2022 Financial Review

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Financial Performance

Net income for the year was $4.5 million compared to a loss of $16.1 million in 2021.

Statement of Comprehensive Income (Loss) Summary

for the year ended December 31 *(in thousands of Canadian dollars)*	**2022**	2021
Financing and investment revenue	**23,174**	7,441
Interest & financing expenses	**4,069**	594
Net Financing and Investment Income	**19,105**	6,847
Donor contributions	**2,020**	1,016
Realized gains (losses)*	**591**	(67)
Net revenue	**21,716**	7,796
Unrealized (gains) losses*	**(14,547)**	3,836
Administrative Expenses	**16,950**	13,258
Provision for Credit Losses	**14,844**	6,776
Net Income (Loss)	**$4,469**	$(16,074)

** Included in Other (Income) Expenses on the Statement of Comprehensive Income (Loss)*

Items of note are as follows:

Net financing and investment income was $19.1 million in 2022, an increase of $12.3 million when compared to the same period for 2021 primarily due to growth in the loan and equity investment portfolios.

Donor contributions were $2.0 million in 2022, an increase of $1.0 million when compared to 2021, primarily due to additional hours spent on the GAC confessional facility in the current year.

Realized gains of $591 thousand in 2022 were mainly due to foreign exchange gains as a result of the weakening of the Canadian dollar.

Unrealized gains were $14.5 million in 2022 compared to unrealized losses of $3.8 million in 2021 primarily due to strong performance in our equity investments portfolio in 2022. These gains consisted of $18.5 million of favourable fair market value adjustments on the portfolio partially offset by $4.0 million of management fees.

We recorded a **provision for credit losses** of $14.8 million in 2022, primarily due to the introduction of a new PD model as discussed in Note 4. Net loan disbursements also contributed to a higher provision for credit losses in 2022 but the impact was partially offset by lower loan commitment exposure.

Administrative expenses were $16.9 million in 2022, an increase of $3.7 million compared to 2021. This increase was mainly due to higher human resource costs as a result of increased headcount to support the continued growth of the organization, higher consulting costs for strategic planning and IT services, and increased travel costs due to COVID-19 restrictions being lifted.

Financial Condition

Statement of Financial Position Summary

As at December 31 *(in thousands of Canadian dollars)*	**2022**	2021
Cash	**12,649**	25,166
Marketable securities	**15,462**	11,558
Loans receivable	**422,916**	260,645
Allowance for losses on loans	**(25,103)**	(9,120)
Equity investments	**154,592**	97,529
Other assets	**5,713**	7,470
Total Assets	**586,229**	393,248
Loans payable	**302,969**	120,303
Deferred revenue	**10,604**	12,713
Allowance for losses on loan commitments	**1,343**	2,092
Other liabilities	**14,438**	5,734
Total Equity	**256,875**	252,406
Total Liabilities and Equity	**586,229**	393,248

Items of note are as follows:

Total assets are $193.0 million higher than December 2021, primarily due to growth within our loan and equity investment portfolios.

Loans receivable increased by $162.3 million during the year mainly due to net disbursements, including loans to Banco de Occidente S.A. ($40.6 million), Banco Nacional de Costa Rica ($38.0 million), JMMB Bank ($25.8 million) and Ecobank Transnational ($25.0 million) and the impact of foreign exchange translation ($23.4 million). At the end of the year, we have outstanding commitments of $121.6 million.

Allowance for losses on loans increased by $16.0 million during the year primarily due to the introduction of a new PD model as previously discussed and growth in the loan portfolio.

Equity investments increased by $57.1 million in 2022 primarily due to net disbursements of $33.9 million, fair market valuation gains of $14.4 million and the effects of foreign exchange of $8.6 million. During the year we signed a $7.8 million follow-on commitment with Miro Forestry Developments Limited and disbursed $7.8 million of which $2.6 million related to signings in 2021. We also signed a $39.0 million commitment with Adenia Capital (V) LP Fund, of which $400 thousand was disbursed during the year. Other significant disbursements during the year included $7.6 million for African Development Partners III Mauritius L.P. and $4.5 million for Energy Entrepreneurs Growth Fund.

Loans payable increased by $182.7 million in 2022 primarily as a result of additional drawdowns under the floating rate revolving loan facility with EDC ($117.1 million) and new fixed rate term loans ($48.8 million) from EDC to fund loan and equity investment disbursements.

Corporate Plan Discussion

The following section discusses our 2022 results and financial position in comparison to Corporate Plan projections. We begin by looking back to our 2022 Corporate Plan and compare actuals to what was expected. Then we look forward to 2023 and provide an explanation of where we anticipate changes from our 2022 results and financial position.

Financial Performance

for the year ended December 31 *(in thousands of Canadian dollars)*	2023 Corporate Plan	**2022 Actuals**	2022 Corporate Plan
Net financing and investment income	39,777	**19,105**	16,674
Donor contributions	2,249	**2,020**	1,880
Other (income) expenses	(3,408)	**(15,138)**	-
Administrative expenses	29,279	**16,950**	20,509
Provision for (reversal of) credit losses	15,951	**14,844**	8,844
Net income	204	**4,469**	(10,799)

2022 CORPORATE PLAN

Net income for 2022 was $4.5 million compared to the 2022 Corporate Plan net loss of $10.8 million. Items of note are as follows:

Net Financing and Investment Income was $2.4M higher than the Corporate Plan primarily due to investment income from a capitalized dividend on preferred shares as well as accrued interest recognized as income on the conversion of a convertible note instrument into equity shares.

Other income was $15.1 million higher than the Corporate Plan as a result of unrealized gains on our investment portfolio. Due to the difficulty in estimating unrealized gains and losses, a forecast was not included in the Corporate Plan.

Administrative expenses decreased by $3.6 million compared to the Corporate Plan mainly due to lower average headcount in the year when compared to the Corporate Plan and a reduction in professional service fees.

The **provision for credit losses** of $14.8 million compared to the $8.8 million in the Corporate Plan is primarily the result of implementing a new PD model to accurately reflect the risks associated with the portfolio as previously discussed. This was partially offset by impairments forecasted in the Corporate Plan that did not materialize.

2023 CORPORATE PLAN

Net income is planned to be $204 thousand, resulting in a decline of $4.3M million compared to 2022. Items of note are as follows:

Net financing and investment income is expected to increase by $20.7 million, largely due to growth in the loan and equity investment portfolios.

Donor contributions are expected to increase by $229 thousand in 2023 primarily due to higher contributions from GAC TAF, partially offset by decreases in earnings from 2X plus and Proparco which concluded in 2022.

Other income is expected to be $3.4 million in 2023, down from $15.1 million in 2022, as fair market value adjustments on our investments portfolio are not projected to reoccur at the same level in 2023.

Administrative expenses are expected to increase by $12.3 million mainly due to the additional headcount to support the continued growth of the organization, as well as an increase in professional services, primarily in IT consulting, and an increase in systems costs.

Financial Position

as at December 31 *(in thousands of Canadian dollars)*	2023 Corporate Plan	**2022 Actuals**	2022 Corporate Plan
Cash	6,573	**12,649**	7,458
Marketable securities	9,666	**15,462**	9,787
Loans receivable	788,877	**422,916**	447,768
Investments	250,237	**154,592**	105,226
Allowance for losses on loans	(35,499)	**(25,103)**	(17,957)
Other assets	7,907	**5,713**	9,852
Total Assets	1,027,761	**586,229**	562,134
Loans payable	436,969	**302,969**	313,301
Deferred revenue	8,610	**10,604**	9,787
Allowance for losses on loan commitments	962	**1,343**	201
Other liabilities	20,419	**14,438**	6,013
Equity	560,801	**256,875**	232,832
Total Liabilities and Equity	1,027,761	**586,229**	562,134

2022 CORPORATE PLAN

Loans receivable for 2022 were $24.9 million less than projected in the Corporate Plan mainly due to lower disbursements than anticipated, partially offset by foreign exchange translation.

