FMO

Entrepreneurial
Development
Bank

ANNUAL REPORT

2022

People who live in rural India often have less access to reliable energy and fewer opportunities to improve their livelihoods. Dharma Life trains women from these remote regions to sell socially impactful products and services such as solar lights and clean cook stoves. Through this entrepreneurship model, Dharma Life creates new income opportunities for women, improves health, reduces emissions, and drives rural development. In the picture: Meena Devi, Dharma Life entrepreneur

Ambitious choices in critical times

Our mission: We enable entrepreneurs to increase inclusive and sustainable prosperity

ABOUT THIS REPORT

This integrated annual report covers activities that took place or had an effect on the reporting year. The report covers the period from 1 January to 31 December 2022 and was published on 17 March 2023 on FMO's website. The annual shareholders' meeting is scheduled to be held on 26 April 2023.

The report is accompanied by two supplemental reports: FMO's disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and FMO's disclosure in line with our commitment to the Principles for Responsible Banking (PRB). 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.

FMO is subject to the structure regime as intended in Part 4, Book 2 of the Dutch Civil Code. The Board Report consists of the chapters 'At a glance', 'Report of the Management Board', 'Report of the Supervisory Board', 'Corporate governance', 'Stakeholder engagement and materiality assessment', 'External commitments' 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 is described further in the chapter 'How we report'.

Material topics

The materiality assessment provides guidance on the (level of) information stakeholders expect FMO to disclose through the annual report or other communication channels. It also serves as input for our stakeholder dialogue and strategic plans. A detailed description of the approach and results are provided in the chapter 'Stakeholder engagement and materiality assessment'.

External assurance and audit

We have engaged Ernst & Young Accountants LLP to audit the 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 'Independent auditor's and assurance report'.

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AT A GLANCE

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 developing countries and emerging markets by investing in ambitious projects and entrepreneurs.

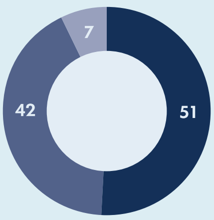
FMO believes that a strong private sector leads to economic and social development and has a 50+ year proven track-record in enabling entrepreneurs to make local economies more inclusive, productive, resilient and sustainable.

FMO focuses on three sectors that have high development impact: Agribusiness, Food & Water, Energy, and Financial Institutions.

FMO has its head office in The Hague, the Netherlands, with 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

2nd /987 banks
Sustainalytics relative performance (1st=lowest risk)

Prime
ISS ESG rating

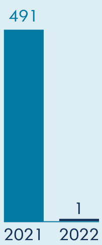
Employees

689
Total number of employees

63
Number of nationalities

43%
of women in senior and middle management

Financial performance



€1 million
Net profit

23.8%
CET1(%)

2022 Performance

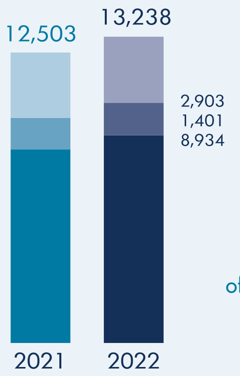
Investing in inclusive and sustainable prosperity[1]

	Decent Work and Economic Growth	Reduced Inequalities	Climate Action

Total committed portfolio[2]

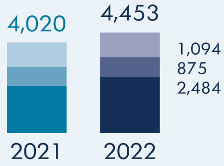
34% of our total committed portfolio aims to contribute to reduced inequalities and 33% to climate action.

- Mobilized funds
- Public funds
- FMO's balance sheet



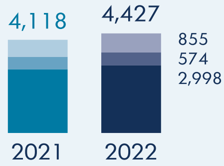
€13,238 million
Total committed portfolio

of which



€4,453 million
Reducing Inequality-labelled total committed portfolio

and

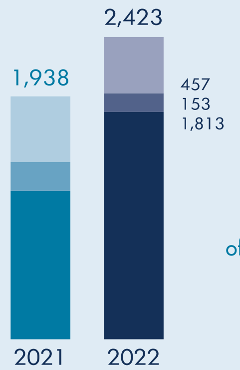


€4,427 million
Green-labelled total committed portfolio

Total new investment volume[2]

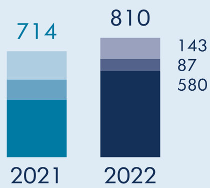
33% of the total new investment volume aims to contribute to reduced inequalities and 41% to climate action.

- Mobilized funds
- Public funds
- FMO's balance sheet



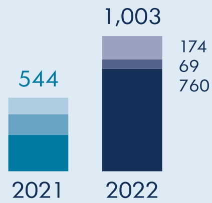
€2,423 million
Total new investment volume

of which



€810 million
Reducing Inequality-labelled new investment volume

and



€1,003 million
Green-labelled new investment volume

Other key indicators[3]

Our portfolio resulted in an estimated 750 thousand jobs supported and 1,439 ktCO_2e financed avoided GHG emissions.

750 thousand
Jobs supported

1,439 ktCO_2e
Total financed avoided greenhouse gas emissions

1. In addition to investments made on its own balance sheet, FMO also invests public and mobilized funds to create impact. These funds are managed but not owned by FMO. The risk exposure for these assets is for the third-party 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. Compared to the 2021 Annual Report, the unit expression for this indicator has been adjusted for ease of interpretation.

01 Report of the Management Board


Sahyadri
Farms
seeding goodness

LETTER OF THE MANAGEMENT BOARD

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

Ambitious choices in critical times

2022 was a year of upheaval. The Ukraine war – first and foremost a humanitarian disaster – led to political and economic crises across the region and beyond. Inequality rose, the climate crisis continued to unfold, and a global recession began to loom, pushing an increasing number of vulnerable people into food insecurity, reduced energy access and poverty. Combined with the fact that climate change disproportionately affects low- and middle-income countries – with the floods in Pakistan as an example – countless communities and countries face an even bleaker outlook. Since then, we have unfortunately also seen the devastating impact of the earthquakes in Turkey and Syria. Our hearts go out to the victims and all who have been affected, including our colleagues and customers with ties to the region.

At FMO, we believe that - in these critical times - we need to make ambitious choices to create more impact by better serving our customers and taking risks that commercial parties are not (yet) willing to take. FMO supports the private sector in low- and middle-income countries to contribute to inclusive and sustainable economic growth. Equally important is that we follow a pathway towards lower greenhouse gas emissions and climate-resilient development. By attracting commercial parties to invest alongside FMO, we contribute towards the "billions to trillions" agenda that is needed in development finance to reach the SDGs and improve the lives of people who need it the most.

Coming out of a two-year period of heavy measures to curb the global pandemic, we set three strategic priorities for 2022: building back business, adapting to regulatory changes, and accelerating the development of our organization.

Building back business

Our focus was on enabling entrepreneurs and the communities they serve to regain their bearings after the COVID-19 crisis.

Impact and investments

Some of our high impact investments in 2022 included:

- Showing our support for the Ukrainian economy. We committed US$20 million to Horizon Capital Growth Fund IV (HCGF IV), which invests in fast-growing tech and export-oriented companies in Ukraine and the surrounding region.
- Supporting Treevive, a carbon development platform, through the UK Government Mobilising Finance for Forests fund. The US$2.5 million facility enables the platform to develop and market natural climate solutions and improve the pipeline for investors looking for tropical forest projects.
- Contributing to the largest solar power project in Egypt. We supported Abydos Solar Company – subsidiary of our existing customer AMEA Power. The company will develop, build, and operate the project, which will generate power priced at the lowest rate in Africa and among the lowest in the world.
- Joining an international equity investment in Sahyadri Farms. This farmer-led organization started in 2010 as an initiative of 10 Indian farmers to collectively produce and export fresh grapes to Europe and grew into the leading fruits and vegetable export and processing company that Sahyadri Farms is today. The equity investment will support Sahyadri Farms to reach even more farmers and set a blueprint for further growth in the industry.
- Issuing the first ever synthetic Sierra Leonean bond. FMO together with TCX, showed there is a viable way to finance the SDGs in local currency by allowing risk to be transferred from borrowers that cannot and should not bear it, to investors looking for the risk and return of frontier currency debt.
- Arranging a US$116.75 million syndicated loan for our long-standing customer Banco Pichincha in Ecuador. The loan will be dedicated to financing women-owned SMEs and financing green customers or projects. Banco Pichincha is a pioneer in financial inclusion with a well-defined gender strategy, as well as a leader in sustainability that has signed the UN Principles for Responsible Banking and joined the Net Zero Banking Alliance.

For 2022, we set ambitious targets for our total new investment volume of approximately €2.8 billion of new investments. While our overall portfolio grew, we ended the year at €2.4 billion, nearly €500 million higher than the year before. The €2.4 billion constitutes of €1.8 in FMO investments, €153 million in public funds' investments and €457 million in mobilized funds' investments.

Our impact targets were also ambitious. At year-end, we report mixed results. With respect to reduced inequalities (RI), our overall RI-labelled total committed portfolio amounted to €4,453 million, which is above our target of €4,275 million. We achieved €810 million in RI-labelled new investments, which fell short of our €1,105 million target. This can be attributed to several factors including (i) political unrest in a number of least developed countries which resulted in an even more challenging investment climate as well as (ii) the longer lead time it takes to develop these projects post-COVID. With respect to contributing to climate action, our Green-labelled total committed portfolio amounted to €4,427 million, above our target of €4,310 million. This was, among others, driven by an increase in Green-labelled new investments which came in at €1,003 million compared to a target of €1,070 million. This is nearly twice as much as we achieved in 2021.

In addition, we achieved several important milestones to advance our impact, including:

- Increasing our local presence to manage risk and further connect with local communities. We see local communities as invaluable partners in the impact development process and NGOs as important knowledge partners on local community needs. In 2022, we opened a new regional office in Costa Rica covering Latin America and the Caribbean. We closed our office in Singapore, while we review our options for local representation in Asia;
- Revising our Customer Disclosure Policy. Upon implementation in 2023, this will increase project level transparency and deliver a better flow of information to stakeholders, including local stakeholders on the ground;
- Committing to a new Position Statement on Impact and ESG for Financial Intermediaries. It describes our approach to financing and our risk appetite with respect to working with financial intermediaries towards compliance with ESG standards;
- Publishing our Climate Action Plan, which provides a framework to fulfil our SDG 13 objectives and our commitment to a just and inclusive transition. We aim to reduce emissions in our power generation portfolio by 50 percent by 2030 in line with our commitment to phase out fossil fuel finance in our direct investments;
- Launching the Joint Impact Model (JIM) Foundation, which aims to increase transparency on key impact indicators in developing countries in a harmonized way.

At FMO, we need to and want to continually improve the way we work. Lessons learned from the more complex projects help us do that, for example from Plantations et Huileries du Congo S.A (formerly known as Feronia), which we exited in February 2022. Another complex project, Agua Zarca, saw new developments in June, related to earlier legal proceedings. More information on both projects and how we improved our impact approach can be found on our website. We value the ongoing engagement with civil society and other stakeholders as this helps us broaden our views and look at impact from multiple perspectives.

Financial results

Turbulent global macroeconomic conditions impacted FMO's overall financial performance significantly by reductions in equity valuations and an increase of loan impairments. As a result, over 2022, we report a net profit of €1 million. The war in Ukraine, the economic and political crisis in Sri Lanka, as well as the political unrest in Myanmar, all had a profound influence on people's livelihoods, affecting our customers in these geographies as well. Our non-performing loans (NPL) percentage increased from 9.5 percent in 2021 to 11.9 percent in 2022, with the three before-mentioned countries accounting for almost 31 percent of this total (just over €200 million).

Since the implementation of accounting standard IFRS 9, our financial results have been more volatile, as the fluctuations of the valuation of our equity investments are reflected in the profit and loss. The income generated through our loan portfolio, however, more than sufficiently covered our operating expenses.

Adapting to regulatory changes

Compliance with current and new regulations is an ongoing priority for us. In 2022, we further invested in our risk and compliance framework and took steps to strengthen our organizational risk culture. We kept on track with key regulatory projects such as the LIBOR transition and made progress toward the implementation of the EU’s Sustainable Finance Disclosure Regulation (relevant for the FMO Investment Management funds) and the European Central Bank (ECB) requirements related to the disclosure of climate-related risks.

As progress towards our focus SDGs can be severely hampered by financial economic crime (FEC), we take our role as gatekeeper to the financial system very seriously. In 2020, we launched the Financial Economic Crime Enhancement program to ensure full compliance with the Anti-Money Laundering and Anti-Terrorist Financing Act (in Dutch: Wwft) and the Sanctions Law. We finalized this program at the end of 2021, including the related KYC file remediation.

In 2022, we initiated a follow-up on the recommendations the Dutch Central Bank (DNB) gave in its conclusions and observations, which included acknowledgement of the improvements we made. We have further enhanced our KYC capabilities by embedding the KYC department in the frontline of the investment process, giving KYC a natural position in any project decision.

As a result of the file remediation, we reported a limited number of incidents to DNB at the end of 2021 and the beginning of 2022. These involved late notifications of unusual transactions to the Financial Intelligence Unit (FIU). DNB initiated an investigation into these incidents and the related KYC files. We expect this investigation to result in enforcement measures by DNB.

Accelerating organizational development

We continued to focus on staff wellbeing and engagement. For instance, we are increasing awareness on mental health in the workplace, offering counselling and training if needed. We introduced the ‘Future of work’ policy, a pilot designed to facilitate hybrid and flexible ways of working in a post-COVID-19 environment. Working remotely abroad is now formalized, providing opportunities for our employees to e.g., spend more time with family abroad.

The focus on wellbeing and engagement is especially important, as FMO is growing the number of employees; we are expanding our team to meet the increased workload related to our rising ambitions and the expectations of our stakeholders. Additionally, we have changed our way of working to fulfil our above-mentioned KYC-objectives and will continue to enhance our KYC capabilities to keep up with our ambitions and requirements.

To further facilitate the growth of and changes within our organization, we are increasingly streamlining our processes and increasing our efficiency. In 2022, we hired a director Business Process Transformation, and together with his team, he will guide our digitalization program and internal efficiency improvements. A core priority for 2023, this multi-year program will start with optimizing efficiency in our investment processes. Additionally, we will implement an agile way of working and effectuate significant upgrades to our IT systems.

We realize that absorbing all these and other changes as an organization can sometimes be challenging. As Management Board, we do our utmost to facilitate this, while keeping an eye on the capacity and wellbeing of our colleagues, and setting priorities and giving guidance where needed. Change is never easy, and we are thankful to our staff for being flexible and for their continued focus on making impact.

In 2022, we completed the expansion of the Management Board from three to five members in December. In September, Franca Vossen joined us as Chief Risk Officer. In December, Peter Maila joined us as Co-CIO next to Huib-Jan de Ruijter, now also Co-CIO. As of September, Fatoumata Bouaré, FMO's Chief Risk & Finance Officer since 2017, continued as Chief Finance & Operations Officer. With these changes, we believe the Management Board's capacity will be better aligned with the size and complexity of the organization.

Outlook

In close collaboration with our stakeholders, we updated our strategy toward 2030, titled 'Pioneer – Develop – Scale', derived from our so-called 'progression model'. This model shows our long-term commitment to companies, supporting them from an initial high-risk phase to the point where commercial investors can (partially) take over financing from FMO.

While we concluded that the direction of our previous strategy was right, we added focus and a clear ambition to maximize our impact. By 2030, our ambitious 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. Our investments in SDG 10 are aimed to contribute towards economic inclusion, increase gender-lens investments, and focus on least developed countries and fragile states. Our investments in SDG 13 will focus on climate mitigation, adaptation, resilience and biodiversity, as well as reaching a net zero portfolio by 2050 through a just and inclusive transition. We also expect to have doubled our public and mobilized portfolios.

To achieve these ambitious goals, we need more bankable opportunities in emerging markets. Hence, we added market creation to our focus: we will structurally approach market creation and develop bankable opportunities in nascent and fragile markets. We will enable ecosystem development, intensify our partnerships and strengthen business development by working together with local partners such as civil society organizations, incubators, accelerators, business networks, and universities.

We are setting yearly ambitions to step-by-step together further strengthen our organization. For 2023 the focus lies on growing impactful business, on continuing to ensure that our regulatory foundation is solid and on improving our capabilities. The latter 'pillar' focuses specifically on enhancing efficiency/ digitalization, as mentioned above, and on further developing our people's skillsets and capabilities. Now that the Quality of Direction – our long-term strategy and its implementation plan – has been renewed, we will zoom in on the Quality of our Interaction, how we work together to maximize our impact. We will do this – amongst others – by further embedding the desired behaviors related to FMO's values within the organization and through senior leadership development, as we acknowledge the importance of role modelling.

Given the current geopolitical conflicts, high levels of inflation and threat of a global recession, the global outlook remains uncertain. While achieving growth and maximizing our impact will be challenging, we see it as our role to be countercyclical and focus on the long term, to invest when others shy away. Ultimately, it is people in emerging markets who suffer the most and we are driven and determined to do everything in our power to support them.

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

We continued to invest in our focus markets utilizing FMO's own capital, public programs and mobilized funds. Through these investments, we contribute toward the SDGs.

AEE Power Ventures, S.L.

Energy company active in Sub-Saharan Africa
US$0.75 mln | Access to Energy Fund | SDG 7, 8, 10, 13

According to the World Bank, just 19 percent of the 108 million people in the Democratic Republic of the Congo have access to electricity, with rural areas making up just 1 percent. Through the Access to Energy Fund, FMO provided a US$ 0.75 mln repayable development contribution to AEE Power Ventures, which will be used in the early development stage of the ESSOR mini-grid project. This project will improve access to electricity in isolated Congolese cities through hybrid solar mini-grids. In total, three mini-grids will be built in Bumba, Gemena, and Isiro, towns with over 150,000 people. The projects will initially comprise 27 MW PV generation and 80 MWh of battery storage. FMO's funding will be used for external development costs, such as legal analyses, technical and feasibility studies, and E&S advisors.

SolarX

Solar business active across West Africa
Up to €3 mln Convertible Note/Equity and €2.5 mln Mezzanine | FMO Ventures Program and Building Prospects Fund | SDG 7, 8, 13

SolarX is a commercial and industrial solar rooftop business active in Mali, Burkina Faso, Senegal, and Côte d'Ivoire, countries with lower electrification rates. They reduce inequality by providing access to energy through affordable, clean, and reliable solar power assets to customers that rely on costly diesel-powered generators and an unreliable grid. In 2022, FMO committed to investing up to €5.5 mln, funded by FMO's Ventures Program and the Dutch Government's Building Prospects Fund, alongside long-time partner Energy Access Ventures Fund. In addition to access to electricity, the funding will also reduce electricity costs, minimize dependence on diesel-powered generators, and thereby reduce CO_2 emissions.

Scatec ASA - Virtuo Finance S.A.R.L.

Renewable energy platform active in Egypt
US$ 72.5 mln debt | FMO | SDG 13

Scatec is a renewable energy producer that provides affordable and clean energy worldwide. They refinanced the non-recourse project debt for six solar power plants in Egypt, with a total capacity of 380 MW by issuing a 19-year US$334.5 mln green project bond, with a climate bond certificate from the Climate Bond Initiative. The refinancing will further improve Scatec's and its project partner's future cash distributions from the power plants. FMO signed a purchase note to invest US$72.5 mln in this innovative climate finance transaction, the first of its kind in Africa.

Georgia Renewable Power Operations

Renewable energy platform active in Georgia

US$30 mln debt | FMO | SDG 13

Georgia mainly relies on hydropower to generate electricity. In the past years, the government has focused on private investments to increase the country's energy security and reliance on renewable energy. FMO acted as an anchor investor in the largest green bond with a US$30 mln participation when Georgia Renewable Power Operations (GRPO), which owns and operates four hydropower plants and the only wind farm in Georgia, issued US$80 mln of the first-ever green secured notes in Georgia. The proceeds of the bonds were used to refinance the company's existing debt and ensure a successful implementation of GRPO's medium-term strategy, with the aim of boosting the Georgian capital market and paving the way for more sustainable bond instruments.

JSC Credo Bank

MSME-focused bank in Georgia

GEL 100 mln (around US$30 mln) debt | FMO | SDG 8, 10

The Georgian economy is strongly dependent on agriculture, thanks to its rich soil and temperate climate. Some of its exports include nuts, wine, fruits such as grapes, apples and peaches. The government has made agriculture one of its development priorities, as the country is uniquely positioned to be an exporter to various markets for these commodities. Credo Bank is a market leader in agriculture. With 81 branches in the country and around 460,000 clients, Credo ranks fifth out of 14 banks in Georgia, and focuses on micro and SME loans, as well as mobile banking. FMO provided a GEL 100 mln (around US$30 mln) facility to its long-term customer, which is 100 percent labelled under Reducing Inequalities. The funding will be used to help Credo increase its long-term local currency funding, with an emphasis on growing its youth portfolio.

Trans-Oil Group

Agribusiness logistic provider active in Eastern Europe

US$25 mln | FMO | SDG 2, 8

Trans-Oil Group (TOG) operates across the Republic of Moldova, Ukraine, Romania, and Serbia, where it offers grain handling, storage, trading, and farming, as well as oilseed crushing. They provide exports to international traders and importers across the EU, Middle East, North Africa, and Asia. However, most Ukrainian ports on the Black Sea have shut down because of the war, severely impacting the global food supply chain. TOG has been able to ensure a steady flow of grain into Romania via the Danube River and owns two grain terminals amongst a few operating port facilities in Ukraine. The war led many commercial banks to limit working capital funding, increasing the need for financing from FMO. FMO signed a US$25 mln participation in an ING-led US$117 mln pre-export facility to its long-term customer, contributing to global food security by enabling the transport of more than 5.5 mln tons of grain to international markets.

Horizon Capital Growth Fund IV

Ukrainian and Moldovan technology and export-oriented impact fund

US$20 mln equity | FMO | SDG 8

The full-scale Russian invasion of Ukraine has drastically disrupted Ukraine's economy, although IT and technology companies have shown resilience and have become a lifeline for the country. IT exports, now a key source of foreign currency inflows, are at a historical peak and continue to grow. To that end, FMO committed US$20 mln to the Horizon Capital Growth Fund IV, managed by Horizon Capital, a leading private equity firm that invests in fast-growing technology and export-oriented companies in Ukraine and the surrounding region. The fund is focused on growth equity investments, with a first close of US$125 mln and a target final close of US$250 mln. FMO has invested in all of Horizon's predecessor funds, with the funding aimed at providing growth capital and support to local SMEs.

Sahyadri Farms

Integrated fruits and vegetables value chain

INR 1 bln (~US$12 mln) equity | FMO | SDG 2, 8, 10, 13

Waste in India's supply chain for fruit and vegetable amounts to 30 percent due to inefficiency, outdated technology, lack of capital, and inequality. In a country where nearly three-fourths of the population is younger than 45, this waste reduces the income of young entrepreneurs. Sahyadri Farms is the leading fruits and vegetable export and processing company, reaching over 18,000 farmers across India. Sahyadri Farms provides a digital platform that enhances farm productivity and increases farmer income. It walks farmers through the entire farming process, including crop choice, farming practices, farm inputs, access to marketplaces, and more. FMO provided an INR 1 bln (roughly US$12 mln) equity investment alongside other investors, for a close of INR 3.1 bln (almost US$40 mln). The funding will help grow the number of farmer companies supplying to and benefiting from the Sahyadri ecosystem. Furthermore, Sahyadri Farms plans to expand its processing capacity and further enhance its infrastructure.

Alcazar Energy Partners II Fund

Renewable energy-focused impact fund in the MENA and ECA region

Up to US$40 mln equity | FMO | SDG 13

The Alcazar Energy Partners II Fund, managed by Luxembourg-based Alcazar Energy Partners, aims to mitigate the effects of climate change by funding the growth of renewable energy projects across emerging markets in the Middle East, Northern Africa, Europe and Central Asia. The fund focuses on early stage development of renewable energy projects and their in-house capabilities in relation to technical, E&S and developmental aspects of renewable energy projects, in line with our intensified focus on market creation. In total, it is estimated the fund will enable the development and construction of over 2GW of clean energy infrastructure and will save around 3.2 mln tons of GHG emissions. The fund reached a first close of US$338 mln, with a final target size of US$500 mln and hard cap of US$650 mln. Alongside seven other private institutional investors, FMO contributed to the fund, providing an equity investment of up to US$40 mln.

Banco Pichincha

Universal bank in Ecuador

US$20 mln | FMO | SDG 5, 8, 10, 13

Microfinance activities have increased in Ecuador in the last several years but nearly half of adults do not have a banking account. Banco Pichincha is the largest bank in Ecuador, providing personal and corporate banking, as well as microfinance services. Reaching 4.6 mln Ecuadorians and serving more than 70,000 SMEs, it has the most sizable microfinance portfolio. The bank offers alternative distribution products such as village banking, reaching non-banking users in shops or kiosks to increase financial inclusion. Banco Pichincha has a strong Green and Gender strategy, having disbursed over US$400 mln in green loans and a portfolio of around US$1 bln in loans supporting women-owned or led (M)SMEs. FMO was the lead arranger and lender for a US$116 mln syndicated facility alongside six other partners, providing US$20 mln in financing. Thirty-five percent of the facility will be used to finance women-owned SMEs, and 65 percent for Green clients and projects.

I&M Bank Kenya

Tier 2 Bank in Kenya

US$15 mln guarantee (debt) | MASSIF | SDG 10

Kenyan MSMEs, particularly youth and women-owned businesses, generate more than one-third of the country's GDP, despite struggling to gain access to finance. I&M Bank is a wholly owned subsidiary of I&M PLC and has been an FMO customer since 2010. Recently, they have been focusing on increasing financial inclusion for MSMEs, as well as offering digital solutions (e.g., FinTech partnerships) for a smooth transition into an increasingly digital era. FMO provided a US$15 mln NASIRA portfolio guarantee in the local currency, enabled by the EU's European Fund for Sustainable Development and MASSIF, the financial inclusion fund FMO manages on behalf of the Dutch Government. The NASIRA program is aimed at underserved entrepreneurs in Sub-Saharan Africa and countries neighboring Europe. The guarantee will foster financial inclusion, helping both banked and unbanked MSMEs in Kenya that have been hit by COVID-19. Additionally, the facility will include capacity development and technical assistance for non-financial services such as digitization, enhancing MSME lending practices, and financial literacy.

EXTERNAL ENVIRONMENT

The year 2022 was shaped by several major events. Although the COVID-19 pandemic became more manageable, Russia invaded Ukraine, inflation soared, access to energy and food was more restricted and economic growth slowed down. This chapter outlines key developments that impacted progress on the Sustainable Development Goals (SDGs) we aim to contribute to and the sectors in which we operate.

(Geo)political issues and social unrest

War and political unrest destabilized several countries in which we are active. In February, Russia invaded Ukraine. The war had a major impact on the people in Ukraine and Russia, the wider region, and global markets, as did the sanctions that were imposed on Russia and Belarus in response. In March, protests arose in Sri Lanka as the government was criticized for mismanaging the economy. In Myanmar, the civil war continued throughout the year.

SDG 8 | Decent work and economic growth

The recovery of the global economy from the pandemic was negatively affected by rising inflation, supply chain disruptions and tightening monetary policy. Economic growth of emerging markets and developing economies declined from 6.7 percent in 2021 to an estimated 3.9 percent in 2022.[1] Countries with high public debt levels faced higher borrowing costs due to increasing interest rates and local currency depreciation. The ratio of public debt to GDP in emerging markets increased from an average 36 percent in 2012 to over 60 percent in 2022.[2] At the same time, several large middle-income countries, such as Brazil, showed resilience and outgrew advanced economies in 2022. Although the unemployment rate declined in FMO's regions, it was still higher than before the pandemic.

SDG 10 | Reduced inequalities

The war in Ukraine caused the global refugee population to increase to a record high and triggered food shortages for the world's most disadvantaged people. The rise in food and energy prices affected lower-income households more as they tend to spend a larger share of their disposable income on basic human needs. Meanwhile, the effect of the pandemic continued to expose and exacerbate inequalities. For instance, the pandemic widened existing gender disparities as women lost jobs at a higher rate than men. In addition, high-income economies tend to recover much faster from the pandemic than low and middle-income economies.

SDG 13 | Climate action

If not urgently addressed, climate change will undermine the progress towards the SDGs and negatively affect our markets. According to the 2022 Global Carbon Budget report, global CO_2 emissions are estimated to have increased in 2022. Extreme weather events continue to affect our markets, such as the floods in Pakistan, which were catastrophic to people and their livelihoods. In addition, loss of biodiversity in recent years has been unprecedented.

At COP27, the UN Climate Change Conference, few countries increased their ambition level towards climate mitigation. The conference, however, highlighted that there is no viable route to limiting global warming to 1.5°C without urgently protecting and restoring nature. Governments were able to agree on how to move forward on a global goal towards adaptation, which is expected to be finalized at COP28 and inform the first Global Stocktake, improving resilience among the most vulnerable. In addition, an agreement was made to provide loss and damage funding to vulnerable countries hit hardest by extreme weather events.

1 IMF (Jan. 2023). World Economic Outlook Update: Inflation Peaking amid Low growth.

2 IMF (Oct. 2022). Global Financial Stability Report.

Concern was expressed that developed countries have not fulfilled their promise to mobilize US$100 billion per year by 2020 and they were urged to meet that goal. Multilateral development banks and international financial institutions were called upon to facilitate the mobilization of climate finance in particular.

Sector developments
In 2022, we observed the following trends in our focus sectors.

Agribusiness, food and water
In 2022, the price of agricultural commodities surged. By November 2022, the price of wheat and maize had increased by 25 percent or more.[3] This was caused, among others, by increases in demand following the pandemic and a steep rise in fertilizer and energy prices as a result of the war in Ukraine and extreme weather events.

The war highlighted the global dependency on Ukraine and Russia for food. Due to the limited availability of staple products in combination with high prices, more than 200 million people faced acute food insecurity in 2022.[4] Many of these people live in countries confronted with other adversities such as extreme weather and conflict, which in turn may fuel social tensions. The fertilizer market was destabilized by restrictions on fertilizer exports, most notably from the Black Sea region, sanctions on exports from Belarus, and China's fertilizer export ban.

Energy
Russia's invasion of Ukraine caused turbulence in the energy markets and a reorientation of the global energy trade. As a result, the number of people without access to modern energy has risen. An estimated 75 million people who recently gained access to energy may lose the ability to pay for it and approximately 100 million people may return to the use of traditional biomass for cooking.[5] Meanwhile, the use of coal rose due to the higher prices for oil and gas, and European nations turned to Africa in search of alternative energy sources.

In contrast, the clean energy transition gained further momentum due to recent economic, climate and energy security conditions. Clean energy supply chains showed strong growth, as did the number of clean energy jobs, which now exceed the number of fossil fuel jobs worldwide. However, clean energy investments in emerging markets and developing economies still lag behind. Development finance institutions are crucial in supporting clean energy projects in developing countries.

Financial institutions
Central banks in advanced economies and emerging markets struggled with inflation. As a result, global financial conditions tightened and banks rebuilt their loan-loss reserves for the first time since the pandemic. Equity prices fell and credit spreads widened significantly. Demand for credit started to slow in emerging markets. Due to heightened economic and geopolitical uncertainties, investors pulled out and withdrew a record US$70 billion from emerging market bond funds in 2022.[6] Rising borrowing costs and the strong dollar (for part of the year) put further pressure on economies with shallow domestic financial markets. Currently, eight out of 69 low-income countries are in debt distress and 30 are at high risk of distress.

On the other hand, large emerging markets have proven resilient, in part due to increased sophistication and prudence of domestic financial markets. The resilience of the global banking sector has been strengthened by high levels of capital and ample liquidity buffers. Overall, the expected impact on banks in emerging markets is more severe as some face vulnerabilities from a high share of foreign currency debt. At the same time, the shift of financing burden to the domestic market is emerging as a vulnerability. Overall, up to 29 percent of banks in emerging markets would breach capital requirements in case of an abrupt and sharp tightening of financial conditions – and an accompanying recession amid high inflation – in 2023.[7]

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3 World Bank (Nov. 2022). Food Security Update 10 November 2022.

4 GNAFC (2022). 2022 Financing Flows and Food Crises Report.

5 EIB (Nov. 2022). Energy crisis makes public banks even more important.

6 Financial Times (Oct. 2022). Outflows from emerging bond funds reach $70bn in 2022.

7 IMF (Oct. 2022). Global Financial Stability Report - Navigating the high-inflation environment.

An increasingly complex operating and regulatory environment
Pressure is increasing on financial institutions to reduce the impact of their operations and supply chains on the environment and local communities, as well as to protect the integrity of the financial system. Financial institutions are required by law to combat financial economic crime, and capital requirements are rising to ensure financial stability. At the same time, regulators are setting new standards for climate-related disclosure and risk management, demanding companies to take more ambitious action to address sustainability risks, with an emphasis on climate and environmental impact. We closely monitor and prepare for changes to regulations. We highlight the most important changes and updates to the regulations that (are likely to) impact FMO.

Financial economic crime and tax integrity
Financial institutions are expected to act as gatekeepers to help prevent financial economic crime (FEC) and preserve the integrity of the financial system. We safeguard customer integrity in line with European regulations and under the supervision of De Nederlandsche Bank (DNB, the Dutch central bank). We closely monitor high-risk countries, as defined by the EC and the Financial Action Task Force, to ensure customers in these countries undergo adequate due diligence. Further information is provided in the chapter ‘Our investment process’ and the ‘Risk management' section in the 'Consolidated Financial Statements'.

Basel IV
The translation of the Basel IV agreement into European law (CRR-3) will increase the capital requirements for FMO as of 2025. The draft text published in October 2021 proposed a higher risk weight for equity investments, although the increase was less than expected. In addition to a higher risk weight for equity investments, we will be required to apply a higher capital charge for some types of credit risk exposures, and for market risk and operational risk. Further information is provided in the ‘Risk management’ section in the 'Consolidated Financial Statements'.

Climate related risks
In 2020, the European Central Bank (ECB) published guidance on the prudent management of climate related and environmental risks and the supervisory expectations for banks. Following up, the ECB published the results of its thematic review in November 2022, which shows that banks are still far from adequately managing climate and environmental risks and set deadlines for banks to progressively meet all the supervisory expectations it laid out in its 2020 Guide. The ECB also published a collection of good practices observed in some banks, demonstrating that swift progress is possible and aiming to facilitate the improvement of practices across the sector.

We have a project in place to meet these expectations and, in 2022, we continued to align our internal procedures, disclosures, business strategy, risk management and governance frameworks. Further information is provided in the ‘Risk management’ section in the 'Consolidated Financial Statements' and in the separate TCFD report on our website.

Corporate Sustainability Reporting Directive
The European Commission (EC) adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD) in April 2021.The proposal was approved by the Council in November 2022. The CSRD will amend the existing Non-Financial Reporting Directive (NFRD) and will introduce detailed reporting requirements, focused on ESG matters, including the requirement to report using mandatory European sustainability reporting standards (ESRS).

For large and listed companies, the CSRD will come into effect in fiscal year 2024. As FMO falls within this scope, we will be required to publish our first report in accordance with the CSRD in 2025, based on the company’s 2024 financial year performance. We have been monitoring the developments related to the CSRD and ESRS closely and are preparing to set up the necessary internal structures and implement core procedures in 2023.

EU Taxonomy
In 2020, the EC introduced a taxonomy for sustainable activities. It is a classification system that defines which economic activities are environmentally sustainable. This is the second year that we are disclosing in line with the EU Taxonomy. Please refer to the ‘EU taxonomy’ section for further information.

EU Taxonomy

FMO is obligated to publish non-financial information in line with the Non-Financial Reporting Directive (NFRD). We are required to disclose how and to what extent our activities are associated 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).

As FMO invests outside the EU, none of our counterparties are in scope of the NFRD and, as such, are not required to disclose their Taxonomy eligibility or alignment. As the regulation stipulates that the mandatory disclosure on eligibility must be based on actual information disclosed by financial or non-financial undertakings, and estimates are not permitted, FMO reports that zero percent of its balance sheet in 2022 is Taxonomy eligible (2021: 0 percent).

The regulation further requires that we disclose a breakdown of the different asset classes on FMO's balance sheet (see table below). In accordance with the European Commission's guidance, we excluded exposures to central governments, central banks and supranational issuers, as well as derivatives from the calculation of Taxonomy eligibility. Also, as explained above, we didn't consider exposures to non-NFRD undertakings, which constitutes FMO's entire investment portfolio in emerging markets. 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 not Taxonomy eligible as they do not finance a specific economic activity.

Dec. 31, 2022			
In € mln, unless stated otherwise	**Taxonomy eligible**	**Taxonomy non-eligible**	**% coverage over total assets**
Total assets	**0**	**9,900**	**100**
Total exposure to central governments, central banks and supranational issuers	0	1,144	12
Total exposure to derivatives	0	195	2
Total exposure to non-NFRD companies (entire investment portfolio in EMs)	0	8,255	83
Total other assets	0	306	3

Dec. 31, 2021			
In € mln, unless stated otherwise	**Taxonomy eligible**	**Taxonomy non-eligible**	**% coverage over total assets**
Total assets	**0**	**9,303**	**100**
Total exposure to central governments, central banks and supranational issuers	0	1,412	15
Total exposure to derivatives	0	236	3
Total exposure to non-NFRD companies (entire investment portfolio in EMs)	0	7,253	78
Total other assets	0	402	4

As FMO's entire portfolio cannot be assessed for its Taxonomy eligibility, no strategy or weighing has yet been developed for the financing of Taxonomy-aligned activities. Until there is more clarity on the application of the Taxonomy on activities of EU companies outside the EU, we will continue to classify assets, steer, and report based on our Green label. At the same time, FMO will review developments in the Taxonomy framework to determine what can be aligned at each stage and fill data gaps where required. We expect alignment will be more challenging in some sectors than others and will depend on the applicability of sector-specific 'do no significant harm' criteria in emerging markets.

FMO sees a risk that it could become harder to invest in emerging markets if institutions are not given the flexibility and time to align with the Taxonomy. This could send an incorrect signal that investing in emerging markets is not sustainable. As a response to these concerns, the European Commission has launched a High-Level Expert Group (HLEG) on scaling up sustainable finance in low and middle-income countries. The group's task is to identify challenges and opportunities of sustainable finance in partner countries and provide recommendations to the European Commission on how to scale up funding from the private sector.

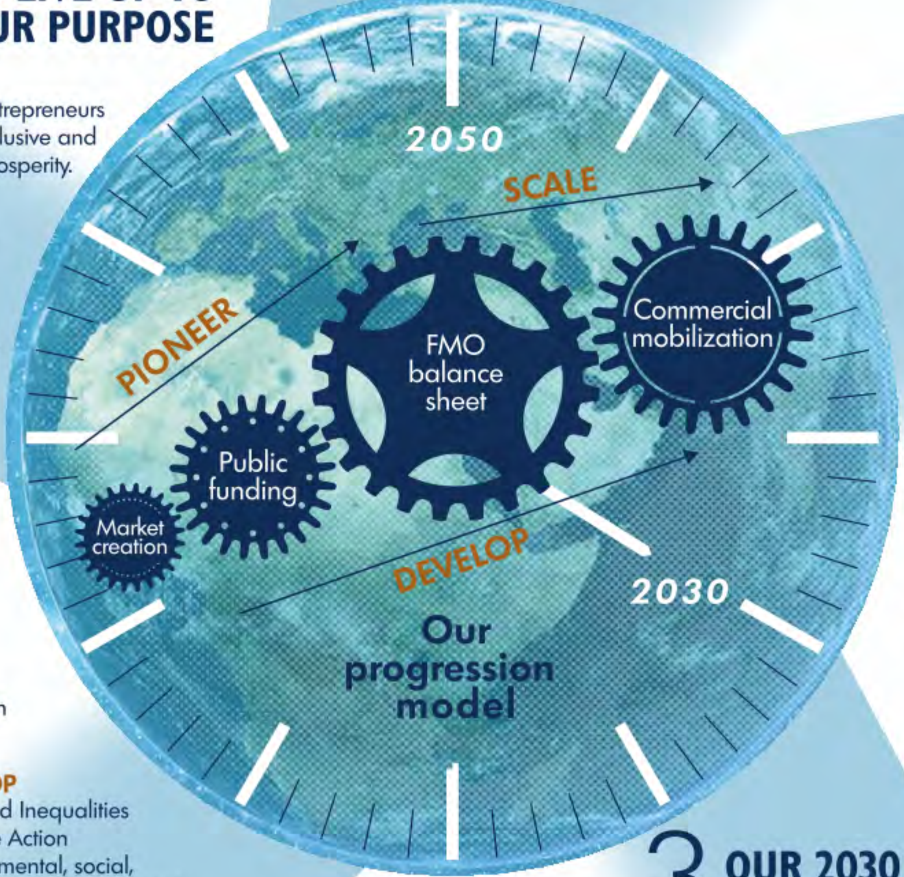
A study by the European Commission that will be released in 2024 will determine how and when non-NFRD exposures will be included in the mandatory disclosures. FMO is urging stakeholders to make the Taxonomy more inclusive for companies operating in emerging markets. Based on this study, our disclosures could change materially in the future. We are awaiting the screening criteria for the remaining four environmental objectives [8] , the social Taxonomy, and the work on significantly harmful and low impact activities to determine what else is eligible. Furthermore, a large portion of our investments is focused on SDG 10 (Reduced Inequalities) and SDG 8 (Decent Work and Economic Growth), but these fall outside the scope of the current environmental Taxonomy.

8 The remaining four environmental objectives specified by the EU taxonomy are: pollution prevention, circular economy, sustainable use of water and marine resources and healthy ecosystem.

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.



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

- 8 Decent work and economic growth
- 10 Reduced inequalities
- 13 Climate action

...across 3 sectors

- Agribusiness, Food & Water
- Energy
- Financial Institutions

...with

- **10** meaningful innovations
- **10** bln€ invested in SDG 10
- **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

4 OUR STRATEGY

PIONEER
- Market creation
- Innovation

DEVELOP
- Reduced Inequalities
- Climate Action
- Environmental, social, governance management

SCALE
- Mobilization
- Efficiency

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.

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.

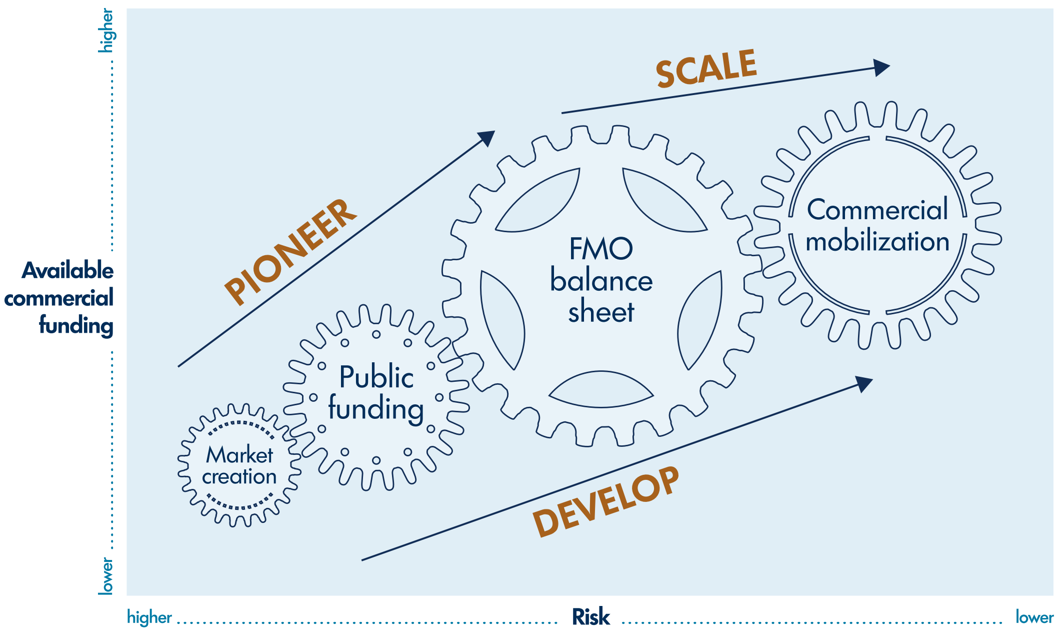
Progress towards achieving the Sustainable Development Goals (SDGs) is lagging behind worldwide: inequality is on the rise while the climate crisis continues to unfold. To counter this trend, there is an urgent need for more bankable opportunities. Some of our stakeholders expect us to develop these 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 complying 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 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.

Armeconombank
Financing women-led SMEs in Armenia.

Climate action plan

Currently, there is a 50 percent chance that the world will stay on a 1.5°C trajectory in the next five years. Many of our customers are highly vulnerable to climate change and will face new risks and adverse impacts. Because social, economic, and natural systems are interlinked, we must act in a holistic way, if our work is to have positive impact. Historically, emissions primarily come from today's high-income countries, but as low- and low-middle-income countries grow, we must focus on low emission growth.

As part of our obligation under the Climate Commitment of the Dutch Financial Sector, FMO published its first Climate Action Plan in 2022. It aligns with our updated 2030 strategy and provides a holistic framework for action that contributes towards SDG 13 (Climate Action), SDG 8 (Decent Work and Economic Growth), SDG 10 (Reduced Inequalities), and a just and inclusive transition. The first version of the plan forms a foundation for us to build on in the coming years. More detailed information can be found on our website.

Focus on three areas

Our climate action focuses on three areas: 1) aligning our portfolio and investments with the Paris Agreement goals; 2) increasing climate investments and supporting our customers toward increased Paris alignment and increased resilience; and 3) active management of our climate action.

At a portfolio level, we are committed to reaching a net zero portfolio by 2050. This means we will align new investments with the country level mitigation and resilience goals of the Paris Agreement. For our investments, we will take an ambitious and well-studied approach that balances social and environmental considerations, as well as the need for a just and inclusive transition, and strive to align both new transactions and our portfolio with a 1.5°C pathway.

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 2022, we report an absolute emissions figure for the power generation portfolio of 541 ktCO_2e based on 2021 emissions data and our 2022 outstanding exposure. This represents a seven percent reduction in absolute emissions compared to the 580 ktCO_2e 2021 baseline. As the 2022 figure uses 2021 emissions data, this is due to an overall decrease of our outstanding exposure in operational fossil fuel plants. The final 2022 figure will be made available in the 2023 FMO Annual Report. Further information on the underlying methodology is provided in the chapter 'How we report'.

Furthermore, we aim to build a portfolio of at least €10 billion dedicated to SDG 13. We will simultaneously target climate mitigation, adaptation and resilience (including nature-based solutions), biodiversity, and other footprint reduction measures. At the same time, we will support our customers with their climate objectives, invest in market creation and mobilization for climate action, and bring additional capital for greater impact. We will seek the systematic integration of climate change in our strategy and our operations.

Our climate commitments are framed in the context of a just and inclusive transition, representing both the opportunity and necessity of pursuing our SDGs 8, 10, and 13 goals together. We recognize that environmental and social objectives are inextricably linked and will apply this framework to our climate goals. Our commitments are also underpinned by FMO's Sustainability Policy and our Environmental, Social, and Governance (ESG) risk management framework. We see it as our fundamental role to be an ESG change agent.

What this means in practice for FMO's portfolio

To align our portfolio and investments to the Paris Agreement with respect to climate mitigation, we recognize that our methodologies must be applied differently per country and sector, and that emission reduction pathways differ depending on country income. Additionally, we also consider the differentiated responsibilities and respective capabilities that each country has.

Climate action in each of our sectors is quite distinct. For energy, we focus on renewable energy deployment and supporting the energy transition in our markets. For local financial institutions, we aim to have a transformative impact on customers through a strategic approach (including the development of product propositions, capabilities, and related financing), with the goal of having the same effect on end beneficiaries. We see an opportunity to transform the agriculture sector in our markets through the use of sustainable, resource efficient and resilient practices and business models throughout agricultural supply chains. We will invest in forestry and help build this market.

Through our 'Pioneer – Develop – Scale' strategy, our market creation efforts will contribute to our impact portfolio objectives. In addition, we will scale our activities through our mobilization efforts.

Finally, we plan to actively manage our climate actions. This means we will monitor our work and adjust our actions based on data and information, including from a climate risk perspective, to ensure we are reaching our goals.

What this means in practice for FMO's own operations

Based on measures already taken, FMO has a low level of operational emissions in our headquarters in the Netherlands. FMO has several programs to reduce waste levels and increase circularity in our offices. Our main Scope 3 emissions are related to travel by air required to conduct business and strengthen our value-add to our customers. Travel remains key to our ability to invest responsibly in distant markets and we will continue to offset our travel emissions by purchasing responsible carbon offsets.

