Our investment process' and FMO's [Sustainability Policy](#).

**Baseline:** The baseline year for the selected indicators is 2022, coinciding with the introduction of FMO's Strategy 2030, when the two indicators – Green-labelled total committed portfolio (2022: €4.4 billion) and RI-labelled total committed portfolio (2022: €4.5 billion) – were initially introduced. For further details, please refer to the chapter 'Our Strategy' or visit the FMO website for additional information on FMO's [2030 strategy](#).

**Smart targets:** By 2030, our goal is to have an investment portfolio of at least €10 billion in both our reduced inequality-labelled portfolio (SDG 10) and our green-labelled portfolio (SDG 13). To steer investments contributing to these goals and measure our impact, we utilize two distinct labels: 'Green' and 'Reducing Inequalities'. These labels, along with their principles and criteria, help identify opportunities aligned with SDG 10 and SDG 13 and set specific targets on contributions to these two SDGs. While these labels provide a valuable framework, investments may generate both financial and non-financial impacts beyond the scope of these labels, covered through Impact Indicators in the Financial Proposal. Our Green and Reducing Inequalities targets, published in the annual report (see Connectivity Table), undergo external assurance (with the Green-labelled new investments being subject to reasonable assurance), ensuring transparency and accountability through a formal approval procedure based on predefined principles and criteria. For more information, please refer to the chapter 'Performance against our strategy'.

Over the course of 2023, as part of our Impact Management Framework Review Project, we updated RI and Green labels to align with current market standards like 2X and updated MDB Common Principles. The RI label continues to target reducing inequalities within and between countries, introducing new categories like access to food and gender-inclusive companies in line with 2X standards. The Green label now explicitly recognizes six environmental objectives and has expanded client categories to include climate adaptation and biodiversity conservation. Additional green activities have been included by sector, such as Green Hydrogen and Electric Vehicles. The updated labels were introduced at the start of 2024 and we are currently implementing them.

#### **Action plan:**

*Reduced inequalities* | To reduce inequalities, we pursue three ambitions. First, we contribute toward improved access to better basic goods and services and income generating opportunities for those in the bottom 40 percent of the income distribution. Second, we work towards advancing gender equality through increased gender-lens investments. Third, we invest in least developed countries (LDCs) and are developing a proof of concept for successfully investing in fragile states.

*Climate change* | As part of our 2030 strategy, we outlined four core goals we aim to achieve. First, to have acted upon our commitment to reach a net zero portfolio by 2050. Second, to support customers' increased alignment with the Paris Agreement goals and increase our climate change mitigating investments. Third, to strengthen our customers' resilience to climate change and increase our solutions for adaptation and resilience. Fourth, to increase the volume of investments contributing to biodiversity preservation.

As part of our obligation under the Climate Commitment of the Dutch Financial Sector, FMO published its first Climate Action Plan in 2022. This aligns with our updated 2030 strategy and provides a holistic framework for action that contributes towards our SDG 13 objectives. In the Climate Action Plan, we outline our commitments, including to reach 'net zero' at the portfolio level by 2050, align all new investments with the mitigation and resilience goals of the Paris Agreement at the country level, and align both new transactions and our portfolio with a 1.5°C pathway.

*ESG* | Through our ESG activities, we aim to generate positive impacts while mitigating negative impacts, especially on local communities. We employ robust Environmental, Social, and Governance (ESG) practices, to promote responsible decision-making across risk, return, and impact. Our strategy prioritizes ESG risk management, and we continuously assess and strive to improve the ESG performance of our investments to create meaningful impact.

To learn more about our plans to realize our ambitions in these strategic areas, please to refer to the chapter 'Performance against our strategy', which includes sector narratives outlining the specific actions we intend to undertake within each strategic sector, and FMO's [Climate Action Plan](#).

## Self-assessment summary

### Which of the following components of target setting in line with the PRB requirements has your bank completed or is currently in a process of assessing for your...

	... first area of most significant impact: ... (climate change)	... second area of most significant impact: ... (reduced inequalities)	(If you are setting targets in more impact areas) ...your third (and subsequent) area(s) of impact: ... (please name it)
Alignment	<b>Yes</b> In progress No	<b>Yes</b> In progress No	Yes In progress No
Baseline	<b>Yes</b> In progress No	<b>Yes</b> In progress No	Yes In progress No
SMART targets	<b>Yes</b> In progress No	<b>Yes</b> In progress No	Yes In progress No
Action plan	<b>Yes</b> In progress No	<b>Yes</b> In progress No	Yes In progress No

## Target implementation and monitoring

**Progress on reducing inequalities:** In 2023, FMO invested €1.1 billion in reducing inequalities (2022: €810 million), representing 42 percent of our total new investment volume (2022: 33 percent). Total volume of RI-labelled new investments in 2023 increased significantly compared to 2022 (+41%). Investments directed both to least developed countries and inclusive businesses saw an increase in volume.

Despite a rise in RI investments, the total portfolio decreased from €4.5 billion to €4.3 billion by the end of 2023. This decline was mainly due to lower-than-anticipated volumes in the energy sector in least developed countries. In 2023, our RI-labelled portfolio accounted for 33% of the total committed portfolio, slightly down from 34% in 2022.

**Progress on climate action:** In 2023, our investments in Green projects totaled €1.1 billion (compared to €1 billion in 2022), constituting 40 percent of our overall new investments. A significant portion of our Green-labelled new investments was directed towards renewable energy projects (including wind, solar, and hydro), green credit lines, and agriculture.

In comparison to the previous year, the Green-labelled total committed portfolio experienced a seven percent increase, growing from €4.4 billion to €4.7 billion by the end of 2023. This now represents a 36 percent share of the total committed portfolio.

For more information, please refer to the chapter 'Performance against our strategy'.

## Principle 3: Clients and Customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

### Client engagement

#### Does your bank have a policy or engagement process with clients and customers in place to encourage sustainable practices?

**Yes** In progress No

#### Does your bank have a policy for sectors in which you have identified the highest (potential) negative impacts?

Yes In progress **No**

Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities). It should include information on relevant policies, actions planned/implemented to support clients' transition, selected indicators on client engagement and, where possible, the impacts achieved.



FMO has established a robust policy and engagement process with customers to promote sustainable practices. Our environmental, social, and governance (ESG) engagement aims to create opportunities for positive impact across the Sustainable Development Goals (SDGs) while mitigating potential negative impacts of our investments.

We have adopted the IFC Performance Standards (2012) as our operating standard and launched the Sustainability Policy Universe in 2016, a framework of documents and tools that guides us around environmental and social (E&S) impact management and in improving the corporate governance of our customers. This policy framework is complemented by position statements on various issues, such as human rights, land governance, and fossil fuels. We are further guided by international standards such as the United Nations Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises. The SPU will be reviewed in 2024 for updates and additional position statements as necessary.

Throughout the investment process, particularly during due diligence, we conduct a thorough ESG assessment on our potential customers. This process enables us to identify key ESG risks, assess the customer's quality of risk management and mitigation measures, and inform ongoing monitoring and engagement efforts, with dedicated ESG specialists engaging with high-risk investments.