Investments for 2022 were $49.4 million higher than Plan mainly due to additional disbursements that were not anticipated, as well as fair market value fluctuations and foreign exchange translation.

Loans payable were $10.3 million less than the Corporate Plan mainly due to a decrease in loans receivable, as our debt requirements are largely driven by our loan portfolio, partiality offset by foreign exchange translation.

2023 CORPORATE PLAN

Share capital will increase in 2023 per the Corporate Plan as an additional capital injection of $100 million is planned as part of the capital commitment increase confirmed by the April 2021 Federal Budget as well as $200 million in additional funding related to the Government of Canada's Indo-Pacific Strategy to enable the corporation's expansion into the region.

The 2023 Corporate Plan is projecting an increase in both loans receivable and investments as the organization continues to grow, including additional business in the Indo-Pacific region. Loans payable are also expected to increase as our debt requirements are largely driven by our loan portfolio and investments portfolios.

Risk Management Overview

By providing development financing and other forms of development support in furtherance of its mandate, FinDev Canada is exposed to several risks. Our enterprise risk management (ERM) practice emphasizes a strong risk culture of oversight and clear direction, ownership and accountability, and the requirement for monitoring and reporting. Risk management at FinDev Canada is governed by the Three Lines of Defence (3LD) Model, an industry best-practice approach to risk governance. Furthermore, our Risk Appetite Framework (RAF) is articulated around three broad risk types which are intrinsic to our business: Strategic Risks, Operational Risks and Financial Risks.

Risk Governance, Oversight and Design

Our evolving risk governance structure balances strong central oversight and control of risk with clear accountability and ownership of risk within the front lines. The 3LD risk governance model ensures a balance between three distinct organizational functions, or "lines of defence":

- 1st Line of Defence: Employees on the front line who take, own and manage risk on a day-to-day basis;
- 2nd Line of Defence: The risk and compliance functions that provide independent oversight of and effective challenge to the first line's risk management activities by ensuring that the organization's governance structure is appropriate, and the right checks and balances are in place; and
- 3rd Line of Defence: The internal audit function, which provides independent assurance on the effectiveness of risk management policies, processes and practices to senior management and the Board of Directors (Board).

This structure supports the cascade of FinDev Canada's Risk Appetite throughout the organization and provides forums for risks to be appropriately considered, discussed, debated and factored into business decisions at all levels and across all functions.

Board of Directors

The Board is ultimately responsible for Risk Governance by setting the cultural tone, approving FinDev Canada's ERM and Risk Appetite Framework and maintaining oversight as to the efficacy of the ERM program. In addition, it has responsibility to ensure that our incentive, reward and performance management and evaluation systems are aligned and in place, with due emphasis on risk, compliance and controls.

Executive Management Team

The Executive Management team, led by the Chief Executive Officer (CEO), is ultimately accountable for managing enterprise risk within the Board-approved Risk Appetite, approving policies and procedures and overseeing execution of risk management activities.

Executive Committees

FinDev Canada has established various executive management committees as part of its corporate governance framework to oversee the effective management of the financial, operational and strategic affairs within the organization while also deploying various authorities which are delegated to it by the Board of Directors. Three such committees include the CEO - they are the Triage, Investment and Risk Management committees.

The role of the **Triage Committee** is to provide guidance and direction to the Investments Team, with the goal of pursuing transactions that align with FinDev Canada's mandate, strategic framework and risk appetite. For its part, the **Investment Committee** has been established to make certain recommendations to the CEO or to the Board related to new and existing transactions, including those required by the Delegation of Authority Framework for Financing and Equity (F&I) Commitments. Lastly, the **Risk Management Committee** exists to oversee the enterprise risk management governance framework, review the risk profile of the corporation considering existing and emerging risks and make certain recommendations to the CEO or the Board regarding frameworks, policies, guidelines or procedures.

Capital Management

Our approach to Capital Management has been designed to ensure alignment with our parent Export Development Canada. We have a capital management framework in place which follows the Internal Capital Adequacy Assessment Process (ICAAP) and serves as a guideline to assess our required capital. Capital Demand is calculated by models or approaches that estimate the capital required to cover potential losses consistent with an AA solvency level, and includes credit risk, operational risk, market risk and strategic risk. The Capital Supply is determined by our financial statements and consists of paid-in share capital and retained earnings.

As a result of a large initial equity contribution of $300 million from our shareholder, FinDev Canada has a capital surplus of $26.9 million as of December 31, 2022.

INDEPENDENT AUDITOR'S REPORT

To the Directors of **Development Finance Institute Canada**

Opinion

We have audited the financial statements of Development Finance Institute Canada ("DFIC"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DFIC as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of DFIC in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing DFIC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate DFIC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing DFIC financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. 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.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain 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 DFIC internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on DFIC’s ability to continue as a going concern. 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. 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 DFIC to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ottawa, Canada
March 31, 2023

Chartered Professional Accountants
Licensed Public Accountants

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

(in thousands of Canadian dollars)	Notes	**2022**	2021
Assets			
Cash		**12,649**	25,166
Marketable securities	3	**15,462**	11,558
Derivative instruments	9	**414**	842
Loans receivable	4	**422,916**	260,645
Allowance for losses on loans	4	**(25,103)**	(9,120)
Investments	5	**154,592**	97,529
Other assets		**3,867**	5,081
Property, plant and equipment	6	**168**	272
Right-of-use asset	7	**1,264**	1,275
Total Assets		**$586,229**	$393,248
Liabilities and Equity			
Accounts payable and other credits		**3,039**	2,341
Loans payable	8	**302,969**	120,303
Owing to Export Development Canada	18	**3,252**	785
Deferred revenue	10	**10,604**	12,713
Derivative instruments	9	**6,798**	1,265
Lease liability	7	**1,349**	1,343
Allowance for losses on loan commitments	4	**1,343**	2,092
Total Liabilities		**329,354**	140,842
Equity			
Share capital	11	**300,000**	300,000
Deficit		**(43,125)**	(47,594)
Total Equity		**256,875**	252,406
Total Liabilities and Equity		**$586,229**	$393,248

The accompanying notes are an integral part of these financial statements.

These financial statements were approved for issuance by the Board of Directors on March 30, 2023.