2050
9 BILLION
PEOPLE

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

Business model

Inputs

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

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
Private sector	Support received for investment-ready businesses & market ecosystems.	Strengthened businesses and market ecosystems.	A more inclusive, resilient, responsible & sustainable private sector Improved livelihoods, increased gender equality & reduced poverty A transition towards low-carbon & climate resilient economies in a just & inclusive way & protecting and promoting biodiversity
Customers	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.	
People in our markets		Access to better basic goods & services & income-generating opportunities I decent jobs supported I economic empowerment of women & other marginalized groups I avoided or mitigated negative E&S impacts.	
FMO employees	Fair & equal pay, benefits, career development.	Attract & retain skilled employees that are engaged & committed to FMO's mission.	
Investors	Investment opportunities with an attractive risk-return and development impact profile.	Adequate financial returns from investments with development impact.	
Shareholders	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 International Integrated Reporting Framework. The model demonstrates the process through which we allocate financial and non-financial capitals (inputs) 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 developing 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 and receives government support to provide financial services that the commercial market does not (sufficiently) provide, or which are only offered on terms that do not fit in a solid business model. We do this without crowding out private parties.

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, in exceptional cases, we may demonstrate additionality through our contributions to higher environmental, social and governance standards that are not required in the 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 like 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 go on a long-term journey with FMO towards positive social, environmental and economic 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 79 countries across four regions: 1) Africa, 2) Asia, 3) Europe and Central Asia, and 4) Latin America and the Caribbean.

We invest in sectors in which we can take a leading role, develop strong relationships and mobilize private capital, and that we believe are crucial for supporting decent jobs (SDG 8), reducing inequalities (SDG 10) and taking climate action (SDG 13). The sectors we focus on are:

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

We also finance other sectors indirectly through our investments in financial institutions, and private equity (PE) funds, which further contribute to supporting jobs.

Key stakeholders

FMO operates in a diverse stakeholder environment. Stakeholders are individuals or organizations that are directly or indirectly affected by our operations, whether positively or negatively, or who may affect our ability to create value. We have identified the following stakeholder groups.

- Customers
- Local communities
- NGOs
- Public and commercial mobilization partners
- Media
- FMO strategic investments
- General public
- Financial analysts

- Politicians
- FMO colleagues and communities
- DFIs / MDBs
- Academia and knowledge partners
- Shareholders
- Government
- Regulators

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 2022, we had 689 internal employees, representing 63 nationalities. In addition, we employed 154 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 a triple-A rating. 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 (outsourced) services. We only want to work with trustworthy suppliers and, therefore, a due diligence process in line with the Dutch Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft) is in place for 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, 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 and end beneficiaries. 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 realign 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 development finance institutions (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 stimulate impact, ESG and value creation | We offer advisory services and technical assistance to support customers in building profitable and sustainable businesses. This consists of support in the design and implementation of ESG risk mitigation measures, master classes and events, capacity development and sector initiatives.

We (help others to) innovate | We enable innovation and pioneer new approaches, business models and products with the potential to be more impactful and scalable. We enable market ecosystem development and strengthen customer business development by collaborating 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 determine the (perceived) value we create for them.

For example, we offer employees 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. By adopting a balanced approach in our investments and risk-taking and allocating risks to our business lines in accordance with our risk appetite for each business line, we aim to generate financial returns and a diversified portfolio that allows us to maximize impact in the future by growing our business, and that benefits 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 create long-term impact for all of our stakeholders.

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 have prioritized. We have identified three long-term development impacts that we believe our activities can and should 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 in least developed countries (LDCs) and fragile states. In addition, we stimulate customers to increase access to finance to marginalized groups, women in particular. By providing financial capital and expertise, we aim to support customer resilience in dealing with an economic downturn as well as 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 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 pre-commercial business ideas 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 | To improve the livelihoods of the people in our markets, we focus on three specific areas. First, we invest in increased access to (better) goods and services – such as food, finance and electricity – and income-generating opportunities. Second, we enable our customers to sustain or grow the number of jobs in their own businesses as well as in the wider economy, and 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 adverse impact caused by climate change. We believe these poverty-reducing activities can be particularly beneficial for women, people belonging to the bottom 40 percent of income distribution and those living in LDCs, LICs and fragile states that are often 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 livelihood and wider efforts to meet the SDGs. For this reason, we aim to contribute to the just and inclusive transition towards low-carbon and climate resilient economies, while protecting and promoting biodiversity. We focus on green investments and help to lower 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 and stimulate our customers to reduce physical climate risk to better mitigate the impact of climate change. Through our ESG activities, we work with our customers to improve risk management practices with respect to climate and biodiversity.

Minimizing negative impact | We acknowledge that our investments can have negative consequences which we try to avoid or mitigate. For instance, supporting a hydro power plant helps deliver clean energy, fuels economic growth and improves lives overall, but may require resettlement. 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. We require customers to put in place a grievance mechanism and to respond to community concerns.

Potential risks and opportunities

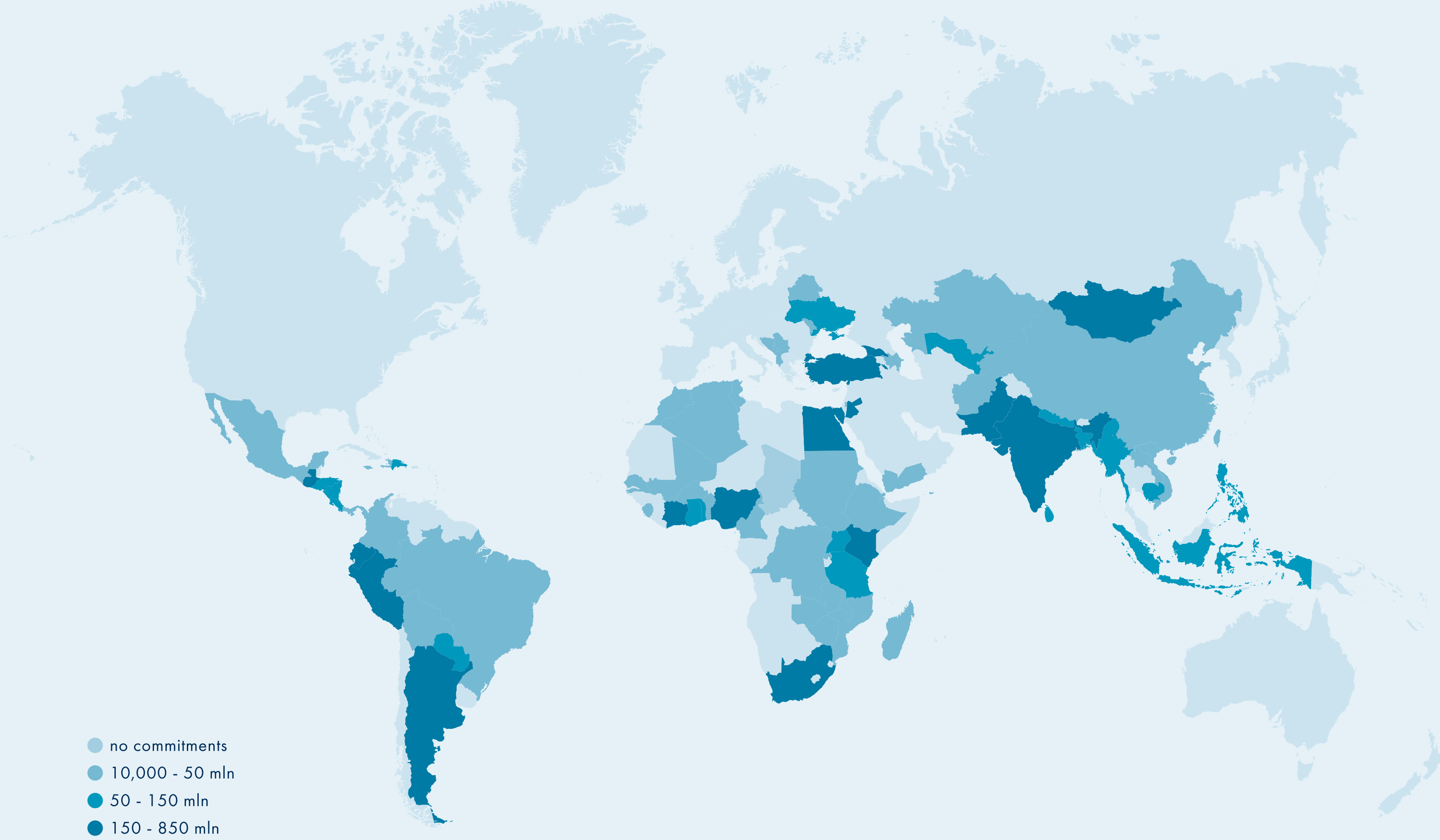
Below is an overview of the challenges, risks and opportunities we see in the short to medium term. The risks that could impact our strategic objectives and reputation relate to our business model, ESG, regulatory compliance and strategy execution. Other risks are described in the 'Risk management' chapter in the 'Consolidated Financial Statements'. Our responses reflect tactics that we will explore or implement in the short to medium term.

Strategic challenge	Risks	Opportunities	Our response towards 2030
Maximize impact in a challenging macroeconomic environment.	• Insufficient growth of FMO's investment portfolio due to challenging macroeconomic conditions. • Lower impact as customers focus on other pressing issues caused by economic recessions and/or lower productivity.	• Greater additionality for FMO in markets where other investors perceive risks as too high. • Market creation in nascent and fragile states, innovation and ecosystem development to increase impact. • Leverage public funding for high-risk investments.	• Pilot a market creation approach. • Focus business development on impact opportunities within our core sectors and countries. • Increase the scale of our operations by leveraging partnerships. • Grow transaction sizes in line with GDP growth.
Manage more projects exposed to higher ESG and investment risks.	• Increasing our exposure in nascent and fragile markets leads to higher ESG and investment risks that could deteriorate the quality of FMO's investment portfolio and potentially lead to incurring greater losses. • Insufficient resources available to manage such projects effectively, adversely impacting communities and FMO.	• Support customers to improve their business practices in line with international standards, thereby lowering their risk and improving their performance. • Identify and intensify partnerships on the ground to mitigate adverse impacts.	• Strengthen engagement with stakeholders to gain knowledge and access to networks. • Selectively and gradually, increase our local presence and establish new offices to enable better engagement with local communities and relevant partners. • Improve FMO's capacity to work in LDCs and fragile states. • Continue to integrate human rights and sustainability considerations in our investment process.
Incorporate EU-driven and focused regulations in an emerging market context.	• EU/Dutch regulation that is applicable to FMO may conflict with some of our high-impact ambitions (e.g. market creation in fragile states). • Increased administrative burden as a result of more stringent regulation may affect customer satisfaction and cause them to seek financing from other (non-regulated) investors.	• Customers become more attractive to other (commercial) investors as a result of compliance with more stringent regulations.	• Strengthen our culture and systems related to integrity and risk. • Strengthen engagement with authorities to ensure regulations account for regional differences. • Achieve more efficient and effective compliance and reporting.
Implement an ambitious organizational change agenda, while continuing business as usual.	• Insufficient focus and dispersed attention, getting stuck in Business as Usual or complex change management initiatives. • Inability to achieve material efficiencies and change due to ineffective change management. • Inability to attract and retain people with the right skillset might hinder the implementation of FMO's change agenda.	• Develop new in-house capabilities. • Investing in change will allow FMO to adapt to, stay competitive and meet customer demands.	• Phase the implementation of our strategy so change becomes manageable. • Enhance our efforts to hire and retain people as well as develop the skills and knowledge we need. • Improve our approach to managing change and our resources. • Appoint dedicated change management staff.

Committed portfolio from investments made by FMO and through public funds

€10.3 billion

Note: committed portfolio consists of €8.9 billion for FMO and €1.4 billion for public funds

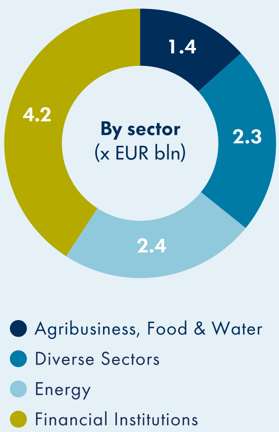


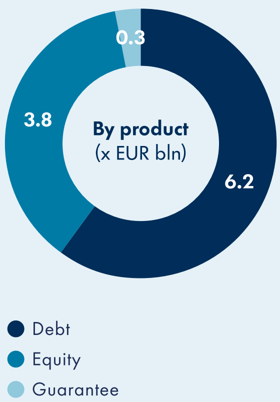
Committed portfolio by region (per 31 December 2022)

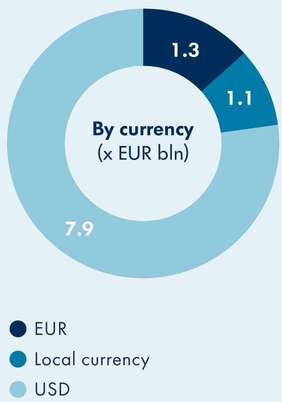
Africa	Asia	Europe & Central Asia	Latin America & the Caribbean	Non-region specific
€3.6bln	€2.5bln	€1.5bln	€1.8bln	€0.9bln
35% of total	24% of total	15% of total	17% of total	8% of total

Committed portfolio

€10.3bln







Before and during the investment period, we research the financing opportunity and assess its impact on the environment, employees and workers, communities and other stakeholders.

Our investments are guided by policies that ensure that integrity, development impact and Environmental, Social and Governance (ESG) impact are at the heart of our operations and that our way of working adheres to high ethical standards.

In this section, we explain the key steps of and factors that impact our investment process. For more information on our risk management, refer to the 'Risk management' section in the 'Consolidated Financial Statements'. For information on our responsible investment policies and guidelines, refer to our website.

External development affecting our investment process

Last year, we increased our financial and non-financial support to help customers cope with the COVID-19 pandemic. However, while its impact subsided in the course of 2022, new unforeseen events emerged. The war in Ukraine impacted the local and regional portfolio. We closely monitored developments in the region and assessed the impact of the war, including sanctions, on our customers. In addition, we decided that all Clearance in Principle (CiP) decisions for new transactions in the region required approval from FMO's Credit department, a team that provides advice and grants credit and terms for individual transactions.

Also noteworthy was the FATF blacklisting of Myanmar in October 2022. As we have several investments in this country, we performed an in-depth impact assessment of our customer portfolio, including enhanced due diligence on each customer in the country.

Furthermore, following the devastating earthquakes in Turkey and Syria, that occurred in February 2023, we reached out to all of our customers in Turkey (currently we have no exposure in Syria). A few customers have part of their assets in the wider area affected by the earthquake, but preliminary assessment did not result in any reclassification of our credit risk. Monitoring of potential future impact will be a key point of attention in the first half of 2023.

Know Your Customer

As a development finance institution (DFI), FMO runs the risk of becoming involved in money laundering or 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.

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 life cycle. We work in countries where it is hard to obtain and verify documents. Nevertheless, FMO has a robust FEC framework in place, which complies with national and international FEC and KYC standards.

Since 2021, we have significantly increased the number of FTEs in both the first and second lines. In the first line, the Know Your Customer (KYC) department supports and works closely with the investment teams that are responsible for customer contact and the comprehensive risk assessment of the customer. As part of the implemented deal team approach, in-depth customer due diligence is performed. The Compliance department forms the second line and has transferred some of its tasks to the first line, to better reflect their responsibility towards KYC.

We evaluate our policies and procedures on an ongoing basis, enabling the investment teams to conduct in-depth due diligence in line with applicable laws and regulations. Additionally, new employees receive KYC training, as well as other integrity awareness trainings during their first weeks at FMO. In 2022, we continued to provide mandatory anti-bribery and corruption training sessions, as well as financial economic crime and unusual transaction reporting training for all investment personnel and relevant support functions.

An independent external validator assessed our KYC work in the last quarter of 2021 and concluded that our FEC framework is compliant and sufficiently reflects our risk profile. It also concluded that the customer files that were remediated in 2021 were in accordance with the FEC framework and that FEC processes are effective. In early 2022, DNB checked a sample of our remediated KYC files. Based on their recommendations, we conducted a specific integrity risk assessment on our private equity fund investments and made an action plan to deal with the risks we identified.

Environmental, social and governance standards

Environmental, social (including human rights), and governance (ESG) standards are an integral part of our investment process and serve several goals. First, they help protect the environment and our stakeholders, such as employees, workers and communities, from negative impacts. This includes infringement on their human rights. Second, they help our customers to positively contribute towards the Sustainable Development Goals (SDGs). Third, they reduce risks to our customers and improve trust between management, investors, employees and other stakeholders through accountability, transparency, and fair business practices. This allows us to have positive development impact and reduce investment risk at the same time.

FMO has adopted the IFC Performance Standards as our operating standard. In 2016, we launched the Sustainability Policy Universe, a framework of documents and tools that guides us around ESG and impact management. Our Sustainability Policy, approved by FMO's Management Board in 2016, is complemented by Position Statements on human rights, land governance, fossil fuels and coal. In 2022, we published a Position Statement on Impact and ESG for Financial Intermediaries. Furthermore, we are also guided by the United Nations Guiding Principles on Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises, the Equator Principles, and the Center for Financial Inclusion Client Protection Principles.

We communicate our policy commitments publicly on our website. Additionally, we reference the IFC Performance Standards in our contractual agreements with customers. Our policies and position statements undergo targeted and public consultation with various stakeholder groups during the development process and are formally approved by our Management Board.

ESG risk management

ESG risk management is a fundamental part of our investment strategy. We continuously assess, categorize and strive to improve the ESG performance of our investments, as we believe this is crucial to creating positive impact.

FMO assesses and categorizes the ESG risks of all potential investments. We have 33 ESG specialists that are involved in all high ESG risk transactions through screening, due diligence, contracting and transaction monitoring. They help to assess a potential customer's performance against our sustainability policy, identify risks and opportunities for improvement and prepare action plans. E&S specialists in our Credit team provide independent scrutiny and challenge. Investment staff are responsible for managing the medium and low ESG risk transactions. Following a positive investment decision, ESG requirements are included in a customer's contract. We monitor the implementation of ESG actions through regular contact and site visits, often supported by independent consultants. The ESG specialists in the investment teams and E&S specialists in our Credit team report to the Director of Impact and ESG and the Director of Credit, Legal and Special Operations respectively.

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. In 2022, we updated our Disclosure Policy, extending the disclosure period of proposed (high-risk) investments and making this information available in six key languages.

We work closely with other Development Finance Institutions (DFIs) with the aim to harmonize our ESG approaches. Greater harmonization levels the playing field, helps to increase impact and leads to efficiencies for customers working with multiple DFIs. In 2022, FMO participated in various harmonization work streams led by the EDFI - the Association of bilateral European Development Finance Institutions (EDFIs) - including the Refinement of Project and Portfolio level Paris Alignment, Harmonization of E&S standards for fund investments, Harmonization on quality jobs metrics and a revision of the climate and energy statement.

Human rights

Respecting and promoting 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 less favorable.

A rights-based approach to ESG risk management aims for employees, affected community and other stakeholder perspectives to be included in customer engagement processes and for measures to be taken to strengthen 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:

1. 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.
2. Right to decent work | Respect labor rights, wages, occupational health and safety, workplace accommodation, and family life.
3. Rights of vulnerable people | Ensure that vulnerable individuals or groups are identified and their rights are respected.
4. Right to an adequate standard of living | Ensure adequate food, housing, water, sanitation, education, good governance of tenure of land, fisheries and forests.
5. 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 insights on the current performance of our high E&S risk portfolio, broken down by IFC performance standard. In addition, we provide an overview of our portfolio's performance gaps, which includes a description of how rights-holders may be affected in situations where this pertains to human rights infringements.

We provide human rights due diligence guidance to support our E&S staff in applying a human rights lens throughout the investment process. This guidance covers contextual risk 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 our serious incident register, which tracks customer reports of fatalities, serious injuries, and environmental accidents, and our sustainability information system, which tracks customer's most salient human rights risks. In 2022, we worked with other EDFIs to produce further guidance on conducting human rights due diligence and monitoring.

How we apply our investment process

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

Step 1 | Investment selection

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

In practice

FMO was approached to consider a company that focuses on non-timber forest products. As we have limited experience in this sector, a pre-clearance in principle (CiP) meeting was set up to discuss potential ESG risks and whether FMO was equipped to not only onboard the risks but also support this customer in managing them. This resulted in engagement with civil society organizations (CSOs), an early visit to the customer premises and project sites for the CiP. We looked at labor issues, particularly worker conditions, child labor, and early identification of potential risks to establish synergies with local and international stakeholders to manage areas with high biodiversity values and even foster changes at the sectorial level.

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 a KYC assessment to ensure that the customer complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations. We also screen potential effects on environmental, social, governance and human rights issues. We document this in a CiP proposal, informing our decision to continue preparing for a final investment decision.

In practice

FMO worked with a pan-African generalist fund to support it in the process of greening the investment portfolio and aligning the fund’s investment strategy with the Paris Agreement. Key principles to maintain were: 1) investments should contribute to a genuine improvement in energy efficiency or greenhouse gas reduction, and 2) investments should not contribute to a long-term lock-in of high carbon infrastructure. During this process, the fund manager developed a climate change policy attesting their commitment to the 1.5-degree pathway in all their funds and direct investments and agreed on an ESG-based incentive structure.

Step 3 | Due diligence

We carry out a detailed project assessment. We document the results in a finance proposal informing our final decision to invest. For high-risk investments, we perform a site visit and meet with stakeholders. Where needed, we engage external experts. We define and negotiate further ESG requirements and conduct further human rights risk assessments. This may include on-the-ground research and consultation with local civil society.

In practice

An African bank presented high E&S as well as corporate governance risks during due diligence. We changed the E&S and corporate governance risk category of this existing customer in response to its growing corporate portfolio as well as changes in the board and governance structure. The decision to change the risk category translated into the involvement of an E&S specialist and corporate governance officer for the first time since the bank's relationship with FMO started almost a decade ago. Due to low ESG standards and regulatory requirements across the market and the fact that this had never been raised with the bank in previous transactions with FMO or other DFIs, there was initial pushback on the ESG actions proposed. The E&S specialist and deal team took time to visit with the customer on-site twice to discuss the requirements and expectations. This helped to build trust and ensure the customer fully understood the importance of implementing the ESG changes proposed. By doing so, we were able to agree on a rigorous E&S plan and corporate governance recommendations that will help the bank manage the E&S risks in their corporate portfolio and improve the structure and functioning of its Board of Directors.

Step 4 | Decision to invest

Our Credit department evaluates all Financial Proposals (FPs) and writes a credit advice in support of a final investment decision. After approval, we disclose proposed investments that fall within our Customer Disclosure Policy, for 30 days prior to contracting. This enables (local) stakeholders to provide feedback or additional information, thus helping FMO increase the quality of our investments and make better investment decisions.

In practice

As part of our investment decision in a generalist fund, we engaged the fund manager regarding an ESG-based incentive structure for the fund manager and a green investment target. We also extended capacity development funding related to climate risk and energy efficiency, to assist the fund manager in reaching the targets. Based on the current pipeline, the portfolio is expected to meet the 50 percent qualifying level to be eligible for our Green label. To mitigate the risk of greenwashing and of the fund's climate strategy not being implemented due to pressure to meet commercial return expectations, the fund will provide annual audited reporting on this, and we will review their eligibility to the Green label based on this outcome annually. The fund manager's strong commitment buttressed our decision to invest.

Step 5 | Contracting and investment disclosure

FMO includes ESG requirements and conditions in its agreements with customers to make them legally binding. We disclose a summary of the proposed and contracted investments during the full tenor of our engagement on the World Map page on our website.

In practice

FMO decided to invest in an on-grid renewable energy project that involved resettlements and livelihood restoration of untitled land users. Due diligence revealed a legacy of mistrust of developers among local stakeholders, which had led to politicization of the land discussions. While most affected parties supported the project and were seeing it as beneficial, some influential individuals remained opposed despite the company's best efforts to address concerns and bring about community cohesion. As lead lender, we undertook additional checks on broad community support prior to financial close and disbursement of funds, to ensure the company was incentivized to maintain the momentum of social cohesion efforts. Efforts have led to an exemplary resettlement approach in which the company assisted every project affected person and some 80 households to purchase a piece of land of their choosing, ensured security of tenure for both the male and female head of household, provided compensation for the construction of the replacement houses (all families opted for cash compensation) in instalments to ensure no one was worse off. This tailor-made approach greatly contributed to a relationship of trust with the local communities and can be seen as an excellent example of implementation of IFC Performance Standard 5 in a highly socially complex environment (featuring various tribes and marginalized groups).

Step 6 | Disbursement

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

In practice

In 2017, FMO invested in a hydropower fund in a region characterized by ecological and social challenges, in a country with limited E&S expertise. We assigned a specialist consultant under a four-year technical assistance contract, offering training and coaching to the fund manager and the project developers, co-funded through our technical assistance facility. Five years later, the E&S performance was evaluated in an independent audit. The technical assistance program contributed to improved design and management of fish passage and ecological flow, and the achievement of a social license to operate through meaningful engagement with communities and civil society organizations. Overall, the audit indicated that the fund's investment process was conducive to sustainable value creation. Audit recommendations were made toward an exit strategy where the non-financial value proposition is equally represented.

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, accident and incident reports. We conduct customer visits and perform an annual customer credit review, including, where applicable, a check whether the affected community still supports the investment.

In practice

FMO supports an aquaculture customer in Africa that produces fish in cages for the local market and sources fish feed locally, which helps increase regional food security. Through our capacity development facility, we supported this customer in developing a resource efficiency plan that will contribute towards them becoming more climate change resilient and supporting climate mitigation efforts. This plan will include the procurement of energy and water monitoring technology to establish efficiency improvement baselines, the use of biodigesters, and the use of solar lighting around site to reduce demand for grid-based energy.

D.Light
Offering off-grid energy solutions to lower-income households in Kenya.

PERFORMANCE AGAINST OUR STRATEGY

In September 2022, FMO launched its updated 2030 strategy. We monitor our results through a set of performance metrics, which allow us to define, steer and track success toward our strategic objectives. This chapter outlines our 2022 performance in line with our previous strategy, which guided our decisions throughout the year.

An overview of our contribution toward the Sustainable Development Goals (SDGs) is provided in the following table and is explained in this chapter. Further information on underlying definitions and methodologies is provided in the chapter 'How we report'.

Contributions to the SDGs by investment area (in € mln, unless stated otherwise)

Indicators	SDG	2021	2022	AFW	EN	FI	PE	OTH
Total committed portfolio*	8	12,503	13,238	2,128	2,802	4,367	3,796	145
FMO		8,338	8,934	1,066	1,992	2,715	3,016	145
Public funds		1,352	1,401	229	204	188	780	
Mobilized funds		2,813	2,903	833	606	1,464		
Total new investments*		1,938	2,423	373	461	1,213	376	
FMO		1,184	1,813	284	402	829	298	
Public funds		233	153	21	11	43	78	
Mobilized funds		521	457	68	48	341		
Total number of jobs supported (in thousands)**		644	750	105	92	290	263	
Direct jobs		46	43	11	5	6	21	
Indirect jobs		598	707	94	87	284	242	
Green-labelled total committed portfolio	13	4,118	4,427	569	2,088	1,005	763	2
Green-labelled new investments		544	1,003	127	391	371	114	
Financed avoided greenhouse gas emissions (in ktCO_2e)**		1,329	1,439	1	1,141	0	297	
Financed absolute greenhouse gas emissions (in ktCO_2e)**		5,355	6,530	1,195	1,123	2,341	1,871	
Scope 1 +2		1,408	1,377	287	595	90	405	
Scope 3		3,947	5,153	908	528	2,251	1,466	
RI-labelled total committed portfolio	10	4,020	4,453	998	826	1,613	1,016	
RI-labelled new investments		714	810	135	51	494	130	
ESG target performance (%)		92%	93%	98%	97%	94%	95%	75%

* 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'.

** Compared to the 2021 Annual Report, the unit expression for this indicator has been adjusted for ease of interpretation.

Factors impacting our portfolio

Travel restrictions, economic uncertainties, and efforts to adjust operations to new regulations hampered our ability to pursue investment opportunities in 2020 and 2021 and to develop our pipeline. This affected our investment results in 2022. Once travel restrictions were lifted, we were able to resume physical customer and network meetings and engage with (potential) new customers, which led to opportunities in several areas. The investment climate, however, was affected by uncertainties caused by the war in Ukraine and surging inflation, especially with respect to energy and food prices. In general, we continued to see demand for financing, although the risk-return profile was under pressure.

In the Agribusiness, Food & Water (AFW) sector, we pursued several prospects in Latin America as well as opportunities to further grow our forestry portfolio. In the Financial Institutions (FI) sector, we observed that several customers returned to business-as-usual once COVID-19 restrictions were lifted and trade and tourism resumed. In addition, our focus on existing customers between 2020 until the end of 2022 (as a result of the pandemic) has led to a decline in the number of customers. However, the overall portfolio quality is good and we have been able to close several high volume deals with existing customers. Furthermore, we experienced more demand from markets surrounding Ukraine such as Georgia, Armenia and Moldova. As bond markets provided limited liquidity to these markets, organizations were looking to FMO for alternative sources of funding. Rising interest rates led to borrowers of financial intermediaries and agri-businesses to postpone making large capital investments.

Compared to 2021, our Energy (EN) portfolio grew, which comprises of a mix of small and large transactions. We rebuilt our activities in Latin America and the Caribbean, which accounted for 26 percent of new investments in 2022. In addition, we saw an uptick of small but impactful transactions, for example, in the commercial and industrial sector where we financed green energy solutions, such as the installation of solar panels on rooftops. With the rising interest rates, we are also observing a turning point in the renewable energy market, shifting away from particularly low margins and long tenors for these projects.

For the financial year ending 31 December 2022, FMO reported a net profit of €1 million compared to a net profit of €491 million for the 2021 financial year. Unfavorable world events impacted the 2022 results through increased impairments and downward investment valuations as a result of the war in Ukraine as well as the political instability in Sri Lanka and Myanmar. The widely observed increases in inflation and interest rates also applied pressure more broadly across the investment portfolio.

The conflict in Ukraine affected the performance of all of our existing customers in the country. FMO has a committed portfolio of €117 million in Ukraine. This excludes one large energy project that was written off in the first half of 2022. The exposure is mainly in the AFW and EN sector. While business operations have been significantly impacted, our customers have shown resilience by adjusting their operations. Due to the uncertainties brought on by the war, we took an average provisioning of more than 50 percent. FMO's private equity exposure in Ukraine incurred a €50 million fair value loss, while the loan portfolio's total value loss was €82 million in Ukraine.

The war in Ukraine as well as the economic and political crises in Sri Lanka and Myanmar negatively affected our portfolio. The situation in Ukraine and Sri Lanka caused the level of our non-performing loans ratio to increase from 9.5 percent at the end of 2021 to 11.9 percent at the end of 2022.

Contributions towards the SDGs

In line with our strategy, we aim to maximize our impact toward the sectors and SDGs we are most able to influence through our activities. Our contributions are further explained in the following sections.

SDG 8 | Decent work and economic growth

8 DECENT WORK AND ECONOMIC GROWTH

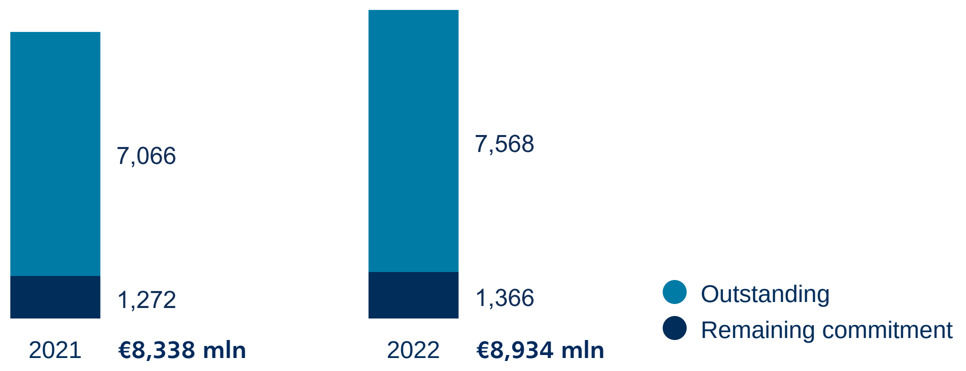
Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation. SDG 8 calls for promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. We contribute towards SDG 8 by investing in emerging markets and developing economies, supporting jobs and through our ESG management activities to help customers meet or exceed international labor and working condition standards.

Total investment volume

In stimulating economic growth, FMO provides long-term financing that the market does not provide or does not provide on an adequate scale or on reasonable terms. We measure our contribution in terms of committed portfolio[9] and new investments.[9]

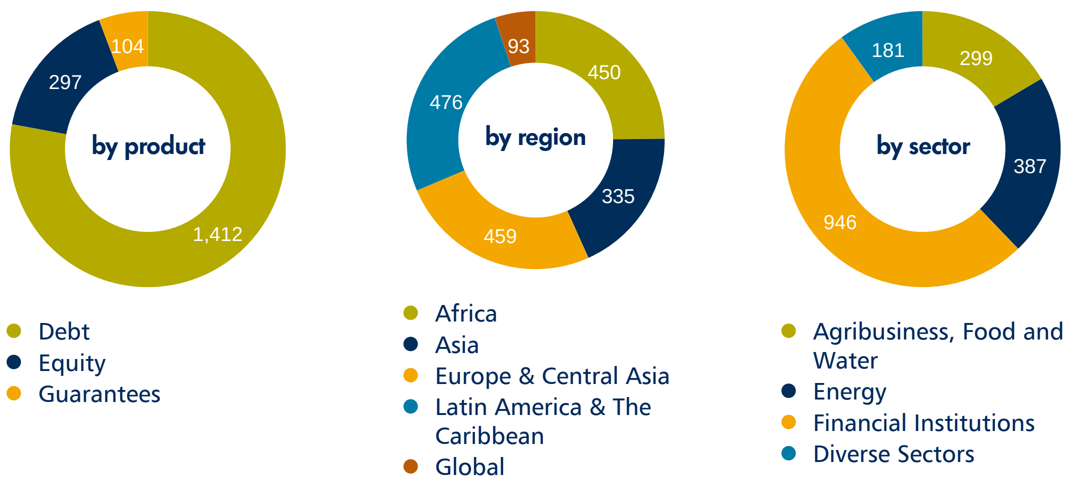
9 This is an alternative performance measure (APM) that is not included in the financial statements and is designed for steering purposes. For a definition of this APM, please refer to the chapter 'How we report'.

FMO committed portfolio (in € mln)



Our total committed portfolio amounted to €13.2 billion (2021: €12.5 billion), of which €8.9 billion was invested through FMO's own books (2021: €8.3 billion), €1.4 billion through public funds (2021: €1.4 billion) and €2.9 billion through mobilized funds (2021: €2.8 billion). Compared to 2021, our FMO committed portfolio increased by seven percent, exceeding our target of €8.8 billion. This was mainly driven by a higher volume of new investments and the appreciation of the US dollar.

FMO new investments (in € mln)



In 2022, we invested a total of €2.4 billion (2021: €1.9 billion) of which €1.8 billion was made through FMO's own funds (2021: €1.2 billion), €153 million was made through public funds (2021: €233 million) and €457 million was made through mobilized funds (2021: €521 million). Forty-three percent of FMO new investments were made in Africa and Asia, 26 percent in Latin America and the Caribbean and 25 percent in Europe and Central Asia.

Jobs supported

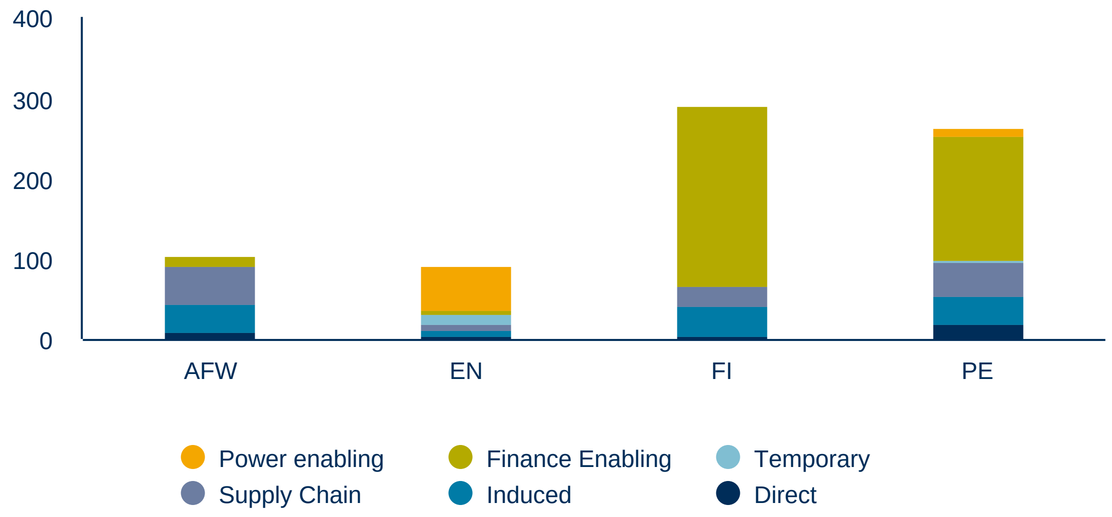
Creating and safeguarding jobs is crucial for sustainable development, as employment creates a path out of poverty. DFIs like FMO promote the development of the private sector, which is one of the most important providers of jobs in emerging markets and developing economies.

We report on jobs supported, which includes direct and indirect jobs. Direct jobs refer to the number of full-time equivalent (FTE) employees working for the company or project that we have invested in. Indirect jobs refer to those 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.

The increase of finance and power supply enables companies to produce additional output which requires more direct employment and intermediary inputs. This, in turn, leads to expansion among existing and new suppliers, thereby supporting and/or creating jobs. In the countries in which we operate, firm expansion is assumed not to displace employment in competing businesses to a significant extent. Indirect jobs supported is measured through the Joint Impact Model (JIM). [10]

FMO's outstanding portfolio resulted in an estimated 750 thousand jobs supported (2021: 644 thousand), of which 43 thousand direct jobs and 707 thousand indirect jobs. Around 87 percent of jobs supported were attributed to investments made through our own balance sheet and 13 percent to investments made through public funds. The amounts reported may not be fully comparable across years because of differences in data quality and data coverage. To estimate the attributed impact, we rely on our customer's latest available information. We continue to implement improvements to ensure we have the most recent and highest data coverage to increase comparability across the years.

Jobs supported per investment area (in thousands)



Jobs supported by our AFW customers stem mainly from supply chain effects, for instance through sourcing goods and services from others (supply chain jobs supported) and from employees spending wages in the economy (induced jobs supported). A few of our AFW customers include financial institutions that focus on providing loans to SME agribusinesses, which are believed to have resulted in finance-enabling jobs.

Through investments in our EN customers, jobs are mainly supported through power-enabling effects, which attribute the number of jobs to an increase in gigawatt hours (GWh) of electricity supplied to the national system. Some of these jobs will be temporary, as they relate to the construction of a project.

Through investing in our FI customers, jobs supported mainly stem from finance-enabling effects that relate to economy-wide jobs supported by lending to businesses and individuals.

Through our PE investments in corporates, funds, energy projects and financial institutions, our impact on jobs supported stems mainly from finance-enabling effects, reflecting the jobs supported through PE investments in financial institutions and funds that invest in financial institutions.

10 For more details on the Joint Impact Model (JIM), please refer to Chapter 'How we Report'.

Enhancing our contribution to decent work through our ESG activities

FMO recognizes that it is not just the number of jobs that counts, but also their quality. We require our customers to respect workers' rights with regards to their safety, security and health, working terms and conditions, wages, and accommodation. We expect customers to treat their 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 chain.

Recognizing that we work in regions with weak regulation and in sectors relying heavily on sub-contracting, we encourage customers to go beyond standard market practices. This includes proactive risk identification, as well as the enforcement and monitoring of requirements. We try to increase the quality and inclusiveness of the jobs we support, for example, by removing barriers for the employment of women and vulnerable people. Furthermore, we encourage workers' personal development by advocating for and, in many cases, co-creating training for them.

SDG 10 | Reduced inequalities

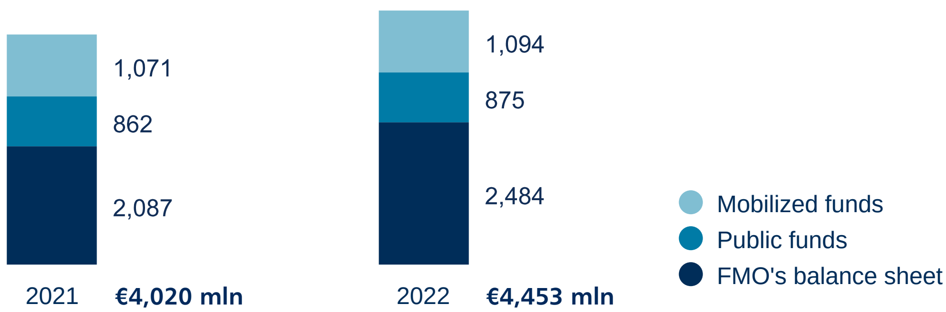
We invest in least developed countries (LDCs) to reduce *between* country inequality and in inclusive business to reduce *within* country inequality by increasing access to goods, services and income-generating opportunities, especially to people who are among the bottom 40 percent of income distribution. SDG 10 is strongly linked to SDG 5 on gender equality (explained further on in this chapter).

FMO labels and steers its investments towards reducing inequalities (RI). When an investment receives an RI label, it identifies ex-ante potential for contributing to this objective in the following areas: investment in LDCs, micro-financial services, financial services to underserved SMEs, smallholders and women in the value chain and last mile delivery of power. Our focus on ESG management encourages customers to increase their inclusivity.

RI-labelled investments

Compared to last year, our RI-labelled total committed portfolio increased by 11 percent from €4 billion to €4.5 billion at the end of 2022. This represents a 34 percent share of the total committed portfolio (2021: 32 percent). The growth is mainly attributed to a higher volume of new RI-labelled investments and the appreciation of the US dollar.

RI-labelled total committed portfolio (in € mln)



In 2022, FMO invested €810 million in reducing inequalities (2021: €714 million), representing 33 percent of our total new investment volume (2021: 37 percent). Of this, €580 million was invested from our own books, €87 million from funds managed on behalf of public entities and €143 million from mobilized funds. Some €617 million was invested in inclusive businesses, focusing mostly on microfinance and micro-financial services, women-owned or women-led SMEs and youth-owned or youth-led SMEs. Some €237 million was invested in companies and projects operating in LDCs such as Tanzania, Cambodia and Yemen.

The share of new investments in LDCs, however, was lower compared to previous years. During the pandemic we were unable to visit prospective customers and explore opportunities in these markets. Following the pandemic, we focused on rebuilding the portfolio, including in LDCs. However, such transactions generally have a longer lead time as they take place in riskier markets, and few of these opportunities materialized in 2022. Furthermore, several LDCs were subject to interest rate caps, which did not meet our risk/return criteria, and political conditions in countries like Myanmar and Burkina Faso limited our ability to do business in these markets.

Number of micro and SME (MSME) loans

FMO targets MSMEs, including those owned by women and youth, because they are financially underserved and typically provide more jobs than larger corporates relative to the capital invested. We require customers to adhere to the Center for Financial Inclusion Client Protection Principles (CPPs) that set the minimum standards that end-customers should expect to receive when doing business with a financial service provider. The CPPs focus, among others, 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 2022, our customers provided 33 million micro loans (2021: 30 million) and a total of 2.6 million SME loans (2021: 2.8 million).

Enhancing our contribution to reduce inequalities through our ESG activities

Through our ESG management activities we assess the risk of inequality and for high E&S risk customers we perform due diligence using a human rights lens. This is further explained in the chapter 'Our investment process'. At the end of 2022, 293 customers in our portfolio went through such an exercise (2021: 281 customers).

Our ESG engagement supports inclusivity, often targeting vulnerable groups in the bottom 40 percent of the global economy. For example, we ask our customers to focus on empowering women, indigenous peoples, and other groups with impaired rights in consultation processes, resettlement plans, trainings, or livelihood support programs. We also stimulate benefit sharing and advocate community ownership.

SDG 13 | Climate action

Through our investments, we aim to contribute towards SDG 13 with respect to climate action by focusing on climate mitigation and adaptation. Our positive contributions are measured in terms of our Green-labelled investments and financed avoided greenhouse gas (GHG) emissions. Negative contributions are measured in terms of absolute GHG emissions from our own operations and as well as financed GHG emissions generated through our investments. Beyond this, we steer our customers towards a resilient and low-carbon economy through our ESG management activities.

Green-labelled investments

FMO labels and steers its investments towards SDG 13. Tackling climate change has been central to our strategy since adopting our 2050 vision in 2013. One way to act on our SDG 13 strategy is to grow our Green portfolio, which is aimed at reducing GHG emissions, increasing resource efficiency, preserving and growing natural capital, and supporting climate adaptation. We label our investments to capture the ex-ante potential to contribute towards climate action.

Compared to last year, the Green-labelled total committed portfolio increased by seven percent from €4.1 billion to €4.4 billion at the end of 2022. This represents a 33 percent share of the total committed portfolio (2021: 33 percent). The increase is due to a higher volume of Green-labelled new investments and the appreciation of the US dollar.

Green-labelled total committed portfolio (in € mln)

We invested €1 billion in Green projects (2021: €544 million), representing 41 percent of total new investments (2021: 28 percent). Of this total, €760 million was invested from FMO's own books, €69 million from public funds and €174 million from mobilized funds. Most of our Green-labelled new investments are in renewable energy projects (wind, solar, and hydro), agriculture and green credit lines.

We almost doubled our investments in Green projects compared to 2021 and came close to achieving our 2022 target. This was driven mainly by a number of large renewable energy transactions that materialized at the start of 2022, as well as FI outperforming its target. This marks a notable turnaround compared to last year when we noticed lower demand and greater availability of (concessional) finance in the FI market. However, it should be noted that this turnaround mainly applies to Green opportunities in the FI sector in Latin America, possibly resulting from less available liquidity, fewer concessional funding opportunities, and higher customer demand for sustainable investments in this region.

However, we also observed trends in certain markets that negatively affected the demand for Green financing. For example, in some countries, due to the difficult market conditions and the rise in the cost of living, some local banks and customers were not able to prioritize green investing and instead focused on business continuity. In these markets, transition risks to a green economy are high and often dependent on public financial stimulus, which in the current environment is geared more towards short-term economic goals instead of long-term sustainability considerations. Furthermore, with rising interest rates capital investments have been deferred.

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:
- *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* 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. For example, a school and a solar park might both have low absolute emissions, but the solar park supports climate change mitigation by avoiding emissions of fossil fuel fired power plants.

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 (electricity, heat and steam) used by an organization; Scope 3 relates to all other indirect emissions in the value chain related to, for instance, business travel or purchased goods and services.

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). The majority of FMO's financed absolute GHG emissions are estimated through economic modeling using the Joint Impact Model (JIM). While we continue to improve our GHG emission data collection, in many of our markets such data are not yet readily available. The JIM allows us to have a view on our portfolio and sources of emissions in the meantime.