Our policy commitments undergo both targeted and public consultation during development and receive formal approval from the Management Board. They are readily accessible on our website, underscoring our commitment to transparency and responsible corporate conduct. For further insights, please consult the chapters 'Our investment process' and 'Performance against our strategy' in our annual report.

## Business opportunities

Below is a select list of products FMO has developed aimed at accelerating FMO's contributions toward FMO's strategic objectives and the three key SDGs where we focus our contribution.

**SDG Loan Fund:** Publicly announced and activated in late 2023, the US\$ 1.1 billion SDG Loan Fund<sup>1</sup> is the latest in FMO IM's portfolio. Commitments to the fund, including those from Allianz and Skandia, are enabled by the first loss investment from FMO and the unfunded guarantee from John D. and Catherine T. MacArthur Foundation. Together, these credit enhancements mobilize institutional investors in emerging and frontier markets. This enables a mobilization ratio of 1:9, where US\$ 1 of catalytic capital from FMO mobilizes US\$ 9 of private sector capital. Allianz Global Investors manages the fund and FMO IM manages the loan portfolio. The capital of the fund will be invested as participations in FMO loans across FMO's focus sectors. Once fully invested, the fund expects to support close to 60,000 jobs and to avoid approximately 450,000 tCO<sub>2</sub> eq per annum. The fund has participated in the first 11 loans at a committed portfolio of US\$ 102 million. Around 37 percent of the committed portfolio had a Green label and 48 percent had an RI label.

**NASIRA and FMO's Ventures Program:** NASIRA and FMO Ventures Program received approval for three new proposals totalling almost €500 million. This is a significant part of the available EFSD+ funding and makes us the largest DFI receiver.

**Funds managed on behalf of the Dutch government:** The Dutch government also granted more resources to the funds we manage on its behalf: DFCD received a €40 million top-up, Access to Energy Fund €40 million and MASSIF €69 million, plus €22 million specifically allocated to market creation.

**FMO Green Bond:** In November, FMO issued a US\$500 million 5-year green bond, supported by 51 investors participating in the transaction.

For more information, please refer to the features 'Commercial mobilization' and 'Public funding'.

## Principle 4: Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

### Stakeholder identification and consultation

**Does your bank have a process to identify and regularly consult, engage, collaborate and partner with stakeholders (or stakeholder groups) you have identified as relevant in relation to the impact analysis and target setting process?**

Yes

In progress

No

Please describe which stakeholders (or groups/types of stakeholders) you have identified, consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders, what issues were addressed/results achieved and how they fed into the action planning process.

We engage with a broad spectrum of stakeholders, including employees, customers, the Dutch government, peers, public investment partners, investors, shareholders, regulators/supervisors, NGOs/civil society, and think tanks/academia. Our stakeholder engagement involves proactive collaboration to form partnerships, align approaches, and exchange insights.

For example, we collect stakeholder input during our annual materiality assessment process, administer customer satisfaction surveys to understand how customers perceive our products and identify ways to better support them in carrying out their business activities, and regularly conduct employee surveys to gauge staff satisfaction and engagement levels. Additionally, we maintain regular dialogue with peers like MDBs and EDFI. This engagement emphasizes knowledge-sharing and efforts to harmonize practices.

More information about our engagement with stakeholders is available in chapters 'Performance against our strategy' and 'Materiality assessment and stakeholder engagement'.

## Principle 5: Governance & Culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

### Governance Structure for Implementation of the Principles

**Does your bank have a governance system in place that incorporates the PRB?**

Yes

In progress

No

Please describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support the effective implementation of the Principles. This includes information about

- which committee has responsibility over the sustainability strategy as well as targets approval and monitoring (including information about the highest level of governance the PRB is subjected to),
- details about the chair of the committee and the process and frequency for the board having oversight of PRB implementation (including remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected), as well as
- remuneration practices linked to sustainability targets.

FMO's Supervisory Board (SB), assisted by the SB Impact Committee, oversees the quality and integrity of FMO's statements regarding development impact. The Committee further aids the Supervisory Board in decision-making on impact and ESG strategy, policies, and targets.

The day-to-day operational management rests with the Management Board, supported by the Impact and Sustainability Committee (ISCO), chaired by FMO's co-CIO. The ISCO plays a pivotal role in advancing the impact and sustainability agenda through improved decision-making, coordinating implementation of sustainability-related topics, and interpreting external developments. Dedicated teams within FMO are accountable for carrying out specific actions.

Principles for Responsible Banking (PRB) form part of the Sustainability Policy Universe. The Sustainability Policy Universe undergoes integrated policy reviews and further develops over time through additional position statements, all requiring approval from ISCO. Our impact targets are part of FMO's core strategic targets and are reported and monitored to strategy 2030 implementation and, as such, are subject to MB steering.

FMO's remuneration policies are designed in adherence to the principle of attaching equal importance to investment and risk functions. This is achieved by maintaining similar salary scales, and avoiding bonus structures that may incentivize excessive risk-taking. As a purpose-driven organization, FMO does not offer variable remuneration, such as bonuses, to Identified Staff (senior management and individuals whose professional activities significantly impact FMO's risk profile). Instead, it values collective efforts, innovation, knowledge sharing, and collaboration, which are less suited to individual performance bonuses.

For more information, please consult the chapters 'Report of the Supervisory Board' and 'Corporate Governance'.

## Promoting a culture of responsible banking

FMO has implemented several policies and developed various training programs and modules to cultivate a culture of responsible banking among its employees.

**Policies:** FMO's Code of Conduct, which serves as a comprehensive framework, plays a pivotal role in promoting the well-being of stakeholders including clients, employees, shareholders, partners, and communities where FMO operates. FMO prioritizes integrity in all aspects, reflected in policies like KYC Framework, the Anti-Bribery & Corruption Policy, the Gifts, Entertainment & Hospitality Policy, and the Diversity and Inclusion Statement.

**Training:** FMO offers training programs, some of which are tailored to the employee's role. New hires undergo mandatory onboarding courses on topics like impact, compliance, human rights, and anti-bribery and corruption. All staff must also complete KYC training and additional sessions on the FEC program and remediation.

**Culture:** In 2023, launched the Values in Action program. Values in Action at FMO represent our commitment to embodying our ambitious 2030 strategy. To fully realize our impact, we need values and behaviors that not only inform our decisions but also drive our actions. Cultivating a culture aligned with our strategy is paramount to its success. When we translate our values into tangible behaviors, we collectively contribute to fostering a more productive and fulfilling workplace environment at FMO. This environment is characterized by alignment and motivation toward shared objectives, where each individual has the opportunity to thrive and develop professionally. Our FMO values serve as the foundation of our organizational culture, reflecting our beliefs and shaping our interactions.

For more information, please refer to chapters 'Our investment process' and 'Performance against our strategy'.