Mairead Lavery

Mairead Lavery
Director

Lori Kerr
Director

STATEMENT OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31

(in thousands of Canadian dollars)	Notes	**2022**	2021
Financing and Investment Revenue			
Loan		**19,741**	7,331
Marketable securities		**191**	110
Equity investments	5	**3,242**	-
Total financing and investment revenue		**23,174**	7,441
Interest expense	7, 9	**3,927**	218
Transaction costs	5	**142**	376
Net Financing and Investment Income		**19,105**	6,847
Donor Contributions	10	**2,020**	1,016
Other (Income) Expenses	16	**(15,138)**	3,903
Administrative Expenses			
Salaries and benefits		**10,885**	8,267
Professional services		**1,552**	1,160
Administration costs	18	**1,381**	1,226
Travel, hospitality and conferences		**630**	24
Marketing and communications		**517**	535
Impact projects		**488**	729
Other		**1,497**	1,317
		16,950	13,258
Income (Loss) before Provision		**19,313**	(9,298)
Provision for Credit Losses	4	**14,844**	6,776
Net Income (Loss)		**4,469**	(16,074)
Comprehensive Income (Loss)		**$4,469**	$(16,074)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31

(in thousands of Canadian dollars)	Notes	**2022**	2021
Share Capital	11	**300,000**	300,000
Deficit			
Balance beginning of year		**(47,594)**	(31,520)
Comprehensive income (loss)		**4,469**	(16,074)
Balance end of year		**(43,125)**	(47,594)
Total Equity End of Year		**$256,875**	$252,406

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

(in thousands of Canadian dollars)	**2022**	2021
Cash Flows used in Operating Activities		
Net income (loss)	**4,469**	(16,074)
Adjustments to determine net cash from (used in) operating activities		
Provision for credit losses	**14,844**	6,776
Depreciation	**378**	183
Investments non-cash items	**(3,137)**	-
Realized losses	**2**	-
Changes in operating assets and liabilities		
Change in fair value of investments and accrued interest on loans receivable	**(16,194)**	2,809
Change in derivative instruments	**(10,996)**	6,012
Other	**(128)**	12,707
Loan disbursements	**(169,216)**	(179,656)
Loan repayments	**33,092**	21,632
Net cash used in operating activities	**(146,886)**	(145,611)
Cash Flows used in Investing Activities		
Disbursements for investments	**(35,994)**	(35,377)
Receipts from investments	**5,146**	1,954
Purchases of marketable securities	**(4,662)**	(7,987)
Sales/maturities of marketable securities	**4,660**	7,987
Purchases of property, plant, and equipment	**(59)**	-
Net cash used in investing activities	**(30,909)**	(33,423)
Cash Flows from Financing Activities		
Issue of long-term loans payable	**165,962**	119,087
Increase (decrease) in amount due to EDC	**2,448**	(176)
Net cash from financing activities	**168,410**	118,911
Effect of exchange rate changes on cash and cash equivalents	**772**	36
Net decrease in cash and cash equivalents	**(8,613)**	(60,087)
Cash and Cash Equivalents		
Beginning of year	**36,724**	96,811
End of year	**$28,111**	$36,724
Cash and Cash Equivalents are comprised of:		
Cash	**12,649**	25,166
Cash equivalents included within marketable securities	**15,462**	11,558
	$28,111	$36,724
Operating Cash Flows from Interest		
Cash paid for interest	**$1,861**	$157
Cash received for interest	**$15,133**	$5,397

The accompanying notes are an integral part of these financial statements.

1. Corporate Mandate

Development Finance Institute Canada (DFIC) Inc. was incorporated in September 2017 as a wholly-owned subsidiary of Export Development Canada ("EDC") for the purpose of providing, directly or indirectly, development financing and other forms of development support in a manner that is consistent with Canada's international development priorities. The corporation operates under the trade name FinDev Canada. As a subsidiary of EDC, FinDev Canada is subject to the *Export Development Act and the Financial Administration Act*.

FinDev Canada's principal place of business is located at 1 Place Ville Marie #2950, Montreal, Quebec.

2. Summary of Significant Accounting Policies

Basis of Presentation

FinDev Canada's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Application of New and Revised International Financial Reporting Standards

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The following amendments issued by the IASB have been assessed as being relevant to FinDev Canada. The changes were adopted for the annual report period beginning on January 1, 2022.

Fees in the "10 per cent" Test for Derecognition

In May 2020, the IASB issued an amendment to *IFRS 9 – Financial Instruments: Fees in the "10 per cent" test for derecognition* clarifying which fees to include when applying the "10 per cent" test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendment was adopted on January 1, 2022 with no material impact to the financial statements.

Onerous Contracts

In May 2020 the IASB issued an amendment to *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts* regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment was adopted on January 1, 2022 with no changes to the financial statements.

Interest Rate Benchmark Reform — Phase 2

In August 2020, the IASB issued amendments to *IFRS 9 - Financial Instruments*, *IAS 39 - Financial Instruments: Recognition and Measurement*, *IFRS 7 - Financial Instruments: Disclosures* and *IFRS 16 - Leases* to address the reforms related to the interest rate benchmark.

The amendments include changing the effective interest rate of financial instruments to reflect the change to the alternative benchmark rate, as well as additional disclosures about new risks arising from the reform and how we are managing the transition to alternative benchmark rates. For financial assets and financial liabilities measured at amortized cost, the amendments introduce a practical expedient that allows the change in contractual cash flows to be accounted for as an update to the effective interest rate, as opposed to immediately recognizing a gain or loss, provided that the modification is made on an economically equivalent basis and is a direct consequence of interest rate benchmark reform.

Transition to Alternative Benchmark Rates

We are focused on key activities including enhancing existing systems and processes as well as converting our existing loan and debt agreements using the new relevant alternative benchmark rates. The transition will focus on the USD LIBOR currency and settings with a cessation date of June 30, 2023 as all our loans are denominated in the USD currency.

The interest rate benchmark reform has not resulted in changes to our risk management strategy and we have assessed the overall risk arising from the transition to be low.

Our exposures to financial instruments that continue to reference interest rate benchmarks that are subject to the reform and are yet to transition include $257.0 million for our non-derivative financial assets and $40.0 million for our authorized and committed loan commitments.

Use of Estimates and Key Judgements

To prepare our financial statements in accordance with IFRS, it is necessary for management to exercise judgment and make use of estimates and assumptions in applying certain accounting policies. We utilize current market data and other information available to us as at the date of the financial statements in arriving at our decisions. We have established procedures to ensure that the process for determining our estimates and assumptions is well controlled and occurs in an appropriate and systematic manner.

Uncertainty is inherent in the use of estimates and assumptions and as a result, actual results may vary significantly from management's estimates. Uncertainty arises, in part, from the use of data at a point in time to establish our assumptions. While this data may be the most reliable basis available on which to base our assumptions, economic events may occur subsequently that render previous assumptions invalid and cause a material change to actual results.

Management has made significant use of estimates and exercised judgment as described in the following paragraphs.

LOANS AND ALLOWANCE FOR CREDIT LOSSES

The allowance for losses on loans represents management's best estimate of expected credit losses. These estimates are reviewed periodically during the year and in detail as at the date of the financial statements.

The purpose of the allowance is to provide an estimate of expected credit losses inherent in the loan portfolio. Estimation is inherent in the assessment of forward-looking probabilities of default, loss severity in the event of default (also referred to as loss given default), review of credit quality and the value of any collateral. Management also considers the impact of forward-looking macroeconomic factors including current and future economic events, industry trends and risk concentrations on the portfolio and the required allowance.

Allowances are established on an individual basis for loans that management has determined to be impaired and/or for which losses have been incurred. When an obligor is considered impaired, we reduce the carrying value of the loan to its net realizable value. Management is required to make a number of estimates including the timing and amount of future cash flows and the residual values of the underlying collateral.

Management judgment is used in the expected credit loss (ECL) calculation as it pertains to the application of forward-looking information to support future events and historical behaviour patterns in determining the expected life of a financial instrument. Judgment is also used in assessing significant increase in credit risk.

Fair Value of Financial Instruments

The majority of our financial instruments are recognized on our Statement of Financial Position at their fair value. These financial instruments include marketable securities, derivative instruments, investments and loans payable designated at fair value through profit or loss. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments are categorized into one of three levels based on whether the techniques employed to value the instruments use observable or unobservable market inputs. Financial instruments categorized as Level 1 are valued using quoted market prices, thus minimal estimation is required. Those instruments categorized as Level 2 and 3 require the use of greater estimation and judgment as they may include inputs such as discount rates, yield curves and other inputs into our models which may not be based on observable market data. Refer to Notes 3, 4 and 5 for further details.