Absolute GHG emissions from FMO's own operations

The carbon footprint of our own operations amounted to 3.89 ktCO_2e (2021: 0.42 ktCO_2e). Scope 1 emissions amounted to 0.09 ktCO_2e, which came from lease cars used by our employees. Scope 2 emissions amounted to 0.03 ktCO_2e 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. Scope 3 emissions amounted to 3.77 ktCO_2e, mainly from staff travel. As we serve customers around the world, 90 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 two years.[11] FMO offsets the operational emissions by investing in VCS REDD+ certified forestry credits.[12]

Financed absolute GHG emissions

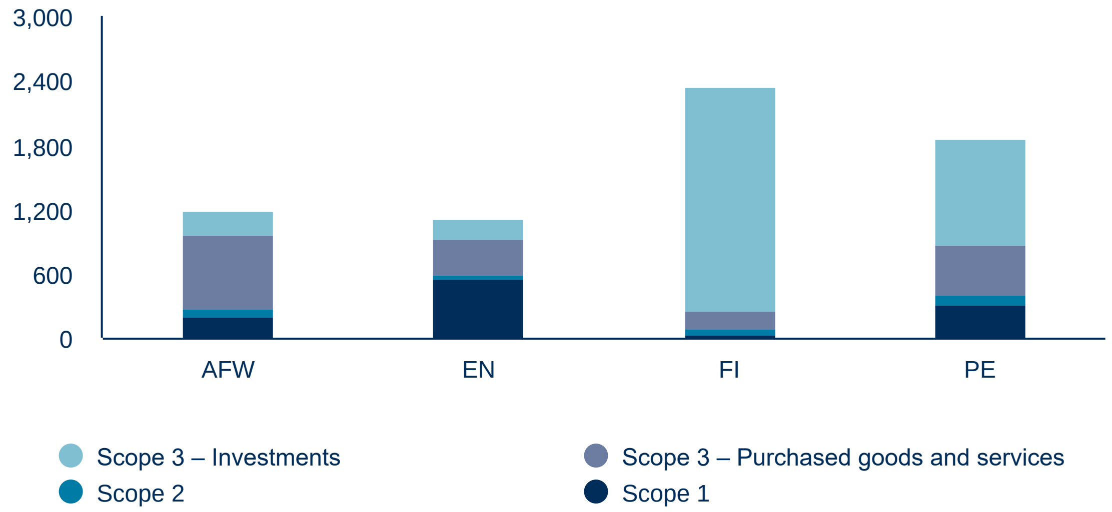
Our outstanding portfolio resulted in an estimated 6,530 ktCO_2e absolute GHG emissions (2021: 5,355 ktCO_2e), of which 1,108 ktCO_2e were Scope 1 emissions, 270 ktCO_2e were Scope 2 and 5,153 ktCO_2e were Scope 3. The scope 3 emissions consist of two main GHG Protocol categories: purchased goods and services (1,643 ktCO_2e) and investments (3,510 ktCO_2e) related to emissions in the portfolios of our customers, which are particularly relevant for FIs. Overall, 89 percent of emissions were attributed to our own balance sheet, while 11 percent were attributed to funding from public funds.

Our portfolio Scope 1 and 2 emissions declined from 1,408 ktCO_2e in 2021 to 1,377 ktCO_2e in 2022. Scope 3 emissions increased from 3,947 ktCO_2e in 2021 to 5,153 ktCO_2e in 2022. This increase is a result of various factors, including data refinements and increased exposure in sectors with significant modelled Scope 3 emissions, such as agriculture. In general, the amounts reported may not be fully comparable across years because of differences in data quality and data coverage. To estimate the attributed impact, we rely on our customer's latest available information. We continue to implement improvements to ensure we have the most recent and highest data coverage to increase comparability across the years.

11 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.

12 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.

Financed absolute GHG emissions per investment area (in ktCO2e)



In our EN portfolio, most Scope 1 emissions come from the remaining investments we have in fossil fuel-fired power plants. When direct emissions data are unavailable, the emissions estimates based on economic models cannot distinguish between different types of energy investments. In particular, this means that Scope 3 emissions are likely overestimated for renewable energy investments.

The AFW portfolio is diverse, giving rise to different sources of GHG emissions. Manufacturing and processing of food products leads to CO_2 emissions from energy usage. Primary agricultural production can have significant non-CO_2 emissions such as methane emissions from livestock and nitrous oxide emissions from fertilizers. The AFW portfolio also includes a few financial institutions focused on providing loans to SME agribusinesses, which have Scope 3 emissions related to their investments. Emission removals, which mainly come from forestry projects, have not been included yet since we are still in the process of implementing relevant calculation tools.

In the FI portfolio 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 investee banks' loan portfolios in sectors such as agriculture, manufacturing and energy. Within their portfolios, the JIM-based estimates show that 57 percent come from their customers' Scope 1 and 2 emissions and 43 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.

The PE portfolio contains equity investments in businesses, projects and funds. One source of emissions is the remaining equity investments in fossil fuel-fired power plants. For equity investments in financial institutions and funds, the majority of emissions come from underlying portfolio companies in the energy, manufacturing and agriculture sectors.

Financed avoided GHG emissions

In 2022, our current portfolio resulted in an estimated 1,439 ktCO_2e avoided GHG emissions (2021: 1,329 ktCO_2e). Some 79.3 percent of these came from energy, 20.6 percent from PE and the remainder from AFW. The majority of avoided emissions come from our debt and equity portfolio in on-grid renewable power projects. These account for 83 percent of total avoided emissions (1,191 ktCO_2e).

Enhancing our contribution to climate through our ESG activities

We believe contributing to climate action goes hand in hand with good ESG management on an operational level. We recognize that the social dimensions of the transition to a resilient and low-carbon economy need to be carefully managed. Through our ESG engagement we address workplace issues, community benefits from projects, and aim to steer customers towards ethical supply chains. These issues are deeply linked to a ‘just transition’. For instance, our E&S activities aim to strengthen the resilience of affected communities to climate-related hazards with a focus on women, local and marginalized communities. We are also evaluating our investments for environmental risk and guiding our customers to improve their ESG risk management.

SDG 2 | Zero hunger

By financing businesses across the entire agri-food chain we contribute to SDG 2, zero hunger. With a focus on small-scale food producers, sustainable food production systems and resilient agriculture practices, SDG 2 is closely linked to SDGs 10 and 13. 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. [13]

An estimated 480 million smallholder farmers around the world can help achieve SDG 2, especially as food market growth shifts to the emerging world. [14] Smallholder farmers are marginal and sub-marginal 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. [15]

Number of smallholder farmers supported

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 2022, companies financed by us supported 5 million smallholder farmers (2021: 3.6 million).

SDG 5 | Gender equality

FMO actively strives to advance gender equality. 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 women’s rights, to understand the gender-specific impact of our investments and to contribute towards women having equal access to economic opportunities.

We measure impact on SDG 5 in various ways. Firstly, 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. Secondly, we report on gender metrics aligned with the 2X Challenge of the 2X Collaborative (now part of 2X Global), an industry body that promotes gender-lens investing. FMO identifies investments that can be eligible for the 2X Challenge by talking about gender early on in our collaboration with customers.

Gender financing for women-owned SMEs

In 2022, we invested €199 million in gender financing for women-owned or women-led SMEs (2021: €216 million). One of the supported projects was XacBank LLC, Mongolia’s 5th largest bank in terms of total assets. FMO provided a US$50 million senior debt facility of which 70 percent (US$35 million) is dedicated to supporting women-owned (SME) businesses. XacBank is eligible as a 2X investment under multiple criteria.

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13 https://www.fao.org/news/story/en/item/1395127/icode/

14 World Bank (2019). Working with smallholders – A handbook for firms building sustainable supply chains.

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

2X Challenge

A total of €133 million of new investments qualified for the 2X Challenge. A total of €126 million was on our own books, €1 million from public funds and €6 million from mobilized funds. This increase in 2X Challenge qualified investments is due to several larger investments in private equity funds. An example of such an investment in 2022 was Adenia Capital (V), a private equity fund targeting buy-out and growth capital investments in medium-sized companies across Africa, which was selected as a 2X flagship fund. Adenia Capital (V) commits to promoting gender balance at the fund manager level, investing with a gender lens, supporting portfolio companies to implement gender smart practices, reporting outcomes, and ensuring accountability at partner level.

SDG 7 | Affordable and clean energy

Access to energy is not a given in some countries. The energy supply in developing countries can be unstable and the energy production is often polluting. SDG 7 aims for access to sustainable, reliable, and affordable energy for all, which will improve the quality of life and enable sustainable economic development.

FMO invests in the generation of solar, wind and hydro power in developing countries that, combined with investments in power transmission and distribution, improves access to energy. By financing off-grid power solutions, FMO supports access to a more stable energy supply for rural and not connected parts of the populations. In low-income countries 43 percent of the population has access to electricity compared to 30 percent of the rural population. [16]

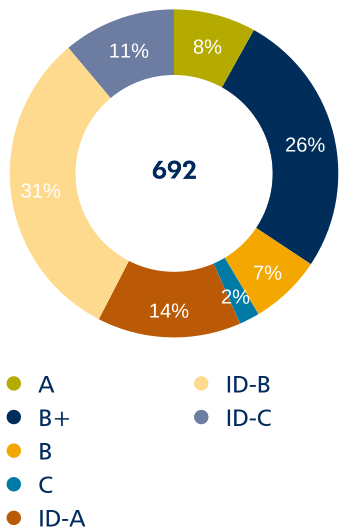
Energy production and equivalent number of people served

Customers in our energy portfolio produced 48,000 GWh (2021: 48,000 GWh), which served an equivalent of 87 million people (2021: 83 million). Some 55 percent was generated from renewable energy sources (a total of 102 customers). Approximately, 11 percent came from solar, 15 percent from wind, 21 percent from hydro and eight percent from other renewable energy sources. The remaining 45 percent came from 14 customers generating power from non-renewable sources, mainly natural gas.

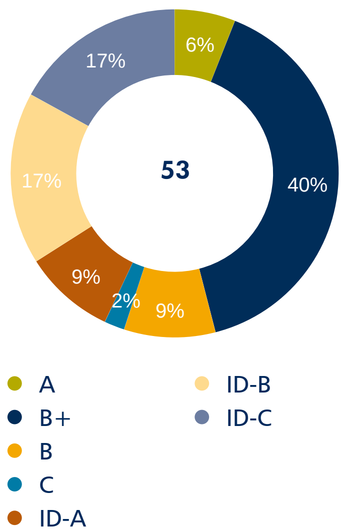
ESG risk management

The following charts show the risk profile for our entire portfolio and for the new customers that were contracted in 2022.

E&S risk profile of full portfolio



E&S risk profile of new customers

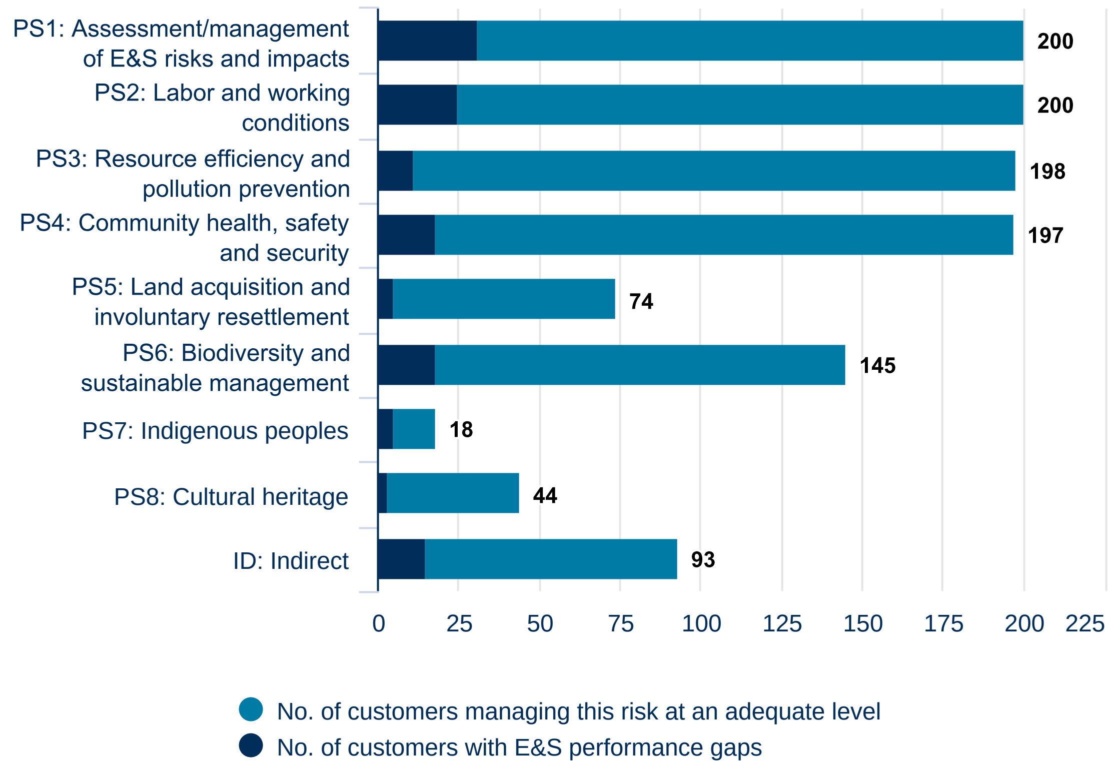


16 World Bank Development Indicator Database

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 (medium risk) and ID-C (low risk) for indirect exposure through debt and PE funds.

The type of E&S risks, as per the IFC Performance Standards, and frequency with which high risks occur are displayed in the following chart. The scale of potential issues in our portfolio is determined by the type, frequency and degree to which these risks are 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



To track ESG performance, FMO uses several tools. We set an annual ESG performance target, agree multi-year environmental and social action plans (ESAPs) with our customers, we monitor E&S performance gaps in our portfolio and keep a serious incident register. In addition, FMO has an Independent Complaints Mechanism (ICM) which allows external parties to file a complaint, including on ESG, concerning projects financed by FMO. These tools are explained in this section. For more information on how ESG risks are incorporated into FMO's overall risk governance and risk management approach, refer to the 'Risk management' section in the 'Consolidated Financial Statements'.

ESG performance target

The ESG performance target applies to the high ESG risk customers in our portfolio contracted prior to 2022 ('target list'). 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 a satisfactory level.

We monitor all E&S risks in our portfolio. The target focuses specifically on high-risk customers. Out of a total 692 customers in our portfolio, 333 customers had a high E&S risk category (A or B+). By consolidating customers belonging to the same corporate group or group of companies, this led to a target list of 276 customers, representing a total of 3,770 ESG risks that were tracked during the year. The 2022 results showed that on average, 93 percent of total risks among the customers in the target group managed their high risks adequately. When the performance of a customer deteriorates or when open action items are not implemented on time, customers receive lower ratings, and this brings down the average for the total portfolio.

Environmental and social action plans (ESAPs)

Given the high degree of variation in ESG regulations and practices in our markets, FMO accepts that when we first start working with a customer, the ESG performance may be below standard. We do, however, expect performance to improve over time in line with agreed action plans. This is part of FMO's non-financial additionality. For customers with contractually agreed ESAPs, we monitor progress towards implementation to ensure that our investments comply with our policies and standards within a reasonable time frame. Most customers show good progress and are receptive to FMO's ESG advice and support.

E&S performance gaps in our portfolio

During 2022, FMO identified 65 high-risk customers that are not managing E&S risks to our satisfaction, which could lead to incidents or issues. FMO is working with these customers to address these gaps to realize their positive impact potential and minimize their negative impact. In most cases, we are confident that we can bring customers back on track within a reasonable timeframe. Our E&S engagement and approach with our customers is tailored to their unique circumstances. In some instances, E&S non-performance may be the result of a wider (financial) problem that requires the restructuring of a loan or a full exit. Some E&S and human rights impacts are irreversible and together with the customer we look at different remedies.

The following table shows 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 (represented by the letter 'n').

E&S performance gaps 2022	Description	Our engagement
Willingness and commitment (PS1) (n=14)	Resistance to engagement on ESG issues can stem from over-reliance on e.g., 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 customer's top management and exert influence on their boards, e.g., to push for improvement of organizational culture.
Environmental and social governance and budget (PS1) (n=16)	Where 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 workers' rights protections, 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=11)	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=14)	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 improvement of E&S performance, and can lead to adverse economic, financial, social, and environmental impacts.	We support customers in the development and improvement of an ESMS that recognizes the roles and responsibilities of stakeholders and identifies risks related to their activities/involvement through due diligence while taking into account the local context and setting up measures to mitigate those risks.
Organizational capacity and competency (PS1) (n=12)	E&S teams can be too small, change often, continue to perform poorly, or lack qualified staff. This is a key issue in many of our target geographies 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=21)	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 ineffective grievance mechanisms, which don't capture grievances, and / or don't enable suitable redress. 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 and offer to connect customers to experts in the field, mediate or providing capacity building.
Voluntary land rights transfer (PS1) (n= 4)	Involuntary land transfer can be masked as voluntary which can weaken community cohesion, cause tension between company and community and affect people's livelihoods. The customer needs to demonstrate that the land transfer is based on a willing buyer-willing seller principle.	We engage with our customers to help them establish a land acquisition process that honors the willing buyer-willing seller principle.

E&S performance gaps 2022	Description	Our engagement
Working conditions and management of workers relationship (incl. third party workers) (PS2) (n=15)	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= 4)	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; and in some cases to develop a leverage plan and/or action plan to mitigate those risks.
Resource efficiency and pollution prevention (PS3) (n= 11)	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, 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 from projects 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=5)	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=18)	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.
Indigenous peoples (PS7) (n=5)	Community engagement processes do not meet FPIC requirement and/ or do not allow for sufficient participation of indigenous people. In some cases, we recognize challenging operating conditions where risks to these communities are difficult to control. This may lead to the infringement of indigenous peoples' right to food, their traditions and their 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=15)	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. Compounded by contextual risk factors, e.g., lack of exposure to and experience in E&S risks management by the financial sector in our markets 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

Unfortunately, serious incidents cannot always be avoided considering the large number of people that are employed by our customers, the higher-risk countries and sectors we invest in and the challenges of operating in emerging markets.

FMO requires its customers to immediately report any incident occurring on or nearby any site, plant, equipment or facility belonging to the customer that has resulted in the loss of life, has had a material effect on the environment or has resulted in a material breach of the law – inter alia – and how the incident was dealt with. FMO follows up on each incident to ensure that a meaningful root cause analysis is completed, and corrective action is taken.

We believe that strong occupational health and safety (OHS) management systems are part of 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, FMO develops and agrees an ESAP with the customer to close those gaps. FMO also helps customers to develop their OHS risk management capabilities, for instance through (funding for) training.

In 2022, we regret to inform that 27 FMO customers reported 77 fatal incidents with a total of 85 casualties (2021: 58 casualties). A total of 33 were workers (employees or contractors/suppliers) of either our customers or the underlying companies of funds and 52 were members of the general public. Of the 77 incidents, 53 were road accidents, 11 work-related, seven asset-related, two security-related, and four were classified as 'other'. FMO aims to provide a total overview of all fatalities resulting from the activities it finances and expects that its customers hold themselves to the contractual agreement to report any occurrence. However, there is a risk that some incidents have not been reported to us and are therefore not included in these numbers.

Incident type	No. of incidents	No. of fatalities	No. of workers	No. of public
Road-related	53	63	19	44
Work-related	11	9	9	0
Asset-related	7	7	2	5
Security-related	2	2	0	2
Other	4	4	3	1
Total	**77**	**85**	**33**	**52**

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, in order to enable resolution of disputes and assist FMO in drawing lessons learned for current and future operations. It also monitors the implementation of measures to bring a project into compliance or agreed as outcome of a mediation process. For governance of the Independent Complaints Mechanism please refer to the chapter 'Corporate governance'.

In 2022, one complaint was finalized when its final monitoring report was issued. Three new project-related complaints were received: two were declared inadmissible and one was declared admissible (2021: zero admissible complaints). For information about the status of complaints filed in earlier years, please refer to our website.

Other key ESG activities

Corporate governance

When onboarding new customers and during our annual credit review, we assess corporate governance risks on five elements: (1) commitment to good corporate governance, (2) structure and functioning of the board, (3) control environment, (4) transparency and disclosure and (5) treatment of minority shareholders. This assessment will determine whether a customer requires additional support from a corporate governance specialist.

In 2022, FMO assisted customers and investees by conducting corporate governance reviews and providing tailor-made recommendations for improvement, both as part of our due diligence and value creation. After a review, we continue to support our customers by (1) providing support (including technical assistance and capacity building) and further guidance on the proposed corporate governance recommendations and how to best implement them, and (2) periodic check-ins to discuss progress.

Another way to improve customers' corporate governance is using FMO nomination rights for directors in investee companies. We appoint nominee directors that can act independently, possess the right knowledge and skills and increase gender diversity. Furthermore, we seek to provide the nominee directors with training on ESG topics, among others, to help them succeed in their roles. This year FMO and the German Development Bank, DEG, organized two corporate governance trainings for directors appointed to the boards of our investee companies and boards of our partners' investees.

Sector initiatives

Sector initiatives are projects that target and address systemic ESG and impact issues in a sector or geography. Sector initiatives leverage FMO's ability to bring together multiple perspectives and stakeholders to create positive change. During 2022, several sector initiatives were ongoing and others started, including:

- Invest for Impact Nepal (IIN): a collaboration between FMO, British International Investment and the Swiss Agency for Development and Cooperation. It is a market-shaping initiative that supports foreign direct investment in Nepal. IIN aims to accelerate responsible and impactful investment in Nepal by supporting the financial intermediary sector in Nepal to achieve a step change in growth, environmental and social impact, and investment.

- In partnership with the Consejo Centroamericano de Superintendentes de Bancos, de Seguros y de otras Instituciones Financieras (CCSBSO), IFC and Norfund, the Central America Sustainable Banking Initiative was set up to enable the adoption of international standards and E&S performance standards in the financial sector of countries that are part of the CCSBSO.

SDG 17 | Partnerships for the Goals

17 PARTNERSHIPS FOR THE GOALS

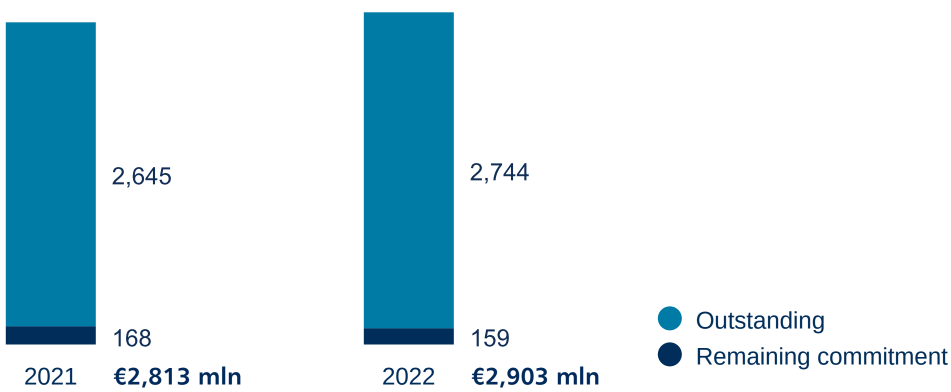
FMO attaches strategic importance to deepening relationships with our stakeholders, because by pooling resources and partnering with others we can invest more in our customers and through their activities increase impact. FMO mobilizes and blends funds, builds partnerships, manages programs on behalf of public institutions, including the Dutch Government, and empowers its customers and employees.

Mobilized funds

Private sector investments are among the most important sources of financing for the realization of the SDGs, particularly in low- and middle-income countries. Mobilizing capital and increasing private mobilized capital is, therefore, an important part of FMO's strategy to contribute to the SDGs. Mobilization efforts result from our direct and active engagements with our public and private partners and are measured in terms of total mobilized committed portfolio and new investments. These efforts lead to greater impact with regard to jobs supported, GHG emissions avoided and climate action (SDG 13) as well as reducing inequalities (SDG 10).

Our direct mobilized committed portfolio amounted to €2.9 billion (2021: €2.8 billion). More than half (€1.7 billion) has been mobilized through commercial investors. This was realized through the private debt funds that FMO Investment Management (FMO IM) advises and through syndications and unfunded risk participations with other commercial parties, such as Munich Re. We achieved our portfolio target of €2.8 billion mainly due to the appreciation of the US dollar, which offset the lower volume of new investments (€457 million). To reach its mobilization volumes, FMO arranged several large, syndicated loans for existing customers and continued its commitment to mobilize private parties. Below we provide some highlights for several of the before-mentioned mobilization vehicles.

Direct mobilized committed portfolio (in € mln)



Munich Re

The Unfunded Risk Participation Program between Munich Re and FMO continued to grow. During its third investment year, Munich Re's participation grew steadily from €248 million in 2021 to €293 million in 2022. By the end of 2022, the program combined commitments of 36 loans to financial institutions, renewable energy projects and agribusinesses. Of this, 22 percent had a Green-label and 40 percent had an RI label.

NN FMO Emerging Markets Loans Fund

The NN FMO Emerging Markets Loans Fund [17] attracted a new investor in 2022. The second compartment opened in July 2021 at US$150 million and has increased to US$180 million. The investors are mainly institutional investors based in Asia. Compartment one has, in principle ceased to invest, having invested over US$400 million since 2018. Compartment one is making regular cash distributions to its investors and is decreasing in size. The second compartment committed an additional US$44 million in 2022, having invested well over US$108 million since it was launched. By year-end 2022, the fund had combined commitments to loans to financial institutions, renewable energy projects and agribusinesses. Of the committed portfolio 25 percent had a Green label and 37 percent had an RI label.

FMO Privium Impact Fund

The net asset value of the FMO Privium Impact Fund [18] decreased slightly to US$152 million (2021: US$155 million). Investors are mainly family offices and private banking customers including those with managed portfolios. Investors are mostly based in the Netherlands, UK, Spain and France. Of the committed portfolio, 39 percent had a Green label and 37 percent had an RI label.

Actiam-FMO SME Finance Fund

With a net asset value by year-end of €82 million (2021: €108 million), the Actiam-FMO SME Finance Fund [18] 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. While the fund's end of life is drawing closer (2025), the fund has been making cash distributions since 2020. By the end of 2022, the fund had a committed portfolio of €63 million (2021: €90 million) across 35 financial institutions. Of the committed portfolio, 19 percent had a Green label and 49 percent had an RI label.

ASN Green Projects Fund

FMO IM has been an investment advisor to the ASN Green Projects Fund [18] since 2017. The investors are Dutch private individuals. Since 2021, the fund is making investments in green credit lines to financial institutions. Earlier, the fund solely participated in renewable energy transactions. By the end of 2022, the fund had participated in a total of 11 loans sourced by FMO, bringing the committed portfolio in FMO loans to US$36 million (2021: US$32 million). Of the committed portfolio, 79 percent had a Green label and 18 percent had an RI label.

Public programs

Public investment partners allow us to make investments with a higher risk profile and development impact. Our public investment partners include the Dutch State, the UK Government, the European Commission (EC) and the Green Climate Fund (GCF). On behalf of the Dutch State, we manage the following programs: Building Prospects, the Access to Energy Fund (AEF), the Dutch Fund for Climate and Development (DFCD) and MASSIF. We set up the NASIRA and FMO Ventures program with guarantees from the European Commission and in early 2021 began managing the Mobilising Finance for Forests (MFF) program on behalf of the UK Government.

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

Through our public programs we have built up a committed portfolio of nearly €1.4 billion (2021: €1.4 billion). In 2022, we invested €153 million through our public funds (2021: €233 million).

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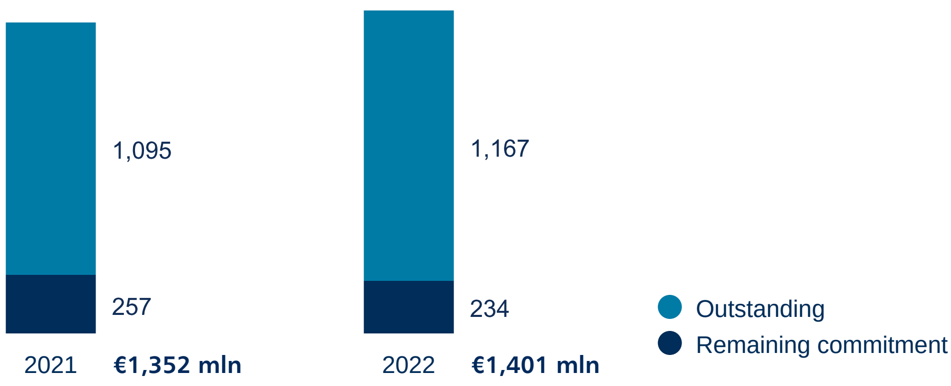
17 The NN FMO Emerging Markets Loans Fund, due to its legal structure as an Unregulated Securitisation Vehicle, does not fall under the SFDR.

18 The FMO Privium Impact Fund, ACTIAM – 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. 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 directives.

Public funds committed portfolio (in € mln)



Generally, FMO's public funds support higher risk transactions. These are often more complex, early stage, or in difficult contexts, such as fragile states, pioneer sectors and public stakeholders. This also leads to longer processing times (often more than 1 year) and a higher risk of cancellation before a contract is signed. Due to the pandemic and the focus on completing the KYC remediation program in recent years, FMO has been working on rebuilding the pipeline. This has resulted in new opportunities but these are still in the early stages.

In the following sections, we provide highlights for each of these programs.

Access to Energy Fund (AEF)
The Dutch Government and FMO set up AEF in 2007. AEF focuses on sustainable energy solutions by supporting energy generation, transmission, and distribution projects in developing countries. New investments made through AEF amounted to €11 million in 2022 (2021: €43 million). For instance, AEF provided a US$ 6 million loan to C-Quest Capital Africa (CQC-A) to aid in financing the deployment of clean cooking stoves and other carbon programs across Sub-Saharan Africa. CQC-A was formed by C-Quest Capital, a diversified impact-investment enterprise and one of the market leaders in the clean cooking sector, offering a scalable model while realizing substantial social impact.

Building Prospects
Building Prospects was established in 2002 by the Dutch Government and FMO to strengthen the agribusiness value chain by increasing access to energy, water, logistics and transport and improving climate resilience and gender equality. New investments made through Building Prospects amounted to €27 million in 2022 (2021: €40 million). For instance, Building Prospects provided a €4 million loan to HPW Fresh & Dry, which is the largest processor of tropical dried fruits in West Africa. HPW cooperates with smallholder farmers and plays a role in improving their standard of living. It is also the most important employer in the region and FMO's investment can help generate new local jobs.

MASSIF
MASSIF is a Dutch Government fund that 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. New investments through MASSIF amounted to €54 million in 2022 (2021: €57 million). For instance, through MASSIF we provided a US$7 million loan to Banco de Antigua, a small microfinance bank in Guatemala. The facility was advanced in local currency (GTQ) which is very important and additional in the support of microentrepreneurs in the country. The funds are earmarked for micro lending and financing SMEs in rural areas in Guatemala which is line with MASSIF's strategy towards reducing inequalities (SDG10). Furthermore, capitalizing on our Capacity Development program, we will be working with Banco de Antigua to further improve their consumer protection policies and practices.

Dutch Fund for Climate and Development (DFCD)
The 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. The DFCD connects the project development expertise of SNV and WWF to the mobilizing and investment power of FMO and Climate Fund Managers. New investments through DFCD amounted to €5 million in 2022 (2021: €8 million). The DFCD Land Use Facility provided US$ 3 million additional financing for existing customer Miro Forestry Development Limited, one of the largest forestry plantation companies in West Africa, with currently 20,000 hectares planted, mainly eucalyptus, acacia, gmelina and teak. Additional financing will help the company expand its planting area and processing capacity.

Mobilising Finance for Forests (MFF)
MFF was established in 2021 by the UK Government and FMO as a blended finance investment program. The program aims to mobilize private investments in the forestry and sustainable land use sectors, such as to combat deforestation and other unsustainable land practices in the tropical rainforest of Africa, Asia and Latin America. In 2022, MFF provided US$ 2.5 million in support to Treevive. The investment is made through MFF's capacity development facility. Treevive will create a carbon development platform that advises, structures, finances, and accelerates carbon projects that contribute to natural climate solutions. Treevive will support project owners with funding and technical assistance to accelerate the development of the carbon asset of their project.

NASIRA with EC guarantee
NASIRA is an innovative financial program that aims to promote inclusive growth, job creation and sustainable development and, through that, tackle 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 MASSIF). NASIRA helps to unlock lending to migrants, women and young entrepreneurs that financial institutions consider high-risk. The NASIRA program created new investments of up to €78 million in 2022 (2021: €82 million). In 2022, we made four investments in the State of Palestine, Jordan, Kenya and Egypt. Vitas Palestine Microfinance Company (Vitas), for instance, now benefits from a US$10 million NASIRA loan portfolio guarantee. This risk-sharing facility enables Vitas to support the growth of MSMEs affected by COVID-19, including female and young entrepreneurs, operating in Gaza and the West Bank.

FMO Ventures Program with EC guarantee
The FMO Ventures Program was set up in 2020, combining a €40 million guarantee provided by the European Commission (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. New investments made through the program in 2022 amounted to €28 million (2021: €21 million), of which €14 million was covered by FMO, €1 million by AEF, €3 million by Building Prospects, €3 million by MASSIF and €7 million by the EC.

For instance, a €3 million investment in SolarX was made via FMO's Ventures Program. SolarX provides clean, affordable solar power in Mali, Burkina Faso and Senegal. This investment contributes to access to electricity, reducing the cost of electricity, and displacing polluting diesel-powered electricity generation, thereby reducing CO_2 emissions and creating local employment.

Customer and market support

Our customers are central to achieving FMO's impact ambitions. We provide the financial and non-financial means to support their business activities, aimed at creating positive economic, social and environmental outcomes within the countries and communities in which they operate. In addition to financial products, FMO provides capacity development and ESG advisory services and organizes events to support learning, knowledge sharing and capability building.

Each year, we carry out a customer satisfaction survey to gauge how we can better support our customers in carrying out these activities. We measure customer satisfaction in terms of the Net Promoter Score (NPS) or the extent to which customers would recommend FMO to others.

Customer satisfaction

This year, 84 customers participated in the customer satisfaction survey which is lower compared to 2021 (102 customers) and 2020 (112 customers). This was due to a decrease in the number of eligible customers. The NPS was 71.4, which exceeds our target of 70 and the scores from the previous two years (65.5 in 2021 and 70.2 in 2020). This increase was mainly driven by improved customer satisfaction scores on FMO's product and services.

Customers indicated they felt FMO's product features fit their specific needs. Points of improvement mentioned by our customers were related to FMO's policies and pricing. In addition, customers indicated they used FMO capacity development, especially consultancy services for technical assistance. With respect to FMO's services, customers appreciate the collaboration with FMO with respect to the partnership and the continuous support that we provide to them, especially in difficult times. Furthermore, customers rated the impact FMO has had on them slightly higher across various dimensions, including environmental and social practices and corporate governance. Furthermore, more customers indicated they chose FMO for its long-term signaling effect towards other investors.

Customer events

Following the success of the previous edition, FMO, IFC and Finnfund brought the African Cheetahs together again for a thought-provoking, interactive, two-day roundtable that took place in Nairobi, Kenya in May. The Cheetahs are a community of some 25 young and fast-growing food and agribusiness companies from across Sub-Saharan Africa that come together with the aim to share experiences and knowledge about successfully scaling agribusiness SMEs in often challenging emerging market environments. Through case studies, Cheetah community members analyzed strategic challenges, and together with the companies' executives, explored solutions. This year’s seminar also focused on bringing the world of AgTech and Agribusiness together. Under the FMO Ventures program AgTech companies were supported to scale to viable digital farmer service platforms connecting smallholders to inputs, guaranteed markets and finance. The combination of these young fast growing AgTech companies with the more mature African Cheetahs proved inspiring and showed great potential for cooperation.

FMO, in partnership with the Asian Development Bank and Finnfund, held the first Asian Tigers Sustainable Agribusiness Roundtable. This inaugural event, which took place in Singapore in October, brought together 80 industry leaders from across Southeast Asia to discuss current trends and challenges affecting companies in the region. Among the topics discussed were the need for greater investments to boost food security, tackle climate change, and protect biodiversity as well as the critical role development finance institutions play in supporting the private sector by providing much needed liquidity, patient capital, blended finance, and technical assistance.

Capacity development

FMO provides development contributions through our Capacity Development program including technical assistance to strengthen the organizational capabilities of our customers, investees, and prospects and contribute to shaping markets and building impactful partnerships. The development contributions are financed by FMO, the Dutch government, the European Commission and, since 2021, the UK government through the Mobilising Finance for Forests fund. In 2022, we provided €16 million in CD support (2021: €8 million).

Demand for capacity development remains high and focuses on value add and additionality, supporting the business case for bankable and investible projects, creating innovative partnerships and building ecosystems. We supported several of our customers on themes such as energy efficiency, certification and customer protection. In addition, we provided delegated technical assistance facilities to fund managers to support their underlying portfolio companies to create value and impact for stakeholders and shareholders. For example, FMO funded a bridge technical assistance facility to a fund manager in Georgia to identify SMEs relocating from Ukraine to Georgia and provide them with expatriation and relocation services and technical assistance in the form of fund-wide support projects, zero interest loans and grants to maintain business continuity and enable knowledge transfer.

Furthermore, we strengthened our customer's business to support the growth of companies in a financially, environmentally and socially sustainable way. For example, under the NASIRA program FMO is supporting a bank in Nigeria to develop financial and non-financial products targeting youth and female entrepreneurs. The project has already developed distinct value propositions for tech-savvy youth entrepreneurs and entrepreneurs by nature – those who learned business with the help of their family – and proposed various adjustments to the bank's products.

Organizational efficiency and business integrity

In 2022, we focused on building our change capacity to improve our business operations, adapt to the hybrid way of working and address cultural challenges. Making progress on our digital transformation has been a major element of that. Furthermore, we launched our 2030 strategy to set out our ambitions for the years to come.

Employee engagement

FMO expects its employees to be aware and behave according to the code of conduct and speak out when they feel that the business principles are threatened or compromised. Our Speak-Up policy and our internal Grievance and Complaint mechanisms help us monitor the effectiveness of the code of conduct.

At the end of 2022, we had 689 employees (2021: 614 employees), all covered by the collective labor agreement for banks. We invest in the wellbeing and development of our employees, to support them to be healthy and happy so they will be able to perform at their best. This, in turn, helps us realize our strategic objectives. Offering a healthy and inspiring working atmosphere has become even more important for attracting and retaining employees in the current labor market, something we expect to remain a challenge in the coming years.

In November 2022, we conducted a thematic pulse survey, which was less extensive than the employee engagement survey conducted in 2021. The pulse survey was used to evaluate the hybrid way of working pilot, which began in early 2022, as well as to determine the employee engagement score. In 2022, the average employee engagement score was 7.3 (2021: 7.2), below our target of 8.0. We are still in the process of exploring ways to improve the overall engagement score and will continue to conduct pulse surveys to gauge results of our actions.

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. As the number of staff has increased, more attention is needed to achieve efficiency, a more balanced workload and cross team collaboration.

After the pandemic, we explored new ways of hybrid working. We aim to work from the office half of the time and the other half remotely, which may also be overseas for part of that time. Travelling to our customers and partners abroad has resumed, but we are more critical whether face-to-face meetings are really necessary. In the poll, employees indicated they come to the office to meet colleagues, their manager and to attend social events and also expressed their appreciation for the opportunity to work remotely abroad.

Employee developments

Most of our employees are based in the Netherlands. We continue to employ an international staff base, which at the end of 2022 represented 63 different nationalities (including the Dutch nationality) (2021: 57 nationalities). Sometimes working together with many cultural differences can be challenging and requires paying extra attention to the topic. In 2022, most new colleagues joined the Diversity & Inclusion training as a part of the onboarding program. These trainings help to create a climate where people from different backgrounds feel comfortable expressing their opinions. Understanding and accepting diverse cultures starts by being aware of one's own.

In 2022, 142 new employees joined FMO (2021: 64). It was a challenge to recruit and onboard all of them. More than half of the new colleagues (56 percent) held a non-Dutch nationality. As a result, by the end of 2022, 36 percent of the total staff held a non-Dutch nationality. Our ambition for 2023 is to continue to grow, where we expect to recruit and onboard even more new employees than in 2022. The FMO Academy worked with investment staff to create a better onboarding journey. This gives new employees a better understanding of our vision, mission, and strategy and how FMO integrates the SDGs into our operations. The new onboarding journey commenced in January 2023. In 2022, we re-evaluated our commuting policy with the goal of making it more sustainable, with an emphasis on public transportation, fairness and actual usage.

In 2022, there were 154 external employees working at FMO. Approximately 60 percent of those were hired as part of Business as Usual (BAU) and ICT (maintenance)-related activities, and 40 percent worked on projects. With respect to the working areas, 35 percent took up ICT and data-related positions, 15 percent were employed in KYC-related roles, and the remaining 50 percent worked in diverse areas, mostly non-client facing jobs. The majority of the external employees were self-employed ("ZZP") and recruited either via an agency or directly (via FMO's network). Approximately 10 percent were employed via an employment agency.

The net growth of external employees over the previous year was approximately 25 percent, from a headcount of 123 at the end of 2021 to 154 at the end of 2022. This is about 10 percent above the net growth of internal employees, and is a result of a combination of factors, including our building back business strategy as well as the hiring of temporary staff in anticipation of the recruitment of permanent staff.

Other FMO employee statistics	Dec 31, 2022	Dec 31, 2022	Dec 31, 2022	Dec 31, 2021
	Total	Male	Female	Total*
Number of internal employees (headcount)	689	334	355	614
Number of permanent internal employees (headcount)	582	287	295	546
Number of temporary internal employees (headcount)	107	47	60	68
Number of full-time internal employees (headcount)	513	280	233	448
Number of part-time internal employees (headcount)	176	54	122	166
Number of internal FTEs	661	326	335	588
Percentage non-Dutch employees	36%	31%	40%	31%
Number of nationalities	63	41	49	57
Absenteeism	4.1%	3.2%	5.2%	3%
Number of external employees (headcount)	154	98	56	123
Total number of internal and external employees (headcount)	843	432	411	737

* As per 2022, we have adjusted the definition of employees leaving on the last day of the reporting period by including them in the numbers we report as they are still employed on that date. The numbers over 2021 have been restated for consistency.

Diversity and inclusion

FMO aspires to be a diverse and inclusive employer because we believe it leads to better decisions, more creativity and innovation, better solutions for our customers and more impact on the world. 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. At FMO, we strive for diversity at all levels of our organization. We want to create an inclusive working culture for our employees and our stakeholders. We promote diversity of gender, gender identity and sexual orientation, culture (topics around ethnicity and race), age and generations and people with occupational disabilities.

It is our ambition to have an equal gender distribution in management roles and, as such, we have set a target for the organization of 50%. To ensure we continue to progress towards achieving this target, 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 our performance on gender, we report on seven gender diversity KPIs, as follows:

7 Gender diversity & inclusion metrics					
		Total	Male	Female	% Female
1. Gender balance	Total number of employees per December 31, 2022 (headcount)	689	334	355	52%
	Employees in senior and middle management per December 31, 2022	76	43	33	43%
2. Recruitment	New joiners January - December 2022 (headcount)	142	65	77	54%
	Net growth percentage	12%	12%	13%	
3. Turnover	Number of leavers January - December 2022 (headcount)	66	29	37	56%
	Turnover percentage (based on total headcount) at beginning of reporting year	11%	10%	12%	
4. Reward	Gender pay gap: FMO conducts periodically (at least once per year) quantitative research to compare men and women's salaries, while correcting for part-time work, salary scale, age and tenure to have a fair comparison.	Total fixed income: 3% difference in men's advantage; Total cash income (incl. bonuses): 3.1% difference in men's advantage Although the average difference found is relatively small compared to what is seen in the Netherlands in general, the statistical analysis showed a significant difference at a 5% significance level. This difference refers mainly to employees in the lower salary scales, in customer-facing roles or in the age category 35-44.			
5. Bonuses*	Share of bonus amount paid in 2022	100%	53%	47%	
6. Promotions	Promotion ratio January - December 2022	19%	20%	19%	
7. Engagement	Engagement score based on latest survey (November 2022)	7.3	7.2	7.4	

* 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.

In 2022, the gender pay gap analysis was performed for the fourth year in a row. Compared to previous years, the way the analysis was performed changed. This year, we hired an independent external consultant who used a different methodology which entailed a more advanced statistical analysis (Oaxaca Blinder, multivariate analysis). The outcome showed a statistically significant difference of a 3.1 percent higher income for men compared to women for equal work. This year, the analysis was performed based on October 1 headcount data instead of April 1 as was done in 2021. Due to the change in methodology, last year's figures are not included as they may not be fully comparable.

The methodology change is estimated to have had a limited impact on the outcome. The increase in the percentage could have been the result of a slight widening of the gender pay gap over the last approximately 18 months. Among the factors that could have contributed to this are differences in job offers for new joiners, structural differences in the appraisal scores related to part-time work (FTE), or work experience. The report shows that the biggest difference is unexplained by the analysis. Further examination is required to find effective ways to close the gap.

Although the gender pay gap is about half of what is seen in the corporate sector in the Netherlands and similar to the gender pay gap seen in the public sector in the Netherlands, we are determined to close this gap. As it may be caused by gender-based pay upon entry into FMO or gender-based progression in salary scales based on the annual performance review, we will review in more detail and take corrective action to close the gender pay gap as we strive to pay women and men equally for equal work.

Further improving the 'quality of interaction' plays an important role in promoting organizational culture. In 2022, we focused on clarifying the meaning of our key values and described them in preparation for future learning interventions. As leadership plays an important role in facilitating this process, we launched the 'Emerging Leadership Program' for potential new leaders in FMO.

Learning and development

At FMO we consider continuous learning an important part of working. Via our internal FMO Academy, we continue to encourage employees to develop themselves through internal and external trainings. We offer various trainings and courses, from personal skills development to (development) banking knowledge.

After the pandemic we picked up face-to-face classroom training, although 'hybrid' trainings also increased, where instruction was offered online and offline simultaneously. Following the launch of the updated 2030 strategy, we are aligning the 2023 curriculum with the skills and capabilities needed to achieve our strategic objectives.

In 2022, we provided the following learning and development opportunities to our employees:

	2022			2021		
Learning initiatives	No. of trainings	No. of attendees*	Evaluation score	No. of trainings	No. of attendees*	Evaluation score
Total number of courses offered	174	674	8.5	170	630	7.8
Recurring initiatives						
Onboarding training	12	130	8.7	11	78	8.6
Compliance and KYC training	6	706	-	9	639	-
Diversity & Inclusion training	7	87	7.9	6	74	7.5
Udemy courses **	921	494	4.2	910	686	3.9
Thematic weeks on Values	5	572	8.3	2	252	8
New initiatives						
Emerging Leaders program	1	12				

* FMO employees only

** Udemy evaluation scale 1-5

To support place and time independent learning, we promoted Udemy for Business, a virtual learning platform where employees can access a wide range of trainings supporting their professional as well as personal development.

In 2022, we continued the facilitation of themed weeks connected to FMO's values and learning. Related to our key values we organized a week around the value 'Integrity' as well as two 'Learning weeks' in February and June. Furthermore, we organized an 'Impact school' around 'Making the difference', a learning lab focusing on reducing inequalities (SDG 10) and finally a 'Diversity' week, with deep dives into Diversity and Inclusion topics such as diversity of thought, age, gender, and sexual orientation.

Strategic projects

FMO continues to invest in an effective and efficient organization through its project portfolio. In 2022, we realized 85 percent of our project deliverables (2021: 92 percent), which was on target. The number of projects in the portfolio increased from 13 to 20.

We experienced constraints in resourcing projects caused by limited availability of key internal capabilities and a tight labor market. This impacted delivery for some projects, requiring continued focus on resource management and prioritization of the project portfolio. To enhance focus and increase portfolio- and project support the Portfolio Management Office team was moved to the Strategy department and project management capability was added to the team. Enabling the organization to meet its ambitious change agenda building up additional internal capabilities will continue in 2023.

One of our key projects in 2022 was aimed at calibrating our strategy towards 2030, including the delivery of a multi-year implementation roadmap. The roadmap will provide guidance to our annual business planning and project portfolio prioritization in the next years. The 2030 strategy has defined 'efficiency' as one of the key strategic themes. This is reflected in the start of the multi-year Digitalization Program, focusing amongst others on the digitalization of the investment process to support FMO's growth objectives.

Another strategic project that was initiated this year was the outsourcing of FMO's data center, leading to a future proof state with reduction of operational risks and improved service delivery to the organization. This was started in 2022 and will take until 2024 to be completed.

Several projects were focused on strengthening internal processes, including a number of projects related to regulations. Examples are the Investment Risk project, which focuses on our credit monitoring policies and processes; the Privacy/GDPR project, which aims at strengthening governance and providing solutions for mitigating Privacy-related risks; and the Internal Control project to provide a stronger framework for conducting our internal control processes. Furthermore, projects focusing on the EU Sustainable Finance directive and Environmental & Climate Risk are delivering on new regulations, which includes implementation of the internal governance, new roles, processes and tooling.

Business integrity

Integrity is one of FMO's core values. We believe it is important that this value is lived by our employees as well as our customers and suppliers. FMO has embedded integrity into its policies, products and procedures. The KYC framework, the Anti Bribery and Corruption Policy, the Entertainment & Hospitality Policy, among others, stipulate the minimum standards our stakeholders, including our employees, should adhere to.

In 2022, 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.

KYC remediation and incidents

In 2022, FMO followed up on the recommendations that resulted from the independent external validation that was performed on the FEC enhancement program with one remaining open action that is being followed up. In addition, FMO followed up on the recommendation of DNB to conduct a specific integrity risk assessment on its private equity fund investments. The risk assessment led to an action plan to follow up on the further mitigation of the risks identified.