## Policies and due diligence processes

FMO is committed to managing environmental and social risks within its portfolio. At the core of our sustainability efforts is the Sustainability Policy Universe, a framework of documents and tools that guides us around environmental and social (E&S) impact management and in improving the corporate governance of our customers. Our commitment to sustainability is underscored by our adherence to key international standards and frameworks, notably the adoption of the IFC Performance Standards as our operating standard, ensuring that investments contribute to positive social and environmental outcomes while minimizing negative impacts. Throughout the investment process, we conduct in-depth project assessments, documenting results in finance proposals that inform our investment decisions. For high-risk ESG investments, we conduct site visits and stakeholder engagement, with further ESG requirements defined and negotiated as needed. This rigorous approach underscores FMO's dedication to sustainable development and responsible investing.

**Know Your Customer (KYC):** FMO plays a vital role in preventing financial economic crime (FEC) and safeguarding the integrity of the financial system. We conduct thorough Know Your Customer (KYC) checks, and continuously assess customer integrity risk. Our robust FEC framework aligns with national

and international standards despite document verification challenges in some countries. We regularly review our policies and procedures to ensure compliance with laws and regulations, allowing investment teams to conduct comprehensive due diligence. For more information, please refer to chapter 'Our investment process'.

#### Self-assessment summary

**Does the CEO or other C-suite officers have regular oversight over the implementation of the Principles through the bank's governance system?**

Yes No

**Does the governance system entail structures to oversee PRB implementation (e.g. incl. impact analysis and target setting, actions to achieve these targets and processes of remedial action in the event targets/milestones are not achieved or unexpected neg. impacts are detected)?**

Yes No

**Does your bank have measures in place to promote a culture of sustainability among employees (as described in 5.2)?**

Yes No

## Principle 6: Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

### Assurance

**Has this publicly disclosed information on your PRB commitments been assured by an independent assurer?**

Yes Partially No

This PRB disclosure has undergone limited assurance by an independent assurer for the sections that require assurance. Please refer to the Independent Auditor's and Assurance Report for more information.

### Reporting on other frameworks

**Does your bank disclose sustainability information in any of the listed below standards and frameworks?**

#### GRI

SASB

CDP

IFRS Sustainability Disclosure Standards (to be published)

#### TCFD

Other: OPIM

FMO prepares its Annual Report in accordance with the 2021 GRI Standards. Since 2019, we have also followed the TCFD Recommendations, issuing a standalone TCFD report. For additional information, please refer to chapter 'How we report'.

### Outlook

Throughout 2024, we remain committed to executing our Strategy 2030 and Climate Action Plan. This includes integrating climate risk into our operations and implementing improvements to our Impact Management Framework. Our ongoing efforts are dedicated to achieving our climate and inequality reduction ambitions.

As a regulated bank, FMO must adeptly respond to evolving regulatory requirements and stakeholder expectations. In 2024, our focus continues on adapting to regulatory changes, such as the EU Sustainable Finance regulation, which aligns with core PRB principles, including the CSRD/ESRS.

More information is available in chapter '2024 Outlook', FMO's 2022 Climate Action Plan and the [2023 TCFD Report](#).

# INDEPENDENT AUDITOR'S REPORT AND ASSURANCE REPORT



## Independent auditor's report

To: the shareholders and the supervisory board of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

### Report on the audit of the financial statements 2023 included in the annual report

#### Our opinion

We have audited the financial statements 2023 of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereinafter: FMO or the bank), based in The Hague, the Netherlands. The financial statements comprise the consolidated and company financial statements.

#### In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of FMO as at December 31, 2023 and of its result and its cash flows for 2023 in accordance with International Financial Reporting Standards as adopted in the European Union (EU-IFRSs) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of FMO as at December 31, 2023 and of its result for 2023 in accordance with Part 9 of Book 2 of the Dutch Civil Code

#### The consolidated financial statements comprise:

- The consolidated statement of financial position as at December 31, 2023
- The following statements for 2023: the consolidated statements of profit and loss, comprehensive income, changes in shareholders' equity and cash flows
- The notes comprising material accounting information and other explanatory information

#### The company financial statements comprise:

- The company statement of financial position as at December 31, 2023
- The company statement of profit or loss for 2023
- The notes comprising a summary of the accounting policies and other explanatory information

#### Basis for our opinion

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

We are independent of FMO in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij

assurance-opdrachten” (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the “Verordening gedrags- en beroepsregels accountants” (VGBA, Dutch Code of Ethics).

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

## Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

### Our understanding of the business

FMO is the Dutch entrepreneurial development bank that invests with the aim of enhancing economic and social prosperity in emerging markets in line with the intentions of local governments and with the Dutch government policy on development cooperation. We paid specific attention in our audit to a number of areas driven by the operations of FMO and our risk assessment.

To obtain sufficient and appropriate audit evidence to provide an opinion about the consolidated financial statements, we have performed a full-scope audit on the consolidated financial information of FMO as a whole (no components) and by one audit team.

### Materiality

We determined materiality and identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality	€35 million (2022: €34 million)
Benchmark applied	1% of total shareholders’ equity as at December 31, 2023 (2022: 1%)
Explanation	FMO’s shareholders’ equity and solvency, are important drivers for the ability to invest in and provide financing to companies in developing countries, and as such are key indicators for the users of its financial statements. We determined materiality consistent with last year.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of €1.75 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### Teaming and use of specialists

We ensured that the audit team included the appropriate skills and competences which are needed for an audit of a listed development bank. We included team members with specialized knowledge in the areas of IT audit, forensics, treasury and sustainability and have made use of our own specialists in the areas of valuation of derivatives,

financial investments, credit risk modelling, income tax, regulatory reporting, compliance and legal, and actuarial calculations.

#### Our focus on climate risks and the energy transition

Climate change and the energy transition are high on the public agenda and lead to significant change for many businesses and society. The management board summarized FMO's targets and ambitions, and reported in the sections Our strategy and Materiality assessment and stakeholder engagement of the annual report how FMO is addressing climate-related and environmental risks, also taking into account related regulatory and supervisory guidance and recommendations.

As part of our audit of the financial statements, we evaluated the extent to which climate-related risks, the possible effects of the energy transition and FMO's targets and ambitions are taken into account in estimates and significant assumptions underlying the valuation of certain account balances of FMO, including those related to the estimation of expected credit losses. Furthermore, we read the report of the management board and considered whether there is any material inconsistency between the non-financial information in the annual report and the consolidated financial statements.

Based on the audit procedures performed, we do not deem climate-related risks to have a material impact on the financial reporting judgements, accounting estimates or significant assumptions as at December 31, 2023.

#### Our focus on fraud and non-compliance with laws and regulations

##### **Our responsibility**

Although we are not responsible for preventing fraud or non-compliance and we cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. 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.