Our fund investments are considered structured entities. A structured entity (SE) is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Management exercises judgment in determining whether we have control of structured entities. When we have power over an SE and are exposed or have rights to variable returns from our involvement with an SE and have the ability to affect those returns through its power over the SE, we are considered to have control over the SE which must be consolidated within our financial statements. When the criteria for control are not met, SEs are not consolidated.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of cash and short-term marketable securities with a term to maturity of 90 days or less from the date of their acquisition, are considered highly liquid, readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are included within marketable securities on the Statement of Financial Position.

MARKETABLE SECURITIES

Marketable securities are held for liquidity purposes. These are held with creditworthy counterparties that must have a minimum credit rating from an external credit rating agency of A- for all transactions.

Marketable securities held directly by FinDev Canada are recorded at fair value through profit or loss to reflect our business model for managing these instruments. Purchases and sales of marketable securities are recorded on the trade date and the transaction costs are expensed as incurred. Interest revenue is recorded in marketable securities revenue in the Statement of Comprehensive Income. Realized and unrealized gains and losses on these securities are included in other income (expenses) in the Statement of Comprehensive Income (Loss).

LOANS RECEIVABLE

Loans receivable are recorded at fair value upon initial recognition and subsequently measured at amortized cost using the effective interest method. Our loans receivable are held in order to collect contractual cash flows which represent payments of principal, interest and fees. They are derecognized when the rights to receive cash flows have expired or we have transferred substantially all the risks and rewards of ownership. A loan payment is considered past due when the obligor has failed to make the payment by the contractual due date.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period in financing and investment revenue in the Statement of Comprehensive Income (Loss). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, we estimate cash flows considering all contractual terms of the financial instrument but do not consider future credit losses. The calculation includes all fees paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Deferred loan revenue, which consists of exposure, administration and other upfront fees, is considered an integral part of the effective interest rate and is amortized over the term of the related loan.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses represents management's best estimate of expected credit losses and is based on the expected credit loss model.

Financial instruments subject to an impairment assessment include loans held at amortized cost. The allowance for credit losses related to loans receivable is presented in the allowance for losses on loans in the Statement of Financial Position.

Changes in the allowance for credit losses as a result of originations, repayments and maturities, changes in risk parameters, remeasurements and modifications are recorded in the provision for credit losses in our Statement of Comprehensive Income (Loss).

Expected Credit Loss Impairment Model

The ECL model applies a three-stage approach to measure the allowance for credit losses. At initial recognition financial instruments are placed in Stage 1. Expected credit losses are measured based on the stage assignment of the financial instrument:

- *Stage 1* - Where there has not been a significant increase in credit risk since origination, the allowance recorded is based on the expected credit losses resulting from defaults over the next 12 months;
- *Stage 2* - Where there has been a significant increase in credit risk since origination, the allowance recorded is based on the expected credit losses over the remaining lifetime of the financial instrument; and
- *Stage 3* - Where a financial instrument is considered impaired, the allowance recorded is based on the expected credit losses over the remaining lifetime of the instrument and interest revenue is calculated based on the carrying amount of the instrument, net of the loss allowance, rather than on its gross carrying amount.

Impairment and Write-off of Financial Instruments

Under our definition of default on loans receivable and loan commitments, financial instruments are considered to be in default and placed in Stage 3 when they meet one or both of the following criteria which represent objective evidence of impairment:

- there has been a deterioration in credit quality to the extent that we consider the obligor is unlikely to pay its credit obligations to us in full; or
- the obligor is past due more than 90 days on any credit obligation to us, as required under IFRS 9.

If there is objective evidence that an impairment loss has occurred on an individual loan or loan commitment, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of any estimated future cash flows discounted at the loan's original effective interest rate. The carrying value of the loan is reduced through the use of an individual allowance.

Thereafter, interest income on individually impaired loans is recognized based on the reduced carrying value of the loan using the original effective interest rate of the loan.

Loans and the related allowance for credit losses are written off, either partially or in full, when all collection methods, including the realization of collateral, have been exhausted and no further prospect of recovery is likely.

Loans are returned to performing status when it is likely that contractual payments will continue pursuant to the terms of the loan.

MEASUREMENT OF EXPECTED CREDIT LOSSES

The ECL calculation along with the stage assignment considers reasonable and supportable information about past events, current conditions and forecasts of future economic events. The estimation and application of forward-looking information, using both internal and external sources of information, requires significant judgment.

The ECL model is a function of the probability of default (PD), loss given default (LGD), and exposure at default (EAD) of a specific obligor or group of obligors with like characteristics such as industry and country classification as well as credit risk rating, discounted to the reporting date using the effective interest rate, or an approximation thereof. PD is modelled based on current and historic data along with relevant forward-looking macroeconomic factors to estimate the likelihood of default over a given time horizon. LGD is an estimate of the percentage of exposure that will be lost if there is a default on a specific obligor. EAD is modelled based on cash flow expectations which include contractual terms as well as forward-looking repayment and draw patterns and represents the outstanding exposure at the time of default.

FORWARD-LOOKING INFORMATION

Expected credit losses are calculated using forward-looking information determined from reasonable and supportable forecasts of future economic conditions as at the reporting date. The ECL model does not consider every possible scenario but reflects a representative sample of three possible outcomes. The scenarios used are not biased towards extremes, reflect consistency among variables and are probability-weighted.

In addition to a baseline macroeconomic outlook, we also produce two alternative outlooks. These alternative forecasts leverage our country risk and sector analysts in EDC's Economics team to identify and vet key upside and downside scenario possibilities, considering their impacts and probability of occurrence. The scenarios are reviewed quarterly for ongoing relevance.

The macroeconomic variables considered in the determination of the scenarios have been established to be key drivers of a global macroeconomic outlook and influential to our loan portfolio and include gross domestic product, consumer price index and exchange rates. We also assess the extent to which these variables may reflect recent economic events that may result in credit deterioration. In these cases, we will estimate the potential impact on our allowances and apply market overlays to specific industries or other exposure categories that we deem appropriate.

SIGNIFICANT INCREASE IN CREDIT RISK

At each reporting date, an assessment of whether a significant increase in credit risk has taken place since the initial recognition of the financial instrument is performed. The assessment, which does not use the low credit risk exemption allowed under IFRS 9, requires significant judgment and considers the following factors:

- a threshold based on a relative change in the probability of default for the remaining expected life of the instrument relative to the corresponding probability of default at origination;
- qualitative information available as at the reporting date; and
- days past due.

Any exposure that is 30 days past due is placed in Stage 2. Any exposure that is 90 days past due is considered impaired and placed in Stage 3.

Assets can move in both directions through the stages of the impairment model. If, in a subsequent period, the credit quality improves for an instrument in Stage 2 such that the increase in credit risk since initial recognition is no longer considered significant, the instrument will move to Stage 1 and the loss allowance shall revert to being recognized based on the 12-month expected credit losses.

Equity Investments

Equity investments are comprised of direct investments that are held in private companies and investments in private equity funds. Purchases and sales of these investments are recorded on a trade-date basis and are measured at fair value through profit or loss. Subsequent changes in fair value and any realized gains and losses are recorded in other (income) expenses. Transaction costs are expensed as incurred.