In 2022, we registered five (low/medium-risk) operational risk events related to KYC (2021: one operational risk event) and one (low-risk) operational risk event related to KYS (Know Your Supplier). In all cases, the relevant KYC/KYS procedure was not fully followed. Remedial actions have been completed or are in progress.

Alleged customer-related integrity issues

This refers to any unusual transactions that could indicate 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, ultimate beneficial owners). In 2022, four new alleged customer related integrity cases were reported to the Compliance Committee (2021: 12 cases). Issues were triggered by investment or KYC staff, other DFIs and partner (international) finance institutions (IFIs) or whistle blowers. FMO investigates each case together with partner DFIs/IFIs where needed, to verify its legitimacy and to determine solutions. During 2022, we closed eight alleged customer-related integrity cases (2021: 11 cases), where either the issues were resolved or FMO decided to end the relationship.

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 use of price-sensitive information. In 2022, two cases were reported to the Compliance Committee (2021: one case), which have been closed.

Reported data breaches

In 2022, no data breaches were reported to the Data Protection Authority (2021: one data breach reported).

Significant instances of non-compliance with laws and regulations

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

No enforcement measures were taken for instances of non-compliance with laws and regulations that occurred during the reporting period. Additionally, no enforcement measures were taken for instances of non-compliance with laws and regulations that occurred in previous reporting periods.

As a result of the file remediation, we reported a limited number of incidents to DNB at the end of 2021 and the beginning of 2022. These involved late notifications of unusual transactions to the Financial Intelligence Unit (FIU). DNB initiated an investigation into these incidents and the related KYC files. We expect this investigation to result in enforcement measures by DNB in 2023.

Financial results

We recorded a net profit of €1 million for the financial year ending on 31 December 2022. This follows from a net profit of €491 million that we reported in 2021 in which a rebound from the COVID 19 pandemic gave rise to positive returns on investment.

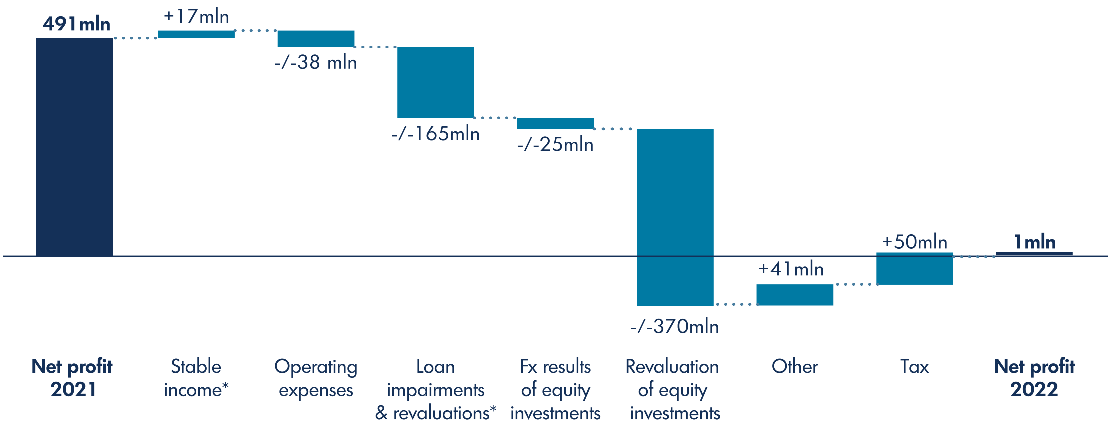
In 2022, turbulent global macro-economic conditions were evident for most of the year. FMO's overall financial performance was significantly impacted by reductions in equity investment valuations and an increase in loan provisions on investments exposed to the war in Ukraine and political unrest in Sri Lanka and Myanmar.

Interest rates have been trending upwards in the United States, Europe and more generally. Over the short term, the upward trend resulted in an increase of interest rates for both our floating-rate loans and funding portfolio. For our fixed-rate loan portfolio, it takes longer to refinance against higher spreads. Furthermore, the increase of income on our short-term assets and assets with DNB did not increase at the same level, resulting in lower net interest income.

A large part of FMO's investment and funding portfolios are denominated in US dollars. Overall, the EUR/USD exchange rate showed a strengthening of the US dollar against the Euro during 2022 resulting in gains on our investment portfolio. However, this trend was partially reversed in the fourth quarter of the year and the gains were partially offset by losses on the currency derivatives.

At the end of the year, the NPL ratio [19] was 11.9 percent which increased from 9.5 percent in 2021. This was primarily driven by loans exposed to the war in Ukraine.

The following diagram presents the changes in FMO's net result during 2022, compared to 2021.



* 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'.

FMO's primary sources of income relate to interest income and results on equity investments. The results for these categories are as follows:

- Interest and fee income was largely in line with 2021 at €233 million, €3 million less than 2021. Interest income increased due to growth of the loan portfolio and the rise in applicable interest rates. However, this was offset by an increase in interest expenses on the funding portfolio.
- The results from equity investments (including dividend income and results from associates) amount to a gain of €23 million compared to a gain of €382 million in 2021. The result can mostly be attributed to:

19 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'.

- Unrealized capital losses of €33 million primarily driven by valuations on investments exposed to the war in Ukraine (2021: €175 million gain).
- Unrealized foreign exchange gains of €83 million (2021: €107 million gain).
- Losses on associates of €59 million (2021: €64 million gain).
- Dividend income of €41 million (2021: €22 million) and a net loss on sale of equity investments of €0.5 million (2021: €14 million gain)

Results from other pertinent line items were as follows:
- Loan impairments amounted to a loss of €143 million for the year (2021: €9 million gain). The movement for the year is largely driven by substantial impairments on Ukraine exposures, as well as exposures in Sri Lanka and Myanmar.
- Results from financial transactions increased to an overall loss of €19 million (2021: €26 million loss), primarily due to gains on currency swaps.
- Operating expenses have increased to €152 million (2021: €114 million), mostly resulting from an increase in staff and pension costs.

Cash flow
The net cash flow for the year was an outflow of €106 million. Cash returns generated on investments were offset by large distributions towards the lending and equity portfolios. This resulted in a net cash outflow from operating activities of €379 million. The financing activities for the year resulted in a cash inflow of €346 million.

Capital position
FMO was able to maintain its capital position above the minimum levels required by the Dutch Central Bank as well as the more stringent requirements imposed by FMO’s internal risk appetite. The total capital ratio increased to 24.9 percent (2021: 23.7 percent). The CET–1 ratio [19] amounted to 23.8 percent (2021: 22.5 percent). The capital position has remained robust without being impacted by the macro-economic events transpiring over the course of the year. FMO’s liquidity position remained within the applicable limits with the liquidity coverage ratio (LCR) never falling below 281 percent during the current financial year. The survival period exceeds 12 months (2021: more than 8 years). The net stable funding ratio (NSFR) was 114 percent at year end (2021: 117 percent).

In 2022, FMO maintained its AAA ratings from both Fitch and Standard & Poor's. FMO’s funding portfolio was largely stable when compared to 2021 where redemptions were offset by new bond issuances totaling approximately €1,374 million.

Proposal for appropriation of the net result
Taking into account the net profit of €1 million, as well as the conditions set out in the State-FMO Agreement of November 16, 1998, the MB and SB propose allocating the net profit as follows: €36k to other reserves and the remaining profit to the contractual reserve. No dividends are proposed.

Risk and uncertainities
Given the nature of FMO’s investment portfolio, FMO’s main risk exposures arise from investment risk (credit risk, equity risk, concentration risk and counterparty credit risk), market risk and liquidity risk. FMO continues to monitor the developments in these risk domains. This is done with reference to the impact of broader global macro-economic trends, such as increasing interest rates and inflation, as well as more idiosyncratic impacts arising from country-specific political events or environmental events. Risk levels are continuously measured against predefined risk tolerances and proactive measures are taken when challenging events arise.

Further information
For more details and analysis on the financial performance, please refer to 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.

19 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’.

Lessons learned

FMO conducts evaluations, reviews and other activities to learn from past investments, help us achieve our impact goals with our customers and ensure accountability to our stakeholders. We also work on improving our learning culture by promoting best practices from across the organization.

In 2022, we carried out several evaluations of which a selection is described below. These studies reviewed the effectiveness of our strategy, 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 on our website.

Evaluating FMO's contributions towards SDG 8

We have completed an evaluation to establish how we have has contributed towards SDG 8 – Decent Work and Economic Growth – since the adoption of Strategy 2025, as well as to identify lessons learned and ways to improve impact towards 2030. The evaluation found that FMO contributed by:

- Stimulating higher economic growth by growing the private sector in FMO's focus countries. This helped support jobs at the customer level (around 30 percent are direct jobs), as well as jobs in the wider economies (around 70 percent are indirect jobs).
- Addressing key bottlenecks to economic growth, by increasing productivity, stimulating innovation and by indirectly financing capital constrained MSMEs.
- Working towards improving E&S standards with respect to quality of jobs and sustainability, both in the businesses of our customers and the wider community or industry.

At the same time, the report concluded that a more comprehensive SDG 8 framework was needed. Our updated 2030 strategy has incorporated this recommendation by defining high-level ambitions for FMO, including a focus on increased jobs supported and the decency and quality of jobs. The revision of an impact framework for SDG 8 will be included in the review of FMO's impact management framework.

Study into the Dutch Fund for Climate and Development (DFCD)

The Dutch Fund for Climate and Development (DFCD) finances business solutions for climate resilience in emerging markets. It is managed by a consortium of four organizations, which manage three facilities: the DFCD Origination Facility, managed by Netherlands Development Organization (SNV) and Worldwide Fund for Nature Netherlands (WWF-NL). SNV and WWF-NL has initial discussions with organizations in the discover phase, develop bankable business cases in the structure phase and prepare full business cases in the development phase. These cases can then graduate to one of the investment facilities: the Land Use Facility, managed by FMO, or a Water Facility ('Climate Investor Two'), managed by Climate Fund Managers (CFM).

The evaluation found that the DFCD has identified projects that are potentially bankable, but that none of the projects have progressed to the investment facilities (yet). The Consortium members bring different perspectives and have successfully overcome a lot of the challenges of working together. They have established good communications, particularly between FMO, SNV and WWF-NL. However, the evaluation also identified room for improvement in clarifying the requirements on bankability and E&S standards of the investment facilities to the origination facility, to ensure a smooth graduation process. Since the evaluation multiple projects have graduated and several other projects are scheduled to graduate in 2023.

The evaluation also found that some of the projects in the origination phase would not have been pursued or have the potential to become bankable, without the work of the DFCD Origination Facility. If such projects were to graduate, it would indicate a high degree of additionality.

Study into FMO's role in the off-grid sector

For more than ten years, FMO has been financing companies that provide electricity solutions to people living remotely. A new evaluation on the role of FMO in the off-grid sector concludes that FMO has played a significant role in the development of this market by tailoring its support to the different needs in the sector. FMO was one of the very first to support innovative companies with their journey in this sector. Doing business in this sector has proven to be challenging. The evaluation confirmed that there are very few companies that have sustained profit for multiple years, which is why commercial investors are reluctant to invest in this sector.

Seeing the potential impact that this sector could bring to people living remotely, FMO supported 19 companies with over US$170 million in funding, some 80 percent of which came from Dutch Government funds. The evaluation concluded that this funding has been crucial in providing investees with both the volume and the type of financing needed to realize their impact and commercial ambitions.

FMO's additionality is in investing in projects that would otherwise not have been viable. FMO developed a proof of concept and has offered new financing products to fit these companies' needs. As such, it helped grow unproven business models. The study found that FMO's commercial acumen, due diligence and expertise are highly valued by investees and co-investors. Furthermore, the combination with FMO's non-financial support to the off-grid sector helped to develop more resilient and responsible business models.

The evaluation identified three key recommendations for companies and investors:

- Off-grid electricity providers must identify their specialization in the value chain to achieve commercial success, for which there is no single blueprint. Companies must find their specialization based on market circumstances and their own capabilities to achieve success.
- Companies must respond flexibly to customer demands and move into adjacent product markets. Companies will need to continue to innovate and offer high-value products, leveraging established distribution networks to provide access to energy. To become and remain commercially viable, companies will need to add new products and services, in many cases moving beyond a pure energy access focus.
- The role of DFIs and the broader financing community must evolve to reflect the conditions in different markets. The sector is starting to mature in certain markets, with some companies reaching a stable track record and sales reaching saturation. DFIs will have to move out of debt provision for well-capitalized, standalone solar system providers and support earlier-stage ventures and/or less developed regional markets.

Study on customer MFI Index

FMO, through the support of MASSIF, is a founding partner of the MFI Index, a sector-wide benchmark for impact performance. The MFI Index, led by 60 Decibels, gathers outcome data from MFI borrowers to provide insights to MFIs and investors on achieved outcomes in such areas as financial access, employment, business outcomes, and access for people below different poverty lines. FMO supports this initiative as it has the potential to capture social outcomes at the end-customer level, data which is not readily available but increasingly of interest to MFIs and their investors.

FMO financed the participation in this benchmark for two of its MFI customers. The final reports highlighted some of FMO's and MASSIF's impact results, such as financial access through investments in MFIs. Our customers were able to use this data to learn about their outreach to specific borrower segments, such as such as women or borrowers in rural areas. These insights will enable MFIs to adapt their product offering and services, and FMO to provide adequate support.

Follow-up from previous evaluations

In 2020, the Dutch Government commissioned an evaluation of FMO's achievements around additionality, mobilization, management of E&S issues and development impact. For the past two years, we have been working on implementing action items to address the key recommendations provided in the report. In 2022, we:

- Updated the additionality definition and the guidance documents to reflect changes to the definition and better assess the additionality of our investments. These new guidelines will be implemented in 2023.
- Updated our Theory of Change as part of the Strategy 2030 development process. The new Theory of Change will be the foundation of the revised impact management framework.
- Launched our updated 2030 strategy, which has set an ambition to gradually open more local offices, although the choice of which countries to focus on has not yet been made.
- Developed toolkits for root cause analyses and after-action reviews to help us reflect, capture learnings and develop action plans. Internal capacity was made available to facilitate these reviews.
- Made information from complex projects more accessible to our stakeholders on our website to help readers find the information and better understand the issues and our view of them.

In 2021, FMO commissioned a strategic study that identified the challenges with respect to investing in fragile states and provided a framework for investing in these markets. Fragile states has become a cross-cutting topic in the updated 2030 strategy and is closely linked to our ambitions towards market creation and reducing inequalities.

2023 OUTLOOK

The outlook for 2023 is shaped by several interconnected economic and non-economic developments. The war in Ukraine and conflicts in other regions will bring prolonged human suffering to the affected countries and its people and continue to negatively affect the (global) economy. Social unrest and geopolitical instability are increasing. The increased cost-of-living observed in 2022 is expected to persist in 2023 and, in the short run, continue to elevate poverty and inequality levels. The World Bank estimates that the bottom 40 percent (in terms of income distribution) experiences, on average, 3 percentage points higher inflation than the top 60 percent [20] . In addition, severe weather events will further exacerbate food insecurity, particularly in developing countries that are typically exposed to higher degrees of climate-related risks. While inflationary pressure and energy prices easing off at the end of 2022, risks of new supply disruptions remain in 2023. Subdued demand in advanced economies, monetary policy tightening and high debt burden in developing countries are likely to prevail in 2023, impacting economic activities.

In January 2023, the International Monetary Fund (IMF) projected that global growth will decrease from 3.4 percent in 2022 to 2.9 percent in 2023. In emerging markets and developing countries growth is expected to increase slightly from 3.9% in 2022 to 4.0% in 2023. Approximately 84 percent of countries are expected to experience lower inflation in 2023. This is mostly explained by declining international commodity prices as a result of lower global demand and cooling effects of monetary policy tightening on underlying (core) inflation, which is expected to decline, according to the IMF. Some emerging markets and developing economies may still be affected as they continue to struggle with heavy debt burdens, weak currencies, subdued income growth, and slowing business investments [21] .

Priorities in 2023

We will continue to fulfill our mandate as a DFI, investing countercyclically and taking risks that commercial parties are not (yet) willing to take. In line with our 2030 strategy, our ambition for 2023 is twofold:

1. We strive to **grow our impactful business** by focusing on deals that contribute to reducing inequalities (SDG 10) and climate action (SDG 13).
2. To deliver on our impact ambition we will further i**mprove our capabilities**, focusing in particular on efficiency, developing skill sets and impact management.

Despite the global uncertainties, we will continue to invest in our people, systems and processes to respond to the increasing complexity of our business in terms of regulatory requirements, stakeholder expectations and evolving impact management standards. This approach also reflects the long-term nature of our work and our purpose as a development finance institution. However, we expect that this will, in the short-term, lead to a further increase in our cost-to-income ratio and result in a lower return on equity. Factors expected to negatively influence our financial performance in 2023 are a) the increasing costs we incur due to necessary organizational adaptations in response to regulatory developments, b) the uncertain economic developments affecting in particular the fair value of our private equity portfolio, and c) the projected weakening of the US dollar in 2023. We will closely monitor our financial performance, allowing us to make budgetary adjustments if needed.

20 World Bank (Jun. 2022). Poverty and Shared Prosperity Report

21 IMF (Jan. 2023). World Economic Outlook Update: Inflation Peaking amid Low Growth.

Growing impactful business

To achieve our 2030 ambitions, we need to step up our efforts, especially towards SDG 10 and 13. We have, therefore, set the following targets for 2023:

	2030 Strategic ambition	Target	
		2023	2022
RI-labelled total committed portfolio (€ mln)*	10,000	4,900	4,275
Green-labelled total committed portfolio (€ mln)*	10,000	4,900	4,310
Total committed portfolio (€ mln)*	22,300	14,000	13,005
Committed portfolio mobilized funds (€ mln)*	6,000	3,000	2,755
Committed portfolio public funds (€ mln)*	3,000	1,700	1,445
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.

To bring us to an RI-labelled total committed portfolio of €4.9 billion and a Green-labelled total committed portfolio of €4.9 billion at the end of 2023, we aim to achieve €1,240 million in RI-labelled new investments and €1,405 million in Green-labelled new investments. To achieve our ambitions towards SDG 10, we will invest more in least developed countries and explore opportunities to do more in fragile states. In addition, we will invest in inclusive businesses that - among others - are focused on reaching the bottom 40 percent of income distribution and advancing gender equality.

To achieve our ambitions towards SDG 13, we will strengthen our climate action approach and invest more in Green projects. We will take concrete actions to implement our Climate Action Plan. In 2023, our focus will be on a) raising organizational awareness and increasing organizational capacities to integrate climate considerations into our business activities, b) increasing our support to customers by developing a climate adaptation and resilience approach, and c) further aligning our portfolio with the Paris agreement.

We will continue to use public funds to bear higher risks in projects with high development impact potential. In addition, we will commence our work on market creation to facilitate the development of unbankable opportunities into bankable projects, by further strengthening our support to business development and ecosystem development activities. Overall, we aim to achieve a total committed portfolio - combining investments made through FMO, public and mobilized funds - of €14 billion by the end of 2023.

Improving our capabilities

To help us grow our impactful business, we will invest in developing specific organizational capabilities. We have identified eight areas of focus for the coming years. In 2023, we will focus on a) improving efficiency, specifically with respect to our investment process, to enable us to scale up our investments and, thereby, our impact; b) growing the number of our employees and developing their skill sets to accommodate for changes in impact and ESG management and practices, regulations and stakeholder expectations as well as our strategic ambitions; and c) improving our impact measurement and management to help us maximize our impact.

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.

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:

1. The management report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
2. The afore mentioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
3. Based on the current state of affairs, as explained in the Financial Performance paragraph, it is justified that the financial reporting is prepared on a going concern basis; and
4. 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 Framework' section in the chapter 'Corporate governance' and the 'Risk management' section in the 'Consolidated Financial Statements' for an explanation on FMO’s Risk Management Framework, which is organized in adherence 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.

Regarding internal risk management and control systems the Management Board has identified the following areas of improvement. These are actively managed:

- The Financial Economic Crime program was finalized in 2022 and improvements have been embedded in the business-as-usual organization. In 2023, further improvements will be made to ensure the quality and timeliness of customer reviews. Specific attention will be given to Fund investments.

- The complexity and scope of prudential and financial regulations to FMO is increasing. Monitoring of regulatory developments, analysis and implementation of new requirements and assurance on regulatory compliance continue to require significant resources and management attention. Regulations that are being monitored on different levels have been consolidated under the regulatory monitoring framework that has been established in 2022.
- Continue to improve the efficiency of internal processes and assurance over the effectiveness of internal controls is one of our priorities in 2023. Our capabilities in the areas of project management, process management and internal control will be further improved, and several projects will be started as part of our Digitalization Roadmap.
- Quantity and quality of staff is important to meet the FMO objectives, especially given the size of the change calendar. Therefore, continuous attention will be given to attracting and retaining staff, workload, change capacity, long-term absence and quality of interaction.

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 2022 financial year of FMO and its consolidated companies; and
- The annual report describes the material risks that FMO faces.

The Hague, March 16, 2023

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 Report of the Supervisory Board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REPORT OF THE SUPERVISORY BOARD

In 2022, FMO put important steppingstones in place for growing its impact. Once most COVID-19 measures were lifted, employees were able to travel again, visit (potential) customers and rebuild the portfolio. At the same time, under the guidance of FMO's new CEO Michael Jongeneel, the Management Board began to reformulate its long-term goals. In September, this resulted in the updated strategy towards 2030.

The strategy 'Pioneer – Develop – Scale' carves out a clear path for FMO to maximize its impact, setting very ambitious goals for, amongst others, mobilization and high-impact investments. Within the 2030 strategy, FMO defines its sphere of influence more broadly than before, for example, by adding market creation to its goals. Market creation encourages the development of more bankable opportunities for FMO and other DFIs and lays the foundation for future impact. FMO is widely acknowledged to be one of the first amongst its peers in this space, showing once again its entrepreneurial and innovative character. Partnerships with, among others, DFIs and local NGOs, will be pivotal for success.

Looking at the ambitious 2022 targets for impact, FMO reported mixed results. With just over €1 billion in Green labelled new investments, the Green target was nearly reached. The Reducing Inequality-labelled new investments, on the other hand, fell short of the target, resulting from a more challenging investment climate and a longer lead time to develop such projects post-COVID. Still, FMO's impact ambitions remain high - and rightly so - as investments to create local impact are essential. To be a better-informed sounding board for the Management Board (MB) on FMO's impact numbers during the year, the SB will adopt the same reporting method for impact used for the financial numbers, including quarterly updates. This will allow us to discuss FMO's impact with the same analytical approach as the financial numbers, giving both equal weight and attention in our discussions.

Unrest in FMO's markets, specifically caused by the Ukraine war, led to losses in both the equity and loan portfolios, resulting in lower profit in 2022 compared to 2021. As SB, we focus more on the trend in FMO's stable income in relation to its organizational expenditures. In 2022, the two were well balanced. The impact ambitions towards 2030 do require the stable income to stay aligned with the expected higher operating expenses, largely driven by adapting to regulations and the hiring of more staff. We will closely monitor the financial situation and together with the MB explore cost-conscious measures, if needed. We have full confidence in the MB soundly guiding a balanced growth of the organization.

Although the year showed global upheaval and disruption, 2022 also brought internal stabilization for FMO. Through regular contact with staff, the SB noticed that the work culture is taking a positive turn. We acknowledge that the organization is going through substantial changes and are grateful for the resilience of FMO's staff, as absorbing changes requires effort and patience. This year was also Michael's first full year as CEO, and with the extension of the Management Board to five members, the team is well-positioned to take on the projected growth of impact and complexity of the organization.

Ongoing attention goes towards regulatory compliance. Upon concluding the Financial Economic Crime (FEC) Enhancement program and the related Know Your Customer (KYC) file remediation at the end of 2021, FMO has further grown its KYC capabilities by embedding the KYC department in the frontline of the investment process. We see this as an essential step towards making regulatory requirements an integral part of the investment process. As a result of the file remediation, FMO reported a limited number of incidents to the DNB at the end of 2021 and the beginning of 2022. These involved late notifications of unusual transactions to the Financial Intelligence Unit (FIU). DNB initiated an investigation into these incidents and the related KYC files. We expect this investigation to result in enforcement measures by DNB.

Society demands that every financial institution meets high regulatory standards. At the same time, increased stakeholder expectations on impact, together with FMO's high ambitions, elevate risk levels. Learning cycles in projects that did not turn out as expected, provide valuable insights into how FMO can improve. For example, contextual analysis involving multiple stakeholders has proven to be vital, particularly in fragile surroundings. However, it must be acknowledged that FMO's geographies come with inherent and often high risks.

FMO has a highly motivated workforce, focused on FMO's mission to enable entrepreneurs to increase inclusive and sustainable prosperity. In 2023, challenges exist in combatting high impact ambitions and onboarding many new employees in a tight labor market, while a global recession looms on the horizon. The ongoing war in Ukraine and political and economic instability in some of FMO's geographies can negatively affect FMO's portfolio and lower the demand for capital. Conversely, recessionary environments may lead to greater additionality for development finance institutions, which offer a counterweight to these challenges. Development cooperation in general is under debate in a changing world. FMO is part of this wider system: it needs – and wants – to participate in the discussion, contributing its capabilities, resources, and people to enable the development impact that is needed, in close connection with other players.

The next phase for FMO is to execute its updated and more ambitious long-term strategy and to maximize impact towards 2030. In 2023, this starts with increased investments in reduced inequality and climate action, advancing market creation, and further investing in efficiency and FMO's staff capabilities. And as always, it will involve staying focused on the long-term, remaining nimble and resilient, and adapting to circumstances along the way.

Corporate governance

The Supervisory Board (SB) 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 (MB) in terms of gender, experience, age, professional background and nationality. At the end of 2022, the SB was comprised of three male and two female members and there was one vacancy. The MB consisted of two female and three male members. Further personal details on the members of the SB can be found 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

Returning to a more normal setting after the COVID-19 pandemic eased off, the SB continued its Lifelong Learning program through in person sessions. This included several subjects required by the Dutch Banking Code. The SB focused on relevant topics such as, the EU Sustainable Finance Regulation, the impact of the global food crisis on developing countries and our customers, a session on efficiency and an extensive session on compliance topics. The latter included subjects such as the Money Laundering and Terrorist Financing (Prevention) Act (Wwft), FIU, sanctions, GDPR, outside positions, private investments, gifts and entertainment, and whistle blowing.

Evaluation

During 2022, several meetings between SB and MB members took place to discuss the MB's new composition of five members and to monitor its performance. The MB prepared a self-assessment and a team assessment of its functioning in 2022. This included amongst others the achievement of the financial and impact targets, as well as areas of personal development. The SB evaluated the individual MB members through separate interviews that were conducted by two SB members. During those meetings, the self-assessments and the 2022 and 2023 objectives and targets were discussed, as well as the collaboration within the new MB setting. The conclusions from these meetings will be carried forward into the 2023 team and personal goals. The SB discussed the outcomes of the evaluation in a concluding session without the MB present.

The Banking Code requires an external evaluator to conduct a SB evaluation once every three years. The latest evaluation was done in 2021. The Supervisory Board evaluated its functioning in 2022 through a self-assessment questionnaire and discussed the outcome with the members in a separate session. A more in-depth session will take place in the first half year of 2023. The functioning of the SB and its three committees and the functioning of the individual members were part of the evaluation.

It was found that the SB and its members functioned effectively. The composition of the Board was evaluated as sufficiently diverse and covering the range of expertise necessary for adequate supervision. However, the SB agreed to take broad and extensive on the ground experience into account, as much as possible, when nominating a new member to fill the current vacancy. The SB expressed a need for a continued focus on the longer-term strategic challenges of FMO.

Regarding the execution of the Strategy 2030, the SB will - among others - regularly monitor the financial results and the pace of hiring of staff during 2023 and monitor progress more in general. Regarding the operations of FMO, the SB will pay attention to the digitalization process of FMO. Regarding the SB's own organization of work, the SB wants to create more time to discuss topics that are not on the agenda of meetings. The energy spent on permanent education will be invested in keeping the SB's knowledge and understanding up to date regarding the complex environment in which FMO operates, and topics as required by the Banking Code.

Appointments and reappointments

At the end of 2021, Thessa Menssen decided to leave the SB as per 1 January 2022. The Selection, Appointment and Remuneration Committee (SARC) has started the search for a successor.

Meetings of the Supervisory Board

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

The Supervisory Board held five regular meetings during 2022 and six extraordinary meetings. The Special Committee ceased to meet, as this temporary committee was established when the MB consisted of two members. Topics that were discussed included a Ukraine stress scenario, the appointments to the MB, the KYC remediation and FEC enhancement project and evaluation, risk and compliance quarterly reports, the appointment of the external auditor, quality of interaction, the search for a new SB member, a specific large investment, securitizations, the updates of the MB Standing Rules and of the MB remuneration policy, and the developments of a few complex projects that required attention.

Furthermore, the SB discussed the priorities and ambitions for the Strategy 2030 and gave its approval for this strategy and the Business Plan 2023 as well as the quarterly performance reports on progress against FMO's strategic targets.

Committee activities

The Audit and Risk Committee (ARC) supervises and advises the SB 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 met four times in 2022. Until the five-member Management Board was in place, these meetings were attended by the ARC members, the CEO, the CRFO, the CIO, the Director Finance, the Director Risk, the Director Internal Audit and the external auditor. The last Audit and Risk Committee meeting of the year was attended by all MB members.

In 2022, 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 and FEC enhancement project and evaluation, the recovery plan, and other matters such as a specific large investment, several more specific risk analyses and securitizations. The following key audit matters were discussed with the external auditor: 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.

The main task of the SARC is to advise the SB on the proposals on the appointment and re-appointment of SB and MB members. Other tasks include monitoring the remuneration policy, preparing proposed adjustments and giving advice on the remuneration of individual MB members. The SARC officially met four times and had several deliberation sessions. In 2022, it discussed, among others, the appointments of the new CRO and the new Co-CIO, the new five member MB setting, evaluation and goal setting, the search for a new SB member, the SB retirement schedule and planning, remuneration and HR topics, such as quality of interaction.

The Impact Committee, established in 2019, assists the SB in overseeing the quality and integrity of FMO's statements regarding development Impact. The Committee prepares the decision-making (and the advice) of the SB around FMO's strategy (including policies and targets) regarding Impact and ESG. The Impact Committee held three meetings in 2022. Throughout the year, it discussed, Strategy 2030, including FMO's theory of change, Business Plan 2023, climate action plan and targets, impact and ESG targets and steering, the periodic update of the Independent Complaints Mechanism and updates on issue projects, among other topics.

Independence, conflicts of interest and governance

The SB 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 2022. FMO has specific regulations concerning private investments. Compliance by SB members, MB members and all other employees with FMO's regulations on private investments is addressed regularly.

Culture, including compliance

The SB ensured that the compliance function is safeguarded within the MB and the SB. In 2022, the SB put continued emphasis on supervising the FEC enhancement program, the remainder of the KYC remediation and improvement of KYC procedures. The SB receives compliance updates at every regular meeting. The Chairman of the SB periodically met with the Director Compliance to discuss relevant issues.

The SB regularly interacted with the Works Council. The SB discussed FMO's culture and development program 2022 as well as its duties as outlined in the Banking Code sound and ethical operation.

Proposals and recommendations to the Annual General Meeting

Having stated all of the above, the Supervisory Board endorses the report of the Management Board. We propose that the AGM adopt the 2022 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 €1 million profit (2021: €491 million net profit) as follows: €1 million profit to Contractual Reserves and €0.04 million profit to Other Reserves. No dividends are proposed.

The SB will inform its shareholders on the status of the search for a new SB member.

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

Members of the Supervisory Board

Per 31 December 2022

Dugald Agble

Marjolein Demmers

Koos Timmermans

Dirk Jan van den Berg (Chairman)

Reintje van Haeringen

D.K. (Dugald) Agble	M. (Marjolein) Demmers	J.V. (Koos) Timmermans
British, Ghanian, 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
Positions: 1. Director Standard Life Private Equity Trust 2. Director Black Volta limited 3. Director Black Volta Ventures UK limited	Principal position: Director/CEO of Dutch environmental NGO “Natuur & Milieu” Other positions: 1. Member 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) 6. Sustainability Board Van Oord 7. Advisory Council Environmental Sciences Group (ESG), WUR 8. Raad van Toezicht Stichting Sustainable Industry Lab, UU 9. Member Visitation Committee PBL Netherlands Environmental Assessment Agency, 2022 (May-August)	Positions: 1. Chairman of the Supervisory Board of Stadsherstel Amsterdam 2. Advisor Bain Consultancy 3. Member of the Supervisory Board of PostNL 4. Member of the Supervisory Board of Havenbedrijf Rotterdam (Port Authority Rotterdam) 5. Board Member Administratie Kantoor Vopak 6. Board Member Administratie Kantoor Philips 7. Member Curatorium Post Master Controllers Opleiding UVA 8. Member Advisory Board van Lanschot 9. Member Supervisory Board KWF Dutch Cancer Society

D.J. (Dirk Jan) van den Berg (Chairman)	R.P.F. (Reintje) van Haeringen
Dutch, 1953, male	Dutch, 1963, female
Appointment in current position: 2016 - 2024	Appointment in current position: 2020 - 2024
Principal position: 1. Chair of the Association of Health Insurance Companies in the Netherlands (Zorgverzekeraars Nederland) Other positions: 1. Member of the Supervisory Board of Air France KLM 2. Vice-Chairman of the Supervisory Board of Gasunie 3. Chair (non-executive) of the Board of TRADESPARENT BV: TP BV 4. President of the Atlantic Committee Netherlands 5. Chair of the Supervisory Board of the Dutch Research Council (NWO)	Principal position: CEO CARE Nederland Other positions: 1. Board member of the Dutch Coalition for Humanitarian Innovation (DCHI) 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

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03 Corporate Governance


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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 is a long-term partnership of 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 (MB) and Supervisory Board (SB) with regards to our shareholders and other stakeholders.

FMO's SB has non-executive responsibilities, among which are to supervise and advise the MB. New members of the SB are appointed by the General Meeting of Shareholders on the nomination of the SB. 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, audit, reporting and international developments regarding impact.

The daily management of our bank lies with the MB. In the first part of the year, the MB consisted of three members: the Chief Executive Officer, the Chief Risk and Finance Officer and the Chief Investment Officer. Later in 2022, the MB was expanded from three to five members to more effectively 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. The position of Chief Risk & Finance Officer was split into a Chief Finance & Operations Officer and a Chief Risk Officer position, and the position of Chief Investment Officer was split into two Co-Chief Investment Officer positions. The MB members are appointed by the SB. They are independent and in case a conflict of interest occurs, this is dealt with by the SB. Due to the expansion of the MB, the Standing Rules of the Management Board were updated, which are available on our website.

Members of the Management Board

Per 31 December 2022

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: 2022-2027	Appointment in current position: 2021-2025	Appointment in current position: 2021-2025	Appointment in current position: 2022-2027
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.	Other positions: None

Appointments of members of the SB and MB 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 MB and SB members.

Organizational chart

Per 31 December 2022

Risk management framework

FMO has implemented a comprehensive risk management framework that reflects its banking license, support agreement with the Dutch State, and its mandate to do business in high-risk countries. The risk management framework is based on the three lines principle, with the role of the first line (investment departments and supporting functions) being balanced by the second line (Risk Management, Compliance and Credit) and the third line (Internal Audit) to provide independent assurance.

FMO’s risk appetite is reconsidered annually and approved by the Management Board and the Supervisory Board. Adherence to risk limits is monitored by dedicated risk committees.

FMO applies a conservative capital management framework. The only risks that FMO actively pursues are credit risk and equity risk, resulting from loans to and investments in private institutions in emerging markets. Diversification of investment risk is ensured through risk limits per country, region, sector, single and group exposures. Other risks that are not actively pursued, but are inherent to FMO’s business, are also managed to remain within the risk appetite.

FMO identifies and manages Environmental, Social and Governance (ESG) risk over the lifetime of an investment. ESG criteria and requirements are guided by various standards, such as the IFC Performance Standards, OECD Guidelines and the UN Guiding Principles on Business and Human Rights.

Finally, FMO has a compliance framework to ensure compliance with laws, regulations and ethical standards. This framework entails identifying integrity risks, designing policies, monitoring, training and providing ad-hoc advice. FMO monitors compliance risk indicators that are reported to, and steered on, by management.

For further information on our risk management please refer to the 'Risk management' section in the 'Consolidated Financial Statements'.

Aligned remuneration policies

The remuneration policies are aligned with the principle of attaching equal importance to investment and risk functions, by ensuring similar salary scales 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 (e.g., bonuses). Most of the results are based on team effort, innovation, knowledge sharing and collaboration between colleagues in different disciplines, which does not align very well with offering bonuses related to individual performance.

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 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 aim to reward this behavior after the event upon discharge of failing directors. 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 2022 AGM, no amendments to the remuneration policy were proposed or approved.

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 (being the highest-paid individual) and the median of all other colleagues (including the other Management Board members) per December 2022 was 0.29 (2021: 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 is compared to the Dutch financial sector, relatively low.

At least once a year, we conduct quantitative research on the salaries of men and women. The outcome of the (multivariate regression) analysis with reference date October 1, 2022, showed that men and women at FMO are not paid the same for equal work. On average, the analysis showed a statistically significant difference of a 3 percent lower salary for women. (In April 2021, this difference was 2.3 percent.) As we continue to strive to meet our policy objective of "rewarding men and women equally for equal work" (in line with SDG 5, gender equality), we will further investigate the root cause of this wage gap and take measures to adjust our working practices to close this relatively small but statistically significant gender pay gap.

Independent complaints mechanism

FMO has an Independent Complaints Mechanism together with the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) and the French DFI Proparco. This allows affected parties to raise their complaints with an independent expert panel. The independent expert panel has a dual mandate: a fact-finding and monitoring role and a problem-solving role. 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. For more information, please see the FMO 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. The SB and the MB fully endorse the basic principle on which the Code is based, namely that the company is a long-term partnership of our various stakeholders. FMO has published a policy specifically regarding bilateral contacts with our shareholders, which is provisioned by the Code and is available on our website.

FMO promotes diversity at all levels, including the MB and SB. As principle 2.1.5 of the Code requires, FMO has diversity policies. The aim of our diversity policy – including for the MB and SB – 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 of the SB 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 SB Profile and in the MB Standing Rules, and in line with the Act on Gender Balance in Management and Supervisory Boards (Wet evenwichtiger verhouding tussen mannen en vrouwen in bestuur en raad van commissarissen), FMO strives - amongst others - to meet the applicable 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 SB consists of 6 members. In 2022, there was one open vacancy. During the entire year, the SB consisted of two women (40%) and three men (60%). One of the SB members is non-Dutch and holds the Ghanaian and British nationality.

FMO's Management Board consists of 5 members. The aim is for the board to consist of at least one third men and one third women. At year end, the MB consisted of two women (40%) and three men (60%). The MB 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 SB 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 group, 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.

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

BPP 2.2.2: This provision refers to the reappointment of SB 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 SB members exceeded the eight-year term.

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 SB and the MB. Succession and knowledge are regularly discussed in meetings of among others the SARC. The SB retirement schedule is placed on the website. The SB uses this currently as a basis to plan succession for the upcoming years.

BPP 2.3.10: This provision states that the SB is supported by the Corporate Secretary of FMO. Section 6.1 of the Standing Rules of the Supervisory Board states that the SB 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 4.2.3: 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 MB 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 do not apply, as FMO is not an institutional investor.

BPP 4.4.1 – 4.1.8: These provisions concern the issuing of depositary receipts for shares. There is no such requirement at FMO, apart from the articles of association, which 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.

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.

Solar X
Offering affordable, clean and reliable power through solar rooftops in Mali, Burkina Faso and Senegal.

04 Annex

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

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. We conduct a materiality assessment once a year, which enables us to validate the relevance of our strategic choices and identify topics that affect our work.

Materiality assessment

Every reporting period we review our material topics. This year, we updated our materiality assessment to align with the revised 2021 GRI Standards. Through the assessment we gathered insights into our actual and potential, positive and negative impacts on the economy, environment, and people (including human rights) across our activities and business relationships and prioritized them based on their significance.

How we determined our material topics

In 2022, we engaged an external party to conduct the materiality assessment, including designing and updating the methodology we use to ensure alignment with the revised GRI Standards. We used the updated methodology to identify our impacts, which entailed reviewing our previously determined material topics and using internal and external sources such as our 2030 strategy, the 2022 business plan, international reporting guidelines, rating agencies, peers and trend analysis to gather additional input. Based on that, we generated a shortlist of topics that represent FMO’s positive or negative, actual or potential impacts.

Following this, we conducted 12 interviews with FMO employees who most frequently engage with our stakeholders to get a broad stakeholder perspective (e.g., customers, investees, regulators, employees, the Dutch government, peers, NGOs, the knowledge community). For FMO's shareholders and Supervisory Board (SB), we gathered insights from our Management Board (MB) who interact with these stakeholders on a periodic basis. During the interviews, we asked the stakeholder representatives to select the top and bottom five topics they consider to have the most and least significant (actual and potential) impact on the economy, environment, and people, including on human rights. This helped us prioritize our material topics.

We acknowledge that using input from internal stakeholder representatives as a proxy for external stakeholder views may have introduced some bias in determining the significance of the impacts and prioritizing our material topics. To minimize the misrepresentation of stakeholder views, we selected the stakeholder representatives based on their level of expertise and close engagement with the groups they spoke on behalf of.

In our previous materiality assessment, we prioritized our material topics based on how our stakeholders or stakeholder representatives had perceived our performance vis-à-vis our strategic topics. This year, to align more closely with the revised GRI Standards, we prioritized our material topics based on the significance of our impacts on the economy, environment, and people, including impacts on their human rights. Accordingly, it is not possible to make a fair comparison between the prioritization approach or the resulting list of material topics we're reported last year and this year.

Results

The outcomes of the materiality analysis were discussed with and validated by FMO's Management Board. This resulted in the following list of material topics:

1	Taking climate action	10	Engaging with partners and local communities
2	Mobilizing private and public capital	11	Managing impact
3	Contributing to decent work and economic growth	12	Supporting customers to safeguard human rights
4	Reducing inequalities	13	Providing capacity development
5	Promoting ESG management and value add	14	Enabling meaningful innovation
6	Being a responsible, compliant, transparent and accountable bank	15	Maintaining financial sustainability
7	Ensuring employee development, engagement, health and wellbeing	16	Advancing gender equality
8	Ensuring higher productivity and efficiency	17	Being an inclusive organization
9	Cooperation and harmonization with other DFIs		

There may be overlap between some of our material topics, which could explain why certain topics appear lower on the list. For instance, ‘Supporting customers to safeguard human rights’, which in recent years has been high on the agenda for some of FMO’s stakeholders as well as for FMO, is in 12th position. However, human rights is also embedded within FMO’s ESG management and value add activities, which is in 5th position. The same may have occurred for the topic ‘Advancing gender equality’ (in 16th position), which in FMO’s 2030 strategy is part of ‘Reducing inequalities’ (in 4th position). The topics that are higher on the prioritization align with the focus areas of FMO’s 2030 strategy. However, we engage with a diverse set of stakeholders that have different needs. Therefore, FMO attaches importance to all 17 material topics. Within this annual report, we provide insights into our performance and management on all of the listed topics.

Most relevant changes compared to last year

Compared to last year, we added ‘Engaging with partners and local communities’ as a new topic. By engaging with a wide range of partners and increasing FMO’s local presence we are able to realize impact, manage risks and connect with local communities. We merged the topics ‘Being a responsible, transparent and accountable bank’ and ‘Being compliant in a changing regulatory environment’ as there is a significant overlap between the two topics with respect to how we operate as a bank. We also merged the topic ‘Supporting economic recovery’ with the topic ‘Contributing to decent work and economic growth’. In 2020, we had added the topic ‘Supporting economic recovery’ in response to the COVID-19 crisis. Since then, we have resumed business as usual and recognized that FMO supports customers throughout this and other (economic) crises. Lastly, we updated the definitions of all material topics to provide more insight into our impacts. The updated list of definitions can be found in the respective GRI index.

Managing impacts

The SB Impact Committee advises the SB on its decision-making regarding impact and ESG related matters. The daily management of our bank lies with the MB, which has delegated the responsibilities for managing impacts to several key teams within FMO. The Strategy team is tasked with managing FMO’s corporate strategy setting, including the impact strategy. FMO’s strategic goals and objectives are cascaded down to the investment teams, including the impact and ESG team, that are responsible for identifying the areas in which we can minimize our negative impacts and optimize our development impacts. The Credit team is responsible for performing an independent review of our impact and ESG assessments at transaction level. The Finance, Impact & Data team, together with the Strategy team, prepare periodic reports to monitor progress on our strategic and operational targets, which are discussed with the MB on a monthly and quarterly basis. In addition, other relevant impact and ESG related developments can be brought to MB’s attention when deemed necessary. Furthermore, FMO is a signatory of the Operating Principles of Impact Management since 2019.

Connectivity table

The following table links the material topics to our strategy, KPIs, targets, and performance as well as the sections in this annual report that cover each topic. For the following material topics, we have not (yet) identified an indicator: ‘Cooperation & harmonization with other DFIs’, ‘Enabling meaningful innovation’ and ‘Managing impact’. More information on these topics can be found in the chapters 'Our investment process', 'Performance against our strategy', 'Lessons learned' and 'Stakeholder engagement and materiality assessment'. Note that for some indicators we have not set a target. For these we only report our 2022 performance as well as a comparative figure.

Mission: We enable entrepreneurs to increase inclusive and sustainable prosperity			Target	Performance	
Key performance indicator	**Material topic**	**Page nr.**	**2022**	**2022**	**2021**
SDG 8 - Decent work & economic growth					
Total committed portfolio (€ mln)*		43	13,005	13,238	12,503
FMO (€ mln)	Contributing to decent work & economic growth	43	8,805	8,934	8,338
Public funds (€ mln)	Contributing to decent work & economic growth; Engaging with partners & local communities	57, 58	1,445	1,401	1,352
Mobilized funds (€ mln)	Contributing to decent work & economic growth; Mobilizing private & public capital	56	2,755	2,903	2,813
New investments(€ mln)*		43	2,780	2,423	1,938
FMO (€ mln)	Contributing to decent work & economic growth	43	1,980	1,813	1,184
Public funds (€ mln)	Contributing to decent work & economic growth; Engaging with partners & local communities	57, 58	305	153	233
Mobilized funds (€ mln)	Contributing to decent work & economic growth; Mobilizing private & public capital	56	495	457	521
Nr. of jobs supported (in thousands)**	Contributing to decent work & economic growth	43, 44	-	750	644
SDG 10 - Reducing inequalities					
RI-labelled total committed portfolio (€ mln)	Reducing inequalities	45	4,275	4,453	4,020
RI-labelled new investments (€ mln)	Reducing inequalities	45	1,105	810	714
SDG 13 - Climate action					
Green-labelled total committed portfolio (€ mln)	Taking climate action	46, 47	4,310	4,427	4,118
Green-labelled new investments (€ mln)	Taking climate action	47	1,070	1,003	544
Total financed absolute GHG emissions (in ktCO2e)**	Taking climate action	48, 49	-	6,530	5,355
Total financed avoided GHG emissions (in ktCO2e)**	Taking climate action	49	-	1,439	1,329
Other SDGs (3, 5, 8, 10, 12, 13, 14, 15)					
Gender-line financing (€ mln)	Advancing gender equality	50, 51	-	199	216
ESG performance target (% of risks managed)	Promoting ESG management & value add	51-55	90	93	92
Nr. of new admissible complaints received	Supporting customers to safeguard human rights	55	-	1	0
Nr. of customers in portfolio for which human rights were assessed during due diligence	Supporting customers to safeguard human rights	46	-	293	281
Customer and market support					
Total capacity development contracted (€ mln)	Providing capacity development	60, 61	-	16	8
Customer satisfaction (NPS score)	-	60	70	71	66
Organizational efficiency & business integrity					
Employee engagement score	Ensuring employee development, engagement, health & wellbeing	61, 63	-	7	7
Gender diversity: % women in the workforce	Advancing gender equality; Being an inclusive organization	62, 63	50	52	52
Gender diversity: % women in management positions	Advancing gender equality; Being an inclusive organization	62, 63	50	43	45
Realized delivery on project portfolio (%)	Ensuring higher productivity and efficiency	64	85	85	92
Score in latest Transparency Benchmark	Being a responsible, compliant, transparent & accountable bank	-	-	87	87
Nr. of alleged employee-related integrity issues	Being a responsible, compliant, transparent & accountable bank	65	-	2	1
Nr. of new alleged customer-related integrity issues	Being a responsible, compliant, transparent & accountable bank	65	-	4	12
Nr. of alleged customer-related integrity issues closed	Being a responsible, compliant, transparent & accountable bank	65	-	8	11
Financial performance					
Statement of profit & loss					
Operating income (€ mln)	Maintaining financial sustainability	115	-	338	565
Operating expenses (€ mln)	Maintaining financial sustainability	115	-	152	114
Impairments (€ mln)	Maintaining financial sustainability	115	-	-143	9
Net profit(/loss) (€ mln)	Maintaining financial sustainability	115	177	1	491
Underlying net profit(/loss) (€ mln)	Maintaining financial sustainability	169	-	-79	386
Statement of financial position					
Total assets (€ mln)	Maintaining financial sustainability	114	-	9,900	9,303
Shareholders' equity (€ mln)	Maintaining financial sustainability	114	-	3,448	3,434
Debentures & notes (€ mln)	Maintaining financial sustainability	114	-	5,572	5,427
Ratios at end of period					
Non-performing loans (%)*	Maintaining financial sustainability	188	-	11.9	9.5
Return on average shareholders' equity (%)*	Maintaining financial sustainability	114	-	0	15.5
Return on assets (%)*	Maintaining financial sustainability	114, 115	-	-	5.3
Common Equity Tier 1 (%)*	Maintaining financial sustainability	183	-	23.8	22.5

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 to inform our policies. For instance, in October 2022 we published our Position Statement on Impact and ESG for Financial Intermediaries. Throughout the development of the Position Statement, FMO conducted several consultation sessions with stakeholders. The sessions were attended by representatives from NGOs, banks, IFIs, EDFIs, knowledge institutes, and the Dutch Government. In June, FMO engaged with NGOs to discuss policy topics and FMO's strategy.