##### **Our audit response related to fraud risks**

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the bank and its environment and the components of the system of internal control, including the risk assessment process and the management board's process for responding to the risks of fraud and monitoring the system of internal control and how the supervisory board exercises oversight, as well as the outcomes. We refer to the Risk Management chapter of the annual report for the management board's risk assessment after consideration of potential fraud risks.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle blower procedures and incident registration. We evaluated the design and implementation, and where considered appropriate, tested the operating effectiveness of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption, as a result of doing business in developing countries, in close co-operation with our forensic specialists. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present. We incorporated elements of unpredictability in our audit and we also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.



We addressed the risks related to management override of controls, as this risk is present in all companies, and we considered the presumed risk of fraud in revenue recognition:

- For the risks related to management override of controls we have performed procedures among other things the evaluation of key accounting estimates for management bias that may represent a risk of material misstatement due to fraud, in particular relating to significant judgments and key assumptions and estimates as disclosed in 'Significant estimates, assumptions and judgments' in the Accounting policies section in the consolidated financial statements. We have also used data analysis to identify and address high-risk journal entries and evaluated the business rationale (or the lack thereof) of significant extraordinary transactions, including those with related parties. Additionally, as described in our key audit matter 'Impairment of loans to the private sector', we specifically considered whether the judgments and assumptions in the determination of this allowance indicate a management bias that may represent a risk of material misstatement due to fraud.
- With regards to the presumed risk of fraud in revenue recognition, based on our risk assessment procedures, we evaluated that this risk is present in areas that are complex or with higher subjectivity in meeting revenue recognition criteria, more specifically related to the unrealized results from capital results. We refer to our audit approach included in the key audit matter 'Valuation of equity investments at fair value'.

Furthermore, we considered available information and made enquiries of relevant executives, internal audit, legal, compliance, risk management, human resources and the supervisory board.

The fraud risks we identified, enquiries and other available information did not lead to specific indications of fraud or suspected fraud potentially materially impacting the view of the financial statements.

#### **Our audit response related to risks of non-compliance with laws and regulations**

FMO is subject to laws and regulations that directly affect the financial statements, including financial reporting standards, corporate tax law and various banking supervisory regulations. Also, FMO is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or instructions. Examples are laws and regulations in respect of anti-money laundering (AML) and sanctions.

We performed adequate audit procedures regarding compliance with the provisions of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. Furthermore, we assessed the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our industry experience, made enquiries of relevant executives, internal audit, legal, compliance, risk management and the management board and the supervisory board, inspected the systematic integrity risk analysis (SIRA), read minutes, inspected internal audit and compliance reports and performed substantive tests of details of classes of transactions, account balances and disclosures.

We inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. We paid specific attention to the bank's follow up of the recommendations from the external validation with regard to compliance with the Dutch Act on the prevention of money laundering and financing of terrorism and Sanctions Law performed in 2021. In addition, with the support of our legal specialists, we challenged management's assessment of the potential impact of the late notifications of unusual transactions to the Financial Intelligence Unit Nederland as disclosed in the Financial economic crime, including sanctions of the Risk appetite and governance' section. The Dutch Central Bank (DNB) initiated an

investigation into these incidents and the related customer files and decided on enforcement measures. DNB is currently reassessing these measures upon request of FMO (by means of objection). Finally, we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

#### Our audit response related to going concern

As disclosed in the basis of preparation in the Accounting policies section of the consolidated financial statements, the financial statements have been prepared on a going concern basis. When preparing the financial statements, management made a specific assessment of FMO's ability to continue as a going concern and to continue its operations for the foreseeable future.

We discussed and evaluated this specific assessment with management exercising professional judgment and maintaining professional scepticism. We considered whether management's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all relevant events and conditions that may cast significant doubt on the bank's ability to continue as a going concern and whether the bank will continue to comply with regulatory solvency and liquidity requirements. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Based on our procedures performed, we did not identify material uncertainties about going concern. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a bank to cease to continue as a going concern.

#### Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

In comparison with the previous year, the nature of our key audit matters remained unchanged.

### Impairment of loans to the private sector

Risk	<p>At December 31, 2023, FMO reported loans to the private sector measured at amortized cost of €4.3 billion including an allowance of €254 million for expected credit losses. The timing and measurement of expected credit losses require significant estimates and management judgment in setting assumptions and criteria in respect of:</p> <ul style="list-style-type: none"> <li>• Allocation of loans to stages 1, 2 or 3</li> <li>• Accounting policies and modelling assumptions used to build the model to calculate the expected credit loss (ECL)</li> <li>• Completeness and accuracy of data used to calculate the ECL</li> <li>• Estimating the impact of multiple macro-economic scenarios to calculate the ECL for stages 1 and 2</li> <li>• Measurement of individually assessed allowances for stage 3, including the assessment of recovery scenarios</li> </ul> <p>Due to the significance of the loans to the private sector and the related estimation uncertainty of expected credit losses, and our consideration of the potential risk of</p>
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Impairment of loans to the private sector	
	<p>management bias that may represent a risk of material misstatement due to fraud, we consider the measurement of the allowance for expected credit losses a key audit matter.</p> <p>Reference is made to Financial assets — Impairment in the Accounting policies section, note 7 Loans to the private sector, note 8 ECL allowances — assessment of the notes to the consolidated financial statements and the Credit risk section of the Risk Management Chapter in the annual report.</p>
Our audit approach	<p>Our audit procedures included, amongst others, evaluating the appropriateness of FMO's accounting policies related to expected credit losses in accordance with IFRS 9 Financial Instruments and whether these have been applied consistently. We also obtained an understanding of the impairment allowance process, evaluated the design and where applicable tested operating effectiveness of internal controls relevant to FMO's ECL calculation. This included the allocation of loans into stages, model governance, data accuracy and completeness, credit risk monitoring, multiple economic scenarios, individual allowances, journal entries and disclosures.</p> <p>We performed an overall assessment of the ECL allowances levels by stage to determine if they are reasonable considering FMO's portfolio, risk profile, credit risk management practices and macro-economic environment. We considered trends in the economies and industries to which FMO is exposed to.</p> <p>We challenged the criteria used to allocate loans to stage 1, 2 or 3 in accordance with EU-IFRSs and FMO's policy. We tested loans in stage 1, 2 and 3 and verified whether they were allocated to the appropriate stage.</p> <p>With the support of our modelling specialists, we tested assumptions, inputs and formulas used in the ECL model. This included the appropriateness of model design, recalculating the Probability of Default, Loss Given Default and Exposure at Default in this model including back-testing of assumptions applied. Further, we assessed the selected macro-economic scenarios and variables used.</p> <p>We examined a selection of loans to evaluate the expected credit loss allowance for stage 3 loans. We applied professional judgment in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that are potentially more sensitive to developing economic and political trends. For selected loan exposures we recalculated individually assessed allowances and challenged the recovery scenarios and probability weightings assigned. Furthermore, we reconciled the allowances to the amounts approved by the Financial Risk Committee.</p> <p>We evaluated the completeness and accuracy of the disclosures in accordance with EU-IFRSs.</p>
Key observations	<p>Based on our procedures performed we consider the expected credit loss allowance to be reasonable and in accordance with IFRS 9 and we concur with the related disclosures in the financial statements.</p>