Leases

At the inception of a contract, we assess whether the contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. In our assessment of whether a contract conveys the right to use an asset, we consider whether FinDev Canada has:

- access to a physically identifiable asset either explicitly or implicitly within the contract;
- the right to obtain substantially all of the economic benefits from use of the identified asset; and
- the right to direct the use of the identified asset.

We recognize the right-of-use asset and the lease liability at the lease commencement date. At initial recognition, the right-of-use asset is measured at cost and is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is assessed for impairment consistent with the requirements under IAS 36.

Our right-of-use asset pertains to office space. We account for lease components and non-lease components separately. We do not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less or are of a low value. Lease payments associated with these leases are recognized as an expense as they are incurred.

Our lease liability is initially measured at the present value of lease payments and discounted using the interest rate implicit in the lease or, if not available, our incremental borrowing rate. Subsequently, the lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change to the term of the lease. When a lease is remeasured, a corresponding adjustment is also made to the carrying amount of the right-of-use asset or is recognized as a gain or loss in other income (expenses) if the carrying amount of the right-of-use asset is nil.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets or the term of the lease. The estimated useful lives and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life used in the calculation of depreciation for furniture and equipment is five years and three years for computer hardware. Leasehold improvements are depreciated on a straight-line basis over the shorter of the term of the lease or the useful economic life of the leasehold improvement. Depreciation is recorded in administrative expenses.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in other income (expenses). The estimated useful lives and depreciation method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis.

Derivative Instruments

Derivative instruments (derivatives) are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, equities, credit spreads or other financial measures. We use derivatives (foreign exchange swaps) to manage foreign exchange risk.

We do not apply hedge accounting to our derivatives. Derivatives are accounted for at fair value through profit or loss and are recognized on the Statement of Financial Position upon the trade date and are removed from the Statement of Financial Position when they expire or are terminated. Derivatives with a positive fair value are reported as derivative instruments within assets, while derivatives with a negative fair value are reported as derivative instruments within liabilities. All interest income and expenses associated with our derivatives are included in interest expense, while realized and unrealized gains and losses are recorded in other income (expenses).

Donor Contributions

FinDev Canada enters into co-funding agreements with various donors to increase resources for development impact projects. Donor contributions are managed together with FinDev Canada's own contributions. Funds received or receivable under donor contribution agreements are recorded as deferred revenues. These deferred revenues are recognized as revenues in the year in which the related expenses are incurred and is reduced upon direct client disbursements with no revenue recognized.

Accounts Payable and Other Credits

Accounts payable and other credits are carried at amortized cost.

Translation of Foreign Currency

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars, the functional and presentation currency of FinDev Canada, at exchange rates prevailing at the end of the year. Income and expenses are translated at either daily or monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included in other income (expenses).

Foreign currency non-monetary items that are measured at historical cost are translated at historical rates. Foreign currency non-monetary items measured at fair value are translated using the rate of exchange at the date the fair value was determined.

Retirement Benefit Plans

We participate in benefit plans sponsored by EDC. We account for our participation on an accrual basis on an allocation rate determined by EDC. For further details of these benefit plans, please refer to Note 31 of EDC's 2022 Annual Report.

3. Marketable Securities

FinDev Canada holds Canadian dollar interest-earning short-term instruments with Canadian financial institutions that are due within one year for cash management purposes. Instruments with a term to maturity of 90 days or less from the date of their acquisition are considered cash equivalents.

We are exposed to risk on our marketable securities portfolio that the deposit-taking institutions or counterparties will not repay us in accordance with contractual terms. To mitigate this risk, we only transact marketable securities with counterparties having a credit rating of A- or better. Our marketable securities credit exposure is represented by the carrying value of the financial instruments.

At December 31, 2022, marketable securities of $15.5 million (2021 - $11.5 million) included $10.5 million (2021 - $11.5 million) related to the donor contributions from Global Affairs Canada (GAC) for the Concessional Facility (CF) project; the remaining $5.0 million (2021 - $30 thousand) was unrestricted. Refer to Note 10 for further details. These amounts are considered cash equivalents.

The yield on marketable securities for 2022 was 2.24% (2021 – 0.23%).

4. Loans and Allowance for Credit Losses

Loans Receivable

The following table shows the components of our loans receivable:

(in thousands of Canadian dollars)	**Dec. 31, 2022**	Dec. 31, 2021
Gross loans receivable	**420,744**	261,233
Accrued interest and fees receivable	**5,686**	1,873
Deferred loan revenue and other	**(3,514)**	(2,461)
Total loans receivable	**$422,916**	$260,645

The following reflects the movement in gross loans receivable during the period:

(in thousands of Canadian dollars)	**2022**	2021
Balance beginning of year	**261,233**	102,338
Disbursements	**169,216**	179,656
Principal repayments	**(33,092)**	(21,632)
Capitalized interest	**9**	3
Foreign exchange translation	**23,378**	868
Balance end of year	**$420,744**	$261,233

We had country risk concentrations as outlined below:

(in thousands of Canadian dollars)	**Dec. 31, 2022**		Dec. 31, 2021	
Country	**Performing gross loans receivable**	**%**	Performing gross loans receivable	%
Colombia	**68,960**	**17**	26,542	10
Mauritius	**60,880**	**15**	56,952	22
Costa Rica	**58,626**	**14**	18,983	7
Ecuador	**34,330**	**8**	27,369	10
Brazil	**27,058**	**6**	25,312	10
Curaçao	**27,058**	**6**	25,312	10
Jamaica	**27,058**	**6**	-	-
Nigeria	**27,058**	**6**	-	-
Peru	**21,936**	**5**	26,215	10
France*	**17,847**	**4**	7,731	3
El Salvador	**13,529**	**3**	12,656	5
South Africa	**13,529**	**3**	25,312	10
Bolivia	**10,147**	**3**	-	-
United States*	**6,809**	**2**	1,097	-
Panama*	**5,919**	**2**	7,752	3
Total	**$420,744**	**100**	$261,233	100

** The prior year amounts have been reclassified and are grouped to include risk mitigation insurance.*

We employ a range of methods to mitigate credit risk on our commercial loans which includes obtaining certain forms of security interest. The principal types of security interest are liens on real and personal property and fixtures of the borrower.

Our maximum exposure to credit risk is $542.4 million at December 31, 2022 (2021 - $393.1 million).

Exposure by Stage

The breakdown of our gross loans receivable and loan commitments by credit grade was as follows:

(in thousands of Canadian dollars)	**Dec. 31, 2022[1]**	Dec. 31, 2021[1]
Gross loans receivable		
Investment grade[2]	**24,656**	8,828
Non-investment grade	**396,088**	252,405
Gross loans receivable	**420,744**	261,233
Loan commitments		
Investment grade[2]	**67,510**	59,989
Non-investment grade	**54,116**	71,901
Loan commitments	**121,626**	131,890

[1] *Total gross loans receivable and loan commitments are considered to be in stage 1 for IFRS 9 purposes as no individual loan has experienced a significant increase in credit risk since origination.*

[2] *Investment grade exposure represents obligors with credit ratings of BBB- and above, as determined based on our internal credit risk rating methodology.*

Allowance for Credit Losses

Our allowance for credit losses is estimated using complex models that incorporate inputs, assumptions and model techniques that involve a high degree of management judgment. As explained in Note 2, the ECL model is a function of the probability of default (PD), loss given default (LGD) and the exposure at default (EAD). The PD curves used in our ECL model include forward-looking macroeconomic factors to estimate the likelihood of default over time.