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 of strengthening our collaboration. As a learning organization, our stakeholder dialogues help us reflect and enhance our risk assessment practices.

Our engagement per stakeholder group

The following table summarizes the topics our stakeholders find most important. Overall, we note that most stakeholders engage with us because of the impact we aim to achieve through our investments.

Stakeholder Group	Material topics	How we engaged in 2022
Employees. All internal employees, including senior management & the Management Board, and external professionals.	• Ensure employee engagement, health & wellbeing • Ensuring higher productivity & efficiency • Being an inclusive organization • Being a responsible, compliant, transparent & accountable bank • Contributing to decent work & economic growth	Management checked in with FMO employees through different means. First, direct reports met frequently through bilateral and team meetings. Second, in November an employee pulse survey was sent out on the Future of Work pilot and to sense-check overall engagement. Third, management met with the works council in formal and informal meetings throughout the year to discuss key matters, including the review of the mobility policy, the effects of inflation, Future of Work pilot and Working Remotely and Abroad policy, several organizational changes and the results of (previous) employee engagement (pulse) surveys. Finally, the MB stayed connected with staff through regular all-staff meetings, open lunches and weekly wrap-up emails.
Customers, incl. corporates, financial institutions, private equity fund managers, and agribusiness and energy project developers.	• Contributing to decent work & economic growth • Reducing inequalities • Taking climate action • Promoting ESG management & value add • Engaging with partners & local communities • Mobilizing private & public capital • Enabling meaningful innovation • Cooperation & harmonization with other DFIs • Ensuring higher productivity & efficiency	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. Throughout 2022, 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. In 2022, we carried out our annual customer satisfaction survey to gain insight on what is important to them and how we can improve our products and services in the future.
NGOs & local communities, incl. NGOs that represent environmental and human rights advocates, knowledge centers and banking whistle blowers, as well as local organizations, and communities.	• Being a responsible, transparent & accountable bank • Engaging with partners & local communities • Taking climate action • Promoting ESG management & value add • Supporting customers to safeguard human rights	We continued our dialogue with NGOs. For instance, we met with several NGOs to discuss FMO's policies (Disclosure Policy and Position Statement on Impact and ESG for FIs) as well as specific investments and community engagement. More intense engagement took place in the form of project specific engagement. NGOs raised questions on proposed investments and FMO engaged in in-depth dialogues to discuss dilemmas attached to one of FMO's projects. In addition, FMO's MB also engaged with NGOs, to improve mutual understanding.
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%).	• Taking climate action • Mobilizing private & public capital • Contributing to decent work & economic growth • Reducing inequalities • Promoting ESG management & value add	The Annual General Meeting of Shareholders (AGM) convenes once every year. However, both the Management and Supervisory Board can request extraordinary meetings (EGM). Shareholders representing at least 5% of FMO's issued capital can also convene a meeting. In 2022, an AGM was held in April and two extraordinary meetings were held in August and November. During the AGM, we presented the key events and results for the 2021 financial year as well as the profit appropriation and dividend for 2021, which were adopted by our shareholders. During the EGMs, we introduced two new MB members and changes to the titles of two existing MB members to complete the extension of the management board from 3 to 5 members.
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.	• Reducing inequalities • Contributing to decent work & economic growth • Promoting ESG management & value add • Advancing gender equality • Taking climate action • Managing impact	Through its MB and other internal stakeholders, FMO frequently interacts with the Ministry of Finance (MoF) and Ministry of Foreign Affairs (MoFA) to discuss strategic policies and FMO's performance against targets, amongst other topics. There are various forums through which engagement with government takes place, including the Strategic Policy Meeting with the government in which MB participates semi-annually. In 2022, we engaged more frequently with the government due to the development of the 2030 strategy. The focus of these conversations was around FMO's contributions towards the SDGs and FMO's progression

Stakeholder Group	Material topics	How we engaged in 2022
		model, including the need to create more bankable opportunities. Other notable topics discussed in 2022 included: • Progress concerning action items resulting from the FMO-A evaluation; • The review of the Criteria Memorandum; • Topics on which FMO works closely together with government, e.g. the Joint Agenda items (1) ESG & Stakeholder Engagement, (2) Priority Countries incl. Fragile States, and (3) Additionality & Mobilization. In 2022, FMO's MB also participated in high-level discussions with MoFA and the NGOs SOMO, Both ENDS and Oxfam Novib.
Investors, incl. bond investors, institutional and private investors.	• Being a responsible, compliant, transparent & accountable bank • Mobilizing private & public capital • Promoting ESG management & value add • Taking climate action • Managing impact • Contributing to decent work & economic growth	We offer investors access to our expertise on responsible investing in emerging markets. Institutional and private investors are interested in the risk-return profile of FMO's investments and the development impact created through them. Therefore, we provide regular financial and impact reports (e.g. FMO's Sustainability Bond Newsletter), often supplemented with case studies on customers from the relevant portfolios. FMO also frequently engages with its investors through various (annual) investor meetings, events and conferences. In 2022, we attended or spoke at relevant events to actively promote the importance of the role of private capital to achieve the SDGs and how to measure impact. This included events organized by the Global Impact Investor Network, the VBDO, the GSG and the Dutch NAB, as well as the PRI.
Knowledge community, incl. universities, think tanks, experts and independent consultants who conduct development impact evaluations.	• Mobilizing private & public capital • Cooperation & harmonization with other DFIs • Promoting ESG management & value add • Contributing to decent work & economic growth • Reducing inequalities	We regularly organize meetings with the knowledge community for advice on the design of evaluation methodologies, to gather input from key informants and subject matter experts, learn about best practices in the market, receive feedback and discuss the results. In addition, we meet with the knowledge community to define lessons learned. Furthermore, when developing position statements and considering new market developments, we often seek expertise and knowledge outside of FMO.
DFIs, international financial institutions and multilateral banks, with whom we co-invest, harmonize our approaches and share knowledge.	• Contributing to decent work & economic growth • Reducing Inequalities • Taking climate change • Mobilizing private & public capital • Ensuring higher productivity and efficiency	We spoke with DFIs and MDBs about topics such as the consequences of and response to the war in Ukraine, climate, inequality, innovation for private sector mobilization and DFI collaboration. We participated in DFI harmonization working groups with respect to ESG and impact. Alongside other DFIs we continued our participation in the Global Impact Investment Network and the Partnership for Carbon Accounting Financials. We engaged DFIs and MDBs as relevant stakeholders in our strategy formation process.
Public investment partners incl. the Dutch government, the European Commission, the Green Climate Fund and the UK government.	• Mobilizing private & public capital • Managing impact • Cooperation & harmonization with other DFIs • Being a responsible, compliant transparent & accountable bank	FMO manages several funds on behalf of public entities. In 2022, we engaged with our main partners, either on management of existing funds/facilities or on the development of new funds and facilities. Most notably, FMO handed in several proposals for a guarantee from the ECs European Fund for Sustainable Development Plus guarantee facility.
Supervisor and regulator.	• Maintaining financial sustainability • Ensuring higher productivity and efficiency • Being a responsible, compliant, transparent & accountable bank • Ensuring employee development, engagement, health and wellbeing • Taking climate action	The Dutch Central Bank (DNB) supervises FMO to ensure we comply with banking regulations and manage risks in line with our risk appetite. The main topics discussed in 2022 were around FMO's follow up on DNB's recommendations with respect to its financial economic crime (FEC) enhancement project that was completed in 2021. In addition, FMO received a request from DNB to participate in an industry-wide investigation on the effectiveness of its sanctions screening system. Furthermore, DNB monitors the progress FMO is making towards aligning its internal procedures, disclosures, strategy, risk management and governance frameworks with the expectations of the European Central Bank with respect to the prudent management of climate-related risks.

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.

EQUATOR PRINCIPLES	**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 online.	Signatory
IFC	**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
	OECD Guidelines for Multinational Enterprises We follow the OECD Guidelines on responsible business conduct, notably human rights, labor rights and the environment.	Adopter
UNITED NATIONS HUMAN RIGHTS	**UN Guiding Principles on Business and Human Rights** We integrate the set of guidelines defined by the UN for states and companies to prevent, address and remedy human rights abuses in business operations.	Adopter
ILO International Labour Organization	**ILO Standards** We follow the set of ILO legal instruments that set out basic principles and rights at work.	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 website.	Signatory
PRI	**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 website.	Signatory
UNEP FINANCE INITIATIVE PRINCIPLES FOR RESPONSIBLE BANKING	**UNEP FI | Principles for Responsible Banking** FMO is a signatory of the Principles for Responsible Banking. FMO publishes a report every year to disclose how it has progressed towards implementing these principles. These reports are available on our website.	Signatory
GIIN	**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
GOALS Charter	**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
Natural Capital Declaration	**Natural Capital Finance Alliance** We closely follow the developments of the NCFA initiative to integrate natural capital considerations into loans, public and private equity, and fixed income and insurance products.	Signatory
UNEP Finance Initiative	**UNEP FI / EBF Working Group on Banking and Taxonomy** We are part of the UNEP Finance Initiative / European Banking Federation Working Group that assesses how the EU Taxonomy on Sustainable Activities can be implemented by banks and applied to selected banking products.	Member
	Dutch Climate Accord We signed the financial sector commitment to fight climate change and support the Dutch Climate Accord. In 2022, we published our Climate Action Plan, which is available on our website.	Signatory
CENTER for FINANCIAL INCLUSION ACCION	**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

PCAF Partnership for Carbon Accounting Financials	**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
NAB Driving real impact	**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
CGAP	**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
European Microfinance Platform	**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
2X Challenge Financing for Women	**2X Challenge** In 2019, FMO joined the 2X Challenge, which was launched in 2018 by DFIs from the G7 countries. The initiative allows for setting financial ambitions among DFIs and collaboration with various stakeholders towards women's empowerment. FMO continues to be a participant in the 2X Challenge and a member of the 2X Collaborative (now 2X Global).	Member
GPCA Global Private Capital Association	**Global Private Capital Association** We are a member of the GPCA. This aims to catalyze the development of private equity and venture capital industries in emerging markets through research, conferences, networking, and advocacy.	Member
CG DF	**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
FATF	**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
GRI	**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
Finance in Common	**The Paris Development Banks Statement on Gender Equality and Women's Empowerment** We call for accelerating the realization of gender equality and the empowerment of all women and girls through the international financial system. We recognize our substantive role in the achievement of the SDGs.	Signatory
EDFI	**EDFI statement on climate and energy finance** We commit to this statement where EDFI group outlines shared commitments to phase out fossil fuels and mobilise private sector climate finance, aligning with Paris Agreement and high disclosure standards.	Signatory
UN Climate Change Conference UK 2021	**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.	Signatory
Adaptation & Resilience Investors Collaborative	**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
Value Reporting Foundation	**Value Reporting 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

HOW WE REPORT

We prepared the sustainability information in this integrated annual report using the principles of the Integrated Reporting framework and the GRI Standards 2021. We strive for transparent reporting on our strategy, the dilemmas that 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 manages funds for 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 to manage the Dutch Fund for Climate and Development (DFCD) on behalf of the Dutch government. Furthermore, FMO manages the 'Mobilising Finance for Forests' (MFF) fund on behalf of the UK government. Lastly, FMO manages two programs for the European Commission – NASIRA and Ventures Capital (VC).

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 2022. The previous annual report was published on March 16, 2022. There have been no significant changes to our legal structure, activities, or policies in the course of 2022 that would require a restatement of information.

The definition of the number of employees leaving the organization has changed compared to 2021, with employees leaving on the last day of the reporting period now being included in the numbers we report. As a consequence, we have restated the 2021 numbers as reported in the 2021 Annual Report for the following employee statistics: number of internal employees (headcount) restated to 614 (from 605), number of internal FTEs restated to 588 (from 579), number of external employees (headcount) restated to 124 (from 107), and total number of internal and external employees (headcount) restated to 738 (from 712).

The figures and percentages in this annual report (excluding the financial statements) include the figures for FMO and its subsidiaries as well as those of the FMO-managed public funds, 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 translated 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 of defense, FMO’s Internal Audit department considers data quality and the underlying processes to be important audit areas. During 2022, an internal audit was performed on FMO's Sustainability Information System (SIS) with respect to the design and effectiveness of key controls, ensuring completeness and accuracy of the data captured in SIS.

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 of the Management Board', 'Report of the Supervisory Board', 'Corporate Governance', 'Stakeholder engagement and materiality assessment', 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.

Since 2019, we report on our approach to climate following the recommendations provided by the Task Force on Climate-Related Financial Disclosures (TCFD). Please refer to the separate TCFD report available on our website for more information.

In 2020, FMO became a signatory to the UN Principles for Responsible Banking (PRB) – a single framework for a sustainable banking industry developed through an innovative partnership between banks worldwide and United Nations Environment’s Finance Initiative. The PRB set out the banking industry’s role and responsibility in shaping a sustainable future and in 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 second annual PRB report and self-assessment which was published in March 2023 and is available on our website.

Reporting governance

The Management Board (MB) is responsible for the contents of the integrated annual report. The MB has entrusted the Impact Measurement and Integrated Reporting (IMIR) team with the coordination of the report. At the start of the reporting process, the MB 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 this report. The following elements were subject to an audit: the materiality assessment as presented in the chapter 'Stakeholder engagement and materiality assessment', 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 sub-chapter 'Performance against our strategy'. The scope of the review in this report is limited to the (sub-)chapters 'About this report', 'At a glance', 'External environment' (excluding EU taxonomy), 'Our strategy', 'Our value creation model', 'Our investment process', 'Performance against our strategy', 'Stakeholder engagement and materiality assessment' and 'How we report'. The review has been conducted in accordance with Dutch Standard 3810N.

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. Currently, we are using the JIM version 2.01 which has some technical corrections in comparison to the previous version. This is the same version that was used in the 2021 Annual Report. A full description of all the version changes can be found on the JIM website. 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 reflects neither the COVID-19 pandemic nor the war in Ukraine.
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 meet or commit to meeting for an investment to qualify.

ESG reporting

ESG risk categorization

During the early stages of the investment process, FMO screens all transactions on environmental and social (E&S) risk and categorizes them in accordance with our Sustainability Policy. This classification is based on inherent E&S 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) for direct investments and ID-A (high risk), ID-B (medium risk) and ID-C (low risk) for indirect investments in Financial Institutions and PE Funds. 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.

During the early stages of the investment process, FMO makes an initial assessment of the corporate governance risk for a customer. A questionnaire helps investment staff identify corporate governance risk factors and determine whether a corporate governance officer should be consulted. The outcome of the questionnaire is either low or high corporate governance risk. If the outcome is high, a corporate governance officer is consulted.

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 CG officer or the investment officer assesses the maturity of the corporate governance of a customer, based on five CG attributes derived from the DFI Corporate Governance Framework in a predefined tracking sheet: commitment to CG, structure and functioning of the board of directors, control environment and processes, transparency and disclosure, and shareholder rights. Subsequently, 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.

Investment teams complete a tracking sheet after due diligence. 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.

We have been using an ESG performance tracking system since 2018. The initial performance target was set for a limited number of new customers classified as high-risk or supported by a corporate governance specialist in transactions where FMO was in the lead. Each subsequent year the target list was expanded to include a bigger part of our portfolio. As of 2021, the list consists of all high-risk customers and those supported by a CG specialist, including investments where another financial institution is in the lead (e.g. IFC, DEG, Proparco). In the past only high and medium ESG risks were in scope of the target. As of 2021, low ESG risks are also in scope, so our goal since then is to have 90 percent of all ESG risks managed in line with our standards or evidently towards meeting our standards.

E&S performance gaps

The overview of the E&S performance gaps in our portfolio was prepared in two steps. First, as part of our E&S 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.

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 statistics 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.
- Employees in senior and middle management: number of employees in a management position including members of the Management Board and Directors, at the end of the reporting period. Ad interim Directors and Managers with employment contracts with FMO are 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.
- 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.
- Net growth percentage: number of new joiners minus number of leavers divided by the total head count at the start of the reporting period.
- 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 or pulse survey (November 2022) sent to all employees at least three months in service of FMO. FMO uses an external partner to process and report the results.
- 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.
- Number of external employees: the total number of people working for FMO as "temporary external" on agreements not being an employment contract with FMO N.V. on the last day of the reporting period.

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

Green-labelled investments contribute to climate mitigation, climate adaptation or other footprint reduction (in themes of water, waste, biodiversity). Green labels are applied ex-ante for the new commitments in a running year. Please note that we apply the labels to new commitments, but that these are referred to as investments throughout the report. To facilitate steering on SDG 13 through our Green label, we set an annual target on Green as a percentage of new commitments that influences customer selection, project preparation and investment decisions. FMO’s Green criteria for climate mitigation and climate adaptation 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 can only be labelled Green 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 makes an application for a Green label through FMO’s Sustainability Information System (SIS). The deal team should supplement the request with 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

The volume of Green-labelled 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.

FMO also reports on its Green-labelled total committed portfolio. Ex-ante labelling is applied to the volume of Green-labelled new investments as well as the Green-labelled total committed portfolio. Our criteria, the labelling process and documentation are currently only 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 2022 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 HIPSO 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 businesses through supply chains, jobs supported 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.

Net Promoter Score

Net Promoter Score (NPS) shows the extent to which customers would recommend FMO to others. The customer is regarded as 'promoter', 'passive' or as 'detractor', 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. The scores for 2022 are based on the responses from customers that participated in a customer satisfaction survey that was sent out in December 2022 and closed in January 2023.

New admissible complaints received

Number of complaints filed with the Independent Complaints Mechanism (ICM) that were declared admissible by the Independent Expert Panel (IEP). 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 Panel has decided that it fulfills the Admissibility Criteria. The Admissibility Criteria 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 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 2023, it is not feasible for all 2022 customer data (e.g. emissions data) to already be available. As a result, the reported 2022 power generation emissions combines 2021 customer emissions data with 2022 portfolio data from FMO (e.g. outstanding amounts). The 2022 number will be finalized in next year's Annual Report. The 2021 power generation emissions are, in principle, finalized in this Annual Report based on 2021 portfolio data and 2021 customer data.

Reducing Inequalities-labelled investments

Definition

FMO defines two sub-categories of social projects aimed at reduced inequalities: investments in least developed countries (reducing inequality between countries) and investments in inclusive business (reducing inequality within countries). Least developed countries (LDCs) are identified by the United Nations as low-income countries confronting severe structural impediments to sustainable development.

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 Reducing Inequalities (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 advises whether the labels should be granted.

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 of every label is provided by the Credit Manager in a four-eye principle. The approval process is traced and documented in SIS.

Scope

Same scope as mentioned for the Green-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, companies in scope of the Sustainable Finance Disclosure Regulation (SFDR) and the Non-Financial Reporting Directive (NFRD) were required to disclose Taxonomy eligibility on two of the environmental objectives: climate change mitigation and adaptation. An economic activity can be eligible for Taxonomy alignment if it can be mapped to one of the environmentally sustainable activities described in the Delegated Acts accompanying the Taxonomy regulation.

Given that all of FMO’s investments are made outside the EU in emerging markets, none of our counterparties are in scope of the NFRD and are thus not required to disclose their Taxonomy eligibility or alignment. As FMO’s eligibility disclosures must be based on actual information disclosed by financial or non-financial undertakings, and estimates are not permitted in mandatory disclosures, for FMO’s mandatory disclosures zero percent of the balance sheet is Taxonomy eligible.

Total investment volume

Total investment volume is measured in terms of ‘committed portfolio’ and ‘new investments’. We report these numbers for FMO, public funds and mobilized funds.

For the definitions of ‘committed portfolio’ and ‘new investments’ please refer to the ‘Alternative performance measures’ below.

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. Where a non-financial measure is used to calculate an operational or statistical ratio, this is considered an alternative performance measure.

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, public funds under FMO’s management or 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.

	2022			2021		
Total committed portfolio (€ mln)	**Committed portfolio**	**Outstanding amount**	**Remaining commitment**	**Committed portfolio**	**Outstanding amount**	**Remaining commitment**
FMO	**8,934**	**7,568**	**1,366**	**8,338**	**7,066**	**1,272**
Debt	5,541	5,014	527	5,286	4,723	563
Equity	3,110	2,436	674	2,876	2,273	603
Guarantees	283	118	165	176	70	106
Public funds	**1,401**	**1,167**	**234**	**1,352**	**1,095**	**257**
Debt	615	527	88	642	516	126
Equity	745	618	127	685	557	128
Guarantees	41	22	19	25	22	3
Mobilized (debt only)	**2,903**	**2,744**	**159**	**2,813**	**2,645**	**168**
Total	**13,238**	**11,479**	**1,759**	**12,503**	**10,806**	**1,697**

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.

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 funds under FMO's management and third-parties considered 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.

New investments (€ mln)	2022	2021
FMO	**1,813**	**1,184**
Debt	1,412	859
Equity	297	241
Guarantees	104	84
Public funds	**153**	**233**
Debt	64	139
Equity	71	82
Guarantees	18	12
Mobilized funds (debt only)	**457**	**521**
Total new investments	**2,423**	**1,938**

Financial APMs

Stable income

FMO’s stable income relates to income following from financing activities and administrative services. Stable income excludes income related to value adjustments of financial instruments. Stable 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 and loss.

Stable income per consolidated profit and loss account (€ mln)	2022	2021
Net interest income	235	231
Net fee and commission income	-2	6
Dividend income	41	22
Remuneration from services rendered	33	32
Stable income	**307**	**291**

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 and 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)	2022	2021
Expected Credit Loss Stage 1 & Stage 2	-3	47
Expected Credit Loss Stage 3 (Impairments)	-144	-43
Recover loans written off	4	5
Total loan provisions	-143	9
Fair value gains/losses loan portfolio measured at FVPL	-33	-25
Gains and losses due to derecognition (Note 27)	-	5
Loan impairments and revaluations	**-176**	**-11**

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 line item ‘results from financial transactions’ in the consolidated statement of profit and loss.

Results on derivatives (€ mln)	2022	2021
Total results from financial transactions (Note 25)	-19	-26
Result on sale and valuation of loans at FVPL (Note 25)	33	21
Result on sale and valuation of derivatives related to asset portfolio (Note 25)	4	12
Results on derivatives	**18**	**7**

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 (%)	2022	2021
Net profit/(loss) per consolidated profit and loss account (€ mln)	1	491
Opening balance: consolidated statement of shareholders' equity (€ mln)	3,434	2,897
Closing balance: consolidated statement of shareholders' equity (€ mln)	3,448	3,434
Return on average shareholders' equity (%)	**0.0%**	**15.5%**

Return on assets

A measure that indicates the 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 (%)	2022	2021
Net profit/(loss) per consolidated profit and loss account (€ mln)	1	491
Total assets per consolidated balance sheet (€ mln)	9,900	9,303
Return on assets (%)	**0.0%**	**5.3%**

Non-performing loans

A measure expressed as the value of non-performing loans (gross exposure of the loan as recorded on the balance sheet) divided by the gross exposure of the loan portfolio.

NPLs (%)	2022	2021
Gross exposure: loans to private sector (amortised cost) (€ mln)	525	359
Gross exposure: loans to private sector (fair value) (€ mln)	128	123
Total gross exposure non-performing loans (on balance) (€ mln)	653	482
Total gross exposure loans to private sector (on balance) (€ mln)	5,512	5,091
NPL %	**11.9%**	**9.5%**

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.

05 Consolidated Financial Statements


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Consolidated statement of financial position

For the year ended December 31, 2022

	Notes	2022	2021
Assets			
Banks	(1)	26,807	95,873
Current accounts with State funds and other programs	(2)	956	648
Short-term deposits	(3)		
-of which: amortized cost		1,144,801	1,149,877
-of which: fair value through profit or loss		223,575	193,302
Other receivables	(4)	17,251	22,477
Interest-bearing securities	(5)		
-of which: amortized cost		537,825	463,971
Derivative financial instruments	(6)	195,239	235,673
Loans to the private sector	(7)		
-of which: amortized cost		4,623,568	4,152,713
-of which: fair value through profit or loss		486,067	621,978
Current tax receivables	(31)	20,942	-
Equity investments	(9)		
-of which: fair value through OCI		150,733	140,425
-of which: fair value through profit or loss		2,130,903	1,876,825
Investments in associates	(10)	297,960	298,737
Property, plant and equipment	(11)	23,321	27,243
Intangible assets	(12)	11,955	17,958
Deferred income tax assets	(31)	8,058	5,589
Total assets		**9,899,961**	**9,303,289**
Liabilities			
Short-term credits	(13)	52,156	123,359
Current accounts with State funds and other programs	(14)	1,058	1,017
Derivative financial instruments	(6)	610,976	192,225
Other financial liabilities	(15)		
-of which: fair value through profit or loss		82,328	-
Debentures and notes	(16)	5,572,253	5,426,596
Current tax liabilities	(31)	-	36,929
Wage tax liabilities		615	576
Accrued liabilities	(17)	24,466	28,208
Other liabilities	(18)	52,263	22,400
Provisions	(19)	42,113	27,592
Deferred income tax liabilities	(31)	13,407	10,748
Total liabilities		**6,451,635**	**5,869,650**
Shareholders' equity			
Share capital		9,076	9,076
Share premium reserve		29,272	29,272
Contractual reserve		2,659,053	2,658,032
Development fund		657,981	657,981
Fair value reserve		38,559	30,910
Actuarial result pensions		-6,533	-7,433
Translation reserve		17,544	-392
Other reserves		43,338	43,338
Undistributed result		36	12,831
Shareholders' equity (parent)		**3,448,326**	**3,433,615**
Non-controlling interests		-	24
Total shareholders' equity		**3,448,326**	**3,433,639**
Total liabilities and shareholders' equity	**(20)**	**9,899,961**	**9,303,289**

Consolidated statement of profit or loss

For the year ended December 31, 2022

	Notes	2022	2021
Income			
Interest income from financial instruments measured at AC		335,256	278,420
Interest income from financial instruments measured at FVPL		15,828	-11,857
Interest expenses from financial instruments measured at AC		-128,868	-106,780
Interest expenses from financial instruments measured at FVPL		12,707	71,084
Interest expenses on leases		-139	-158
Net interest income	**(21)**	**234,784**	**230,709**
Dividend income	(22)	41,423	22,066
Results from equity investments	(23)	49,266	295,535
Total results from equity investments		**90,689**	**317,601**
Fee and commission income		10,912	11,568
Fee and commission expense		-12,809	-5,871
Net fee and commission income	**(24)**	**-1,897**	**5,697**
Results from financial transactions	(25)	-18,831	-26,419
Remuneration for services rendered	(26)	32,937	32,257
Gains and losses due to derecognition	(27)	299	5,135
Other operating income	(28)	-	116
Total other income		**14,405**	**11,089**
Total income		**337,981**	**565,096**
Operating expenses			
Staff costs	(29)	-108,393	-73,121
Administrative expenses	(30)	-32,087	-28,802
Depreciation and impairment of PP&E and intangible assets	(11), (12)	-11,450	-11,934
Other operating expenses		-510	-293
Total operating expenses		**-152,440**	**-114,150**
Impairments on			
Interest-bearing instruments	(5)	-34	51
Loans	(7), (8)	-126,634	3,257
Loan commitments	(32)	-5,262	1,841
Guarantees issued	(32)	-10,853	3,917
Total impairments		**-142,783**	**9,066**
Results on associates			
Share in the result of associates		-58,596	63,902
Profit/(loss) before taxation		**-15,838**	**523,914**
Income tax	(31)	16,873	-33,268
Net profit/(loss)		**1,035**	**490,646**
Net profit/(loss) attributable to			
Owners of the parent company		1,058	490,690
Non controlling interest		-23	-44
Net profit/(loss)		**1,035**	**490,646**

Consolidated statement of comprehensive income

For the year ended December 31, 2022

	Notes	2022	2021
Net profit/(loss)		**1,035**	**490,646**
Other comprehensive income			
Share of other comprehensive income of associates due to exchange differences		17,936	17,335
Income tax effect		-	-
Items to be reclassified to profit and loss	**(33)**	**17,936**	**17,335**
Fair value reserve of equity instruments at FVOCI		10,308	24,919
Actuarial gains/(losses) on defined benefit plans	(19)	1,212	12,857
Income tax effect		-2,971	-8,819
Items not reclassified to profit and loss	**(33)**	**8,549**	**28,957**
Total other comprehensive income, net of tax		**26,485**	**46,292**
Release from fair value reserve		-	-14,524
Total comprehensive income		**27,520**	**522,414**

Total comprehensive income attributable to:			
Owners of the parent company		27,544	522,458
Non-controlling interests		-24	-44
Total comprehensive income		**27,520**	**522,414**

Consolidated statement of changes in shareholders' equity

For the year ended December 31, 2022

	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
Balance at January 1, 2021	**9,076**	**29,272**	**2,180,172**	**657,981**	**26,200**	**-17,156**	**-17,727**	**32,162**	**-3,347**	**68**	**2,896,701**
Exchange differences on associates	-	-	-	-	-	-	17,335	-	-	-	17,335
Fair value reserve of equity instruments at FVOCI	-	-	-	-	24,919	-	-	-	-	-	24,919
Actuarial gains/(losses) on defined benefit plans	-	-	-	-	-	12,857	-	-	-	-	12,857
Income tax effect other comprehensive income	-	-	-	-	-5,685	-3,134	-	-	-	-	-8,819
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**19,234**	**9,723**	**17,335**	**-**	**-**	**-**	**46,292**
Release from fair value reserve	-	-	-	-	-14,524	-	-	14,524	-	-	-
Net profit/(loss)[1]	-	-	477,860	-	-	-	-	-3,348	16,178	-44	490,646
Dividends	-	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2021	**9,076**	**29,272**	**2,658,032**	**657,981**	**30,910**	**-7,433**	**-392**	**43,338**	**12,831**	**24**	**3,433,639**
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
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**7,649**	**900**	**17,936**	**-**	**-**	**-**	**26,485**
Release from fair value reserve	-	-	-	-	-	-	-	-	-	-	-
Net profit /(loss)[1]	-	-	1,022	-	-	-	-	-	36	-24	1,035
Dividend declared	-	-	-	-	-	-	-	-	-12,831	-	-12,831
Balance at December 31, 2022	**9,076**	**29,272**	**2,659,053**	**657,981**	**38,559**	**-6,533**	**17,544**	**43,338**	**36**	**-**	**3,448,326**

1 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.

Consolidated statement of cash flows

For the year ended December 31, 2022

	Notes	2022	2021
Operational activities			
Net profit/(loss)		1,035	490,646
Adjustment for non-cash items:			
- Result of associates		58,597	-63,902
- Unrealized (gains)/losses arising from changes in fair value[1]		76,004	-75,501
- Unrealized (gains)/losses arising from changes in foreign exchange rates		-181,140	-217,808
- Unrealized (gains)/losses arising from other changes[2]		-14,101	-7,354
- Amortization of premiums/discounts debentures and notes		1,294	-3,744
- Impairments		142,783	-9,066
- Depreciation and impairment of PP&E and intangible assets	(11),(12)	11,450	11,934
- Income tax expense/(gain)		-16,873	33,268
Changes in:			
- Income taxes payable / receivable		-36,929	-3,863
- Loans		-267,410	224,328
- Equity investments		-174,796	94,358
- Other assets and liabilities[3]		74,486	-48,877
- Short-term deposits > 3 months[3]		23,508	-43,911
- Short-term credits[3]		-76,636	-222,151
Net cash flow from operating activities	**(34)**	**-378,728**	**158,357**
Investing activities			
Purchase of interest-bearing securities	(4)	-152,653	-160,324
Redemption of interest-bearing securities	(4)	86,682	77,317
Investments in PP&E and intangible fixed assets	(11),(12)	-4,523	198
Disinvestments in PP&E and intangible fixed assets	(11),(12)	26	852
Investments in associates	(10)	-14,715	-38,006
Disinvestments in associates	(10)	10,929	636
Net cash flow from investing activities	**(35)**	**-74,254**	**-119,327**
Financing activities			
Proceeds from issuance of debt securities, debentures and notes	(15)	1,374,288	627,296
Redemption of debt securities, debentures and notes	(15)	-1,011,379	-709,702
Lease payments	(11)	-3,367	-3,367
Dividend paid		-12,831	-
Net cash flow from financing activities	**(36)**	**346,711**	**-85,773**
Net cash flow		**-106,271**	**-46,743**
Cash and cash equivalents			
Banks and short-term deposits at January 1		1,395,141	1,344,136
Net foreign exchange difference		85,910	97,748
Total cash flow		-106,271	-46,743
Banks and short-term deposits at December 31	**(37)**	**1,374,780**	**1,395,141**
Operational cash flows from interest and dividends			
Interest received		299,061	271,751
Interest paid		-114,879	-35,695
Dividend received		40,853	22,066
Interest paid for lease liabilities		-139	-158
Income tax received/(paid)		-43,771	838

1 Unrealized (gains) losses arising from changes in fair value related to fair value changes in loans to private sector, derivatives, equity investments, debentures and notes.

2 Unrealized (gains) losses arising from other changes relate to changes in accrual and amortizable fees of financial assets and liabilities.

3 Movement is excluding foreign exchange results. Foreign exchange results are included in unrealized gains (losses) arising from foreign exchange rates.

Accounting policies

Corporate information

The 2022 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 16, 2023 and will be submitted for adoption by the General Meeting of Shareholders on April 26, 2023.

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 (2021: 2.16 percent). 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. 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 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 contributes to each phase of a project's lifecycle.

The EC and FMO have an agreement for risk sharing facility NASIRA for an amount of €100 million. The facility uses guarantees to allow banks to on-lend to underserved 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 FMO Venture 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.

In 2021, 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.

Significant 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, 2022. 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 mandatory measured at fair value;
- Equity investments which are measured mandatory 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 (mandatory) 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;
- 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.
- Other financial liabilities designated at FVPL to significantly reduce an accounting mismatch with related financial assets

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.

Group accounting and consolidation

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 an effort between FMO, the Dutch State and European Commission that facilitates investments in young start ups 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.

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 or deconsolidation 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 fair value through other comprehensive income (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 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 and/or associate.

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.

Amortized cost and gross carrying amount

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

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

Assets

Financial assets - classification

On initial recognition, a financial asset is classified as measured at 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.

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 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.

Investments in associates

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.

Investments in associates 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

Investments in associates are reviewed and analyzed at least on a semi - annual basis. A net investment in an associate 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 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'.

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.

Financial assets – impairment

FMO estimates an allowance for expected credit losses for the following financial assets:

- Banks;
- Interest bearing securities;
- Loans to the private sector;
- Loan commitments and financial guarantee contracts issued (off balance items).

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 if possible.

ECL measurement Stage 1 and Stage 2

ECL allowance reflects unbiased, probability-weighted estimates based on loss expectations resulting from default events over either a maximum 12-month period from the reporting date or the remaining life of a financial instrument. The method used to calculate the ECL allowances for Stage 1 and Stage 2 assets are based on the following parameters:

- PD: the Probability of Default is an estimate of the likelihood of default over a given time. 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-weighed scenarios to calculate final PD estimates in the ECL model. The scenarios are applied globally and are based on the vulnerability of emerging markets to prolonged economic downturn. The scenarios and their impact are based on IMF data and research along with historical default data in emerging markets.

The three scenarios applied are:

- Positive scenario: reduced vulnerability to an emerging market economic downturn;
- Base scenario: vulnerability and accompanying losses based on 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 Investment Review Committee (IRC) to decide about the specific impairment level:

- Calculate probability weighted expected loss based on multiple scenarios, including return to performing (and projected cash flows), restructuring, and write-off or sale;
- Based on these probability weights, a discount curve is generated and the discounted cashflow (DCF) model is used to determine the percentage to be applied on the outstanding amount of a loan;
- Take expected cash flows 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:

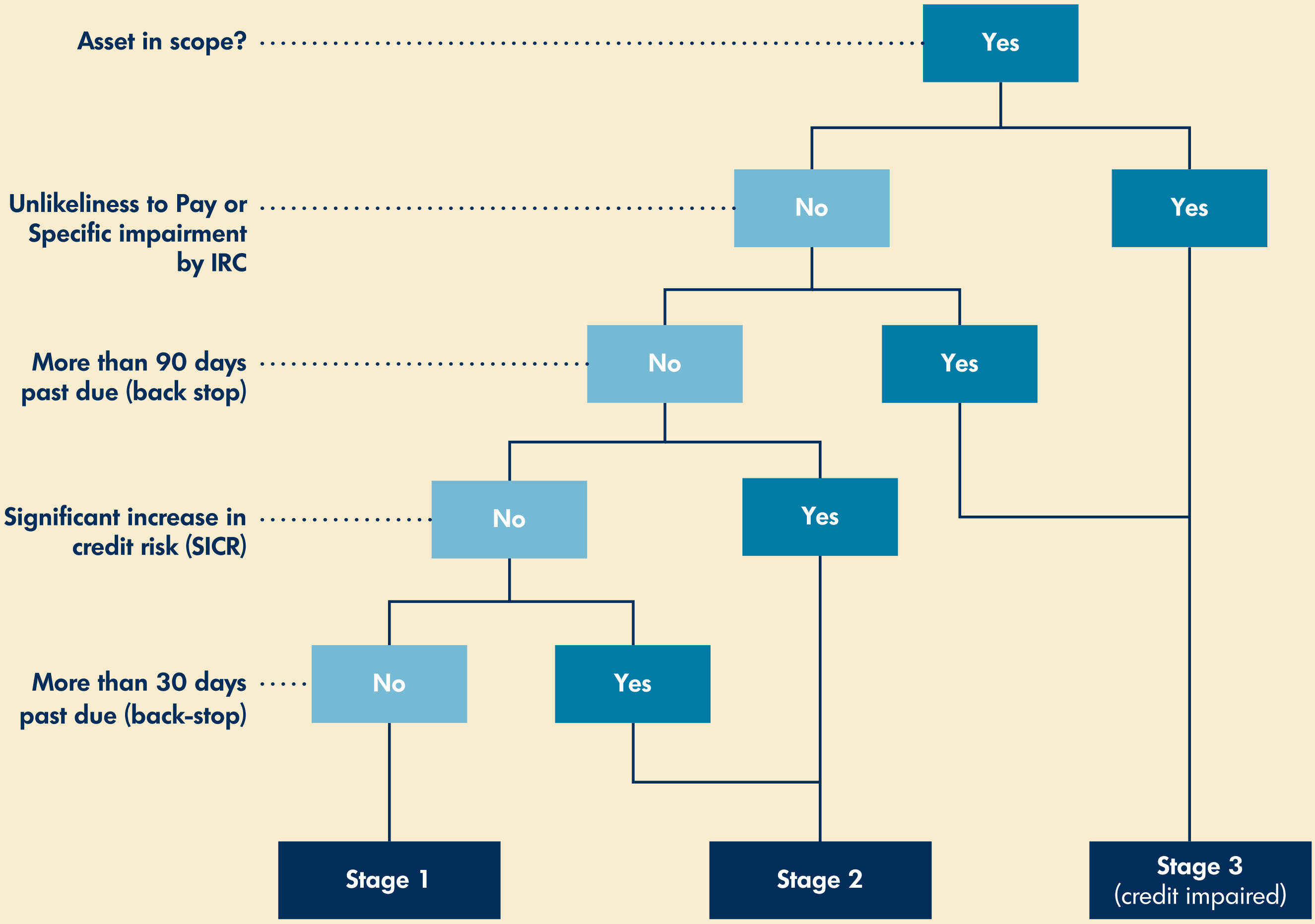
- The fact that an early warning signal has triggered financial difficulty following a transfer to the watchlist;
- The fact that the financial asset is 30 days or more past due on any material obligation to FMO, including fees and excluding on-charge expenses (unless reasonable and supportable information 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 IRC 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 IRC and there are no obligations past due for more than 90 days.

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 IRC 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 IRC 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 the difference 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 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 have a match. 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 will be 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

Further reference is made to Note 'Derivative financial instruments and hedge accounting'.

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'.

Guarantees

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.

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'.

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 arise from the post-retirement benefits provision and the fair value movements on equity investments accounted for at FVOCI.

Shareholders' equity

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 and associates 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.

Profit and loss

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.

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

	2022	2021
Banks	26,807	95,873
Balance at December 31	**26,807**	**95,873**

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)

	2022	2021
Current account EIB	231	231
Current account Mobilising Finance for Forests	725	417
Balance at December 31	**956**	**648**

Current accounts can be freely disposed of and are classified as Stage 1.

3. Short-term deposits

	2022	2021
Collateral delivered (related to derivative financial instruments)	521,575	118,594
Dutch Central Bank	598,369	1,027,997
Mandatory reserve deposit with Dutch Central Bank	2,324	1,833
Collateral delivered to European Central Bank	2,130	1,453
Other short-term deposits	20,403	-
Short-term deposits measured at AC	**1,144,801**	**1,149,877**
Commercial paper	200,203	149,361
Money market funds	23,372	43,941
Short-term deposits measured at FVPL	**223,575**	**193,302**
Balance at December 31	**1,368,376**	**1,343,179**

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 loss of €13k (2021: €72k profit). 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. ECL for interest bearing instruments amounts to €78k.

4. Other receivables

	2022	2021
Receivables related to equity disposals	6,826	1,905
Taxes and social premiums	456	264
To be declared on State guaranteed loans	1,081	2,449
Transaction fee receivables and prepayments	8,888	17,859
Balance at December 31	**17,251**	**22,477**

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 €78k (2021: €44k) is calculated for the ECL as per December 31, 2022.

	2022	2021
Bonds (listed)	537,825	463,971
Balance at December 31	**537,825**	**463,971**

All interest-bearing securities are measured at amortized cost. The movements can be summarized as follows:

	2022	2021
Balance at January 1	463,971	371,076
Amortization premiums/discounts	-111	113
Purchases	152,653	160,324
Redemptions	-86,682	-77,317
Changes in ECL allowances	-34	59
Changes in accrued income	565	53
Exchange rate differences	7,463	9,663
Balance at December 31	**537,825**	**463,971**

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, 2022, FMO recognized net gain of €2,6 million for hedge ineffectiveness on the micro fair value hedges (2021: €1.1 million net gain). The loss on the hedging instruments amounts to €339.4 million (2021: €124.3 million gain). The profit on hedged items attributable to the hedged risk amounts to €341.9 million (2021: €125.4 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 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.

The amounts relating to derivatives designated as fair value hedging instruments and hedge ineffectiveness were as follows:

		Carrying amount				
December 31, 2022	**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**
Interest rate swaps	5,004,270	17,685	275,931	-339,323	2,573	Results from financial transactions
December 31, 2021						
Interest rate swaps	4,383,939	106,328	24,506	-124,252	1,152	Results from financial transactions

The amounts relating to items designated as hedged items were as follows:

December 31, 2022	**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**			
Balance sheet line item	**Liabilities**	**Assets**	**Liabilities**	**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**
Debentures and notes	4,695,248	-	-	341,896	-
December 31, 2021					
Debentures and notes	4,428,818	-	-	125,404	-

Hedge of debentures and notes December 31, 2022			**Maturity**		
Risk category (interest rate)	**Less than 1 month**	**1-3 months**	**3 months - 1 year**	**1-5 years**	**more than 5 years**
Nominal amount (in millions of euro)		-	702	3,887	415
Average fixed interest rate (%)	-	-	-	2	1
Hedge of debentures and notes December 31, 2021					
Nominal amount (in millions of euro)	-	-	506	2,942	935
Average fixed interest rate (%)	-	-	-	2	1

Derivatives other than hedge accounting instruments

The following table summarizes the notional amounts and the fair values of the '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 risk governance and policy framework

December 31, 2022		**Notional amounts**	**Fair value assets**	**Fair value liabilities**
Derivatives other than hedge accounting instruments:				
·	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**

December 31, 2021		**Notional amounts**	**Fair value assets**	**Fair value liabilities**
Derivatives other than hedge accounting instruments:				
·	Currency swaps	84,217	290	1,486
·	Interest rate swaps	943,510	11,084	23,795
·	Cross-currency interest rate swaps	3,293,367	117,971	133,260
Subtotal		**4,321,094**	**129,345**	**158,541**
Embedded derivatives related to asset portfolio		-	-	9,178
Total derivative assets / (liabilities) other than hedge accounting instruments		**4,321,094**	**129,345**	**167,719**

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 our 'Credit risk management' chapter for details of these guarantees received.

The movements of these loans can be summarized as follows:

	Loans measured at AC	**Loans measured at FVPL**	**Total 2022**
Balance at January 1, 2022	4,354,816	621,978	4,976,794
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
Balance at December 31, 2022	**4,879,967**	**486,067**	**5,366,034**
Impairment	-256,399	-	-256,399
Balance at December 31, 2022	**4,623,568**	**486,067**	**5,109,635**

	Loans measured at AC	**Loans measured at FVPL**	**Total 2021**
Balance at January 1, 2021	4,405,969	585,716	4,991,685
Disbursements	822,792	105,411	928,203
Loan consolidation	62	-	62
Interest capitalization	2,621	7,602	10,223
Part sold	-94,387	-13,718	-108,105
Repayments	-979,952	-74,759	-1,054,711
Write-offs / disposals	-46,427	-3,817	-50,244
Derecognized and /or restructured loans	293	-	293
Changes in amortizable fees	4,063	-278	3,785
Amortized premium / discount	98	-	98
Changes in fair value	-	-16,741	-16,741
Changes in accrued income	42	-606	-564
Exchange rate differences	239,642	33,168	272,810
Balance at December 31, 2021	**4,354,816**	**621,978**	**4,976,794**
Impairment	-202,103	-	-202,103
Balance at December 31, 2021	**4,152,713**	**621,978**	**4,774,691**

The contractual amount of assets that were written off during the period are still subject to enforcement activity.

The following tables summarize the loans segmented by sector and areas of geography.