## Valuation of equity investments at fair value

<p><b>Risk</b></p>	<p>Equity investments amounted to €2.4 billion as at December 31, 2023. These equity investments are measured at fair value with the corresponding fair value change recognized through profit and loss, except for 3 strategic equity investments, for which fair value changes are recognized through other comprehensive income.</p> <p>The valuation of the equity investments is inherently subjective, most predominantly for level 3 equity investments since these are valued using inputs other than quoted prices in an active market. Key inputs used in the valuation of individual level 3 equity investments are, amongst others, net asset values for private equity fund investments, and comparable book and earnings multiples for private equity direct investments. Certain aspects of the valuation of the equity investments require significant judgment, such as the assessment of the reliability of recent available information and determining the appropriate peer group for establishing multipliers, as the data cannot be verified with external market data.</p> <p>Furthermore, we presumed there is a risk of fraud in recognizing unrealized results from capital results from equity investments. Due to the significance of equity investments at fair value and the related estimation uncertainty, we consider the valuation of these equity investments a key audit matter.</p> <p>Reference is made to Equity investments in the Accounting policies section, note 9 Equity investments of the notes to the consolidated financial statements, and Fair value of financial assets and liabilities in the section Analysis of financial assets and liabilities by measurement basis to the financial statements.</p>
<p><b>Our audit approach</b></p>	<p>Our audit procedures included, amongst others, evaluating the appropriateness of FMO's accounting policies related to fair value measurements in accordance with IFRS 13 Fair Value Measurement and whether valuation techniques for measuring fair value and inputs used to value private equity fund investments and private equity direct investments are appropriate and have been applied consistently.</p> <p>We evaluated the design and tested operating effectiveness of internal controls where applicable in FMO's valuation processes for equity investments and performed substantive audit procedures.</p> <p>We involved our own valuation specialists to assess market related information for the valuation of a sample of private equity direct investments (level 3), and to assess whether the valuations were within a reasonable range. We assessed the accuracy of key inputs and assumptions driving the valuation. This included the assessment of the appropriateness of comparable market multiples, the appropriate peer group for establishing these multiples and adjustments for comparability differences such as size and liquidity.</p> <p>We examined a selection of the private equity fund investments to assess the appropriate application of net asset value statements received from the fund managers and evaluated whether this statement was the best reflection of fair value.</p> <p>We verified the clerical accuracy of the fair value calculations.</p>

### Valuation of equity investments at fair value

	<p>We performed back-testing procedures on fund investments and on the direct investment exited during 2023 to verify the appropriateness and reasonableness of the previous recorded valuations.</p> <p>We evaluated whether all new relevant information available between balance sheet date and the date of the financial statements relevant for the year end fair value was properly included in the valuations.</p> <p>We evaluated the completeness and accuracy of the disclosures in accordance with EU-IFRSs.</p>
Key observations	We are satisfied that the fair value of the equity investments is within a reasonable range and concur with the related disclosures in the financial statements.

### Reliability and continuity of the information technology and systems

Risk	<p>The activities and financial reporting of FMO are highly dependent on the reliability and continuity of the IT environment due to the volume of transactions that is processed daily and the reliance on IT applications to support initiation through reporting of those transactions. Effective IT general controls with respect to change management, logical access, infrastructure and operations, support the integrity and continuity of the electronic data processing as well as the operating effectiveness of the automated controls.</p> <p>The dependency on the IT environment could lead to undetected misstatements in financial reporting. Therefore, we identified the reliability and continuity of the IT environment to be a key audit matter.</p> <p>Reference is made to the operational risk / non-financial risk section of the annual report.</p>
Our audit approach	<p>IT audit professionals are an integral part of the engagement team and assessed the reliability and continuity of the electronic data processing to the extent necessary for the scope of our audit of the financial statements. Our audit was not primarily designed to express an opinion on the continuity and reliability of the automated data processing (or parts thereof) and we have not been instructed so by management. As part of our audit procedures, we assessed the impact of changes to the IT environment during the year, both from ongoing internal improvement initiatives and to meet external reporting requirements. Furthermore, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• We evaluated the design of the IT general control processes and tested the operating effectiveness of IT general controls for the main IT processes: Manage Change, Manage Access and Manage IT operations. This was done for the IT Applications in scope of our audit as well as for the underlying Operating System and Database Management and tooling supporting the IT processes (such as Deployment tools)</li> <li>• We reviewed relevant reports on the design and operating effectiveness of controls from vendors when one or more of the main IT processes were outsourced, including cloud computing outsourcing and SaaS solutions</li> <li>• We tested key application controls over data processing, data feeds and interfaces where relevant for the financial reporting</li> </ul>

### Reliability and continuity of the information technology and systems

	Our audit was not aimed at making a statement about the cybersecurity of FMO and we did not receive any instructions with this respect. However, we did obtain an understanding of the cyber security procedures, controls and reporting as performed by FMO.
Key observations	Our testing of the general IT controls and IT substantive procedures performed, provided sufficient evidence to enable us to rely on the adequate and continued operation of the information technology and systems relevant for our audit of the financial statements.

## Report on other information included in the annual report

The annual report contains other information in addition to the financial statements and our auditor's report thereon.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code for the management report and the other information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements and ESEF

### Engagement

We were engaged as auditor by the Annual General Meeting of Shareholders of FMO on December 4, 2015, as of the audit for the year 2016 and have operated as statutory auditor since that date.

### No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

### European Single Electronic Reporting Format (ESEF)

FMO has prepared the annual report in ESEF. The requirements for this are set out in the Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: the RTS on ESEF).

In our opinion the annual report prepared in the XHTML format, including the (partially) marked-up consolidated financial statements as included in the reporting package by FMO, complies in all material respects with the RTS on ESEF.

The management board is responsible for preparing the annual report, including the financial statements, in accordance with the RTS on ESEF, whereby the management board combines the various components into a single reporting package.

Our responsibility is to obtain reasonable assurance for our opinion whether the annual report in this reporting package complies with the RTS on ESEF.

We performed our examination in accordance with Dutch law, including Dutch Standard 3950N, "Assurance-opdrachten inzake het voldoen aan de criteria voor het opstellen van een digitaal verantwoordingsdocument" (assurance engagements relating to compliance with criteria for digital reporting). Our examination included amongst others:

- Obtaining an understanding of the FMO's financial reporting process, including the preparation of the reporting package
- Identifying and assessing the risks that the annual report does not comply in all material respects with the RTS on ESEF and designing and performing further assurance procedures responsive to those risks to provide a basis for our opinion, including:
  - Obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance document and the XBRL extension taxonomy files, has been prepared in accordance with the technical specifications as included in the RTS on ESEF
  - Examining the information related to the consolidated financial statements in the reporting package to determine whether all required mark-ups have been applied and whether these are in accordance with the RTS on ESEF.

## **Description of responsibilities regarding the financial statements**

### *Responsibilities of the management board and the supervisory board for the financial statements*

The management board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the management board is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

The supervisory board is responsible for overseeing the bank's financial reporting process.