In 2022, a new PD model was developed for FinDev Canada to accurately reflect the risks associated with the portfolio which is mainly comprised of financial institutions in developing countries. In prior periods, FinDev Canada relied on the PD models of its parent company, EDC, whose forward-looking macroeconomic factors include primarily North American forward-looking inputs. As at December 31, 2021, management included an overlay valued at $6.4 million to accurately reflect the risks associated with FinDev Canada. Management removed the overlay in 2022 after introducing the new PD model. The impact of introducing the new PD model resulted in a $13.0 million increase to our allowance for losses and represents a change in accounting estimate.

An allowance for credit losses on loans of $25.1 million has been recorded, an increase of $16.0 million since December 31, 2021. As previously discussed, the increase is primarily due to the introduction of the new PD model as well as the impact of net loan disbursements during the year.

At the end of 2022 we had undisbursed loan commitments of $121.6 million (2021 – $131.9 million) with an allowance for losses of $1.3 million (2021 – $2.1 million).

Changes to the allowance for credit losses on loans receivable and loan commitments for the year ended December 31, 2022 were as follows:

(in thousands of Canadian dollars)	**2022 Total***	Stage 1	Stage 2	2021 Total
Allowance for losses on loans receivable				
Balance at beginning of year	**9,120**	764	3,382	4,146
Provision for (reversal of) credit losses				
Transfer to Stage 1	**-**	667	(667)	-
Remeasurements	**9,654**	1,389	(2,687)	(1,298)
New originations	**6,283**	6,276	-	6,276
Net repayments and maturities	**(340)**	(1)	-	(1)
Total provision for (reversal of) credit losses	**15,597**	8,331	(3,354)	4,977
Foreign exchange	**386**	25	(28)	(3)
Balance end of year	**25,103**	9,120	-	9,120
Allowance for losses on loans commitments				
Balance at beginning of year	**2,092**	309	-	309
Provision for credit losses				
Remeasurements	**(241)**	506	-	506
New originations	**1,457**	4,323	-	4,323
Net repayments and maturities	**(1,969)**	(3,030)	-	(3,030)
Total provision for credit losses	**(753)**	1,799	-	1,799
Foreign exchange	**4**	(16)	-	(16)
Balance end of year	**1,343**	2,092	-	2,092
Total allowance for losses on loans receivable and loan commitments	**$26,446**	$11,212	-	$11,212

** Total gross loans receivable and loan commitments are considered to be in stage 1 for IFRS 9 purposes as no individual loan has experienced a significant increase in credit risk since origination.*

5. Investments

	Dec. 31, 2022		Dec. 31, 2021	
(in thousands of Canadian dollars)	**Cost**	**Fair Value**	Cost	Fair Value
Direct Investments	**72,871**	**82,033**	53,155	52,241
Fund Investments	**70,298**	**72,559**	47,732	45,288
Total Investments	**$143,169**	**$154,592**	$100,887	$97,529

We invest in funds which are pooled investment vehicles structured as limited partnerships and financed by the limited partners. These funds invest primarily in private or public companies and are considered to be structured entities.

We have undisbursed equity investment commitments of $121.2 million (2021 - $97.9 million).

Equity investments income from our direct investment portfolio of $3.2 million (2021 - nil) was recorded in the Statement of Comprehensive Income. This consisted mainly of a capitalized dividend on preferred shares as well as accrued interest recognized as income on the conversion of a convertible note instrument into equity shares.

Transaction costs on the establishment of fund investments of $2 thousand (2021 - $376 thousand) were recorded in the Statement of Comprehensive Income (Loss).

6. Property, Plant and Equipment

During the year, changes to property, plant and equipment were as follows:

(in thousands of Canadian dollars)	Dec. 31, 2022				Dec. 31, 2021			
	Computer hardware	**Furniture and equipment**	**Leasehold improvements**	**Total**	Computer hardware	Furniture and equipment	Leasehold improvements	Total
Cost:								
Balance at beginning of year	**74**	**153**	**591**	**818**	74	153	591	818
Additions	**59**	**-**	**-**	**59**	-	-	-	-
Balance at end of year	**133**	**153**	**591**	**877**	74	153	591	818
Accumulated Depreciation								
Balance at beginning of year	**(74)**	**(85)**	**(387)**	**(546)**	(62)	(54)	(258)	(374)
Depreciation expense	**(3)**	**(31)**	**(129)**	**(163)**	(12)	(31)	(129)	(172)
Balance at end of year	**(77)**	**(116)**	**(516)**	**(709)**	(74)	(85)	(387)	(546)
Carrying amount	**$56**	**$37**	**$75**	**$168**	$-	$68	$204	$272

There were no future contractual commitments related to property, plant and equipment at the end of 2022 (2021 - Nil).

7. Right-of-Use Asset and Lease Liability

Right-of-Use Asset

FinDev Canada leases office space with a term of five years and has the option to renew for an additional period of the same duration after the end of the contract term. We have included the extension option in the measurement of our lease liability as we have the option to extend our lease. During the year, changes to our right-of-use asset were as follows:

(in thousands of Canadian dollars)	**2022**	2021
Balance beginning of year	**1,275**	1,469
Additions	**183**	-
Depreciation	**(194)**	(194)
Balance end of year	**$1,264**	$1,275

Lease Liability

The following table presents the maturity analysis of the contractual undiscounted cash flows for our lease liability as at December 31:

(in thousands of Canadian dollars)	**2022**	2021
Under 1 year	**223**	206
1 to 5 years	**1,193**	1,128
Over 5 years	**119**	114
Total undiscounted lease liabilities	**1,535**	1,448
Total lease liabilities end of year	**$1,349**	$1,343

Interest expense on the lease liability for the year ended December 31, 2022 was $29 thousand (2021 - $33 thousand). Expenses relating to short-term leases and leases of low value assets were not significant. Total cash outflow for the leases was $206 thousand (2021 - $206 thousand), including $177 thousand (2021 - $173 thousand) of principal payments on the lease liability.

Future contractual commitments related to non-lease components, low-value and short-term leases at the end of 2022 were $1.5 million (2021 - $1.4 million).

8. Debt Instruments

During 2022, we issued debt instruments to our parent company, EDC, in order to meet funding and liquidity requirements. Long-term payables represent fixed rate term loans and floating rate revolving loans which we issue in U.S. dollars with maturities exceeding one year. We use derivative instruments to manage foreign exchange risk. Refer to Note 9 for further details on our derivative instruments.

FinDev Canada is a wholly owned subsidiary of EDC, which is wholly owned by the Government of Canada. Our obligations are backed by the full faith and credit of the Government of Canada, which holds a AAA credit rating. Therefore, there is no significant change in the value of our debt instruments that can be attributed to changes in our own credit risk.

Loans Payable

The components of loans payable were as follows:

(in thousands of Canadian dollars)	**Dec. 31, 2022**	Dec. 31, 2021
Long-term payables		
due within current year	**-**	-
over one year	**301,020**	120,232
Total long-term payables	**301,020**	120,232
Accrued interest	**1,949**	71
Total	**$302,969**	$120,303

In 2022, there were foreign exchange translation losses of $14.9 million (2021 – $1.1 million) on our loans payable. The foreign exchange exposure of these loans payable is managed as part of our foreign currency risk management together with all other assets and liabilities. Refer to Note 16 for our consolidated foreign exchange translation (gain) loss.

The following table notes the changes in loans payable arising from financing activities:

(in thousands of Canadian dollars)	**2022**	2021
Balance beginning of year	**120,303**	-
Net cash flows	**165,962**	119,087
Foreign exchange translation	**14,902**	1,146
Change in accrued interest	**1,802**	70
Balance end of year	**$302,969**	$120,303

The following table shows our fixed and floating rate debt positions, as well as the maturities and yields of those positions. The debt instruments are shown below at their notional amounts in order to provide information on cash requirements at maturity of the instruments.