Loans segmented by sector	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
Balance at December 31	**3,986,860**	**321,543**	**315,165**	**486,067**	**5,109,635**

Loans segmented by sector	2021				
	Stage 1	Stage 2	Stage 3	Fair value	Total
Financial Institutions	1,797,460	216,998	30,949	260,838	2,306,245
Energy	677,834	383,145	111,667	107,617	1,280,263
Agribusiness, Food and Water	537,968	75,674	17,469	153,491	784,602
Multi-Sector Fund Investments	2,009	10,671	-	4,901	17,581
Infrastructure, Manufacturing and Services	158,255	87,925	44,689	95,131	386,000
Balance at December 31	**3,173,526**	**774,413**	**204,774**	**621,978**	**4,774,691**

Loans segmented by geographical area	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
Balance at December 31	**3,986,860**	**321,543**	**315,165**	**486,067**	**5,109,635**

Loans segmented by geographical area	2021				
	Stage 1	Stage 2	Stage 3	Fair value	Total
Africa	850,355	267,300	65,458	146,552	1,329,665
Asia	691,791	123,526	64,425	132,421	1,012,163
Latin America & the Caribbean	809,997	135,707	60,857	66,951	1,073,512
Europe & Central Asia	666,645	235,444	14,034	204,051	1,120,174
Non - region specific	154,738	12,436	-	72,003	239,177
Balance at December 31	**3,173,526**	**774,413**	**204,774**	**621,978**	**4,774,691**

Loans to private sector - other information	2022	2021
Gross amount of loans to companies in which FMO has equity investments	338,935	259,131
Gross amount of subordinated loans	91,642	343,993

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 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
Balance at December 31, 2022	**4,019,439**	**-32,579**	**338,766**	**-17,223**	**521,762**	**-206,597**	**4,879,967**	**-256,399**

Changes in Loans to the private sector at AC in 2021	**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, 2021	3,289,746	-40,608	814,362	-45,870	301,861	-146,743	4,405,969	-233,221
Additions	745,218	-7,528	77,575	-2,967	-	-	822,793	-10,495
Exposure derecognized or matured/lapsed (excluding write offs)	-794,539	3,373	-251,804	4,677	-27,996	307	-1,074,339	8,357
Transfers to Stage 1	230,450	-10,585	-230,450	10,585	-	-	-	-
Transfers to Stage 2	-401,759	6,359	410,816	-8,066	-9,057	1,707	-	-
Transfers to Stage 3	-38,256	635	-67,544	9,108	105,800	-9,743	-	-
Modifications of financial assets (including derecognition)	-17,648	-	14,878	-	5,746	-260	2,976	-260
Changes in risk profile (including changes in accounting estimates)	-	29,649	-	5,077	-	-33,147	-	1,579
Amounts written off/ disposals	-	-	-	-	-46,427	46,427	-46,427	46,427
Changes in amortizable fees	1,818	-	1,479	-	765	-	4,062	-
Premium / discount	98	-	-	-	-	-	98	-
Changes in accrued income	-262	-	-2,630	-	2,934	-	42	-
Foreign exchange adjustments	179,146	-1,781	37,253	-2,066	23,243	-10,643	239,642	-14,490
Balance at December 31, 2021	**3,194,012**	**-20,486**	**803,935**	**-29,522**	**356,869**	**-152,095**	**4,354,816**	**-202,103**

Total impairments on loans in the consolidated profit and loss account

	2022	2021
Additions	-12,315	-10,495
Exposure derecognized or matured / lapsed (excluding write - offs)	100,389	8,357
Changes in risk profile (including changes in accounting estimates)	-218,898	1,579
Recoveries (written off loans)	-4,108	5,045
Other	8,298	-1,229
Balance at December 31	**-126,634**	**3,257**

The increase in ECL allowances from 2021 to 2022 relates primarily to increased risk associated with exposures in Ukraine, Sri Lanka and Myanmar. 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 presents the distribution of Stage 2 impairments by the criteria that triggered the migration to Stage 2.

December 31, 2022

ECL allowance Stage 2 - Trigger assessment	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
Total	**-17,223**	**-**	**-6,185**	**-23,408**

December 31, 2021

ECL allowance Stage 2 - Trigger assessment	Loans to private Sector	Guarantees	Loan Commitments	Total
More than 30 days past due	-	-	-	-
Deterioration in credit risk - financial difficulties	-29,522	-36	-880	-30,438
Total	**-29,522**	**-36**	**-880**	**-30,438**

The table show the values of the IMF GDP forecasts used in each of the economic scenarios for the ECL calculations for 2021 and 2022. 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 2022. 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	2022	2021
Turkey	4.97	8.95
India	6.84	9.50
Georgia	8.98	7.69
Argentina	4.04	7.50
Nigeria	3.17	2.64
Uganda	4.41	4.71
Bangladesh	7.25	4.60
Ghana	3.59	4.71
Armenia	6.98	6.46
Costa Rica	3.81	3.90

The following tables outline the impact of multiple scenarios on the ECL allowance. Given that COVID-19 in 2020 lead to modified macro-economic forecasts, the probabilities of macro-economic scenarios (making point-in-time adjusted probability of default) were updated using the data provided by the IMF.

Note that macro-economic scenarios have been updated by using the latest available information by the IMF, as published in October 2022.

December 31, 2022	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector[2]	Guarantees	Bonds and cash	Total
ECL scenario:						
Upside	259,065	2%	4,951	229	2	5,182
Base case[1]	279,355	50%	123,766	6,015	43	129,824
Downside	311,743	48%	143,405	6,190	41	149,636
Total			**219,938**	**942**	**52**	**220,933**

1 The total unweighted amount for the base case scenario of €288 million is an aggregation of €279 million (ECL amount - Note 7), €9 million (ECL off balance items including loan commitments - Note 31).

2 Loans to private sector in this table include amounts related to ECL allowances for off balance loan commitments (refer to Note 31).

December 31, 2021	Total unweighted amount per ECL scenario	Probability	Loans to the private Sector[2]	Guarantees	Bonds and cash	Total
ECL scenario:						
Upside	187,575	2%	3,740	10	1	3,752
Base case[1]	206,192	50%	102,690	380	26	103,096
Downside	237,678	48%	113,508	553	25	114,085
Total			**219,938**	**942**	**52**	**220,933**

1 The total unweighted amount for the base case scenario of €210 million is an aggregation of €206 million (ECL Note 7), €4 million (ECL off balance items including loan commitments - Note 31).

2 Loans to private sector in this table include amounts related to ECL allowances for off balance loan commitments (refer to Note 31).

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, 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[1]	-	47,459	47,459
Balance at December 31, 2022	**150,733**	**2,130,903**	**2,281,636**

1 Other changes relate to consolidation of FMO's Ventures Program (refer to the section group accounting and consolidation in the accounting policies chapter).

	Equity measured at FVOCI	Equity measured at FVPL	Total
Balance at January 1, 2021	115,504	1,688,437	1,803,941
Purchases and contributions	31,064	228,245	259,309
Return of capital (including sales)	-31,909	-321,758	-353,667
Changes in fair value	25,766	281,901	307,667
Balance at December 31, 2021	**140,425**	**1,876,825**	**2,017,250**

The following table summarizes the equity investments segmented by sector:

	2022	2021
Financial Institutions	627,292	538,768
Energy	270,532	256,053
Agribusiness	148,585	180,646
Multi-Sector Fund Investments	984,765	801,294
Infrastructure, Manufacturing and Services	250,462	240,489
Net balance at December 31	**2,281,636**	**2,017,250**

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.

	Fair value at December 31, 2022	Dividend income recognized during 2022	Fair value at December 31, 2021	Dividend income recognized during 2021
The Currency Exchange Fund N.V.	139,904	-	130,109	-
Seed Capital	10,789	-	10,276	-
EDFI Management Company	40	-	40	-
Balance at December 31	**150,733**	**-**	**140,425**	**-**

10. Investments in associates

The movements in the carrying amounts of the associates are summarized in the following table.

	2022	2021
Net balance at January 1	298,737	179,955
Purchases and contributions	14,715	38,006
Conversion from loans to equity	16,770	-
Conversion Associates/FVPL	18,924	-
Return of capital (including sales)	-10,929	-636
Share in net results	-58,597	63,902
Exchange rate differences	18,340	17,510
Net balance at December 31	**297,960**	**298,737**

All investments in associates from FMO are measured based on the equity accounting method. Cash dividends received from associates amount to €2.7 million (2021: €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.

Associate	Carrying amount	Economic ownership %	Total assets	Total liabilities	Total income	Total profit/loss
Banyantree Growth Capital LLC	1,819	27%	-	-	-	-
Climate Fund Managers B.V.	7,434	50%	13,988	6,286	15,594	5,576
Arise BV	233,095	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
Total	**297,960**					

	2022	2021
Financial Institutions	233,095	258,492
Energy	60,999	32,795
Multi-Sector Fund Investments	3,866	7,450
Net balance at December 31	**297,960**	**298,737**

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 placed a deposit of €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, 2022, our remaining commitment towards Arise B.V. amounts to US$13.9 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 .

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 expenses related to leasehold improvements.

	Furniture	Leasehold improvement	Other	Right-of-use assets	Total
Cost at December 31, 2021	9,386	8,695		28,564	46,645
Accumulated amortization at December 31, 2021	-8,260	-1,293		-9,849	-19,402
Balance at December 31, 2021	**1,126**	**7,402**		**18,715**	**27,243**
Carrying amount at January 1, 2022	1,126	7,402	-	18,715	27,243
Investments	76	-	38	470	584
Depreciation	-340	-893	-2	-3,260	-4,495
Disposals	-	-		-11	-11
Accumulated depreciation on disposals	-	-		-	-
Balance at December 31, 2022	**862**	**6,509**	**36**	**15,914**	**23,321**
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
Balance at December 31, 2022	**862**	**6,509**	**36**	**15,914**	**23,321**

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, 2021	18,310	475	1,981	20,766	20,916
Additions	331	-	947	1,278	1,278
Disposals	-	-	-71	-71	-71
Depreciation	-2,365	-126	-767	-3,258	-
Finance costs	-	-	-	-	159
Payments	-	-	-	-	-3,367
Balance at December 31, 2021	**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
Balance at December 31, 2022	**13,987**	**249**	**1,678**	**15,914**	**16,144**

The following table presents the maturity breakdown of the leases

December 31, 2022	**< 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
Total	**3,111**	**10,601**	**2,432**	**16,144**

December 31, 2021	**< 1 year**	**1-5 years**	**>5 years**	**Total**
Buildings	2,331	9,347	4,779	16,457
Office Equipment	109	218	24	351
Vehicles	686	1,421	-	2,107
Total	**3,126**	**10,986**	**4,803**	**18,915**

12. Intangible assets

Intangible assets include expenditures associated with identifiable and unique software products or internally developed software, controlled by FMO. For internally developed software, only expenses 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, 2021	6,624	32,749	39,373
Accumulated amortization at December 31, 2021	-4,897	-16,518	-21,415
Balance at December 31, 2021	**1,727**	**16,231**	**17,958**
Carrying amount at January 1, 2022	1,727	16,231	17,958
Investments	571	405	976
Amortization	-709	-6,255	-6,964
Impairment/disposals		-24	-24
Accumulated depreciation on disposals		9	9
Balance at December 31, 2022	**1,589**	**10,366**	**11,955**
Cost at December 31, 2022	7,195	33,130	40,325
Accumulated amortization at December 31, 2022	-5,606	-22,764	-28,370
Balance at December 31, 2022	**1,589**	**10,366**	**11,955**

Impairment relates to software that is not in use anymore.

Notes to the consolidated statement of financial position: liabilities

13. Short-term credits

	2022	2021
Collateral received (related to derivative financial instruments)	52,156	123,359
Balance at December 31	**52,156**	**123,359**

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)

	2022	2021
Current account MASSIF	148	112
Current account Building Prospects	493	77
Current account Access to Energy Fund	405	122
Current account FOM-OS	-	703
Current account GCF	12	-
Current account Land Use Facility	-	3
Balance at December 31	**1,058**	**1,017**

15. Other financial liabilities

The following table shows the movement on other liabilities measured at fair value through profit or loss:

	2022
Balance at January 1	-
Purchases and contributions	5,681
Return of Capital (including sales)	-26
Changes in fair value	29,214
Other changes[1]	47,459
Balance at December 31	**82,328**

1 Other changes 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 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 till July 15, 2026.

The movements can be summarized as follows:

	2022	2021
Balance at January 1	5,426,596	5,485,949
Amortization of premiums/discounts	1,294	9,909
Proceeds from issuance	1,374,288	627,296
Redemptions	-1,011,379	-723,355
Changes in fair value	-341,896	-125,404
Changes in accrued expense	8,978	-4,020
Exchange rate differences	114,372	156,221
Balance at December 31	**5,572,253**	**5,426,596**

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.

The following table summarizes the carrying value of the debentures and notes.

	2022	2021
Debentures and notes under hedge accounting	4,695,248	4,428,818
Debentures and notes valued at AC	877,005	997,778
Balance at December 31	**5,572,253**	**5,426,596**

The nominal amounts of the debentures and notes are as follows:

	2022	2021
Debentures and notes under hedge accounting	4,942,729	4,355,318
Debentures and notes valued at AC	865,670	983,610
Balance at December 31	**5,808,399**	**5,338,928**

17. Accrued liabilities

	2022	2021
Personnel payables	2,719	2,555
Tax refund credits	6,048	6,779
Accrued costs	14,099	11,689
Payables to third parties	1,600	7,185
Balance at December 31	**24,466**	**28,208**

18. Other liabilities

	2022	2021
Costs related to guarantees	1,153	1,193
Payments to third parties	78	74
Lease liabilities	16,144	18,916
Other liabilities[1]	34,888	2,217
Balance at December 31	**52,263**	**22,400**

1 Other liabilities 2022 relates to an outstanding payment for the equity transfer of JSCB Hamkorbank from MASSIF to FMO of €32 million.

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.

	2022	2021
Pension schemes	18,783	21,481
Allowance for loan commitments	8,572	3,277
Allowance for guarantees	12,031	759
Other provisions	2,727	2,075
Balance at December 31	**42,113**	**27,592**

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.

From January 1, 2022, the pension entitlements of existing and future employees accumulate in the new pension plan. Therefore, the present value of future defined benefit obligations relating to the original defined benefit plan were remeasured to account for the migration of entitlements from future contributions into the new plan. In 2021 this resulted in a decrease in the defined benefit obligation from €297,881k to €275,888k. The reduction of €21,993k in the defined benefit obligation was classified as a 'Past service cost' in terms of IAS 19 and resulted in a gain in the statement of profit or loss.

The amounts recognized in the statement of financial position are as follows:

	2022	2021
Present value of funded defined benefit obligations	179,041	275,888
Fair value of plan assets	-160,258	-254,407
Liability in the balance sheet	**18,783**	**21,481**

The movements in the present value of the defined benefit obligations can be summarized as follows:

	2022	2021
Present value at January 1	275,888	314,839
Service cost	-	21,014
Interest cost	3,454	2,688
Actuarial (gains)/losses due to changes in financial assumptions	-109,072	-35,978
Actuarial (gains)/losses due to changes in demographic assumptions	3,070	-69
Actuarial (gains)/losses due to experience assumptions	9,287	-1,542
Past service cost (curtailment)	-	-21,993
Benefits paid	-3,586	-3,071
Present value at December 31	**179,041**	**275,888**

The movements in the fair value of plan assets can be summarized as follows:

	2022	2021
Fair value at January 1	-254,407	-265,713
Expected return on plan assets	-3,194	-2,251
Employer contribution	-1,746	-12,745
Plan participants' contributions	-	-1,500
Actuarial (gains)/losses due to changes in financial assumptions	101,745	27,958
Actuarial (gains)/losses due to changes in demographic assumptions	-2,577	-
Actuarial (gains)/losses due to experience assumptions	-3,665	-3,227
Benefits paid	3,586	3,071
Fair value at December 31	**-160,258**	**-254,407**

The actuarial profit on the pension liability amounts to €1,212 (2021: €12,857 profit). This profit is mainly due to the increase of the discount rate, almost completely offset by the increase of the expected indexations.

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:

	2022	2021
Balance at January 1	21,481	49,126
Annual expense	331	-1,193
Contributions paid	-1,817	-13,595
Actuarial gains/losses	-1,212	-12,857
Balance at December 31	**18,783**	**21,481**

The amounts recognized in the statement profit or loss account as net periodic pension cost are as follows:

	2022	2021
Current service cost	71	21,864
Net interest cost	260	436
Subtotal	**331**	**22,300**
Contribution by plan participants	-	-1,500
Past service cost (curtailment)	-	-21,993
Total annual expense	**331**	**-1,193**

The principal assumptions used for the purpose of the actuarial valuations at year-end are as follows:

	2022 (%)	2021 (%)
Discount rate	3.5	1.3

Significant actuarial assumptions are the discount rate and indexation for active participants. Reasonably possible changes to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Increase (+0.5%)	Decrease (-0.5%)
Discount rate	-17,712	18,719

Other provisions

Other provisions mainly consists of legal provisions.

	2022	2021
Balance at January 1	2,075	7,651
Additions	1,310	305
Releases	-	-
Paid out	-658	-5,881
Balance at December 31	**2,727**	**2,075**

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 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. 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.

	2022	2021
AUTHORIZED SHARE CAPITAL		
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
Balance at December 31	**45,380**	**45,380**

ISSUED AND PAID-UP SHARE CAPITAL		
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
Balance at December 31	**9,076**	**9,076**

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 Dutch Government at the time of the financial restructuring and amounts to €29,272k (2021: €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

Total fair value reserve

	2022	2021
Balance at January 1	30,910	26,200
Fair value reserve of equity instruments at FVOCI	10,308	24,919
Income tax effect other comprehensive income	-2,659	-5,685
Release from fair value reserve	-	-14,524
Balance at December 31	**38,559**	**30,910**

Actuarial result pensions

Actuarial gains/losses on defined benefit plans

	2022	2021
Balance at January 1	-7,433	-17,156
Gains/(losses) during the period	900	9,723
Balance at December 31	**-6,533**	**-7,433**

Translation reserve

Translation reserve	**2022**	**2021**
Balance at January 1	-392	-17,727
Change	17,936	17,335
Balance at December 31	**17,544**	**-392**

Other reserves

Other reserves	**2022**	**2021**
Balance at January 1	43,338	32,162
Release Fair value reserve	-	14,524
Distribution of undistributed result prior year	-	-3,348
Balance at December 31	**43,338**	**43,338**

Non-controlling interests

Equis DFI Feeder L.P.	2022	2021
Balance at January 1	24	68
Fair value changes	-	-
Changes in subsidiary	-	-
Share in net profit	-24	-44
Balance at December 31	**-**	**24**

Notes to the consolidated statement of profit or loss

21. Net interest income

Interest income

	2022	2021
Interest on loans measured at AC	329,034	276,068
Interest on collateral delivered	1,282	2
Interest income related to banks	1,849	-
Interest on interest-bearing securities	3,091	2,350
Total interest income from financial instruments measured at AC	**335,256**	**278,420**
Interest on loans measured at FVPL	43,488	35,854
Interest on short-term deposits at FVTPL	8,646	328
Interest on derivatives related to asset portfolio	-36,306	-48,039
Total interest income from financial instruments measured at FVPL	**15,828**	**-11,857**
Total interest income	**351,084**	**266,563**

Included in the interest income on loans is €28,814k (2021: €15,088k) related to Stage 3 loans (adjusted on basis of net carrying amount).

Interest expense

	2022	2021
Interest on debentures and notes hedged	-67,235	-53,012
Interest on debentures and notes not hedged	-59,437	-49,063
Interest on short-term credits	-140	-1
Interest expenses related to banks (assets)[1]	-2,056	-4,704
Total interest expense from financial instruments measured at AC	**-128,868**	**-106,780**
Interest on derivatives related to funding portfolio	12,707	71,084
Total interest expense from financial instruments measured at FVPL	**12,707**	**71,084**
Interest on leases	-139	-158
Total interest expense	**-116,300**	**-35,854**

1 Interest expense is related to Cash and balances held at central banks. 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 2022 compared with 2021 (due to the interest rate increase by central banks) interest expense for these derivatives was significantly higher in 2022.

22. Dividend income

Dividend income relates to income from equity investments.

	2022	2021
Dividend income direct investments	33,666	16,311
Dividend income fund investments	7,757	5,755
Total dividend income	**41,423**	**22,066**

23. Results from equity investments

	2022	2021
Results from equity investments:		
Unrealized results from capital results	-32,816	174,616
Unrealized results from FX conversions - capital results	9,269	8,209
Unrealized results from FX conversions - cost price	73,356	99,076
Results from fair value re-measurements	**49,809**	**281,901**
Results from sales		
Realized results	6,124	79,681
Release unrealized results	-6,667	-66,047
Net results from sales	**-543**	**13,634**
Total results from equity investments	**49,266**	**295,535**

24. Net fee and commission income

	2022	2021
Prepayment fees	4,774	5,904
Fees for FVPL loans	170	865
Administration fees	1,955	1,949
Other fees (for example: arrangement, cancellation and waiver fees)	4,013	2,850
Total fee and commission income	**10,912**	**11,568**
Custodian fees and charges for the early repayment of debt securities	-1,077	-521
Guarantee fees related to unfunded risk participants	-11,644	-5,319
Other fee expenses	-88	-31
Total fee and commission expense	**-12,809**	**-5,871**
Net fee and commission income	**-1,897**	**5,697**

25. Results from financial transactions

	2022	2021
Gains/(losses) on remeasurement of on valuation of hedged items	341,896	125,404
Gains/(losses) on remeasurement of hedging instruments	-339,323	-124,252
Result on hedge accounting	**2,573**	**1,152**
Result on sale and valuation of treasury derivatives not under hedge accounting	42,768	6,700
Result on sale and valuation of derivatives related to asset portfolio	-3,989	-11,729
Result on sale and valuation of loans at FVPL	-32,706	-20,860
Result on financial instruments mandatory at FVPL	**6,073**	**-25,889**
Foreign exchange results loans at FVPL	-29,522	33,167
Foreign exchange results derivatives	-165,603	45,876
Foreign exchange results on other financial assets/liabilities	196,703	-81,128
Foreign exchange results	**1,578**	**-2,085**
Other financial results	159	403
Other changes[1]	-29,214	-
Total result from financial transactions	**-18,831**	**-26,419**

1 Other changes on financial instruments designated at FVPL relates to the State Funds' share in FMO's Venture program (refer to section group accounting and consolidation; Other financial liabilities in the accounting policies chapter).

Increased interest rates and appreciation of the USD against EUR are the main factors driving the results from financial transactions.

26. Remuneration for services rendered

	2022	2021
Funds and programs managed on behalf of the State:		
- MASSIF	11,518	11,020
- Building Prospects	9,332	8,930
- Access to Energy Fund	3,933	3,253
- FOM OS	-	100
Syndication fees, remuneration from directorships and others	8,154	8,954
Total remuneration for services rendered	**32,937**	**32,257**

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.

	2022	2021
Gains and losses due to derecognition	299	5,135

28. Other operating income

	2022	2021
Other operating income	-	116
Total other operating income	**-**	**116**

29. Staff costs

The number of FTE at December 31, 2022, amounted to 661 (2021: 579 FTEs). All FTE are employed in the Netherlands except for 2 FTEs, which are employed in our South African and Costa Rican offices.

	2022	2021
Salaries	-61,885	-58,045
Social security costs	-7,527	-6,935
Pension costs	-13,652	1,193
Temporaries	-17,236	-11,291
Travel and subsistence allowances	-3,889	-300
Other personnel expenses	-4,204	2,257
Total staff costs	**-108,393**	**-73,121**

The Pension costs line item 2022 includes an amount of €13,321k related to the defined contribution plan expenses. For 2021 €-21,993k relates to the curtailment of the defined benefit pension obligation.

Other personnel expenses include reimbursements on staff costs amounting to €4,904 (2021: €8,476k) 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

	2022	2021
IT expenses	-8,920	-7,783
Advisory costs	-8,060	-9,008
Other operational expenses	-15,107	-12,011
Total administrative expenses	**-32,087**	**-28,802**

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, 2022, the Supervisory Board consisted of six members (2021: six). The members of the Supervisory Board were paid a total remuneration of €115k (2021: €134k).

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 (2021: 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.

Fee charged by auditors	**2022**	**2021**
Statutory audit of annual accounts	-863	-792
Other assurance services	-884	-821
Total	**-1,747**	**-1,613**

31. Income taxes

Income tax by type

	2022	**2021**
Current income taxes	19,653	-34,222
Deferred income taxes	-2,780	954
Total income tax	**16,873**	**-33,268**

The reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

		2022	**2021**
Profit/(loss) before taxation		-15,838	523,914
Income taxes at statutory rate of 25.8% (2021 25%)		4,086	-130,979
Increase/decrease resulting from:			
·	Settlement with local withholding taxes	2,186	2,100
·	Non-taxable income (participation exemption facility)	10,785	92,426
·	Tax adjustments to prior periods	83	3,369
·	Other	-267	-184
Total income tax		**16,873**	**-33,268**
Effective income tax rate		106.5%	6.3%

Current income tax

FMO paid €43,771 (2021: €838 received) to the tax authorities. The remaining current income tax receivable amounts to €20,942 (2021: €36,929 tax payable). Per year end 2022 unused tax losses amount to €0 (2021: €0) and unused tax credits amount to €0 (2021: €0)

Deferred tax

FMO's deferred income tax assets and liabilities are summarized as follows:

	2022	2021
Deferred tax assets		
Pension provision	2,573	2,958
Actuarial gains and losses on defined benefit plans	2,272	2,583
Unused tax credits	3,158	-
Operational leases	55	48
Total deferred tax assets	**8,058**	**5,589**
Deferred tax liabilities		
Fair value movements equity investments	-13,407	-10,748
Total deferred tax liabilities	**-13,407**	**-10,748**
Net balance at December 31	**-5,349**	**-5,159**

Off-balance sheet information

32. 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:

	2022	2021
Contingent liabilities		
Encumbered funds (Single Resolution Fund)	2,130	1,453
Effective guarantees issued	138,359	69,341
Total contingent liabilities	**140,489**	**70,794**
Effective guarantees received	-449,913	-334,221
Total guarantees received	**-449,913**	**-334,221**

Nominal amounts for irrevocable facilities are as follows:

		2022	2021
Irrevocable facilities			
Contractual commitments for disbursements of:			
·	Loans	565,435	627,630
·	Equity investments and associates	754,898	701,141
·	Contractual commitments for financial guarantees given	180,836	136,450
Total irrevocable facilities		**1,501,169**	**1,465,221**

The movement in exposure for the financial guarantees issued (including contractual commitments) and ECL allowance is as follows:

Movement financial guarantees[1] in 2022	**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
Balance at December 31, 2022	**305,172**	**-1,314**	**-**	**-**	**14,023**	**-10,717**	**319,195**	**-12,031**

1 Financial guarantees represent €138,359k classified as contingent liabilities and €180,836k classified as irrevocable facilities.

Movement financial guarantees[1] in 2021	**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, 2021	300,939	-1,875	105,612	-2,630	-	-	406,551	-4,505
Additions	176,488	-1,317	1,881	-78	-	-	178,369	-1,395
Exposures matured (excluding write-offs)	-285,081	964	-107,507	1,922	-	-	-392,588	2,886
Transfers to Stage 1	-	-	-	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	1,583	-	797	-	-	-	2,380
Foreign exchange adjustments	11,307	-78	2,152	-47	-	-	13,459	-125
Balance at December 31, 2021	**203,653**	**-723**	**2,138**	**-36**	**-**	**-**	**205,791**	**-759**

1 Financial guarantees represent €69,341k classified as contingent liabilities and €136,450k classified as irrevocable facilities.

The movement in nominal amounts for loan commitments and ECL allowances is as follows:

Movement of loan commitments in 2022	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
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
Balance at December 31, 2022	**426,057**	**-2,387**	**127,071**	**-6,185**	**5,504**	**-**	**558,632**	**-8,572**

Movement of loan commitments in 2021	Stage 1		Stage 2		Stage 3		Total	
	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance	Nominal amount	ECL allowance
Balance at January 1, 2021	378,990	-3,160	54,904	-1,748	18,360	-	452,254	-4,908
Additions	1,472,825	-4,351	30,858	-3,149	4,394	-	1,508,077	-7,500
Exposures derecognized or matured (excluding write-offs)	-1,318,527	4,010	-40,817	3,595	-16,609	-	-1,375,953	7,605
Transfers to Stage 1	5,233	-836	-5,233	836	-	-	-	-
Transfers to Stage 2	-21,884	167	21,884	-167	-	-	-	-
Transfers to Stage 3	-3,578	37	-	-	3,578	-37	-	-
Changes to models and inputs used for ECL calculations	-	1,840	-	-177	-	37	-	1,700
Changes due to modifications not resulting in derecognition	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	-	-	-	-
Foreign exchange adjustments	19,160	-104	3,376	-70	754	-	23,290	-174
Balance at December 31, 2021	**532,219**	**-2,397**	**64,972**	**-880**	**10,477**	**-**	**607,668**	**-3,277**

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.

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 (2021: 2.16 percent) stake in this program. For 2022, FMO received a fixed remuneration of €11.5 million (2021: €11.0 million). In 2022, one private equity investment was transferred to FMO (€32.7 million), but no loans were transferred from MASSIF to FMO.

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 2022, FMO received a fixed remuneration for services rendered of €9.3 million (2021: €8.9 million). In 2022, 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 2022, FMO received a fixed remuneration for services rendered of €3.9 million (2021: €3.3 million). In 2022, one private equity investment was transferred to FMO (€13.9 million), but no loans were transferred from Access to Energy Fund I and II to FMO.

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 2022, the Dutch Government provided €13.6 million for the Land Use Facility (in addition to the aggregate amount of €42.7 million, disbursed in previous years).

5. *Capacity Development Program:* This invests in inclusive projects, focusing particularly climate change and gender. For 2022, FMO received no remuneration for the services provided.

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.

The transactions during the year are summarized in Note C of the company balance sheet.

Associates

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 (for example the Invest International investment). Investments are treated as associates in case the criteria of our accounting policies are met.

Reference is made to the significant accounting policies and the 'Investments in associates' note for transactions during the year.

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 2022 a benchmark review has been conducted by an external consultant. During the 2022 AGM no amendments were made with respect to the remuneration policy. Depending on the outcome of a recent policy review amendments may be proposed during the 2023 AGM.

Changes in Management Board

In 2021, FMO decided to extend the Management Board with two extra members. The board now consist of five functions: a CEO, two Co-Chief Investment Officers, a Chief Risk Officer and a Chief Finance & Operations Officer. Two new appointments were made in 2022:

- Franca Vossen was appointed Chief Risk Officer (CRO) as per September 1, 2022, and
- Peter Maila was appointed as Co-Chief Investment Officer (Co-CIO) as per December 1, 2022.

Both new 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 2022 are provided below.

Fixed salary remuneration

As per March 1, 2022 the maximum salary cap-applicable to the CEO increased by 2.5% (in conformity with the structural salary adjustment of the collective labor agreement, CLA Banks) to €300k. During 2022, the fixed remuneration for the CEO was equal to the maximum cap. For the other members of the Management Board this salary cap was €255k and for Directors the salary cap was €220k (as per March 1, 2022). 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

As per January 1, 2022, the pension scheme changed into a defined contribution scheme for all employees of FMO, including members of the Management Board. For pensionable salary up to the applicable threshold, which for 2022 amounted to €114k, 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

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 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). Mrs Vossen, Mr Jongeneel and Mr Maila serve in their first term.

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 0.29 (2021: 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, 2022 the Management Board consisted of five statutory members (2021: three). The total remuneration of the Management Board in 2022 amounts to €1,112k (2021: €1,064k) and is specified as follows:

	Fixed remuneration	Other short term employee benefits	Pension[1]	Total 2022
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[2] (CCIO)	21	1	2	24
Franca Vossen[3] (CRO)	85	5	8	98
Total	**913**	**66**	**133**	**1,112**

1 The allowance for retirement of Huib-Jan de Ruijter (€1k) is reported under pension.

2 Peter Maila has been appointed as Co-CIO per December 1, 2022.

3 Franca Vossen has been appointed as CRO per September 1, 2022.

	Fixed remuneration	Allowance for retirement	Other short term employee benefits	Pension	Total 2021
Fatoumata Bouaré	235	-	22	34	291
Linda Broekhuizen[1)]	267	32	24	42	365
Huib-Jan de Ruijter[2)]	235	1	26	32	294
Michael Jongeneel	98	-	6	10	114
Total	**835**	**33**	**78**	**118**	**1,064**

1 Linda Broekhuizen stepped down as per September 1, 2021, as CEO ad interim and continued up to February 28, 2022, as advisor to the Management Board. The remuneration presented in the table entails the total remuneration in 2021 as CEO and advisor. The remuneration related to the advisory role amounts to €116k (of which €83k relates to fixed remuneration).

2 Huib-Jan Ruijter was appointed CIO as per 8 July 2021

Except for pensions of €133k (2021: €118k) 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:

	Remuneration member 2022 [1)]	Committees 2022	Total 2022	Total 2021
Dirk Jan van den Berg [2)]	25	3	28	28
Koos Timmermans[3)]	17	4	21	20
Thessa Menssen[4)]	-	-	-	23
Dugald Agble[5)]	17	3	20	19
Reintje van Haeringen[6)]	17	6	23	23
Marjolein Demmers[7)]	17	6	23	21
Total	**93**	**22**	**115**	**134**

1 As per March 1, 2022, the remuneration of SB has increased by 2.5 percent.

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 Thessa Menssen resigned from the SB as per January 1, 2022, until then Thessa was member of the ARC and the Chair of the Impact Committee.

5 Dugald Agble is member of the ARC.

6 Reintje van Haeringen is Chair of the SARC and member of the Impact Committee.

7 Marjolein Demmers is member of the Impact Committee and member of the SARC.

Subsequent events

On February 6, 2023, there was a magnitude 7.8 earthquake that hit Turkey and Syria. This lead to thousands of buildings in the southern provinces of Turkey and northern parts of Syria to collapse with a significant loss of life recorded.

A few of our customers have part of their assets in the wider area affected by the earthquake, but preliminary assessment did not result in the need to a reclassification of our credit risk. Monitoring of potential future impact will be a key point of attention in the first half of 2023.

FMO has both debt and equity exposures in Turkey with net carrying amounts of € 401 million and € 58 million respectively on February 28, 2023. FMO has no exposures in Syria. This is a non-adjusting subsequent event for FMO.

Notes to the consolidated statement of comprehensive income

33. Other comprehensive income

Other comprehensive income	2022	2021
Items to be reclassified to profit and loss		
Exchange differences on translating foreign operations	17,936	17,335
Income tax effect	-	-
Total to be reclassified to profit and loss	**17,936**	**17,335**
Items not reclassified to profit and loss		
Fair value reserve of equity instruments at FVOCI:		
· Unrealized results during the year	2,486	16,534
· Foreign exchange results	7,822	8,385
Total Fair value reserve of equity investments at FVOCI	10,308	24,919
Actuarial gains/losses on defined benefit plans	1,212	12,857
Income tax effect	-2,971	-8,819
Total not reclassified to profit and loss	**8,549**	**28,957**
Release from fair value reserve	-	-14,524
Balance other comprehensive income at December 31	**26,485**	**31,768**

Tax effects relating to each component of other comprehensive income

	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	-	-	-
Balance at December 31, 2022	**29,456**	**-2,971**	**26,485**

	Before tax amount	Tax (expense) benefit	Net of tax amount
Exchange differences on translating foreign operations	17,335	-	17,335
Fair value reserve of equity instruments at FVOCI	24,919	-5,685	19,234
Actuarial gains/losses on defined benefit plans	12,857	-3,134	9,723
Release from fair value reserve	-14,524	-	-14,524
Balance at December 31, 2021	**40,587**	**-8,819**	**31,768**

Notes to the consolidated 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.

34. Net cash flow from operational activities

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 in regard to government funds and programs.

35. 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.

36. 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.

37. 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:

Cash position maturity bucket < 3 months	**2022**	**2021**
Banks	26,807	95,873
Short-term deposits measured at AC	1,144,801	1,149,877
Short-term deposits measured at FVPL	223,575	193,302
-of which > 3 months	-20,403	-43,911
Banks and short-term deposits < 3 months	**1,374,780**	**1,395,141**

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.

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, 2022, FMO's Management Board steers on the following four operating segments: Financial Institutions, Energy, Agribusiness Food and Water and Private Equity.

In 2022, two transactions are transferred from Financial Institutions to Agribusiness Food & Water. This transfer amounted up to €5.9 million in total. In addition, one transaction was transferred from Energy to PE, the loan was converted to equity. The total amount of the transfer was €3.5 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.

December 31, 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	-	-	-	-	299	299
Allocated income	10,956	12,021	5,202	20,384	-48,563	-
Total underlying income	**132,240**	**113,171**	**38,896**	**-32,252**	**3,306**	**255,361**
Operating expenses	-40,942	-35,065	-25,829	-48,154	-2,450	-152,440
Total operating expenses	**-40,942**	**-35,065**	**-25,829**	**-48,154**	**-2,450**	**-152,440**
Impairments on loans and guarantees	-15,395	-77,571	-49,171	-402	-244	-142,783
Total impairments	**-15,395**	**-77,571**	**-49,171**	**-402**	**-244**	**-142,783**
Profit/(loss) before taxation	**75,903**	**535**	**-36,104**	**-80,808**	**612**	**-39,862**
Share in results from associates	-	-	-	-58,597	-	-58,597
Taxation	-13,716	-97	6,524	26,403	-109	19,005
Underlying net profit/(loss)	**62,187**	**438**	**-29,580**	**-113,002**	**503**	**-79,454**
Currency effect equity investments	-	-	-	80,489	-	80,489
Net profit/(loss)	**62,187**	**438**	**-29,580**	**-32,513**	**503**	**1,035**

December 31, 2021	Financial Institutions	Energy	Agribusiness, Food and Water	Private Equity	Other	Total
Interest income	105,708	103,276	48,206	2,807	6,566	266,563
Interest expenses	-7,251	-8,456	-3,723	-12,282	-4,142	-35,854
Net fee and commission income	843	6,322	-1,365	349	-452	5,697
Dividend income	-	-	-	22,066	-	22,066
Results from equity investments	-	-	-	188,254	-	188,254
Results from financial transactions	1,559	-10,844	-4,161	-19,083	6,110	-26,419
Remuneration for services rendered	6,742	5,893	4,426	10,600	4,596	32,257
Gains and losses due to derecognition	536	3,505	1,094	-	-	5,135
Other operating income	-	-	-	-	116	116
Allocated income	1,939	2,261	995	3,284	-8,479	-
Total underlying income	**110,076**	**101,957**	**45,472**	**195,995**	**4,315**	**457,815**
Operating expenses	-29,356	-26,010	-19,517	-34,016	-5,251	-114,150
Total operating expenses	**-29,356**	**-26,010**	**-19,517**	**-34,016**	**-5,251**	**-114,150**
Impairments on loans and guarantees	22,930	-8,397	-4,850	-1,424	807	9,066
Total impairments	**22,930**	**-8,397**	**-4,850**	**-1,424**	**807**	**9,066**
Profit/(loss) before taxation	**103,650**	**67,550**	**21,105**	**160,555**	**-129**	**352,731**
Share in results from associates	-	-	-	63,902	-	63,902
Taxation	-22,526	-14,681	-4,587	11,180	28	-30,586
Underlying net profit/(loss)	**81,124**	**52,869**	**16,518**	**235,637**	**-101**	**386,047**
Currency effect equity investments	-	-	-	104,599	-	104,599
Net profit/(loss)	**81,124**	**52,869**	**16,518**	**340,236**	**-101**	**490,646**

Segment assets December 31, 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
Total assets	**3,335,413**	**1,962,381**	**1,237,466**	**3,350,252**	**14,449**	**9,899,961**
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	123,617	184,469	160,730	563,026	-	1,031,842

Segment assets December 31, 2021	Financial Institutions	Energy	Agribusiness, Food and Water	Private Equity	Other	Total
Loans to the private sector	2,260,346	1,514,056	960,103	25,166	15,020	4,774,691
Equity investments and investments in associates	-	-	-	2,315,987	-	2,315,987
Other assets	705,330	472,454	299,595	730,545	4,687	2,212,611
Total assets	**2,965,676**	**1,986,510**	**1,259,698**	**3,071,698**	**19,707**	**9,303,289**
Contingent liabilities – Effective guarantees issued	49,905	18,919	-	517	-	69,341
Assets under management (loans and equity investments) managed for the risk of the state	145,350	179,044	139,367	561,741	-	1,025,502

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.

December 31, 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 results from associates	-38,947	-18,963	-	-	-686	-58,596
Other income	2,570	-17,550	-2,153	33,472	-1,934	14,405
Total income	**83,850**	**78,509**	**87,037**	**52,396**	**-22,407**	**279,385**

December 31, 2021	Africa	Asia	Latin America & Caribbean	Europe & Central Asia	Non-region specific	Total
Results from debt products	66,588	49,219	61,029	49,427	10,143	236,406
Results from equity investments	88,626	132,205	40,277	43,333	13,160	317,601
Share in results from associates	64,301	-4,068	-	-	3,669	63,902
Other income	5,612	-26,690	-18,311	61,736	-11,258	11,089
Total income	**225,127**	**150,666**	**82,995**	**154,496**	**15,714**	**628,998**

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.

	Operating segments					
December 31, 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
Total remuneration for services rendered	**5,705**	**6,543**	**3,921**	**12,695**	**4,073**	**32,937**

	Operating segments					
December 31, 2021	**Financial Institutions**	**Energy**	**Agribusiness, Food and Water**	**Private Equity**	**Other**	**Total**
Primary region						
Africa	395	566	-	-	31	992
Asia	729	192	43	-	19	983
Latin America & Caribbean	740	269	4	-	20	1,033
Europe & Central Asia	4,855	4,826	4,294	10,600	4,520	29,095
Non-region specific	23	40	85	-	6	154
Total remuneration for services rendered	**6,742**	**5,893**	**4,426**	**10,600**	**4,596**	**32,257**

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 (2021: 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 is 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.

	2022 Gross exposure	2021 Gross exposure
Loans to the private sector	525,319	531,482
Equity investments	418,564	516,898
Total	**943,883**	**1,048,380**

Loans managed for the risk of the Dutch Government and other public funding

The loan portfolio comprises the loans issued by the following funds:

	2022 Gross exposure	2021 Gross exposure
MASSIF	173,784	196,819
Building Prospects	259,261	262,070
Access to Energy Fund	75,974	64,711
FOM OS	-	36
Land Use Facility	16,300	7,846
Total	**525,319**	**531,482**

Equity investments managed for the risk of the Dutch Government and other public funding

The equity investments have been made by the following funds:

	2022 Gross exposure	2021 Gross exposure
MASSIF	232,115	283,740
Building Prospects	118,689	140,935
Access to Energy Fund	62,151	85,632
Land Use Facility	5,609	6,591
Total	**418,564**	**516,898**

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.

December 31, 2022	FVPL - mandatory	Fair value hedging instruments	FVOCI- equity instruments	Amortized cost	Financial liabilities used as hedged items	Financial liabilities designated at fair value	Total
Financial assets measured at fair value							
Short-term deposits	223,575	-	-	-	-	-	223,575
Derivative financial instruments	177,554	17,685	-	-	-	-	195,239
Loans to the private sector	486,067	-	-	-	-	-	486,067
Equity investments	2,130,903	-	150,733	-	-	-	2,281,636
Total	**3,018,099**	**17,685**	**150,733**	**-**	**-**	**-**	**3,186,517**
Financial assets not measured at fair value							
Banks	-	-	-	26,807	-	-	26,807
Current accounts with state funds and other programs	-	-	-	956	-	-	956
Short-term deposits	-	-	-	1,144,801	-	-	1,144,801
Interest-bearing securities	-	-	-	537,825	-	-	537,825
Loans to the private sector	-	-	-	4,623,568	-	-	4,623,568
Other receivables	-	-	-	17,251	-	-	17,251
Total	**-**	**-**	**-**	**6,351,208**	**-**	**-**	**6,351,208**
Financial liabilities measured at fair value							
Derivative financial instruments	335,045	275,931	-	-	-	-	610,976
Other financial liabilities	82,328	-	-	-	-	-	82,328
Total	**417,373**	**275,931**	**-**	**-**	**-**	**-**	**693,304**
Financial liabilities not measured at fair value							
Short-term credits	-	-	-	52,156	-	-	52,156
Debentures and notes	-	-	-	877,005	4,695,248	-	5,572,253
Current accounts with state funds and other programs	-	-	-	1,058	-	-	1,058
Accrued liabilities	-	-	-	24,466	-	-	24,466
Other liabilities	-	-	-	52,263	-	-	52,263
Total	**-**	**-**	**-**	**1,006,948**	**4,695,248**	**-**	**5,702,196**

December 31, 2021	FVPL - mandatory	Fair value hedging instruments	FVOCI-equity instruments	Amortized cost	Financial liabilities used as hedged items	Total
Financial assets measured at fair value						
Short-term deposits	193,302	-	-	-	-	193,302
Derivative financial instruments	129,345	106,328	-	-	-	235,673
Loans to the private sector	621,978	-	-	-	-	621,978
Equity investments	1,876,825	-	140,425	-	-	2,017,250
Total	**2,821,450**	**106,328**	**140,425**	**-**	**-**	**3,068,203**
Financial assets not measured at fair value						
Banks	-	-	-	95,873	-	95,873
Current accounts with state funds and other programs	-	-	-	648	-	648
Short-term deposits	-	-	-	1,149,877	-	1,149,877
Interest-bearing securities	-	-	-	463,971	-	463,971
Loans to the private sector	-	-	-	4,152,713	-	4,152,713
Other receivables	-	-	-	22,477	-	22,477
Total	**-**	**-**	**-**	**5,885,559**	**-**	**5,885,559**
Financial liabilities measured at fair value						
Derivative financial instruments	167,719	24,506	-	-	-	192,225
Total	**167,719**	**24,506**	**-**	**-**	**-**	**192,225**
Financial liabilities not measured at fair value						
Short-term credits	-	-	-	123,359	-	123,359
Debentures and notes	-	-	-	997,778	4,428,818	5,426,596
Current accounts with state funds and other programs	-	-	-	1,017	-	1,017
Accrued liabilities	-	-	-	28,208	-	28,208
Other liabilities	-	-	-	22,400	-	22,400
Total	**-**	**-**	**-**	**1,172,762**	**4,428,818**	**5,601,580**

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 Investment Review Committee (IRC). The IRC 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	2022		2021	
At December 31	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Short term deposits at AC	1,144,801	1,144,801	1,149,877	1,149,877
Banks	26,807	26,807	95,873	95,873
Interest-bearing securities	537,825	504,720	463,971	466,521
Loans to the private sector at AC	4,623,568	4,662,490	4,152,713	4,247,515
Financial assets not measured at fair value	**6,333,001**	**6,338,818**	**5,862,434**	**5,959,786**
Short-term credits	52,156	52,156	123,359	123,359
Debentures and notes	5,572,253	5,530,569	5,426,596	5,435,668
Financial liabilities not measured at fair value	**5,624,409**	**5,582,725**	**5,549,955**	**5,559,027**

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, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets mandatorily at FVPL				
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
Financial assets at FVOCI				
Equity investments	-	-	150,733	150,733
Total financial assets at fair value	**311,343**	**195,239**	**2,679,935**	**3,186,517**
Financial liabilities mandatorily at FVPL				
Derivative financial instruments	-	597,088	13,888	610,976
Financial liabilities designated at FVPL				
Other financial liabilities	-	-	82,328	82,328
Total financial liabilities at fair value	**-**	**597,088**	**96,216**	**693,304**

December 31, 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets mandatorily at FVPL				
Short-term deposits	193,302	-	-	193,302
Derivative financial instruments	-	235,673	-	235,673
Loans to the private sector	59,831	-	562,147	621,978
Equity investments	70,134	-	1,806,691	1,876,825
Financial assets at FVOCI				
Equity investments	-	-	140,425	140,425
Total financial assets at fair value	**323,267**	**235,673**	**2,509,263**	**3,068,203**
Financial liabilities mandatorily at FVPL				
Derivative financial instruments	-	183,047	9,178	192,225
Total financial liabilities at fair value	**-**	**183,047**	**9,178**	**192,225**

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).