### **Our responsibilities for the audit of the financial statements**

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

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

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

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The Information in support of our opinion section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion. Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- 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 bank's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

#### Communication

We communicate with the supervisory board 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. In this respect we also submit an additional report to the audit & risk committee of the supervisory board in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, March 22, 2024

Ernst & Young Accountants LLP

Signed by J.G. Kolsters

## Assurance report of the independent auditor on the sustainability information

To: the shareholders and supervisory board of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

### Our conclusions

We have performed a limited assurance engagement on the sustainability information in the 2023 annual report of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereinafter: FMO or the Company) at The Hague, The Netherlands.

The sustainability information is included in the chapters “About this report”, “At a glance”, “External environment”, “Our strategy”, “Our value creation model”, “Our investment process”, “Performance against our strategy”, “Materiality assessment and stakeholder engagement”, “How we report”, and Principles for Responsible Banking of the annual report.

Based on our procedures performed and the assurance information obtained, nothing has come to our attention that causes us to believe that the sustainability information does not present fairly, in all material respects:

- The policy with regard to sustainability matters.
- The business operations, events and achievements in that area in 2023 in accordance with the applicable criteria as included in the section “Criteria”.

Furthermore, we have performed a reasonable assurance engagement on selected sustainability information included as part of the sustainability information in the annual report.

The selected sustainability information consists of:

- The materiality assessment and stakeholder engagement as included on page 130 of the annual report.
- The green-labelled new investment volume as included on page 6 of the annual report.
- The gender diversity & inclusion metrics as included on page 62 of the annual report.

In our opinion the selected sustainability information is prepared, in all material respects, in accordance with the applicable criteria as included in the section “Criteria”.

### Basis for our conclusions

We have performed our assurance engagement on the sustainability information in accordance with Dutch law, including Dutch standard 3810N, “Assurance-opdrachten inzake duurzaamheidsverslaggeving” (Assurance engagements relating to sustainability reporting), which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, “Assurance engagements other than audits or reviews of historical financial information”.

Our responsibilities in this regard are further described in the section “Our responsibilities”.

We are independent of FMO 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). This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics for Professional Accountants).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

#### Criteria

The criteria applied for the preparation of the sustainability information are the GRI Sustainability Reporting Standards (GRI Standards) and the criteria supplementally applied, including the UN Environment programme Finance Initiative Principles for Responsible Banking, as disclosed in the chapter “How we report” of the annual report.

The sustainability information is prepared in accordance with the GRI Standards. The GRI Standards used are listed in the GRI Content Index as published on the website of FMO.

The comparability of sustainability information between entities and over time may be affected by the absence of a uniform practice on which to draw, to evaluate and measure this information. This allows for the application of different, but acceptable, measurement techniques. Consequently, the sustainability information needs to be read and understood together with the criteria applied.

#### Limitations to the scope of our assurance engagement

The sustainability information includes prospective information such as ambitions, strategy, plans, expectations and estimates. Prospective information relates to events and actions that have not yet occurred and may never occur. We do not provide assurance on the assumptions and achievability of this prospective information.

In the sustainability information, the calculations to determine the indirect jobs supported and the financed absolute GHG emissions (hereinafter: the impact data) as included in the annual report are mostly based on assumptions and sources from third parties. The assumptions and sources used are disclosed in the document “JIM application by FMO March 2024” as available on the website of FMO.

We have reviewed that these assumptions and external sources are appropriate, but we have not performed procedures on the content of these assumptions and external sources.

The references to external sources or websites in the sustainability information are not part of the sustainability information as included in the scope of our assurance engagement. We therefore do not provide assurance on this information.

Our conclusions are not modified in respect of these matters.

#### Responsibilities of the management board and the supervisory board for the sustainability information

The management board is responsible for the preparation and fair presentation of the sustainability information in accordance with the criteria as included in the section Criteria, including the identification of stakeholders and the definition of material matters.

The management board is also responsible for selecting and applying the criteria and for determining that these criteria are suitable for the legitimate information needs of stakeholders, considering applicable law and regulations related to reporting. The choices made by the management board regarding the scope of the sustainability information and the reporting policy are summarized in the chapter “How we report” of the annual report.

Furthermore, the management board is responsible for such internal control as it determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or error.

The supervisory board is responsible for overseeing the sustainability reporting process of FMO.

#### Our responsibilities

Our responsibility is to plan and perform the assurance engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusions.

Our assurance engagement of the sustainability information is aimed to obtain a limited level of assurance to determine the plausibility of sustainability information. The procedures vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in a limited assurance engagement is therefore substantially less than the assurance that is obtained when a reasonable assurance engagement is performed.

Our assurance engagement of the selected sustainability information has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material fraud and errors during our assurance engagement.

We apply the Nadere voorschriften kwaliteitssystemen (NVKS, regulations for quality management systems) and accordingly maintain a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

For a more detailed description of our responsibilities, we refer to the appendix of this assurance report.

Amsterdam, 22 March 2024

Ernst & Young Accountants LLP

signed by J. Niewold

## Appendix to the assurance report of the independent auditor on the sustainability information

Our assurance engagement included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant sustainability themes and issues and the characteristics of the company
- Evaluating the appropriateness of the criteria applied used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the company's materiality assessment and the reasonableness of estimates made by the management board
- Reconciling the relevant financial information with the financial statements
- Reading the information in the annual report which is not included in the scope of our assurance engagement to identify material inconsistencies, if any, with the sustainability information

Our limited assurance engagement of the sustainability information included amongst others:

- Obtaining through inquiries a general understanding of the internal control environment, the reporting processes, the information systems and the entity's risk assessment process relevant to the preparation of the sustainability information, without testing the operating effectiveness of controls
- Inspecting the Principles for Responsible Banking Self-Assessment and reviewing the accuracy of the data and the traceability of the process followed and documented by FMO
- Identifying areas of the sustainability information where misleading or unbalanced information or a material misstatement, whether due to fraud or error, is likely to arise. Designing and performing further assurance procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These procedures consisted amongst others of:
  - Making inquiries of management and relevant staff at corporate level responsible for the sustainability strategy, policy and results
  - Interviewing relevant staff responsible for providing the information for, carrying out controls on, and consolidating the data in the sustainability information
  - Assessing the suitability and plausibility of assumptions and sources from third parties used for the calculation underlying the impact data as included in pages 151-152 of the annual report and

Our reasonable assurance engagement of the selected sustainability information included amongst others:

- Obtaining an understanding of the systems and processes for collecting, reporting, and consolidating the selected sustainability information, including obtaining an understanding of internal control environment relevant to our assurance engagement, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Identifying and assessing the risks that the selected sustainability information is misleading or unbalanced, or contains material misstatements, whether due to fraud or errors. Designing and performing further assurance procedures responsive to those risks, and obtaining assurance evidence that is sufficient and appropriate to provide a basis for our opinion. These procedures consisted amongst others of:
  - Making inquiries of management and relevant staff at corporate level responsible for the sustainability strategy, policy and results
  - Reading minutes of the meetings of the management board and other meetings that are important for the content of the selected sustainability reporting
  - Interviewing relevant staff responsible for providing the information for, carrying out controls on, and consolidating the data in the sustainability information
  - Evaluating the suitability of assumptions and sources from third parties used for the calculation of the green-labelled new

further explained in the document “JIM application by FMO March 2024” as available on the website of FMO

- Obtaining assurance evidence that the sustainability information reconciles with underlying records of FMO
- Reviewing, on a limited sample basis, relevant internal and external documentation
- Considering the data and trends
- Considering the overall presentation and balanced content of the sustainability information
- Considering whether the sustainability information as a whole, including the sustainability matters and disclosures, is clearly and adequately disclosed in accordance with the criteria applied

investment volume as included in page 6 of the annual report and further explained in the document Green Methodology 2023 as available on the website of FMO

- Obtaining assurance evidence that the selected sustainability information reconciles with underlying records of FMO
- Evaluating relevant internal and external documentation, on a sample basis, to determine the reliability of the information in the selected sustainability information
- Evaluating the data and trends
- Evaluating whether the selected sustainability information is presented and disclosed free from material misstatement in accordance with the criteria applied

#### Communication

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

## Provision in the Articles of Association concerning the appropriation of the net result

The provision and the appropriation of the net profit is based upon the Articles of Association and the Agreement State-FMO of November 16, 1998.

The Annual General Meeting of Shareholders (AGM) will determine which portion of the result of a financial year is reserved or in which way a loss will be incorporated. The Supervisory Board and the Management Board can make a non-binding proposal in accordance with the provision and dividend policy adopted by the AGM, taking into account the relevant provisions in the Agreement State-FMO of November 16, 1998.

## Proposal for appropriation of the net result

A company net profit of €64.9 million is recorded in 2023. Under the Agreement State-FMO of November 16, 1998, FMO is required to add €62.8 million to the contractual reserve. Therefore the 2023 profit is not completely distributable. The distributable element of the net profit amounts to €2.1 million. The Management Board and the Supervisory Board propose distributing a sum of €2.1 million as cash dividend equaling €5.38 per A and B share. This proposal for dividend distribution can be withdrawn if FMO's economical and financial conditions deteriorate significantly in the period up to the moment of distribution of the dividend.

## Guarantee provisions in the Agreement State-FMO of November 16, 1998

### Article 7: Maintenance obligations in the event of depletion of General Risks Reserve (GRR) fund and inadequate cover for exceptional operating risks

7.1 To determine whether FMO has grounds for invoking the maintenance obligation (the 'State's Maintenance Obligation') as referred to in Article 7.2.1, the losses incurred by FMO as referred to in Article 7.2.2, as shown by the annual accounts drawn up for the relevant year in accordance with generally accepted accounting principles and in conformity with Part 9 of Book 2 of the Netherlands Civil Code and duly adopted by the competent corporate body, shall first be charged to the GRR fund.

7.2.1 The State undertakes vis-à-vis FMO to defray losses on its operations pursuant to Article 3.1 and 3.2 of this Agreement, as determined in Article 7.2.2, to the extent that such risks have not been covered by specific value adjustments and/or compensation and/or insurance benefits received or yet to be received, provided that:

- a) the amount of such losses exceeds the size of the GRR fund as at December 31 of the year in which these losses were incurred; and
- b) the inadequacy of the cover for general value adjustments under the GRR fund is due to abnormal operating risks, such as unforeseen political difficulties in, or transfer problems with, particular countries or the collapse of the world economy or a regional economy.

7.2.2 The parties shall consult together to determine the magnitude of such losses. Should they fail to agree, FMO's auditors and an auditor designated by the State shall make a reasonable and equitable calculation of the losses in accordance with generally accepted accounting principles.

7.3 If the circumstances arise as described in Article 7.2.1, under a) and b) and FMO requests the State to fulfill its obligations as referred to in Article 7.2, this shall give rise to a claim against the State, which shall be duly acknowledged by the State, on the first business day of the first financial year following the date of the request. Such request shall be in writing.

## Article 8: Other financial security obligations

8.1 Without prejudice to the other provisions in this Agreement, the State shall prevent situations arising in which FMO is unable to meet the following (comprehensive enumerated) commitments on time: FMO's commitments in respect of:

- (i) loans raised in the capital market;
- (ii) short-term funds raised on the money market with maturities of two years or less;
- (iii) swap agreements involving the exchange of principal and payment of interest;
- (iv) swap agreements not involving the exchange of principal but with interest payment;
- (v) foreign exchange forward contracts and forward rate agreements (FRAs);
- (vi) option and futures contracts;
- (vii) combinations of the products referred to in (i) to (vi);
- (viii) guarantees provided by FMO to third parties in respect of the financing of private companies in developing countries;
- (ix) commitments relating to the maintenance of an adequate organization.

## Notes to the guarantee provision

The GRR fund referred to in Article 7 of the Agreement State-FMO of November 16, 1998 consists of share premium reserve of €21,211k and the contractual reserve. On December 31, 2023, the fund amounted to €2,743,034k (2022: €2,680,264k).



## List of abbreviations

AC	Amortized cost	IEP	Independent Expert Pane
AEF	Access to Energy Fund	IFC	International Finance Corporation
AFW	Agribusiness, Food & Water	IFRS	International Financial Reporting Standards
AGM	Annual General Meeting of Shareholders	ILAAP	Internal Liquidity Adequacy Assessment Process
ARC	Audit and Risk Committee	IMF	International Monetary Fund
BPV	Basis Point Value	IMS	Infrastructure, Manufacturing and Services
CD	Capacity Development	INR	Indian Rupee
CEO	Chief Executive Officer	IRC	Investment Review Committee
CET 1	Common Equity Tier 1	ISCO	Impact and Sustainability Committee
CFI	Center for Financial Inclusion	ISDA	International Swaps and Derivatives Association
CFOO	Chief Finance and Operations Officer	JIM	Joint Impact Model
CG	Corporate Governance	KPI	Key Performance Indicator
CGAPs	Corporate Governance Action Plans	ktCO <sub>2</sub> e	One kiloton of CO <sub>2</sub> equivalent
CIO	Chief Investment Officer	KYC	Know Your Customer
CiP	Clearance in Principle	LCR	Liquidity Coverage Ratio
CP	Commercial Paper	LDC	Least developed country
CRD	Capital Requirements Directive	LIBOR	London Interbank Offered Rate
CRO	Chief Risk Officer	LIC	Low-income country
CRR	Capital Requirements Regulation	LSIs	Less Significant Institutions
CSA	Credit Support Annex	MDB	Multilateral Development Bank
CSRD	Corporate Sustainability Reporting Directive	MFF	Mobilising Finance for Forests
D&I	Diversity and Inclusion	MFI	Microfinance institution
DCF	Discounted Cashflow	MoFA	Dutch Ministry of Foreign Affairs
Delta EVE	Delta Economic Value of Equity	MSME	Micro, small and medium enterprise
DFCD	Dutch Fund for Climate and Development	NFRC	Non-Financial Risk Committee
DFI	Development Finance Institution	NFRD	Non-Financial Reporting Directive
DNB	Dutch Central Bank	NGO	Non-governmental organization
DORA	Digital Operational Resilience Act	NII	Net Interest Income
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization	NPE	Non-performing exposures
EC	European Comission	NPS	Net Promotor Score
ECB	European Central Bank	NPV	Net present value
ECL	Expected Credit Loss	NSFR	Net Stable Funding Ratio
EDFI	European Development Financial Institution	OCI	Other comprehensive income
EM	Emerging market	OFAC	The Office of Foreign Assets Control
EN	Energy	OHS	Occupational health and safety
ESAP	Environmental and social action plan	ORX	Operational Risk Data Exchange Association
ESG	Environmental, social and governance	P2G	Pillar 2 Guidance
ESRS	European Sustainability Reporting Standards	PCAF	Partnership for Carbon Accounting Financials
EU	European Union	PD	Probability of default
EURIBOR	Euro Interbank Offered Rate	PE	Private equity
FEC	Financial economic crime	PP&E	Property, plant and equipment
FI	Financial institution	PRB	Principles for Responsible Banking
FIU	Financial economic crime	RAF	Risk Appetite Framework