(in thousands of Canadian dollars)		**Dec. 31, 2022**		Dec. 31, 2021
Year of maturity	**Debt issues**	**Yield* (%)**	Debt issues	Yield* (%)
Fixed rate issues				
2023	**54,116**	**0.29**	50,624	0.29
2024	**33,822**	**1.11**	31,640	1.11
2025	**13,529**	**4.21**	-	-
2027 to 2031	**37,205**	**3.44**	-	-
Subtotal	**138,672**	**2.90**	82,264	0.78
Floating rate issues				
2032 and beyond	**162,348**		37,968	
Subtotal	**162,348**	**5.30**	37,968	0.13
Total	**$301,020**		$120,232	

** Refers to yield to maturity for fixed rate issues and yield to reset for floating rate issues.*

At the end of 2022, the contractual cash flows, including principal and estimated interest (using current contractual rates), related to our debt portfolio were as follows:

(in thousands of Canadian dollars)	**Dec. 31, 2022**
Year of maturity	
Under 1 year	**65,022**
1 to 3 year	**68,636**
3 to 5 year	**46,362**
Over 5 year	**238,377**
Total	**$418,397**

9. Derivative Instruments

We use two types of derivative instruments to manage our foreign exchange risk.

Foreign exchange swaps - commitments to exchange cash flows in different currencies where there are two exchanges; the first is made at the spot rate at inception and the second at a predetermined rate on a specified date in the future.

Foreign exchange forwards – commitments to exchange cash flows in different currencies, for which the foreign exchange rate is predetermined, at a specified date in the future.

To limit credit risk on our derivative instruments we only transact these foreign exchange swaps and foreign exchange forwards with EDC.

Derivative instruments are recorded on the statement of financial position at fair value. Notional amounts are not recorded as assets or liabilities on our Statement of Financial Position as they only represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

We have transacted foreign exchange swaps (ranging from one month to nine months) with EDC to convert Canadian dollars to U.S. dollars. As at December 31, 2022, the notional value of the swaps was $280 million (2021 - $240 million). Interest expense on these swaps of $47 thousand (2021 - $46 thousand) was recorded in the Statement of Comprehensive Loss.

10. Deferred Revenue

In 2021, FinDev Canada received a Concessional Facility (CF) of $75.9 million from Global Affairs Canada (GAC). The CF is an arrangement between GAC and FinDev Canada for the purpose of fulfilling the Government of Canada's Gender Smart COVID-19 Recovery Facility. Under the arrangement, FinDev Canada will hold, manage, administer, use and invest the funds received from GAC under the facility. The financial results related to the CF will be reported to GAC and will be consolidated with the financial statements of the Government of Canada, which are reported upon separately by the Government and audited by the Office of the Auditor General of Canada. Of the original $75.9 million facility, $11.5 million related to a donor contribution to be used by FinDev Canada for eligible administrative expenses and technical assistance.

Deferred revenue represents the unrecognized portion of donor contributions from GAC for the CF and Technical Assistance Facility projects, from Proparco for the Invest2Impact project, and from US DFC, IFC, and FMO for the 2X Plus project on gender and intersectionality. Deferred revenue under the Technical Assistance Facility projects also include direct disbursements to clients to help them reach their full impact potential.

Deferred revenue is recognized in revenue when expenses are incurred and is reduced upon direct client disbursements with no revenue recognized. Direct client disbursements of $389 thousand on behalf of GAC were recorded in 2022.

(in thousands of Canadian dollars)	**Dec. 31, 2022**	Dec. 31, 2021
Deferred Revenue for Contributions		
GAC Technical Assistance Facility	**426**	1,279
2X Plus	**8**	51
Proparco	**4**	(145)
	438	1,185
Deferred Revenue for Concessional Facility		
GAC CF Admin Expense	**7,666**	9,028
GAC CF Technical Assistance Facility	**2,500**	2,500
	10,166	**11,528**
Total	**10,604**	12,713

The following table shows the components of donor contributions recognized in revenue:

(in thousands of Canadian dollars)	**2022**	2021
GAC CF	**1,362**	80
GAC TAF	**333**	349
2X plus	**191**	-
Proparco	**134**	587
Total	**$2,020**	1,016

11. Share Capital

FinDev Canada's authorized share capital is $300 million consisting of 3 million shares (2021 - $300 million consisting of 3 million shares). Shares have a par value of $100 each and entitle our shareholder to receive a dividend from time to time. No dividends were declared or paid in 2022 (2021 – nil).

12. Capital Management

By providing financing and equity to private companies operating in developing countries, we are exposed to several financial risks. One such risk is the Capital Adequacy Risk, which is the risk of loss due to the failure to maintain sufficient capital, leading to business disruption, insolvency or bankruptcy. We manage our Capital Adequacy Risk via a Board-approved capital management policy.

Amongst other things, this policy establishes the approach and processes used to measure, monitor and manage Capital Adequacy Risk. It also sets out the methodology for the calculation of available capital (Capital Supply) and required capital (Capital Demand) on a periodic basis. A capital surplus occurs when the organization's Capital Supply is higher than its Capital Demand, whereas the inverse creates a capital deficit.

Our approach to capital management has been designed to ensure alignment with our parent EDC. Such methodology is based on Basel principles, which is considered best practice among financial institutions worldwide and a requirement for regulated institutions. It follows the Internal Capital Adequacy Assessment Process (ICAAP) and serves as a guideline to assess our required capital. For FinDev Canada, Capital Demand is calculated by models or approaches that estimate the capital required to cover potential losses consistent with an AA solvency level, and includes credit risk, operational risk, market risk and strategic risk. The Capital Supply is determined by our financial statements and consists of paid-in share capital and retained earnings.

Additionally, our debt funding limit has been set to three times our book equity. This limit is periodically monitored, and the borrowing capacity would be reduced accordingly in the case of a capital deficit, following an increase in the risk profile of our portfolio and/or a reduction of our capitalization.

13. Financial Risk Management

By providing financing and equity to private companies operating in developing countries, FinDev Canada is exposed to several financial risks. To control or mitigate FinDev Canada's exposure to financial risks, FinDev Canada has a Board-approved Financial Risk Management Framework ("FRMF") in place that sets out governance and oversight of financing and equity transactions as well as its treasury operations. The FRMF establishes procedures ensuring the effective management of financial risks. This includes Board limits as well as monitoring and reporting processes.

The main financial risks to which FinDev Canada is exposed are:

Accounting and Financial Reporting Risk

The risk of loss or harm due to accounting and reporting errors, including the material misstatement of the financial statements, and non-compliance with legal and regulatory requirements regarding financial disclosures.

Capital Adequacy Risk

The risk of loss due to the failure to maintain sufficient capital leading to business disruption or insolvency.

Financing and Equity Risk

Financing and equity risk is assessed under two main sub-categories:

- Concentration and Portfolio Risk - The risk of loss resulting from any single exposure or group of exposures with potential to produce losses large enough to threaten FinDev Canada's health or ability to maintain its core operations.
- Obligor Risk - The risk of loss due to the failure of a borrower/guarantor to meet its obligations in accordance with agreed terms or due to adverse changes in the value of equity held by FinDev Canada.

Liquidity Risk

The risk of loss due to the inability of FinDev Canada to raise/borrow funds to meet its financial obligations.