Movements in financial instruments measured at fair value based on level 3	**Derivative financial instruments**	**Loans to the private sector**	**Equity investments and associates**	**Total**
Balance at December 31, 2020	4,041	528,879	1,793,694	2,326,614
Total gains or losses				
-In profit and loss (changes In fair value)	-4,373	-16,126	196,922	176,423
-In other comprehensive income (changes in fair value)	-	-	25,766	25,766
Purchases /disbursements	-	68,779	257,900	326,679
Sales/repayments	59	-52,570	-353,667	-406,178
Interest capitalization	-	7,602	-	7,602
Write-offs	-	-3,817	-	-3,817
Accrued income	-	-187	-	-187
Exchange rate differences	273	29,587	101,836	131,696
Derecognition and/or restructuring FVPL versus AC	-	-	-	-
Conversion from loans to equity	-	-	-	-
Conversion associate/FVPL	-	-	-	-
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-75,335	-75,335
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[1]	-	-	47,459	47,459
Balance at December 31, 2022	**-**	**432,150**	**2,247,785**	**2,679,935**

1 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, 2022**	**Valuation technique**	**Range (weighted average) of significant unobservable inputs**	**Fair value measurement sensitivity to unobservable inputs**
Loans	64,891	Discounted cash flow model	Based on client spread	A decrease/increase of the used spreads with 1% will result is a higher/lower fair value of approximately €1.6m.
	127,340	ECL measurement	Based on client rating	An improvement / deterioration of the Client rating with 1 notch will result in a 0.5% increase/decrease
	51,636	Credit impairment	n/a	n/a
Debt Funds	188,283	Net Asset Value	n/a	n/a
Total	**432,150**			

Type of equity investment/ associate	Fair value at December 31, 2022	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity based on the significant unobservable inputs
Private equity fund investments	1,320,425	Net Asset Value	n/a	n/a
Private equity direct investments	42,634	Recent transactions	Based on at arm's length recent transactions	n/a
	513,587	Book multiples	1.0 – 1.3	A decrease/increase of the book multiple with 10% will result in a lower/ higher fair value of €51 million.
	224,870	Earning Multiples	Depends on several unobservable data such as EBITDA multiples (range 1.0 - 11.1)	A decrease/increase of the used unobservable data with 10% will result in a lower/higher fair value of €22million.
	44,669	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 €4 million.
	83,173	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 €8 million.
	18,427	Firm offers	Based on offers received from external parties	n/a
Total	**2,247,785**			

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.

Risk management

This chapter provides an overview of FMO's risk governance and risk management approach. The sections describe the key risk domains relevant for FMO and developments throughout 2022. 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 purpose of FMO's risk management framework is to support the institution's ambitions while safeguarding its long-term sustainability. Risk management practices are integrated across the institution, 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 required to preserve the institution's integrity, which is essential for fulfilling its mission and upholding its good reputation.

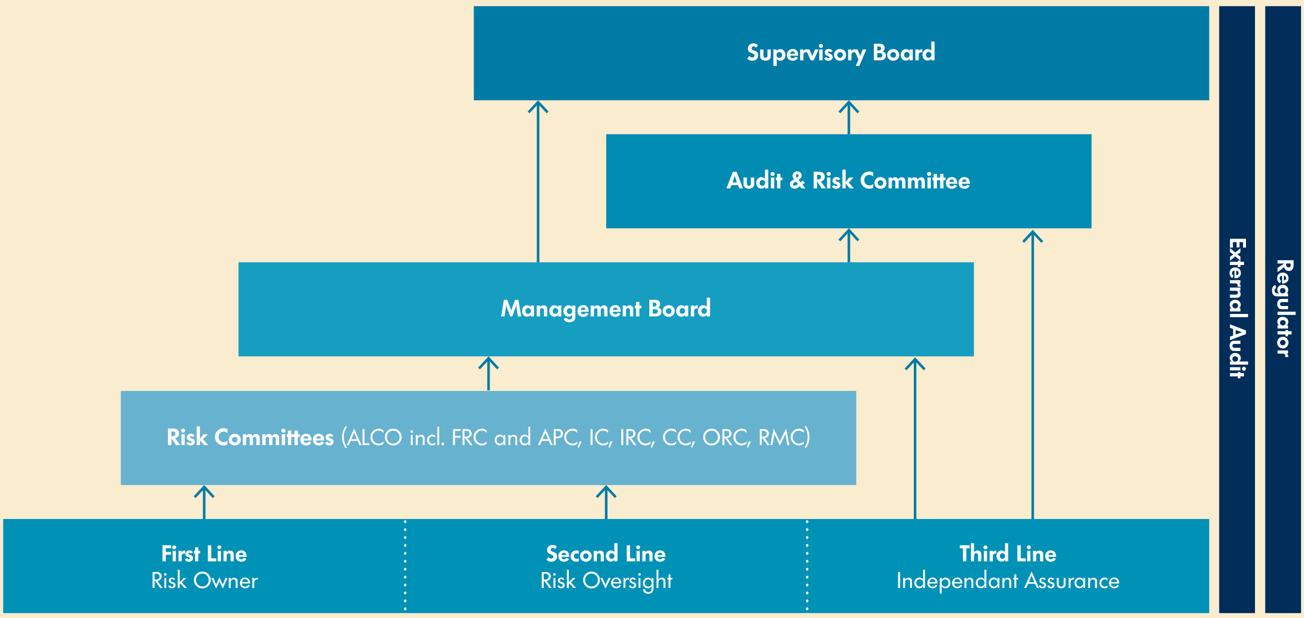
The Management Board defines and promotes the desired corporate culture and high ethical and professional standards. Employees are encouraged to take the right risks in an informed manner, with integrity and careful consideration of the interests of all stakeholders.

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 and Compliance department), and the third line (Internal Audit) that performs independent assessments of the functioning of first and second line. The appointment of a separate CRO reinforces FMO's risk management framework and the oversight responsibilities for risk management.

FMO has a two-tier board structure in place, consisting of a Supervisory Board (SB) and a Management Board (MB). The Supervisory Board appoints the members of the Management Board and supervises its activities. The SB advises the Management Board and approves the annual budget, the strategic development, and the risk appetite. Each SB member has specific expertise in FMO's primary areas of operation. The SB members are appointed in the Annual Meeting of Shareholders.

The MB currently comprises of five statutory directors: the Chief Executive Officer (CEO), two Co-Chief Investment Officers (CIO), the Chief Finance and Operations Officer (CFOO) and the Chief Risk Officer (CRO). The MB is accountable for compliance with relevant legislation and regulations.

The organizational structure is shown in the figure 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 committee structure will be reviewed in 2023 with the new MB composition in mind. The current risk committees and their responsibilities are described below.

The Asset and Liability Committee (ALCO). The ALCO assists the MB by evaluating, monitoring and steering the financial risk profile of FMO in accordance with the risk appetite approved by the SB. The ALCO approves, monitors and evaluates policies, limits and procedures to manage the financial risk profile of FMO on a portfolio level, except for credit and equity risk related policies. The ALCO is responsible for overseeing FMO's capital and liquidity positions and defining possible interventions.

The Operational Risk Committee (ORC). The ORC is mandated by the MB to evaluate, monitor and steer the operational risk profile of FMO in accordance with the risk appetite. The ORC approves policies and supporting standards and takes decisions in the context of the Product Approval and Review Process (PARP). The Committee is chaired by the CRO.

The Investment Committee (IC). The IC is responsible for approving financing proposals and advising MB on transactions in terms of specific counterparty, product as well as country risk. The IC is chaired by the Director CLS and consists of senior representatives of investment departments and CRO departments. All financing proposals are accompanied by the advice of the Credit department. This department is responsible for credit risk assessment of both new transactions and the existing portfolio. Credit also has the authority to approve new transactions with small exposures.

The Investment Review Committee (IRC). The IRC is responsible for monitoring the portfolio asset quality and for reviewing financial exposures, which require specific attention, and decide on needed measures. The IRC also deciding on specific loan impairments, approves credit risk and concentration risk policies and is responsible for internal credit rating models. It is chaired by the CRO.

The Compliance Committee (CC). The CC is delegated by the MB to take decisions on compliance related matters and issues based on proposed solutions. The CC is chaired by the CRO and is held in two different sessions that focus either on customer cases or on regular compliance topics. The CC is responsible for implementing developments, related projects, laws and regulations, policies and procedures related to compliance matters.

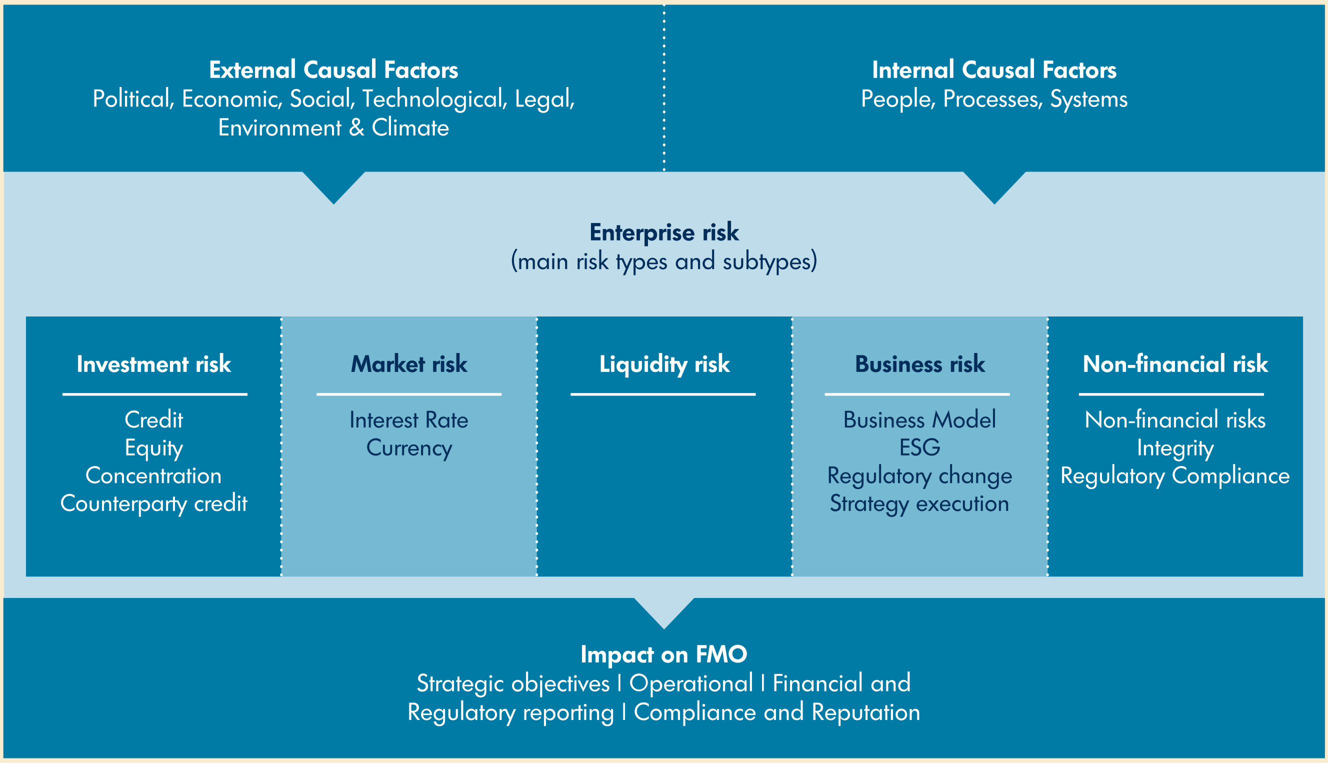
The Regulatory Monitoring Committee (RMC). The RMC maintains oversight of relevant laws and regulations and ensures that the MB is kept up to date on the progress regarding the implementation of new and updated laws and regulations, and the level of regulatory compliance within FMO. The RMC is chaired by the CRO.

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 MB and approved by the SB 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.



Developments

The composition of the MB changed in 2022. The CRFO function has been split into a dedicated CRO and a CFOO. Also, a co-CIO has been appointed.

The Regulatory Monitoring Committee was introduced as the sixth risk committee.

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 fulfill the Pillar 3 disclosure requirements of the Capital Requirements Directive (CRD) IV and V regulation.

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.

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 integrated capital adequacy planning and control framework. Capital adequacy metrics are calculated by the Risk Management department and regularly reviewed by the ALCO 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 internal ratio (Economic Capital Ratio) is based on an economic capital model 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, 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 and proposing and quantifying possible interventions to ALCO.

Developments
FMO's Total Capital Ratio increased from 23.7 percent at year-end 2021 to 24.9 percent at year-end 2022, which is well above the Supervisory Review and Evaluation Process (SREP) minimum and the 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 first part of the year has been characterized by the developments in Ukraine, with FMO's portfolio being affected by the recognition of €96,5 million of new NPLs in the first half of 2022. The slowdown and increased inflation that followed the events in Ukraine have created further uncertainty in FMO's markets. At the same time, the unequal impact of the crisis between Europe and the U.S., coupled with a flight to quality of market participants and the aggressively restrictive monetary policy of the Federal Reserve, have led to a significant appreciation of the US dollar against the euro, that diminished towards year-end. The EUR/USD exchange rate dynamic mitigated the loss recognized in the portfolio. The capital position remained strong and has not been impacted significantly by the events.

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, 2022, FMO's total available qualifying capital equals €3,271 million (2021: €3,004 million). The increase is mostly attributable to the full recognition of the profit recorded in the second half of 2021.

	2022	2021
IFRS shareholders' equity	3,448,326	3,433,616
Tier 2 capital	250,000	250,000
Regulatory adjustments:		
-Interim profit not included in CET 1 capital	-	-292,265
-Other adjustments (deducted from CET 1)	-321,006	-293,381
-Other adjustments (deducted from Tier 2)	-106,299	-94,059
Total capital	**3,271,021**	**3,003,911**
Of which Common Equity Tier 1 capital	3,127,320	2,847,970
Risk weighted assets	**13,165,304**	**12,655,587**
Of which:		
- Credit and counterparty risk	10,669,034	10,256,838
- Foreign exchange	1,925,572	1,882,322
- Operational risk	551,389	492,475
- Credit valuation adjustment	19,309	23,951
Total capital ratio	24.85%	23.74%
Common Equity Tier 1 ratio	23.75%	22.50%

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 (currently insignificant).

The Pillar 2 guidance (P2G) determines the adequate level of capital to be maintained above the existing capital requirements withstand stressed situations. The P2G is formally a non-binding requirement, but it’s expected to be met under normal circumstances.

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

- A management buffer, and
- A dynamic 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 that are 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 CET1 Ratio remained comfortably above the appetite level throughout 2022.

Economic capital

Economic capital is calculated in order to support an AAA rating. The economic capital model differs in two elements from the regulatory capital ratios. First, the EC model captures risks that are not covered under Pillar 1; namely ESG risk, and interest rate risk in the banking book (IRRBB). Second, the EC approach applies internal methodologies for credit risk of the loan and equity portfolio. 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, leading to a higher capital requirement than the standardized approach. The most important parameters for calculating credit risk capital requirements for the loan portfolio are the probability of default and loss given default calculated using FMO’s internal credit risk rating. Please refer to the 'Credit risk' section for more information regarding the internal credit risk rating system. From the economic capital approach, an internal capital ratio (Economic Capital Ratio) is derived. FMO’s Economic Capital Ratio remained comfortably above the appetite level throughout 2022.

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 31 percent (2021: 29 percent), far above the minimum requirement of 3 percent proposed by European authorities.

Financial risk

Investment risk

Investment risk is defined as the risk that actual investment returns will be lower than expected returns, and includes credit, equity, concentration and counterparty credit risks.

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

For FMO's emerging market loan portfolio, adverse changes in credit quality can occur 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. For credit monitoring, FMO's customer are subject to annual reviews at a minimum. FMO also monitors customers that are identified due to financial difficulties through a quarterly watch list process to proactively manage loans before they become non-performing. For distressed assets, the Special Operations department actively manages workout and restructuring.

FMO has set internal appetite levels for non-performing loans 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 IRC. 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 has started in 2021 via the Investment Risk project, which continued in 2022 and 2023.

In 2022, FMO has fundamentally redesigned the Investment Risk Policy and has adjusted internal processes and systems accordingly. The new Investment Risk Policy has been approved by the Investment Risk Committee (IRC) in December 2022 and is to be formally implemented in February 2023. Prior to the implementation, all Front Office, Credit and Special Operations staff are to be trained. The main changes include strengthening the governance framework, alignment amongst key prudential policies, and enhancing loan monitoring framework.

Exposures and credit scoring

The following table shows FMO's total gross exposure to credit risk per 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 €8.57 billion as of year-end 2022 (2021: €8.09 billion). There was a increase in short term deposits at the DNB accompanied by a material increase of €421 million in FMO's credit exposure from loans to the private sector in emerging markets, which increased to €5.51 billion.

Maximum exposure to credit risk, including derivatives	2022	2021			
On-balance					
Banks	26,814	95,873			
Current accounts with State funds and other programs	956	648			
Short-term deposits					
-of which: amortized cost	544,130	120,048			
-of which: fair value through profit or loss	223,553	193,302			
Interest-bearing securities	537,904	464,015			
Short-term deposits – DNB	600,693	1,029,829			
Derivative financial instruments	195,239	235,673			
Loans to the private sector					
-of which: amortized cost	4,925,286	4,400,086			
-of which: fair value through profit or loss	586,651	690,949	5,511,937	5,091,035	420,902
Current tax receivables	20,942	-			
Other receivables	17,252	22,477			
Deferred income tax assets	8,058	5,589			
Total on-balance	**7,687,478**	**7,258,489**			
Off-balance					
Contingent liabilities (guarantees issued)	138,359	69,341			
Irrevocable facilities	746,271	764,080			
Total off-balance	**884,630**	**833,421**			
Total credit risk exposure	**8,572,108**	**8,091,910**			

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 'Significant accounting policies' section, for details of the expected credit loss calculation methodology.

The majority of our gross loan portfolio (67 percent) remains in the F11 to F16 ratings categories.

Credit quality analysis

Loans to the private sector at December 31, 2022 Indicative counterparty credit rating scale of S&P	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%
Gross exposure	**4,057,681**	**342,844**	**524,761**	**586,651**	**5,511,937**	**100%**
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	
Carrying amount	**3,986,860**	**321,543**	**315,165**	**486,067**	**5,109,635**	

Loans to the private sector at December 31, 2021 Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Fair value	Total	%
F1-F10 (BBB- and higher)	298,631	-	-	15,691	314,322	6%
F11-F13 (BB-,BB,BB+)	1,882,765	143,029	-	347,046	2,372,840	47%
F14-F16 (B-,B,B+)	1,019,114	344,623	-	197,785	1,561,522	31%
F17 and lower (CCC+ and lower)	28,180	324,275	359,469	130,427	842,351	16%
Gross exposure	**3,228,690**	**811,927**	**359,469**	**690,949**	**5,091,035**	**100%**
Less: amortizable fees	-34,678	-7,992	-2,600	-	-45,270	
Less: ECL allowance	-20,486	-29,522	-152,095	-	-202,103	
Plus: FV adjustments	-	-	-	-68,971	-68,971	
Carrying amount	**3,173,526**	**774,413**	**204,774**	**621,978**	**4,774,691**	

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. The increase in financial guarantees is mainly driven by portfolio growth in Nasira Guarantee in 2022 (€230 million) compared to the previous year (€163 million).

Financial guarantees[1]		2022		
Indicative counterparty credit rating scale of S&P	**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
Sub-total	**305,172**	**-**	**14,023**	**319,195**
ECL allowance	-1,314	-	-10,717	-12,031
Total	**303,858**	**-**	**3,306**	**307,164**

1 Financial guarantees represent €138,359 classified as contingent liabilities and €180,836 classified as irrevocable facilities as per the 'Irrevocable and contingent liabilities' note.

Financial guarantees[1]	2021			
Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Total
F1-F10 (BBB- and higher)	8,715	385	-	9,100
F11-F13 (BB-,BB,BB+)	142,825	609	-	143,434
F14-F16 (B-,B,B+)	40,187	1,144	-	41,331
F17 and lower (CCC+ and lower)	11,926	-	-	11,926
Sub-total	**203,653**	**2,138**	**-**	**205,791**
ECL allowance	-723	-36	-	-759
Total	**202,930**	**2,102**	**-**	**205,032**

1 Financial guarantees represent €69,341 classified as contingent liabilities and €136,450 classified as irrevocable facilities as per the 'Irrevocable and contingent liabilities' note.

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.

Loans commitments	2022				
Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Other 1)	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
Total nominal amount	**426,057**	**127,071**	**5,504**	**6,803**	**565,435**
ECL allowance	-2,387	-6,185	-	-	-8,572
Total	**423,670**	**120,886**	**5,504**	**6,803**	**556,863**

Loans commitments	2021				
Indicative counterparty credit rating scale of S&P	Stage 1	Stage 2	Stage 3	Other 1)	Total
F1-F10 (BBB- and higher)	36,471	-	-	-	36,471
F11-F13 (BB-,BB,BB+)	248,726	46,138	-	19,265	314,129
F14-F16 (B-,B,B+)	212,836	16,496	-	-	229,332
F17 and lower (CCC+ and lower)	34,186	2,338	10,477	697	47,698
Total nominal amount	**532,219**	**64,972**	**10,477**	**19,962**	**627,630**
ECL allowance	-2,397	-880	-	-	-3,277
Total	**529,822**	**64,092**	**10,477**	**19,962**	**624,353**

1 Loan commitments for which no ECL is calculated (fair value loans or expired availability date).

Non-performing loans

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 unlikeliness to pay (UTP) trigger is in place that automatically leads to NPL;
- An impairment analysis, done upon a UTP trigger that possibly leads to NPL, results in an impairment higher than 12% on any outstanding facility;
- There are additional criteria for a customer to enter NPL 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.

NPL is applied at customer level.

Unlikely to pay triggers - specific impairment IRC
(Stage 3)

+

More than 90 days past due but not impaired
(Stage 3)

+

Economically performing loans but in probation period due to Regulatory Standards:
Initially forborne impaired,
but at reporting period not impaired
(Stage 3)

=

Non - Performing loans

During 2022, NPLs in FMO increased from 9.5 percent as of 31 December 2021 to 11.9 percent as of 31 December 2022. In euro terms, the NPLs increased from €483 million to €653 million. The largest contributors to the growth were the developments in Ukraine and Sri Lanka. As of 31 December 2022, the combined NPLs in these 2 countries amounted to €154 million (2021: 0), or approximately 24 percent of total NPLs.

NPLs remain concentrated in a few large facilities. Top three NPLs are 16 percent of the total (2021: 18 percent), top ten are 48 percent (2021: 46 percent). As a result, a limited number of large new NPLs result in large movements in the NPL percentage. In terms of sector, NPLs are highest in Energy, in absolute terms at €227 million (2021: €181 million), followed by AFW at €184 million (2021: €77 million), Diverse Sectors at €143 million (2021: €178 million), and FI at €106 million (2021: €47 million). In relative terms (as percentage of the exposure in that sector) NPLs remain highest in Diverse Sectors at 34 percent, followed by AFW at 21 percent, Energy at 16 percent and FI at 4 percent. FMO stopped providing loans to Diverse Sector customers in 2017. NPLs excluding other sectors are 10.1 percent.

NPLs remain highest in India at €93 million. In response to the high NPL levels in India, FMO tightened the investment process for new loans in this country in 2017. Although India's part of NPLs decreased from 27 percent on 31 December 2018 to 14 percent as of 31 December 2022, it is deemed too early to conclude whether the measures taken resulted in improved performance in India, considering the long lead times between approval, signing and defaults. In 2022, NPLs increased most significantly in Ukraine to 14 percent of total NPLs (2021: 0 percent) as a result of the war which started in February 2022. NPLs also increased in Sri Lanka, to 9 percent of total NPLs (2021: 0 percent). The latter was due to deterioration of the country's risk profile.

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

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

Loans past due and impairments 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Fair Value**	**Total**
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
Gross exposure	**4,057,681**	**342,844**	**524,761**	**586,651**	**5,511,937**
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
Carrying amount	**3,986,860**	**321,543**	**315,165**	**486,067**	**5,109,635**

Loans past due and impairments 2021	Stage 1	Stage 2	Stage 3	Fair Value	Total
Loans not past due	3,222,515	811,927	75,658	651,035	4,761,135
Loans past due:					
-Past due up to 30 days	6,154	-	11,558	-	17,712
-Past due 30-60 days	-	-	38,340	-	38,340
-Past due 60-90 days	21	-	6,612	-	6,633
-Past due more than 90 days	-	-	227,301	39,914	267,215
Gross exposure	**3,228,690**	**811,927**	**359,469**	**690,949**	**5,091,035**
Less: amortizable fees	-34,678	-7,992	-2,600	-	-45,270
Less: ECL allowance	-20,486	-29,522	-152,095	-	-202,103
Less: FV adjustments	-	-	-	-68,971	-68,971
Carrying amount	**3,173,526**	**774,413**	**204,774**	**621,978**	**4,774,691**

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

Stage 3 - ECL distributed by regions and sectors

December 31, 2022	Financial Institutions	Energy	Agribusiness, Food and Water	Infrastructure, Manufacturing, Services	Total
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	-	-	-	-	-
Total	**23,434**	**64,876**	**83,019**	**35,268**	**206,597**

Stage 3 - ECL distributed by regions and sectors

December 31, 2021	Financial Institutions	Energy	Agribusiness, Food and Water	Infrastructure, Manufacturing, Services	Total
Africa	-	13,852	260	16,279	30,391
Asia	5,534	35,091	959	10,645	52,229
Latin America & the Caribbean	2,463	6,558	30,210	15,958	55,189
Europe & Central Asia	-	2,320	11,966	-	14,286
Non-region specific	-	-	-	-	-
Total	**7,997**	**57,821**	**43,395**	**42,882**	**152,095**

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 2022, FMO’s write-offs including disposals equaled to €89.8 million (2021: €50.2 million).

The following table provides a summary of FMO’s forborne assets, both classified as performing and non-performing, as of December 31, 2022.

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

December 31, 2021	Performing	of which: performing but past due > 30 days and <=90 days	of which: performing forborne	Non Performing	of which: non performing forborne	of which: impaired	Gross exposure	Less: amortizable fees	Less: ECL allowance	Plus: fair value adjustments	Carrying amount
Loans to the private sector (Amortised Cost)	**4,030,437**	-	235,341	**369,649**	237,052	171,548	**4,400,086**	-45,270	-202,103	-	**4,152,713**
Loans to the private sector (Fair value)	**577,776**	-	23,544	**113,173**	70,942	-	**690,949**	-	-	-68,971	**621,978**
Total	**4,608,213**	-	258,885	**482,822**	307,994	171,548	**5,091,035**	-45,270	-202,103	-68,971	**4,774,691**

The following table shows the movement of gross outstanding amount and ECL impact of Stage 2 and Stage 3 loans that were restored during 2022.

	Post - modification		Pre - modification	
December 31, 2022	**Gross outstanding amount**	**Corresponding ECL**	**Gross outstanding amount**	**Corresponding ECL**
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

	Post - modification		Pre - modification	
December 31, 2021	**Gross outstanding amount**	**Corresponding ECL**	**Gross outstanding amount**	**Corresponding ECL**
Restored loans since forbearance and now in Stage 1	8,075	-82	6,095	-147
Loans that reverted to Stage 2/3 once restored	25,996	-1,263	29,462	-518

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

	2022	**2021**
Amortized cost of financial assets modified during the period	-	16,554
Net modification result	-	208

Credit risk mitigation

As per December 31, 2022, the total carrying value of the FMO's loan portfolio is €5.1 billion; of which €1.5 billion is guaranteed by either the Dutch Government or highly rated guarantors. The following table shows a breakdown of guarantee amounts received and carrying values of guaranteed loans per credit ranking of the guarantors.

	2022		2021	
Guarantor credit ranking based on rating scale S&P	**Amount of guarantees received**	**Guaranteed loans - carrying amount**	**Amount of guarantees received**	**Guaranteed loans - carrying amount**
Dutch State	2,125	2,500	4,789	5,575
AA- and higher ratings	443,524	1,532,262	325,853	1,001,419
A+ to A-	-	-	-	-
BBB+ to B-	-	-	3,579	33,662
CCC+ and lower ratings	-	-	-	-
Total	**445,649**	**1,534,762**	**334,221**	**1,040,656**

The total carrying value of defaulted (Stage 3) loans in FMO's loan portfolio is €315 million; of which €137 million is guaranteed by either the Dutch Government or highly rated guarantors. The following table shows a breakdown of guarantee amounts received and carrying values of guaranteed loans.

	2022		2021	
Stage of guaranteed loans	**Amount of guarantees received**	**Guaranteed loans - carrying amount**	**Amount of guarantees received**	**Guaranteed loans - carrying amount**
1	390,372	1,380,001	264,439	865,760
2	7,975	17,610	51,058	105,332
3	47,302	137,141	18,724	69,564
Total	**445,649**	**1,534,762**	**334,221**	**1,040,656**

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 5 to 10 years. FMO can accommodate an increase in the average holding period of its equity investments and thereby wait for markets to improve again to materialize exits. 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 IRC. 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 FX), 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

Following a recovery in 2021, equity market conditions in 2022 were challenging. Facing high inflation, aggressive monetary policy tightening by central banks, and the effects of the war in Ukraine, major stock markets dropped by at least 10 percent. The USD strengthened significantly against the EUR until September after which the EUR recovered some ground. Due to the strength of the USD, also emerging markets currencies weakened affecting the valuation of our portfolio. All these factors affected private equity deal activity and valuations negatively.

Despite the difficult circumstances, we still received distributions from fund managers (€88 million). In addition, we received a record amount of dividends in 2022 (€41 million) versus €22 million in 2021 as we received several large dividends and banks started to pay dividends again. Direct exits were lower (€35 million) as deals did not materialize.

In 2022, our committed equity portfolio (including associates) increased to €3.0 billion (2021: €2.8 billion) mainly due to the strengthening of the USD (€84 million gain) and an increase in committed not disbursed related to new fund investments (€61 million). This was offset by lower valuations of equity investments and associates (€92 million loss), mainly driven by investments exposed to the war in Ukraine. Despite challenging market circumstances for technology investments, our Venture Capital portfolio increased in total by €48 million, of which €19 million are new investments. The percentage of direct investments versus fund investments dropped from 43 percent to 42 percent because we did more fund investments in 2022.

Exposures

The total outstanding equity portfolio on December 31, 2022, amounted to €2.6 billion (2021: €2.3 billion) of which €1.3 billion (2021: €1.1 billion) was invested in investment funds.

Equity portfolio including Associates distributed by region and sector

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
Total	**754,804**	**105,584**	**116,313**	**215,218**	**127,677**	**20,908**	**-**	**988,630**	**250,462**	**-**	**1,249,256**	**1,330,340**

Equity portfolio including Associates distributed by region and sector

December 31, 2021	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	338,451	23,331	35,872	29,839	46,787	5,217	-	343,601	57,568	-	478,678	401,988
Asia	147,460	12,833	40,015	94,041	61,150	4,595	-	297,715	54,754	-	303,379	409,184
Latin America & the Caribbean	62,602	-	-	33,281	17,659	1,906	-	56,226	49,365	-	129,626	91,413
Europe & Central Asia	4,849	6,665	-	6,498	42,364	-	-	93,300	9,708	-	56,921	106,463
Non-region specific	143,195	57,874	20,958	28,344	-	968	-	17,902	69,094	-	233,247	105,088
Total	**696,557**	**100,703**	**96,845**	**192,003**	**167,960**	**12,686**	**-**	**808,744**	**240,489**	**-**	**1,201,851**	**1,114,136**

The equity portfolio is left unhedged for FX 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 the FMO's health or ability to maintain its core operations or trigger material change in FMO's 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 IRC and the SB. Diversification across countries, sector and individual counterparties is a key strategy to safeguard the credit quality of the portfolio.

Developments

Following a 6.6 percent GDP growth of the developing economies in 2021, a more gradual increase of 3.7 percent , is expected for 2022 and 2023 (IMF WEO October 2022). Although the pandemic-related pressures on economies mostly subsided, supply-chain disruptions because of the war in Ukraine, rising inflation driven by commodity prices and accompanying central bank actions weighed on economies. FMO monitored its portfolio throughout 2022 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 specific country crises.

Referring to lack of progress in addressing illicit financial flows, Financial Action Task Force (FATF) added Myanmar to blacklist in October 2022. The blacklisting triggered Event Driven Review (KYC) processes for 10 investments to ensure that FMO does not run unacceptable risks. For 1 investment, links to the Myanmar Junta and sanctioned parties have been identified. As a result, this customer is deemed unacceptable and FMO works on accelerating an exit. FMO follows guidance from Ministry of Foreign Affairs regarding Myanmar, and FMO's IRC closed the country to new business in February 2021.

Following the devastating earthquakes of February 2023 in Turkey and Syria, we reached out to all of our customers in Turkey (currently we have no exposure in Syria). A number of our customers have part of their assets in the wider area affected by the earthquake, but the preliminary assessment did not result in any reclassification of our credit risk. Monitoring of potential future impact will be a key point of attention in the first half of 2023.

Conflict in Ukraine

On 24 February 2022 Russia invaded Ukraine. The move followed shortly after Russian President Putin recognized two Eastern-Ukrainian provinces as independent states and invaded those areas for a peacekeeping mission. Since then, largescale missile attacks in Ukrainian cities have been carried out and parts of the country are controlled by Russian troops. The UK, US and EU have imposed sanctions on Russia and taken actions to restrict the ability of the Russian state and government to access capital and financial markets. Flights from and to Russia are halted. Belarus has also been targeted with sanctions.

FMO has been active in Ukraine for decades. As per year-end 2022, FMO's direct exposure in Ukraine is on 13 customers, operating within two of the three FMO's strategic sectors, Energy and Agribusiness Food and Water. No direct exposure in the Financial Industry sector is held in Ukraine. Gross value of outstanding loan principals is EUR 90 million, for which EUR 43 million impairment is recognized so far. In 2022, exposure on 2 customers, totaling EUR 45 million, was written-off. Total value loss recognized throughout 2022 in the loan portfolio amounts to EUR 82 million. Outstanding EUR 13 million guarantees, given by FMO for its customers, got EUR 10 million impaired in 2022. Though the cost price of the outstanding equity investments is EUR 51 million, its total fair value decreased to EUR 23 million as per the year-end. FMO made EUR 50 million loss in 2022 due to its equity portfolio in Ukraine. Overall, FMO recognized EUR 137 million loss in 2022 from its investments in Ukraine.

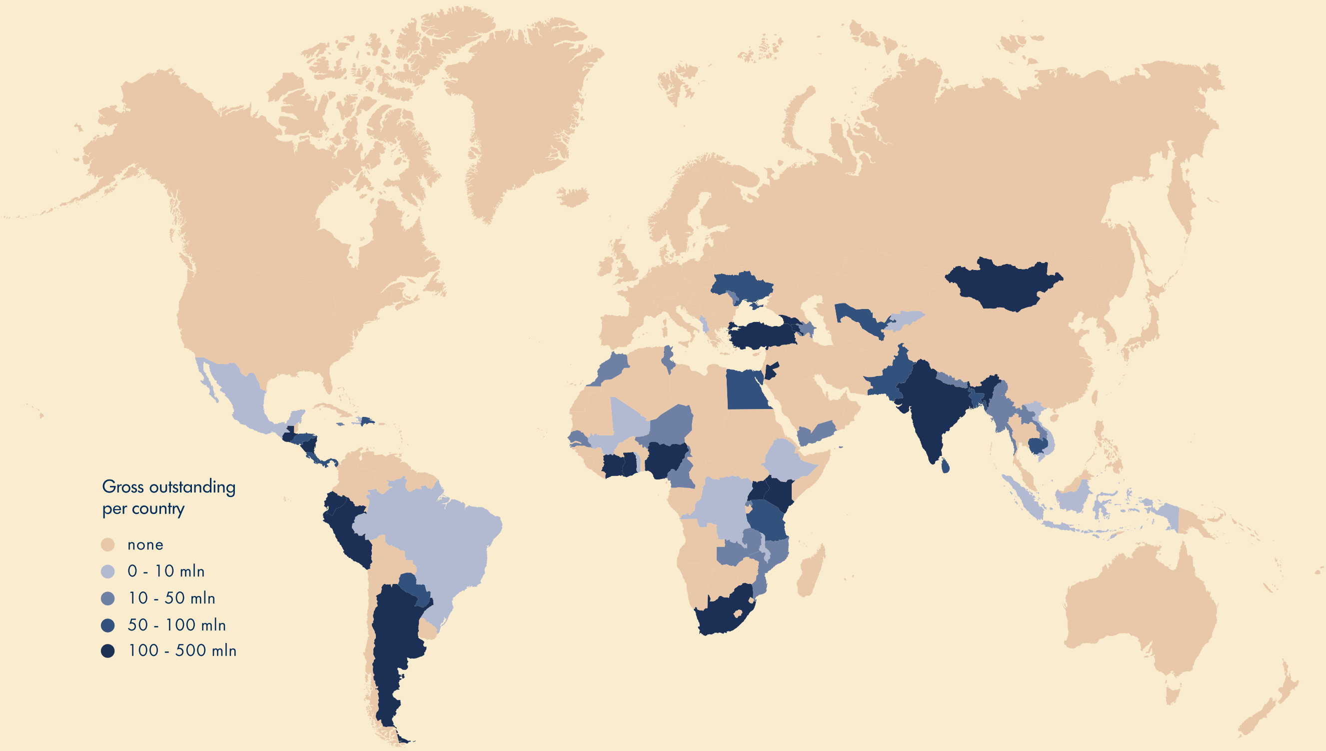
FMO has no direct exposure and a limited indirect exposure to Russia. Furthermore, FMO has no cash or derivative contract in Russian Ruble or Ukrainian Hryvnia. The exposure towards Belarus is around EUR 18 million, in equity. Macro-economic stress tests have been performed to assess the financial impact of the war-driven developments on FMO's liquidity position and capital ratios in FMO's ICLAAP for 2022 and 2023. These assessments showed that, even in a strongly adverse scenario, FMO remains widely above all regulatory requirements and internal appetite. Furthermore, FMO now applies a much higher scrutiny to new investments to countries in Europe and Central Asia, which are more likely to be impacted by the conflict.

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 in a country 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 2022 were India, Turkey, and Georgia, together 21 percent of the total loan exposure. In 2022, the rating of Turkey is downgraded one notch, while Georgia and India's rating remained stable. Noteworthy changes in country ratings are downgrades of the Europe & Central Asia region to F15 (2021: F14), Latin America & The Caribbean region to F14 (2021: F13), El Salvador to F19 (2021: F16), Ghana to F20 (2021: F16), Nigeria to F16 (2021: F15), Pakistan to F17 (2021: F16) and Sri Lanka to F20 (2021: F18).

Overview country ratings loan book based on rating scale S&P

Indicative external rating equivalent	**2022 (%)**	**2021 (%)**
F9 and higher (BBB and higher ratings)	3.9	2.5
F10 (BBB-)	6.4	7.3
F11 (BB+)	2.6	2.2
F12 (BB)	10.9	5.3
F13 (BB-)	8.6	11.5
F14 (B+)	13.7	26.6
F15 (B)	29.6	22.0
F16 (B-)	8.8	10.5
F17 and lower (CCC+ and lower ratings)	15.5	12.1
Total	**100.0**	**100.0**

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

	Financial Institutions	Energy	Agribusiness, Food and Water	Multi-Sector Fund Investments	Infrastructure, Manufacturing, Services	Total
December 31, 2022						
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
Total	**2,746,394**	**1,451,335**	**876,510**	**26,357**	**411,341**	**5,511,937**
December 31, 2021						
Africa	505,316	573,562	159,705	18,025	143,483	1,400,091
Asia	548,005	329,285	123,855	-	134,980	1,136,125
Latin America & the Caribbean	583,634	336,359	152,352	-	84,842	1,157,187
Europe & Central Asia	661,916	143,212	235,419	-	115,916	1,156,463
Non-region specific	49,357	11,288	172,632	-	7,892	241,169
Total	**2,348,228**	**1,393,706**	**843,963**	**18,025**	**487,113**	**5,091,035**

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 are 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.

Climate-related risk

Climate-related risk is not a separate risk type but an external causal factor of FMO's existing risk types and represented as such in FMO's internal taxonomy. 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);
- 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. In 2023, this project will be merged with the EU sustainable finance project to assess sustainability regulations holistically

FMO focused on the development of an integrated and consistent climate risk framework. This not only assesses FMO's current portfolio and new investments, but also includes looking at how climate risks impact strategy, creating awareness, and organizing training. For further information, please also refer to the separate Task Force on Climate-related Financial Disclosures (TCFD) report.

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 serve 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 of defense and responsible for assessing, quantifying, and monitoring counterparty risk daily. Limit excesses and material findings are reported to the ALCO 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 ALCO annually.

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 all 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 (CP's), 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

At December 31	2022	2021
AAA	347,078	327,673
AA- to AA+	190,747	136,298
Total	**537,825**	**463,971**

Geographical distribution interest-bearing securities

At December 31	2022 (%)	2021 (%)
Belgium	5	5
Finland	14	16
France	7	4
Germany	28	33
The Netherlands	12	18
Philippines	9	4
Sweden	6	4
Denmark	4	0
Supra-nationals	15	16
Total	**100**	**100**

Overview short-term deposits

At December 31	S&P rating (short-term)	2022	2021
European Central Bank		2,130	1,453
Dutch central bank		600,693	1,029,830
Financial institutions	A-1/A-1+	704,492	253,781
	A-2	37,689	14,174
	A-3	-	-
	Unrated	-	-
Money market funds	A-1+	23,372	43,941
Total		**1,368,376**	**1,343,179**

Supra-nationals are international organizations or unions in which member states delegate part of their national powers to a collective decision-making body.

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

	2022		2021	
	Net exposure	**CSA (%)**	**Net exposure**	**CSA (%)**
AA- to AA+	-		-	
A- to A+	191,669	100	204,295	100
BBB to BBB+	584	100	13,442	100
Central cleared	-		-	
Total	**192,253**	**100**	**217,737**	**100**

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.

	(a)	(b)	(c)=(a)-(b)	(d)		(e)=(c)+(d)
				Related amounts not offset in the balance sheet		
December 31, 2022	**Gross amounts recognized in balance sheet**	**Gross amount of financial assets/ liabilities offset in the balance sheet**	**Net amount presented in the balance sheet**	**Financial instruments (including non-cash collateral)**	**Cash collateral**	**Net amount**
Financial assets						
Derivatives	195,239	-	195,239	-	-	-
Financial liabilities						
Derivatives	-610,976	-	-610,976	-		
Total	**-415,737**	**-**	**-415,737**	**-**	**468,451**	**52,714**

	(a)	(b)	(c)=(a)-(b)	(d)		(e)=(c)+(d)
				Related amounts not offset in the balance sheet		
December 31, 2021	**Gross amounts recognized in balance sheet**	**Gross amount of financial assets/ liabilities offset in the balance sheet**	**Net amount presented in the balance sheet**	**Financial instruments (including non-cash collateral)**	**Cash collateral**	**Net amount**
Financial assets						
Derivatives	235,673	-	235,673	-	-	-
Financial liabilities						
Derivatives	-192,225	-	-192,225	-		
Total	**43,448**	**-**	**43,448**	**-**	**-4,729**	**38,719**

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 all times. The appetite follows a similar rationale as for capital and it is aimed to maintain 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 110 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 ALCO. The ALCO 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 (CP) and Treasury Bills. The long-term bonds and CP can be used as collateral in repurchase agreements to obtain short-term cash from the ECB or commercial parties.

Developments

FMO's liquidity position remained comfortably above regulatory requirements and internal managerial limits in 2022, with an LCR never falling below 281 percent. As a result of strong USD appreciation and interest rate movements, FMO had €473 million collateral outflow in 2022, leading to a higher amount of funding than what was projected in the 2022 funding plan.

FMO updated its liquidity stress scenario that is used for survival period calculation in 2022 in line with market developments. As the FX market volatility surged, FMO now holds higher liquidity to cover for collateral outflows from derivatives portfolio in case of an extreme market stress. Furthermore, the new scenario promotes holding more immediately-available liquidity – such as cash in DNB, instead of relatively fewer liquid bonds.

Over the past few years, FMO has established a key role in local currency frontier markets and is keen to continue issuances in 2023, developing capital markets in line with its mandate. In total, FMO issued approximately €259 million of equivalent funding in local currency transactions during 2022.

Liquidity position

Throughout the course of 2022, FMO's liquidity position has been compliant with internal and regulatory metrics.

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.

Categorization of principal cash flows per maturity bucket

December 31, 2022	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
Assets						
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	1,122,267
-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
Total assets	**1,064,775**	**1,034,211**	**3,300,568**	**1,221,347**	**3,145,460**	**9,766,361**
Liabilities and shareholders' equity						
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
Total liabilities and shareholders' equity	**59,169**	**1,034,266**	**4,122,021**	**354,630**	**3,671,692**	**9,241,778**
Liquidity gap 2022	**1,005,606**	**-55**	**-821,453**	**866,717**	**-526,232**	**524,583**

Categorization of principal cash flows per maturity bucket

December 31, 2021	< 3 months	3-12 months	1-5 years	>5 years	Maturity undefined	Total
Assets						
Banks	95,873	-	-	-	-	95,873
Current accounts with State funds and other programs	-	-	-	-	648	648
Short-term deposits						
-of which: Amortized cost	1,029,830	-	-	-	120,047	1,149,877
-of which: Fair value through profit or loss	149,391	43,911	-	-	-	193,302
Other receivables	22,477	-	-	-	-	22,477
Interest-bearing securities	17,576	50,000	340,140	56,000	-	463,717
Derivative financial instruments	1,854	33,054	61,420	69,143	-	165,472
Loans to the private sector						
-of which: Amortized cost	164,997	620,496	2,559,557	908,278	-	4,253,328
-of which: Fair value through profit or loss	12,412	168,396	257,644	201,245	-	639,697
Equity investments						
-of which: Fair value through OCI	-	-	-	-	140,425	140,425
-of which: Fair value through profit or loss	-	-	-	-	1,876,825	1,876,825
Investments in associates	-	-	-	-	298,737	298,737
Current tax receivables	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	27,243	27,243
Intangible assets	-	-	-	-	17,958	17,958
Deferred income tax assets	-	-	-	-	5,589	5,589
Total assets	**1,494,410**	**915,856**	**3,218,762**	**1,234,667**	**2,487,472**	**9,351,167**
Liabilities and shareholders' equity						
Short-term credits	-	-	-	-	123,359	123,359
Current accounts with State funds and other programs	1,017	-	-	-	-	1,017
Current tax liabilities	36,929	-	-	-	-	36,929
Derivative financial instruments	41,606	9,399	96,502	1,851	-	149,358
Debentures and notes	53,500	897,029	3,365,957	1,058,429	-	5,374,916
Wage tax liabilities	-	-	-	-	576	576
Accrued liabilities	-	-	-	-	28,208	28,208
Other liabilities	568	2,558	10,986	4,804	3,484	22,400
Provisions	-	-	-	-	27,592	27,592
Deferred income tax liabilities	-	-	-	-	10,748	10,748
Shareholders' equity	-	-	-	-	3,433,639	3,433,639
Total liabilities and shareholders' equity	**133,621**	**908,986**	**3,473,445**	**1,065,084**	**3,627,606**	**9,208,742**
Liquidity gap 2021	**1,360,790**	**6,871**	**-254,684**	**169,582**	**-1,140,134**	**142,425**

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

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
Total off-balance[1)]	**12,688**	**44,407**	**169,786**	**1,412,647**	**1,639,528**

December 31, 2021	< 3 months	3-12 months	1-5 years	>5 years	Total
Effective guarantees issued	-	-	1,186	68,155	69,341
Irrevocable facilities	12,858	1,830	132,425	1,318,108	1,465,221
Total off-balance[1)]	**12,858**	**1,830**	**133,611**	**1,386,263**	**1,534,562**

1 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 6 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.

Following the risk appetite, FMO's liquidity position has been well above regulatory requirements and internal appetite levels throughout 2022. Per the reporting date, FMO has a survival period exceeding 12 months, an LCR of 439 percent (2021: 970 percent) and a NSFR of 114 percent (2021: 117 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 (i.e., USD investors outside the United States) constitute key markets 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 2022. 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 ALCO. The Treasury department acts as the first line of defense 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. Interest rate risk is monitored using earnings-based metrics and value-based metrics.

Earnings-based methods capture short-term effects of interest rate re-fixing or re-pricing that may impact net interest incomes. The metrics below 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 where limits are in place both 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 ALCO. BPV limits are defined dynamically to accommodate a 200 basis-points shock within 5 percent of Tier I. The delta EVE limit is defined in the Risk Appetite Framework and set at 5 percent of Tier I. The NII at Risk limit is defined based on 5 percent of projected net interest income.

The interest rate positions were within risk appetite in 2022. In spite of rising rates in the United States, Europe and globally our positions remain within limits.

Developments

In 2022 and 2023, FMO will transition its USD LIBOR loan portfolio to either Term SOFR or daily compounded SOFR. All preparations, such as legal templates, system amendments, tooling, data, instructions, training, and internal and external communications is ongoing or already finalized. The business has started to engage with our customers to discuss the conversion approach and the first loan contracts have already been transitioned. FMO adhered to the ISDA 2020 Fallback Protocol for transitioning its derivatives portfolio. During 2022 FMO has successfully transitioned its TRY loan and derivatives portfolio referencing TRLIBOR to the new risk-free rate in Turkey, TLREF. By the end of June 2023 all USD LIBOR contracts must be remediated into SOFR contracts.

The table below summarizes the maximum amount of exposures per financial instrument category impacted by IBOR reform as per December 31, 2022.