FMO	Financierings-Maatschappij voor Ontwikkelingslanden N.V	RI	Reducing Inequalities
FMO IM	FMO Investment Management B.V.	S&P	Standard and Poor's
FOM	Faciliteit Opkomende Markten	SARC	Selection, Appointment and Remuneration Committee
FOM-OS	Fund Emerging Markets for Developing Countries	SBF	Sustainability Bonds Framework
FPIC	Free prior and informed consent	SDG	Sustainable Development Goal
FTE	Full-time equivalent	SFDR	Sustainable Finance Disclosure Regulation
FVOCI	Fair value through other comprehensive income	SIRA	Systematic Integrity Risk Analysis
FVPL	Fair value through profit or loss	SIS	Sustainability Information System
FSLU	Forests and Sustainable Land Use	SME	Small and medium-sized enterprise
FX	Foreign exchange	SOFR	Secured overnight financing rate
GAAP	Generally Accepted Accounting Principles	SPPI	Solely payments of principal and interest
GCF	Green Climate Fund	SRB	Single Resolution Board
GDP	Gross Domestic Product	SREP	Supervisory Review and Evaluation Process
GDPR	General Data Protection Regulation	TA	Technical assistance
GHG	Greenhouse gas	TCFD	Task Force on Climate-Related Financial Disclosures
GRI	Global Reporting Initiative	TCX Fund N.V.	The Currency Exchange Fund
GRR	General Risk Reserves	UBO	Ultimate beneficial owner
GWh	Gigawatt-hours	UNEP	United Nations Environment Programme
IAS	International Accounting Standards	URP	Unfunded Risk Participation
IBOR	Interbank Offered Rate	USD	US dollar
IC	Investment Committee	VSC	Verified Carbon Standard
ICM	Independent Complaints Mechanism	Wwft	Dutch Anti-Money Laundering and Anti-Terrorist Financing Act

## Contact details

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

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In Search Of VOF: Ilja van Roon

## Photography

Opmeer Reports, [www.opmeerreports.nl](http://www.opmeerreports.nl) | Cover: Sucafina, Colombia | P8-9 Banco Sudameris, Paraguay | P74-75 Genneia S.A., Argentina | P82-83 MCE Agricultural project, Latin America | P90-91 HPW Fresh & Dry Ghana, Ghana | P128-129 Sucafina coffee plantation, Colombia | P166-167 Banco Pichincha, Ecuador | P250-251 Genneia S.A., Argentina

Arenda Oomen, Arenda Oomen Fotografie: P9 group picture Management Board, P80 Supervisory Board members, P85 Management Board members

Own photography: P240-241 Khan Bank - greenhouse project, Mongolia

## Design

Studio Duel, The Hague

[www.studioduel.nl](http://www.studioduel.nl)

## Production

F19 Digital Reporting, Eindhoven

[www.f19digitalreporting.com](http://www.f19digitalreporting.com)

## Reporting scope

This integrated annual report covers activities that took place or had an effect on the reporting year.

FMO publishes its integrated annual report on 22 March 2024. The annual shareholders' meeting is in April. The report is audited by an external auditor. Please read EY's auditor's report for detailed information on the scope of their work. Previous reports are available on [www.fmo.nl/reports](http://www.fmo.nl/reports)

## Presentation of information

This annual report (Annual Report) of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-Eu) and with Title 9 of Book 2 of the Netherlands Civil Code.

The reports made in this document are for information purposes only and are in particular not intended to confer any legal rights to anyone reading the Annual Report. Information provided in the Annual Report is not an offer, investment advice or financial service. The information in this Annual Report is not intended to encourage any person to buy or sell any product or service from FMO, or to be used as a basis for an investment decision.

## Cautionary statement regarding forward-looking statements

Certain of the statements in this Annual Report are not historical facts, including, without limitation, certain statements made of future expectations and other forward-looking statements that relate to, among other things, FMO's business, result of operation, financial condition, plans, objectives, goals, strategies, future events, future revenues and/or performance, capital expenditures, financing needs, plans or intentions, as well as assumptions thereof. Such statements are subject to risks and uncertainties. These statements represent only FMO's beliefs at the date of publication of this document regarding future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Words such as 'anticipate', 'believe', 'could', 'endeavor', 'estimate', 'expect', 'forecast', 'intend', 'predict', 'project', 'may', 'objectives', 'outlook', 'plan', 'strive', 'target', 'will', and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Actual results, performance or events may differ materially from those anticipated by the forward-looking statements due to, without limitation: (i) changes in general economic conditions, in particular in FMO's core and niche markets, (ii) changes in the availability of, and costs associated with, sources of liquidity, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (iii) changes in performance of financial markets, including emerging and developing markets, (iv) changes in interest rate levels, (v) changes in credit spread levels, (vi) changes in currency exchange rates, (vii) changes in general competitive factors, (viii) general changes in the valuation of assets, (ix) conclusions with regard to accounting assumptions and methodologies, (x) changes in law and regulations, including regulatory law and fiscal law, (xi) changes in policies of governments and/or regulatory authorities, (xii) changes in credit and financial strength ratings, (xiii) other risks and uncertainties detailed in the Risk Factors section contained in recent public disclosures made by FMO, (xiv) risks and uncertainties as addressed in this Annual Report, and (xv) FMO's success in managing the risks involved in the foregoing.

The forward-looking statements are only applicable as from the date of publication of this Annual Report. FMO does not intend to publicly update or revise forward-looking statements contained in this Annual Report to reflect events or circumstances after the date of this report, and FMO does not assume any responsibility to do so.

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