Market Risk

Market Risk is the risk of loss due to adverse movements in market prices, interest rates and/or foreign exchange rates. For example, Market Risk could arise as a consequence of a currency mismatch between FinDev Canada's assets and liabilities, or as a result of funding on a fixed-rate basis but lending on a floating-rate basis.

Treasury Counterparty Risk

The risk of loss from the failure of a treasury or risk transfer counterparty to meet its obligations in accordance with agreed terms.

14. Fair Value of Financial Instruments

Fair value represents our estimation of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of our financial instruments, this uncertainty is magnified due to the large number of assumptions used and the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time and may not be reflective of future market conditions. Therefore, the estimates of the fair value of our financial instruments do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market.

We have controls and policies in place to ensure that our valuations are appropriate and realistic. The models, valuation methodologies, and market-based parameters and inputs that are used are subject to regular review and validation, including a comparison with values from outside agencies.

We categorize financial instruments on the fair value hierarchy based on whether the inputs to the valuation techniques are observable or unobservable.

- *Level 1* - fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- *Level 2* - fair values are determined using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- *Level 3* - fair values are determined using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The assumptions and valuation techniques that we use to estimate fair values are as follows:

Loans Receivable

Loans receivable are classified as Level 2 and Level 3 financial instruments on the fair value hierarchy. Loans receivable classified as Level 2 have a fair value of $344.5 million (2021 – $215.3 million) and those classified as Level 3 have a fair value of $56.4 million (2021 - $46.3 million). Our loans receivable have a carrying value of $397.8 million (2021 – $251.5 million) as at December 31, 2022.

Marketable Securities

We estimate the fair value of marketable securities using observable market prices. If such prices are not available, we determine the fair value by discounting future cash flows using an appropriate yield curve. All of our marketable securities are classified as level 1.

Investments

Our approach to fair value measurement has been developed using International Private Equity and Venture Capital Valuation Guidelines. Depending on the type of direct investment, we estimate fair value using one of the following: market-based methodologies, such as the quoted share price from available market data, price of recent investment, multiples, or industry benchmarks; income-based methodologies such as discounted cash flows; or replacement cost-based methodology such as net assets. Our fund valuations are performed using their most recent published financial statements. The valuations are established by management and approved by an independent valuation committee. The valuation methods are constantly validated and calibrated through discussions with co-investors and market participants, taking into account all known market events.

As at December 31, 2022, we held two investments for which there were unobservable inputs used in their valuation techniques: the first utilized a multiple of sales of 1.75 resulting in a fair value of $40.0 million and the second used a weighted average discount rate of 12.33% resulting in a fair value of $13.8 million.

The following table summarizes the reconciliation of Level 3 fair values between 2022 and 2021 for investments:

(in thousands of Canadian dollars)	**2022**	2021
Balance beginning of year	**97,529**	68,255
Purchases of investments	**42,993**	35,377
Unrealized gains (losses) included in other (income) expenses	**14,444**	(3,998)
Return of capital	**(9,008)**	(1,954)
Foreign exchange translation	**8,634**	(151)
Balance at end of year	**$154,592**	$97,529
Total gains (losses) for the year included in comprehensive income (loss) for instruments held at end of the year	**$14,444**	$(3,998)

In 2022, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments. The fair value of Level 3 financial instruments is in whole or in part based on unobservable inputs. In preparing financial statements, appropriate levels for the parameters of the unobservable inputs are chosen so that they are consistent with prevailing market evidence or management judgment.

In order to perform our sensitivity analysis for our Level 3 investments, we adjusted the unobservable inputs. The unobservable inputs used to value our Level 3 investments may include one or more of the following: multiple of sales, liquidity discount, multiple of EBITDA and discount rate. When multiple unobservable inputs are shocked, no netting is considered, resulting in the highest favourable or unfavourable change. The results of our analysis on our Level 3 investments ranged from an unfavourable change of $16.9 million to a favourable change of $16.9 million.

Derivative Instruments

Foreign exchange forwards and foreign exchange swaps are valued by discounting the notional amounts using the respective currency's yield curve and converting the amounts using the spot Canadian dollar exchange rate. All of our derivative instruments are classified as Level 2.

Loans Payable

Loans payable at amortized cost are classified as a Level 2 financial instrument on the fair value hierarchy and have a fair value of $298.0 million (2021 - $120.1 million) and have a carrying value of $303.0 million (2021 – $120.3 million).

15. Contractual Obligations

In the normal course of business, we enter into contracts that give rise to commitments of future minimum payments.

Purchase obligations include those obligations that are legally binding agreements whereby we have agreed to purchase products or services with specific minimum quantities defined as fixed, minimum or variable in price over a specified period of time.

As at December 31, 2022, purchase obligations not otherwise disclosed in the notes to our financial statements amounted to $4.3 million (2021 - $2.1 million).

16. Other (Income) Expenses

(in thousands of Canadian dollars)	**2022**	2021
Net unrealized (gain) loss on investments*	**(14,456)**	3,848
Foreign exchange translation (gain) loss	**(593)**	67
Net unrealized gain on derivatives	**(91)**	(7)
Net realized and unrealized (gain) loss on marketable securities	**2**	(5)
Total other (income) expenses	**$(15,138)**	$3,903

** Net unrealized gain on investments due to favourable fair market value adjustments of $18.5 million (2021 - $870 thousand), partially offset by fund investment management fees of $4.0 million (2021 - $4.7 million).*

17. Retirement Benefit Plans

FinDev Canada participates in four benefit plans sponsored by EDC. There are two pension plans containing both defined benefit and defined contribution components, the Registered Pension Plan (RPP) and Supplementary Retirement Plan (SRP), and two other benefit programs. For a full description of these benefit plans, please refer to Note 31 of EDC's 2022 Annual Report.

We fund these benefits based on an allocation rate determined by EDC. In 2022, our allocation to fund our participation in the benefit plan was $628 thousand (2021 - $562 thousand) which was included in salaries and benefits.

18. Related Party Transactions

Global Affairs Canada Contributions

Donor contributions received by FinDev Canada include contributions from Global Affairs Canada (GAC). FinDev Canada received contributions of $75.9 million in 2021 from GAC for a Concessional Facility where FinDev Canada will hold, manage, administer, use and invest the funds under the facility, with related financial results reported to GAC and consolidated within the financial statements of the Government of Canada. The remaining balance of the contributions at December 31, 2022 is $53.5 million, with the decline due to disbursements for loans and investments. The portion of the facility allocated for administrative expenses and technical assistance are recorded within our financial statements as deferred revenue until earned. Refer to Note 10 for further details.

Derivative Instruments

As described in Note 9, FinDev Canada transacts foreign exchange swaps and foreign exchange forwards with EDC.

Loans Payable

As described in Note 8, FinDev Canada has received fixed rate term loans and floating rate revolving loans from EDC. The loans were made on commercial terms including market interest rates. The balance of the loans payable to EDC was $303.0 million as at December 31, 2022 (2021 - $120.3 million).

Owing to Export Development Canada

In 2022, FinDev Canada paid EDC $1.4 million (2021 - $1.2 million) for contracted shared services for general corporate functions and specialized roles. The delivery of shared services is governed by a series of Service Level Agreements, developed according to industry best practices. Amounts due to EDC for shared services, which totalled $3.3 million as at December 31, 2022 (2021 - $785 thousand), are non-interest bearing and have no specific terms of repayment.

Key Management Personnel Compensation

Key management personnel, defined as those having authority and responsibility for planning, directing and controlling the activities of FinDev Canada, include the Board of Directors and the management team.

Compensation paid or payable to key management personnel during the year, including non-cash benefits subject to income tax was $2.4 million (2021 - $1.5 million).