	USD LIBOR	EURIBOR	Other benchmark rates	Not subject to IBOR Reform	Total
Non-derivative financial assets					
Loans to private sector	2,303,037	257,464	207,911	2,216,436	4,984,848
Non - derivative financial liabilities					
Debentures and notes	-	-	270,428	5,301,080	5,571,508
Derivatives (notional amounts)					
o/w: hedge accounting	1,785,274	1,270,000	946,375	1,000,000	5,001,649
o/w: other derivatives	3,670,122	122,165	-	-	3,792,287

Exposures

The limits with respect to interest rate risk were not breached in 2022. The following table summarizes the interest re-pricing characteristics for FMO's assets and liabilities.

Interest re-pricing characteristics

December 31, 2022	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
Assets						
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[1]	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
Total assets	**3,673,896**	**1,229,651**	**815,791**	**1,518,543**	**2,662,080**	**9,899,961**
Liabilities and shareholders' equity						
Short-term credits	52,156	-	-	-		52,156
Current accounts with State funds and other programs	-	-	-	-	1,058	1,058
Derivative financial instruments[1]	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
Total liabilities and shareholders' equity	**928,844**	**1,037,575**	**3,865,334**	**403,633**	**3,664,575**	**9,899,961**
Interest sensitivity gap 2022	**2,745,051**	**192,077**	**-3,049,543**	**1,114,910**	**-1,002,494**	

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant interest re-pricing category.

Interest re-pricing characteristics

December 31, 2021	< 3 months	3-12 months	1-5 years	> 5 years	Non-interest-bearing	Total
Assets						
Banks	95,873	-	-	-		95,873
Current accounts with State funds and other programs	-	-	-	-	648	648
Short-term deposits						
-of which: amortized cost	1,149,877	-	-	-	-	1,149,877
-of which: fair value through profit or loss	149,399	43,903	-	-	-	193,302
Other receivables	-	-	-	-	22,477	22,477
Interest-bearing securities	17,821	50,000	340,150	56,000	-	463,971
Derivative financial instruments[1]	161,125	74,548	-	-	-	235,673
Loans to the private sector						
-of which: amortized cost	1,324,895	729,113	1,013,583	1,085,121	-	4,152,713
-of which: fair value through profit or loss	139,355	171,507	244	310,872	-	621,978
Equity investments						
-of which: fair value through OCI	-	-	-	-	140,425	140,425
-of which: fair value through profit or loss	-	-	-	-	1,876,825	1,876,825
Investment in associates	-	-	-	-	298,737	298,737
Property, plant and equipment	-	-	-	-	27,243	27,243
Intangible assets	-	-	-	-	17,958	17,958
Deferred income tax assets	-	-	-	-	5,589	5,589
Total assets	**3,038,345**	**1,069,070**	**1,353,977**	**1,451,993**	**2,389,902**	**9,303,289**
Liabilities and shareholders' equity						
Short-term credits	123,359	-	-	-		123,359
Current accounts with State funds and other programs	-	-	-	-	1,017	1,017
Derivative financial instruments[1]	166,827	25,398	-	-	-	192,225
Debentures and notes	92,966	889,493	3,304,787	1,139,351	-	5,426,596
Current tax liabilities	-	-	-	-	36,929	36,929
Wage tax liabilities	-	-	-	-	576	576
Accrued liabilities	-	-	-	-	28,208	28,208
Other liabilities	-	-	-	-	22,400	22,400
Provisions	-	-	-	-	27,592	27,592
Deferred income tax liabilities	-	-	-	-	10,748	10,748
Shareholders' equity	-	-	-	-	3,433,639	3,433,639
Total liabilities and shareholders' equity	**383,151**	**914,892**	**3,304,787**	**1,139,351**	**3,561,109**	**9,303,289**
Interest sensitivity gap 2021	**2,655,194**	**154,179**	**-1,950,809**	**312,642**	**-1,171,207**	**-**

1 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 1 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 ALCO monthly. Please refer to the 'Structural hedge' sub-section for further details.

Developments
In spite of FX markets volatility due to the war in Ukraine and post-COVID-19 monetary policy, global recession and commodities prices shocks our positions remain within limits. No material developments occurred in 2022.

Exposures
Individual and total open currency positions were within risk appetite in 2022. The table below illustrates that the currency risk sensitivity gap per December 2022 is almost completely part of FMO's equity investments and investments in associates.

Currency risk exposure (at carrying values)

December 31, 2022	EUR	USD	INR	ZAR	Other	Total
Assets						
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
Total assets	**2,715,999**	**6,528,209**	**92,469**	**40,529**	**522,755**	**9,899,961**
Liabilities and shareholders' equity						
Short-term credits	52,156	-	-	-	-	52,156
Current accounts with State funds and other programs	1,058	-	-	-	-	1,058
Derivative financial instruments1	-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
Current tax liabilities	-					-
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
Total liabilities and shareholders' equity	**4,671,636**	**4,706,872**	**-2,292**	**3,427**	**520,318**	**9,899,961**

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	

1 Fair value of individual components (e.g. individual swap legs) of derivative financial instruments is allocated to the relevant currency category.

Currency risk exposure (at carrying values)

December 31, 2021	EUR	USD	INR	ZAR	Other	Total
Assets						
Banks	44,570	42,261	6,537	551	1,954	95,873
Current accounts with State funds and other programs	231	417	-	-	-	648
Short-term deposits	1,144,067	196,311	-	-	2,801	1,343,179
-of which: amortized cost	1,144,042	3,034	-	-	2,801	1,149,877
-of which: fair value through profit or loss	25	193,277	-	-	-	193,302
Other receivables	6,300	16,003	-187	75	286	22,477
Interest-bearing securities	298,651	165,320	-	-	-	463,971
Derivative financial instruments1	666,849	-572,609	-274,185	-31,965	447,583	235,673
Loans to the private sector	660,631	3,428,972	310,923	60,847	313,318	4,774,691
-of which: Amortized cost	544,714	2,933,882	303,307	57,492	313,318	4,152,713
-of which: Fair value through profit or loss	115,917	495,090	7,616	3,355	-	621,978
Equity investments	347,091	1,498,704	64,232	47,075	60,148	2,017,250
-of which: fair value through OCI	10,316	130,109	-	-	-	140,425
-of which: fair value through profit or loss	336,775	1,368,595	64,232	47,075	60,148	1,876,825
Investments in associates	4,000	294,737	-	-	-	298,737
Current tax receivables	-	-	-	-	-	-
Property, plant and equipment	27,243	-	-	-	-	27,243
Intangible assets	17,958	-	-	-	-	17,958
Deferred income tax assets	5,589	-	-	-	-	5,589
Total assets	**3,223,180**	**5,070,116**	**107,320**	**76,583**	**826,090**	**9,303,289**
Liabilities and shareholders' equity						
Short-term credits	82,596	40,763	-	-	-	123,359
Current accounts with State funds and other programs	314	703	-	-	-	1,017
Derivative financial instruments1	-251,672	1,282,023	63,973	4,998	-907,097	192,225
Debentures and notes	1,767,379	1,946,916	-	29,230	1,683,071	5,426,596
Current tax liabilities	36,950	-21	-	-	-	36,929
Wage tax liabilities	576	-	-	-	-	576
Accrued liabilities	26,790	1,603	-	-59	-126	28,208
Other liabilities	18,757	3,606	-	8	29	22,400
Provisions	24,310	2,657	-	267	358	27,592
Deferred income tax liabilities	10,748	-	-	-	-	10,748
Shareholders' equity	3,433,639	-	-	-	-	3,433,639
Total liabilities and shareholders' equity	**5,150,387**	**3,278,250**	**63,973**	**34,444**	**776,235**	**9,303,289**
Currency gap 2021		1,791,866	43,347	42,139	49,855	
Currency gap 2021 excluding equity investments and investments in associates		-1,575	-20,885	-4,936	-10,293	

1 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

	December 31, 2022		December 31, 2021	
Change of value relative to the euro[1)]	Sensitivity of profit & loss account	Sensitivity of shareholders' equity[2)]	Sensitivity of profit & loss account	Sensitivity of shareholders' equity[2)]
USD value increase of 10%	168,143	13,990	166,176	13,011
USD value decrease of 10%	-168,143	-13,990	-166,176	-13,011
			-	-
INR value increase of 10%	9,476	-	4,335	-
INR value decrease of 10%	-9,476	-	-4,335	-
				-
ZAR value increase of 10%	3,710	-	4,214	-
ZAR value decrease of 10%	-3,710	-	-4,214	-

1 The sensitivities employ simplified scenarios. The sensitivity of profit & 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, including the effect of hedging instruments.

2 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.

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 to ensure that investments are 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. FMO assesses customers with a high ESG risk in detail to identify ESG impact, risks and the quality of existing risk management and mitigation measures. Due diligence also includes an analysis of contextual and human rights risk. In case of gaps in ESG risk management, FMO works with customers to develop and implement an action plan to avoid adverse ESG impact and/or to improve ESG risk management over time. Key ESG risk items are tracked during the tenor of the engagement. FMO's ESG risk management support to customers is an important part of its development impact ambitions. These assessments are undertaken by dedicated ESG teams specifically allocated to FMO's focus sectors. The ESG teams include more than 30 ESG experts that are often supported by specialized external ESG consultants.

In addition, for customers with a high ESG risk, FMO monitors and rates gross risk and customer performance on key ESG risk themes 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.

At portfolio level, FMO measures its alignment with its own ESG risk appetite through its ESG steering metric, an indicator of to what extent FMO is delivering on its ESG commitments and operations. The ESG steering metric is targeted at above 90 percent, meaning FMO's ESG risk appetite translates to less than 10 percent of ESG risks in its high-ESG risk portfolio not yet being adequately managed by its customers/investees.

Developments

Similarly, to the 2021 ESG target, the 2022 ESG target group covers high risk customers in our portfolio contracted prior to 2022 ('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. 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. Findings included the need to further clarify roles and responsibilities, improve completeness and correctness of the supporting documentation and improve awareness of processes.

To further strengthen ESG risk management and oversight, an action plan is being developed to implement the findings. Actions include the design and delivery of enhanced training to ESG and investment staff, and steps to strengthen reporting items and links to supporting documentation and substantiation.

After a thorough development and stakeholder consultation process, FMO published the Position Statement on Impact and ESG for Financial Intermediaries which describes how FMO applies ESG risk management to financial Intermediary financing. The new approach makes it possible to more adequately customize ESG requirements to specific assets. The position statement describes FMO's risk appetite to work with financial intermediaries towards compliance with ESG standards.

ESG regulatory requirements and voluntary standards have continued to proliferate across the globe, increasing the complexity of managing ESG risks and opportunities. We are appointing resources to follow-up on these EU-based regulatory requirements (including SFDR and EU Taxonomy) and translate these to emerging markets, for which FMO has joined the High-Level Expert Group on Sustainable Finance for low and middle-income countries established by the European Commission in the second half of 2022. FMO's internal project designed to embed climate risk in its investments and investee companies continued in 2022 with results from the first pilot determining direction for implementation in 2023 (see 'Climate related risk' section of this report).

Regulatory Risk

Definition

Regulatory risk is the risk that a future change in regulations will impact the viability of the business strategy of FMO.

Risk appetite and governance

FMO is subject to banking laws and government regulation in the Netherlands. DNB has broad administrative power over many aspects of the banking business including liquidity, capital adequacy, permitted investments, ethical issues, and anti-money laundering. Changes in banking regulation may adversely affect FMO's operations or profitability. To ensure that FMO adheres to existing financial and prudential regulation and to assess the impact on the business strategy, FMO has in place a regulatory risk policy and committees such as the Regulatory Monitoring Committee (RMC) and the Financial Regulation Committee to keep oversight of regulatory requirements and identify changes in regulations. The Financial Regulation Committee is a subcommittee. FMO is closely monitoring the process of translating Basel standards into European legislation as well as the development of the Sustainable Finance framework. We provide feedback to EC and EBA consultations and incorporate the latest available information in terms of capital planning and integration of ESG considerations in the investment process.

Developments

On 27 October 2021, The European Commission published proposals for reforms to the Capital Requirements Regulations (CRR-3) and Capital Requirements Directive (CRD6). These draft regulations are expected to enter into force in January 2025 and focus on three main parts: 1) the implementation of the finalized Basel III reforms into European legislation, 2) new rules requiring banks to systematically identify, disclose and manage sustainability risks (ESG risks), and 3) stronger enforcement tools for supervisors overseeing EU banks. The first two parts are of relevance to FMO and are discussed in more detail below.

With regards to the European translation of the Basel III standard, updates were included on the use of internal models, recalibrations to the standardized approach for credit risk, operational risk, credit valuation adjustment and market risk (incorporating the Fundamental Review of the Trading Book). An important element for FMO in the revised Basel III agreement (published in 2017) is a change in the treatment of private equity exposures under the standardized approach for credit risk. This no longer receives a 150 percent risk weight but instead falls under one of three categories: speculative equity (400 percent risk weight), equity holdings under national legislated programs (100 percent risk weight) and all other equity exposures (250 percent risk weight). Under the current draft CRR-3, however, the foreseen risk weight will be 250 percent rather than 400 percent if the intended holding period is greater than three years. Another important element is that FMO shall apply the alternative standardized approach for market risk capital requirements as of 2025, due to FMO’s open FX position in the banking book. In September 2021, FMO began reporting as per this standard purely for reporting purposes under the sensitivity-based approach, which on average has resulted in a 76 percent increase in market risk capital requirements due to the change in methodology.

The CRR-3 and CRD-6 proposals included several amendments in relation to ESG 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. The proposal also adds ESG risks into the scope of the SREP, which is the annual assessment of banks conducted by banking supervisors. Furthermore, the proposals introduce amendments regarding the possible capitalization for ESG risks, and adjusted risk weights for assets with high levels of climate risk. FMO will continue to closely monitor the regulatory developments while these new regulations are being drafted and discussed at a European level, which is not expected to be finalized until late 2023.

The Taxonomy Regulation (‘Taxonomy’) - a classification system for determining whether an economic activity is environmentally sustainable - applies partially since 2021. FMO is required to disclose how and to what extent our activities are associated with economic activities that qualify as environmentally sustainable and, by reference to associated KPIs for financial institutions. This obligation started in 2021 by reporting on Taxonomy eligibility, which is done by determining whether an investment falls within one of the sectors covered by the first two defined environmental objectives (climate change mitigation and adaptation). As FMO invests outside the EU, in emerging markets, none of our counterparties are in scope of the NFRD and, are not required to disclose their Taxonomy eligibility or alignment. As the regulation stipulates that the mandatory disclosure on eligibility must be based on actual information disclosed by financial or non-financial undertakings, FMO’s compliance with such reporting is challenging.

In 2021, the EC adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would amend the existing reporting requirements of the NFRD by introducing more detailed reporting requirements focused on ESG, and a requirement to report according to mandatory EU sustainability reporting standards. The final first set of European Sustainability Reporting Standards (ESRS) is expected to be adopted by the EC by mid-2023 and will apply to FMO in 2025. FMO will prepare once the standards are published.

In 2022, the EC adopted a proposal for a directive on corporate sustainability due diligence. This directive establishes a corporate due diligence duty for companies, including credit institutions, to identify, end, prevent, mitigate and account for negative human rights and environmental impact in the company's own operations, their subsidiaries and their value chains. The directive also introduces duties for the directors of EU companies including setting up and overseeing the implementation of the due diligence processes and integrating due diligence into the corporate strategy. Most importantly, the new directive introduces civil liability as an enforcement measure; victims must get compensation for damages resulting from the failure to comply with the obligations of the new proposal. The EC's proposal provides for some exceptions for banks, although discussions are ongoing between co-legislators to make the new rules stricter for the financial sector. FMO is in the scope of the proposal, meaning we would be required to undertake due diligence for our value chain and upstream and downstream subsidiaries, although the extent is not yet known. Also, the final decision on the concept of civil liability will be crucial for determining the risk of FMO being held liable for damages if it fails to comply with the new rules.

Business model and strategy execution risk

Business Model Risks

Definition

Business model risk is defined as the risk of a non-viable business model or strategy, in line with FMO's 2022 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 income from these investments. At the same time, exposure to this risk cannot be entirely avoided, given that FMO's ability to invest is dependent on both demand-and supply-side factors, not all of which are within FMO's direct control. This in turn affects FMO's ability to generate operating income and impact.

FMO's viability is dependent on its ability to maintain an investment portfolio of appropriate size and return to provide sufficient income to cover operational costs. Key drivers of business model risk are therefore related to the ability to maintain

1. A well-diversified, sufficiently large portfolio with a strong competitive position: this is driven by FMO's production, but also by the competitive landscape and market liquidity, which influence prepayments; and
2. Sufficient income: operational income, and cost-to-income to denote longer-term trends in profitability; and
3. Impact: given that investing with positive impact is FMO's raison d'être, measures of Green and Reducing Inequalities can be considered elements of business model risk.

Developments

The strategic focus in 2022, was to build back the portfolio and reverse the trend in portfolio decline witnessed as a result of the pandemic fallout. Throughout the first half of 2022, new investments for FMO-A were behind target. Business execution was hampered by market volatility, monetary policy tightening, and geopolitical uncertainty. In particular, the conflicts in Ukraine, Myanmar and Sri Lanka affected our portfolio negatively.

Production started to catch up in the second half of the year. At the same time, we noted a larger than expected level of prepayments. Prepayments largely depend on market developments and were offset by new investments and positive FX results. In 2022, FMO's committed portfolio results were strongly impacted by the USD/EUR FX rate, as the majority of FMO's portfolio is dominated in US dollar.

New Green and Reducing Inequality investments were lagging throughout the year as a result of limited pipeline build - up during the pandemic and due to the strategic focus on building up business in 2022. The priority for 2023 is to focus new production more on impact-labelled projects.

Strategy execution risk

Definition

Strategy execution risk is defined as the risk of failed execution of strategic initiatives and decisions, in line with FMO's 2022 Risk Appetite Framework. FMO is open to project risk and will take strongly justified 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 reward, which contributes to our objectives. Example of risks related to projects are lack of experience, resources, project interdependencies and complexity, and dependency on external parties.

Risk appetite and governance

The Project Management Office (PMO) monitors the project portfolio using several metrics such as external budget utilized, internal budget utilized, realization of deliverables, open risk status. Potential identified risks related to projects are amongst others: lack of experience within FMO, unavailability of (internal) resources, interdependencies between projects (mainly resources and systems), complexity of project execution and/or implementation, time sensitivity of deliverables, dependency on and/or by external parties.

Developments

In 2022, the project selection process has been changed to better align with the annual planning process and strategic priority setting. It is expected that this will lead to closer alignment of projects with strategic ambitions and therefore enhance strategy execution.

Internal resource constraints particularly bottlenecks in the IT, Data and Operations teams, continued to limit project execution in 2022. Also, the investment teams' contribution to project execution was limited, due to the strategic focus on building back business. Hiring additional people proved difficult due to a challenging labor market and limited internal hiring capacity. While FMO cannot influence the labor market, measures were taken to increase the internal hiring capacity at HR to remedy the staffing backlog.

Non-financial risk

Operational risk / non-financial 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 and potential risk events, causes and impact.

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

Risk appetite and governance

FMO is cautious with operational risks. We do not seek them as they have no direct material reward in terms of return/income generation, yet they are inherent to our business. Safe options, with low inherent risk are preferred, despite the consequence of limited rewards or 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 internal loss data and root-cause analysis, audit/review results, supervisory findings, key risk indicators, and key control 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. The first line performs these responsibilities in line with the risk management framework using the methods and tools of the second-line Operational Risk function. The Operational Risk function challenges and advises the first line, performs oversight and maintains the Integrated Control Framework.

Despite the implementation of internal controls, operational risk events will occur. Risk events can result in losses, non-compliance, misstatements in the financial reports, and reputational damage. Risk events are registered in the governance, risk and compliance system and reviewed and classified by the Operational Risk team. Root cause analyses of high-concern risk events and remediating actions are reviewed by the Operational Risk Committee.

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 management actions, and specific metrics for all non-financial risk subtypes. All departmental directors are required to evaluate operational risks in their area of responsibility and sign a departmental in control statement at year-end.

Developments

The Internal Control project in 2022 has resulted in an Integrated Control Framework (ICF), improved internal control cycle, supporting processes and a central governance, risk and compliance system. The current Integrated Control Framework consists of the controls mandated by FMO's internal policies. Key controls are subject to first line monitoring and second line testing to provide assurance on their effectiveness and identify improvements. The scope of the Integrated Control Framework will be expanded over the coming years.

Internal control champions have been appointed in each department to assist management with their responsibilities regarding internal control. The Operational Risk team has trained the internal control champions and facilitates monthly 'Community of Practice' meetings.

Regarding IT and Information Security risk, no significant IT disruptions or Security events occurred in 2022. Security monitoring of critical outsourcing arrangements was implemented in 2022 and FMO's Security Incident Response capability was further improved. The ICT department commenced with the review of the IT and Security control framework and integration in FMO's Integrated Control Framework, to ensure control effectiveness and compliance with regulatory expectations.

Compliance risk

Definition

Compliance risk is the risk of failure to comply with laws, regulations, rules, related self-regulatory organization, standards, and codes of conduct applicable to FMO's services and activities

Risk appetite and governance

FMO's standards and policies and good business practices foster acting with integrity. FMO is committed to its employees, customers, and counterparties, adhering to high ethical standards. FMO has a compliance framework that entails identifying risks, designing policies, monitoring, training, and providing advice. FMO has policies on topics such as financial economic crime (including KYC, sanctions, anti-bribery, and corruption and transaction monitoring and unusual transaction reporting), conflicts of interest, anti-fraud, private investments, protection of personal data and speak-up. FMO also regularly trains its employees to raise awareness through virtual classroom trainings and mandatory compliance related e-learnings. Employees are also encouraged to speak up in case of suspected integrity violations conducted by an FMO employee. Management is periodically informed via the Compliance Committee or when required on an ad-hoc basis, on integrity related matters at customer or employee level. In case of signals of violations, e.g., money laundering, fraud or corruption, management will take appropriate actions.

The governance of compliance also entails the following key risks:

Financial economic crime, including sanctions

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). If such an event occurs or is alleged, FMO will initiate a dialogue with the customer, if possible and appropriate given the circumstances, to understand the background and to be able to assess and investigate the severity of the event. 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 regulatory authorities if deemed necessary.

In 2021, FMO completed its FEC enhancement project which included an extensive Know Your Customer (KYC) file remediation. An external validation, which was overall positive, identified several recommendations that FMO implemented in 2022. For certain compliance themes, such as anti-bribery and corruption, as well as sanctions and unusual transactions, awareness sessions (refreshers) were organized with targeted front-office departments.

FMO received the Dutch Central Bank's (DNB) findings and recommendations related to FEC and KYC. These resulted in a dedicated Systematic Integrity Risk Analysis (SIRA) and risk appetites statement on private equity fund investments and fund portfolio companies. These documents include the action plan addressing the gaps identified during the SIRA. We are determined to continue to improve in the regulatory domain and to ensure that the changes we implement are tailored to the day-to-day realities and complexities of the markets we are active in.

As a result of the file remediation, we reported a limited number of incidents to DNB at the end of 2021 and the beginning of 2022. These involved late notifications of unusual transactions to the Financial Intelligence Unit (FIU). DNB initiated an investigation into these incidents and the related KYC files. We expect this investigation to result in enforcement measures by DNB.

General Data Protection Act (GDPR)

In 2021, FMO started a project to further develop a data privacy framework and raise privacy awareness within the organization. The project is almost completed and has delivered several essential privacy improvements. A GDPR e-learning for all employees was rolled out to ensure the necessary knowledge within the organization. Next to that the privacy governance is strengthened in the organization by appointing a Data Protection Officer (DPO). The DPO conducts privacy assessments in new projects and initiatives, gives advice on reducing privacy risks and monitors FMO's privacy compliance.

Sanctions

Several additional measures have been taken since the start of 2022 in relation to sanctions involving Russia, Belarus and Myanmar to ensure FMO's funds are not directly or indirectly provided to sanctioned parties. These measures include, setting up of a Sanctions Working Group, increased frequency of adverse news screenings and communication with customers in the affected regions and industries. In August 2022, FMO received a request from DNB to participate in an industry-wide investigation into the effectiveness of its sanctions screening system (transaction screening and customer screening).

06 Company Financial Statements

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.

Significant 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, 2022

Before profit appropriation	Notes	2022	2021
Assets			
Banks	(A)	21,089	90,672
Current accounts with State funds and other programs	(2)	956	648
Short-term deposits	(3)		
-of which: amortized cost		1,144,801	1,149,877
-of which: fair value through profit or loss		223,575	193,302
Other receivables	(B)	23,231	28,227
Interest-bearing securities	(5)		
-of which: amortized cost		537,825	463,971
Derivative financial instruments	(6)	195,239	235,673
Loans to the private sector	(7)		
-of which: amortized cost		4,623,568	4,152,713
-of which: fair value through profit or loss		486,067	621,978
Current tax receivables	(31)	20,942	-
Equity investments	(C)		
-of which: fair value through OCI		150,733	140,425
-of which: fair value through profit or loss		1,942,125	1,862,403
Other financial assets	(D)	91,484	-
Subsidiaries	(E)	14,771	13,876
Investments in associates	(10)	297,960	298,737
Intangible assets	(12)	11,955	17,958
Property, plant and equipment	(11)	23,285	27,243
Deferred income tax assets	(31)	8,058	5,589
Total assets		**9,817,664**	**9,303,292**
Liabilities			
Short-term credits	(13)	52,156	123,359
Current accounts with State funds and other programs	(14)	1,058	1,017
Derivative financial instruments	(6)	610,976	192,225
Debentures and notes	(16)	5,572,253	5,426,596
Current tax liabilities	(31)	-	36,929
Wage tax liabilities		615	576
Accrued liabilities	(17)	24,445	28,200
Other liabilities	(18)	52,315	22,435
Provisions - pensions, other provisions	(19)	42,113	27,592
Deferred income tax liabilities	(31)	13,407	10,748
Total liabilities		**6,369,338**	**5,869,677**
Shareholders’ equity			
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		1,659,976	1,917,977
-of which: other Revaluation reserve		999,077	740,055
Fair value reserve		38,559	30,910
Translation reserve		17,544	-392
Other reserves		36,805	35,905
Undistributed result		**36**	**12,831**
Total shareholders’ equity		**3,448,326**	**3,433,615**
Total liabilities and shareholders’ equity	(F)	9,817,664	9,303,292

Company statement of profit or loss

For the year ended December 31, 2022

	Notes	2022	2021
Income			
Interest income from financial instruments measured at AC		335,256	275,476
Interest income from financial instruments measured at FVPL		15,828	-8,913
Interest expenses from financial instruments measured at AC		-128,850	-106,758
Interest expenses from financial instruments measured at FVPL		12,707	71,085
Interest expenses on leases		-139	-158
Net interest income	**(21)**	**234,802**	**230,732**
Dividend Income	(22)	41,423	22,066
Results from equity Investments		78	294,315
Share in the result of subsidiaries	(E)	894	1,879
Share in the result of associates	(10)	-58,597	63,902
Total results from equity Investments, subsidiaries and associates		**-16,202**	**382,162**
Fee and commission income		10,912	11,568
Fee and commission expense		-12,809	-5,871
Net fee and commission income	**(24)**	**-1,897**	**5,697**
Results from financial transactions	(G)	29,817	-26,419
Remuneration for services rendered	(26)	30,518	29,851
Gains and losses due to recognition	(27)	299	5,135
Other operating income	(28)	-	116
Total other income		**60,634**	**8,683**
Total income		**277,337**	**627,274**
Operating expenses			
Staff costs	(29)	-106,674	-71,639
Administrative expenses	(30)	-31,887	-28,722
Depreciation and impairment of fixed assets	(11), (12)	-11,448	-11,934
Other operating expenses		-509	-293
Total operating expenses		**-150,518**	**-112,588**
Impairments on			
Interest-bearing instruments	(5)	-34	51
Loans	(7),(8)	-126,634	3,257
Loan commitments	(32)	-5,262	1,841
Guarantees issued	(32)	-10,853	3,917
Total impairments		**-142,783**	**9,066**
Profit/(loss) before taxation		**-15,964**	**523,752**
Income tax	(31)	17,022	-33,062
Net profit/(loss)		**1,058**	**490,690**

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

	2022	2021
Banks	21,089	90,672
Balance at December 31	**21,089**	**90,672**

The cash on bank accounts can be freely disposed of.

B. Other Receivables

	2022	2021
Receivables related to equity disposals	6,826	1,935
Taxes and social premiums	452	264
To be declared on State guaranteed loans	1,081	2,449
Transaction fee receivables and prepayments	8,185	17,071
Intercompany receivables from subsidiaries	6,687	6,508
Balance at December 31	**23,231**	**28,227**

C. Equity investments

	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[1]	-	-59,407	-59,407
Balance at December 31, 2022	**150,733**	**1,942,125**	**2,092,858**

1 Other changes relate to the reclassification of FMO's Ventures Program (refer to section 'Group accounting and consolidation' in the 'Accounting policies' chapter).

	Equity measured at FVOCI	Equity measured at FVPL	Total
Balance at January 1, 2021	115,504	1,675,234	1,790,738
Purchases and contributions	31,064	228,245	259,309
Reclassification from loans	-31,909	-	-31,909
Sales	-	-322,005	-322,005
Changes in fair value	25,766	280,929	306,695
Balance at December 31, 2021	**140,425**	**1,862,403**	**2,002,828**

D. Other financial assets

Other financial assets reflect FMO's investment in FMO's Ventures Program[1]. 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.

	2022
Balance at January 1	-
Purchases and contributions	12,820
Return of Capital (including sales)	-173
Changes in fair value	19,430
Other changes[1]	59,407
Balance at December 31	**91,484**

1 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

	2022	2021
Balance at January 1	13,876	12,341
Purchases and contributions	-	-
Share in other comprehensive income	-	-
Share in net results	894	1,872
Return of capital	1	-337
Balance at December 31	**14,771**	**13,876**

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.

	2022	2021
Asia Participations B.V.	8,940	8,334
FMO Investment Management B.V.	5,917	5,467
Costa Rica	-121	-
Equis DFI Feeder L.P.	35	75
Balance at December 31	**14,771**	**13,876**

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	2022	2021
1,020,000 A shares x €22.69	23,144	23,144
980,000 B shares x €22.69	22,236	22,236
Balance at December 31	**45,380**	**45,380**

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	2022	2021
204,000 A shares x €22.69	4,629	4,629
196,000 B shares x €22.69	4,447	4,447
Balance at December 31	**9,076**	**9,076**

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 (2021: €29,272k).

	2022	2021
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
Balance at December 31	**29,272**	**29,272**

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.

	2022	2021
Fair value reserve	38,558	30,910
Other revaluation reserve	999,077	740,055
Translation reserve	17,544	-392
Total legal reserves	**1,055,180**	**770,573**

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.

	2022	2021
Equity investment FVPL	843,208	638,874
Loans to private sector FVPL	12,337	4,172
Derivatives other than hedge accounting instruments	133,166	97,009
Legal reserve internally developed software	10,366	-
Total other revaluation reserve	**999,077**	**740,055**

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, 2022 the translation reserve (as a part of the legal reserve) has a balance of €17,544k (2021: €-392k).

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.

	2022	2021
Actuarial gain/loss on defined benefit plans	-6,533	-7,433
Retained earnings	43,338	43,338
Total other reserves	**36,805**	**35,905**

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, 2021	536,049	15,006
Actuarial gains/(loss) on defined benefit plans net of tax[1]	-	9,723
Addition/(release) to other reserves	-	11,176
Addition/(release) to other revaluation reserve	204,006	-204,006
Addition/(release) from contractual reserve	-	204,006
Balance at December 31, 2021	**740,055**	**35,905**
Actuarial (gain)/(loss) on defined benefit plans net of tax	-	900
Addition/(release) to other reserves	-	-
Addition/(release) to other revaluation reserve	259,022	-259,022
Addition/(release) from contractual reserve	-	259,022
Balance at December 31, 2022	**999,077**	**36,805**

1 This item refers to line item Actuarial result pension in the consolidated statement of changes in Shareholders' equity

G. Result of financial transactions

	2022	2021
Gains/(losses) on remeasurement of on valuation of hedged items	341,896	125,404
Gains/(losses) on remeasurement of hedging instruments	-339,323	-124,252
Result on hedge accounting	**2,573**	**1,152**
Result on sale and valuation of treasury derivatives not under hedge accounting	42,768	6,700
Result on sale and valuation of derivatives related to asset portfolio	-3,989	-11,729
Result on sale and valuation of loans at FVPL	-32,706	-20,860
Result on financial instruments mandatory at FVPL	**6,073**	**-25,889**
Foreign exchange results loans at FVPL	-29,522	33,167
Foreign exchange results Derivatives	-165,603	45,876
Foreign exchange results on other financial assets/liabilities	196,707	-81,128
Foreign exchange results	**1,582**	**-2,085**
Other financial results	159	403
Other changes[1]	19,430	-
Total result from financial transactions	**29,817**	**-26,419**

1 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 €1 million is recorded in 2022. Considering this low profit, the Management Board and Supervisory Board proposes to the Shareholders not to pay out dividends related to 2022. Based on the Agreement State-FMO of November 16, 1998, the proposal is made to allocate €0.04 million of the profit (3.6 percent of the profit) to other reserves and the remaining profit to the other contractual reserve. No dividends are proposed.

Subsequent events

On February 6, 2023, there was a magnitude 7.8 earthquake that hit Turkey and Syria. This lead to thousands of buildings in the southern provinces of Turkey and northern parts of Syria to collapse with a significant loss of life recorded.

A few of our customers have part of their assets in the wider area affected by the earthquake, but preliminary assessment did not result in the need to a reclassification of our credit risk. Monitoring of potential future impact will be a key point of attention in the first half of 2023.

FMO has both debt and equity exposures in Turkey with net carrying amounts of € 401 million and € 58 million respectively on February 28, 2023. FMO has no exposures in Syria. This is a non-adjusting subsequent event for FMO.

INDEPENDENT AUDITOR'S AND ASSURANCE REPORTS

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 2022 included in the annual report

Our opinion

We have audited the financial statements 2022 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 31 December 2022 and of its result and its cash flows for 2022 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) 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 31 December 2022 and of its result for 2022 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 31 December 2022
- The following statements for 2022: the consolidated income statement, the consolidated statements of comprehensive income, changes in shareholder's equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company statement of financial position as at 31 December 2022
- The company income statement for 2022
- 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 local prosperity in emerging markets. 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	€34 million (2021: €34 million)
Benchmark applied	1% of total shareholders’ equity (2021: 1% of total shareholders’ equity)
Explanation	FMO’s shareholders’ equity and solvency, are important drivers for the ability to invest in and provide financing to companies in developing countries, 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 €750,000, 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. Management summarized FMO's targets and ambitions, and reported in the section Our strategy and Climate Action Plan of the management 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 sustainability information in chapters External environment, Our strategy, Our value creation model, Our investment process, Performance against our strategy 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 31 December 2022.

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 management'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 financial statements for management'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 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.

As in all of our audits, we addressed the risks related to management override of controls. We performed procedures among others to evaluate 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 the Significant estimates, assumptions and judgments of the Significant accounting policies

section in the consolidated financial statements. We 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. These risks did however not require significant auditor's attention during our audit.
As described in our key audit matter related to impairment allowances for loans and advances to customers, we specifically considered whether the judgments and assumptions in the determination of this allowance represent a fraud risk.
We did not identify a risk of fraud in revenue recognition.

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 managing board and the supervisory board, inspected the 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 regards 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. Management expects this investigation to result in enforcement measures by DNB. 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 Significant 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.

<table>
<tr><th colspan="2">Impairment of loans to the private sector</th></tr>
<tr><td>Risk</td><td>At 31 December 2022, FMO reported loans to the private sector measured at amortized cost of €4.6 billion including an allowance of €261 million for expected credit losses. The timing and measurement of expected credit losses require significant estimates and management's judgment in setting assumptions and criteria in respect of:
• Allocation of loans to stages 1, 2 or 3
• Accounting policies and modelling assumptions used to build the model to calculate the expected credit loss (ECL)
• Completeness and accuracy of data used to calculate the ECL
• Estimating the impact of multiple macro-economic scenarios to calculate the ECL for stages 1 and 2
• Measurement of individually assessed provisions for stage 3, including the assessment of recovery scenarios

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 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.

Reference is made to Financial assets — Impairment in the Significant 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 to the consolidated financial statements.</td></tr>
<tr><td>Our audit approach</td><td>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</td></tr>
</table>

Impairment of loans to the private sector	
	and completeness, credit risk monitoring, multiple economic scenarios, individual provisions, journal entries and disclosures. We performed an overall assessment of the ECL provision 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. We challenged the criteria used to allocate loans to stage 1, 2 or 3 in accordance with EU-IFRS and FMO's policy. We tested loans in stage 1, 2 and 3 and verified whether they were allocated to the appropriate stage. 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, Exposure at Default in this model including back-testing of assumptions applied. Further, we assessed the selected macro-economic scenarios and variables used. We examined a selection of loans to assess the expected credit loss provision 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 provisions and challenged the recovery scenarios and probability weightings assigned. We evaluated the completeness and accuracy of the disclosures in accordance with EU-IFRS.
Key observations	Based on our procedures performed we consider the expected credit loss provisions to be reasonable and in compliance with IFRS 9 and we concur with the related disclosures in the financial statements.

Valuation of equity investments at fair value	
Risk	Equity investments amounted to €2.2 billion as at 31 December 2022. 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. 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 investment 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. 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. Reference is made to Equity investments in the Significant 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.
Our audit approach	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 s and private equity direct investments are appropriate and have been applied consistently. 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. We involved our own valuation specialists to assess market related information for the valuation of a sample of 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. We examined a selection of the 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. We verified the clerical accuracy of the fair value calculations. We performed back-testing procedures on fund investments and on the direct investment exited during 2022 to verify the appropriateness and reasonableness of the previous recorded valuations.

Valuation of equity investments at fair value	
	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. We evaluated the completeness and accuracy of the disclosures in accordance with EU-IFRS.
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	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. 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. Reference is made to the operational risk / non-financial risk section of the notes to the consolidated financial statements.
Our audit approach	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: • 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) • We designed and executed IT substantive procedures when IT controls where lacking or not operating effectively • 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 critical cloud computing outsourcing and SaaS solutions • We tested key application controls over data processing, data feeds and interfaces where relevant for the financial reporting

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 from management. 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 IT 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 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.

Management 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

Engagement

We were engaged as auditor by the Annual General Meeting of Shareholders of FMO on
4 December 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.

Description of responsibilities regarding the financial statements

Responsibilities of management and the supervisory board for the financial statements

Management 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, management 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, management is responsible for assessing the bank's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management 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. Management 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 management
- 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, 16 March 2023

Ernst & Young Accountants LLP

signed by J.G. Kolsters

Assurance report of the independent auditor on Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.'s sustainability information

To: the shareholders and supervisory board of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

Our conclusions

We have reviewed the sustainability information in the accompanying annual report for 2022 of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (hereinafter: FMO or the Company) at The Hague, The Netherlands. A review is aimed at obtaining a limited level of assurance.

Furthermore we have audited selected sustainability information within the sustainability information in the annual report. An audit is aimed at obtaining a reasonable level of assurance.

The scope of our assurance engagement is described in the section Our scope.

Based on our review procedures performed nothing has come to our attention that causes us to believe that the sustainability information does not present, in all material respects, a reliable and adequate view of:

- The policy and business operations with regard to sustainability
- The thereto related events and achievements in 2022

in accordance with the reporting criteria as included in the section Reporting criteria.

In our opinion the selected sustainability information is prepared, in all material respects, in accordance with the reporting criteria as included in the section Reporting criteria.

Basis for our conclusions

We have performed our review of the sustainability information and our audit of the selected sustainability information in accordance with Dutch law, including Dutch Standard 3810N, "Assurance-opdrachten inzake maatschappelijke verslagen" (Assurance engagements relating to sustainability reports), 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 under this standard are further described in the section Our responsibilities of our report.

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).

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Our scope
The sustainability information is included in About this report, At a glance, External environment (excluding EU taxonomy), Our strategy, Our value creation model, Our investment process, Performance against our strategy, Stakeholder engagement and materiality assessment and How we report of the annual report.

The selected sustainability information consists of:
- The materiality assessment as included on page 92 in the annual report
- The green-labelled new investment volume as included on page 7 in the annual report
- The diversity KPIs as included on page 63 in the annual report

Reporting criteria
The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards) and the applied supplemental reporting criteria 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, to which a link is included in the chapter How we report of the annual report.

The absence of an established practice on which to draw, to evaluate and measure sustainability information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Consequently, the sustainability information needs to be read and understood together with the reporting criteria used.

Limitations to the scope of our review and our audit
The sustainability information includes prospective information such as ambitions, strategy, plans, expectations and estimates. Inherent to this prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

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 external sources and prepared using several assumptions. The assumptions and external sources used are explained in the document JIM application by FMO March 2022 as available on the website of FMO (hereinafter: the methodology of the impact model) as available on the website of FMO. We have not performed procedures on the content of these assumptions and external sources, other than evaluating the suitability and plausibility of these assumptions and external sources used.

The references to external sources or websites in the sustainability information are not part of the sustainability information as reviewed and the selected sustainability information as audited by us. We therefore do not provide assurance on this information.

Our conclusions are not modified in respect to these matters.

Responsibilities of the management board and the supervisory board for the sustainability information

The management board is responsible for the preparation of reliable and adequate sustainability information in accordance with the reporting criteria as included in the section Reporting criteria, including the identification of stakeholders and the definition of material matters. Management board is also responsible for selecting and applying the reporting criteria and for determining that these reporting criteria are suitable for the legitimate information needs of stakeholders, taking into account 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 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 error or fraud.

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 review of the sustainability information is aimed at obtaining a limited level of assurance.
Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in a review is therefore substantially less than the assurance obtained in an audit.

Our audit of the selected sustainability information is aimed at obtaining a reasonable level of assurance. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

We apply the Nadere voorschriften kwaliteitssystemen (NVKS, Regulations for quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements. A further description of our responsibilities is included in the annex to this assurance report.

Den Haag, 16 March 2023

Ernst & Young Accountants LLP

R.J. Bleijs

Annex to the assurance report of the independent auditor on FMO’s sustainability information

<table>
<tr><td colspan="2">
Our review and our audit 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 reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders’ dialogue and the reasonableness of estimates made by the management board
Reconciling the relevant financial information with the financial statements or with information underlying the financial statements in case the reconciliation cannot be made directly
Evaluating the consistency of the sustainability information with the information in the annual report which is not included in the scope of our review and our audit
Evaluating the overall presentation and content of the sustainability information
Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used

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<tr><td>
Our review of the sustainability information included amongst others:

Obtaining through inquiries a general understanding of internal control, reporting processes and information systems relevant for the preparation of the sustainability information, without testing the operating effectiveness of controls
Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatements, whether due to error or fraud. Designing and performing further assurance procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis

</td><td>
Our audit 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 relevant to our audit, 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 error or fraud. Designing and performing further audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the selected sustainability information is misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

</td></tr>
</table>

These procedures consisted amongst others of: • Interviewing management responsible for the sustainability strategy, policy and results • Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information • Obtaining assurance information that the sustainability information reconciles with underlying records of the company • Evaluating the suitability and plausibility of the assumptions and external sources used in the calculations on which the impact data as included on page 94 of the annual report is based, which are further explained in the methodology of the impact model • Reviewing, on a limited test basis, relevant internal and external documentation • Performing an analytical review of the data and trends	These procedures consisted amongst others of: • Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the selected sustainability information • Obtaining assurance evidence that the selected sustainability information reconciles with underlying records of the company • Evaluating the suitability of the assumptions and external sources used in the calculations on which the green-labelled new investment volume as included on page 7 of the annual report is based, which are further explained in the document Green Methodology 2022 as available on the website of FMO • Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the selected sustainability information • Performing an analytical review of the data and trends

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

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 General Meeting 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 General Meeting, 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 €1 million is recorded in 2022. Considering this profit, the Management Board and Supervisory Board proposes to the Shareholders not to pay out dividends related to 2022. Based on the Agreement State-FMO of November 16, 1998, the proposal is made to allocate €0.04 million of the profit (3.6% of the profit) to other reserves and the remaining profit to the other contractual reserve. No dividends are proposed.

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, 2022, the fund amounted to €2,680,264k (2021: €2,679,242k).

List of abbreviations

AC	Amortized cost	IC	Investment Committee
AEF	Access to Energy Fund	ICM	Independent Complaints Mechanism
AFW	Agribusiness, Food & Water	IEP	Independent Expert Pane
AGM	Annual General Meeting	IFC	International Finance Corporation
ALCO	Asset and Liability Committee	IFRS	International Financial Reporting Standards
ARC	Audit and Risk Committee	IMF	International Monetary Fund
CC	Compliance Committee	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	JIM	Joint Impact Model
CFI	Center for Financial Inclusion	KPI	Key Performance Indicator
CG	Corporate Governance	KYC	Know Your Customer
CIO	Chief Investment Officer	LCR	Liquidity Coverage Ratio
CiP	Clearance in Principle	LDC	Least developed country
CFOO	Chief Finance and Operations Officer	LIBOR	London Interbank Offered Rate
CP	Commercial Paper	LIC	Low-income country
CRO	Chief Risk Officer	MB	Management Board
CRR	Capital Requirements Regulation	MDB	Multilateral Development Bank
CSA	Credit Support Annex	MFF	Mobilising Finance for Forests
CSRD	Corporate Sustainability Reporting Directive	MFI	Microfinance institution
D&I	Diversity and Inclusion	MSME	Micro, small and medium enterprise
DCF	Discounted Cashflow	NFRD	Non-Financial Reporting Directive
DFCD	Dutch Fund for Climate and Development	NGO	Non-governmental organization
DFI	Development Finance Institution	NPL	Non-performing loans
DNB	Dutch Central Bank	NPS	Net Promotor Score
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization	NPV	Net present value
EC	European Comission	NSFR	Net Stable Funding Ratio
ECB	European Central Bank	OCI	Other comprehensive income
ECL	Expected Credit Loss	OFAC	The Office of Foreign Assets Control
EDFI	European Development Financial Institution	OHS	Occupational health and safety
EM	Emerging market	ORC	Operational Risk Committee
EN	Energy	P2G	Pillar 2 Guidance
ESAP	Environmental and social action plan	PCAF	Partnership for Carbon Accounting Financials
ESG	Environmental, social and governance	PD	Probability of default
ESRS	European Sustainability Reporting Standards	PE	Private equity
EU	European Union	PP&E	Property, plant and equipment
EURIBOR	Euro Interbank Offered Rate	PRB	Principles for Responsible Banking
FEC	Financial economic crime	RAF	Risk Appetite Framework
FI	Financial institution	RI	Reducing Inequalities
FIU	Financial economic crime	S&P	Standard and Poor's
FMO	Financierings-Maatschappij voor Ontwikkelingslanden N.V	SARC	Selection, Appointment and Remuneration Committee
FMO IM	FMO Investment Management B.V.	SB	Supervisory Board
FOM	Faciliteit Opkomende Markten	SDG	Sustainable Development Goal
FOM-OS	Fund Emerging Markets for Developing Countries	SFDR	Sustainable Finance Disclosure Regulation
FPIC	Free prior and informed consent	SIS	Sustainability Information System
FTE	Full-time equivalent	SME	Small and medium-sized enterprise
FVOCI	Fair value through other comprehensive income	SOFR	Secured overnight financing rate
FVPL	Fair value through profit or loss	SPPI	Solely payments of principal and interest
FX	Foreign exchange	SRB	Single Resolution Board
GAAP	Generally Accepted Accounting Principles	SREP	Supervisory Review and Evaluation Process
GCF	Green Climate Fund	TA	Technical assistance
GDP	Gross Domestic Product	TCFD	Task Force on Climate-Related Financial Disclosures
GDPR	General Data Protection Regulation	$ktCO_2e$	One kiloton of CO_2 equivalent
GHG	Greenhouse gas	UBO	Ultimate beneficial owner
GRI	Global Reporting Initiative	UNEP	United Nations Environment Programme
GRR	General Risk Reserves	URP	Unfunded Risk Participation
GWh	Gigawatt-hours	USD	US dollar
IAS	International Accounting Standards	VSC	Verified Carbon Standard
IBOR	Interbank Offered Rate	Wwft	Dutch Anti-Money Laundering and Anti-Terrorist Financing Act

Colophon

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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 17 March 2023. 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

Disclaimer

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.