



**2023**  
Financial  
Review

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## FINANCIAL RESULTS OVERVIEW

### Financial Performance

Net loss for the year was \$24.1 million compared to net income of \$4.5 million in 2022.

#### Statement of Comprehensive Income (Loss) Summary

For the year ended December 31  
(in thousands of Canadian dollars)

	2023	2022
Financing and investment revenue	53,295	23,174
Interest & financing expenses	24,146	4,069
<b>Net Financing and Investment Income</b>	<b>29,149</b>	19,105
Donor Contributions	1,120	2,020
Realized gains (losses)*	(9)	591
<b>Net revenue</b>	<b>30,260</b>	21,716
Unrealized (gains) losses*	6,250	(14,547)
Administrative Expenses	26,801	16,950
Provision for Credit Losses	21,294	14,844
<b>Net Income (Loss)</b>	<b>\$(24,085)</b>	\$4,469

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

Items of note are as follows:

**Net financing and investment income** was \$29.1 million in 2023, an increase of \$10.0 million when compared to the same period for 2022 primarily due to growth in the loan portfolio partially offset by higher interest expense mainly as a result of a higher average balance of revolving loans due to the delay in the capital injection.

**Donor contributions** were \$1.1 million in 2023, a decrease of \$900 thousand when compared to 2022, primarily due to reduced hours spent on the GAC concessional facility and reduced spending on the GAC Technical Assistance Facility.

We had **unrealized losses** of \$6 million in 2023 compared to unrealized gains of \$14.5 million in 2022. The losses were primarily due to management fees as unrealized losses on direct investments were mostly offset by unrealized gains on fund investments.

We recorded a **provision for credit losses** of \$21.3 million in 2023, primarily due to growth in the loan portfolio as well as downward credit migration. In 2022, we recorded a provision for credit losses of \$14.8 million primarily due to the introduction of a new PD model. 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 \$26.8 million in 2023, an increase of \$9.9 million compared to 2022. 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 IT services related to the implementation of the digital roadmap and increased occupancy costs associated with additional office space in Montreal and Ottawa.

# Financial Condition

## Statement of Financial Position Summary

As at December 31  
(in thousands of Canadian dollars)

	2023	2022
Cash and cash equivalents	26,895	28,111
Loans receivable	624,295	422,916
Allowance for losses on loans	(40,362)	(25,103)
Equity investments	210,863	154,592
Other assets	24,882	5,713
<b>Total Assets</b>	<b>846,573</b>	586,229
Loans payable	289,301	302,969
Deferred revenue	7,016	10,604
Allowance for losses on loan commitments	6,411	1,343
Other liabilities	11,055	14,438
<b>Total Equity</b>	<b>532,790</b>	256,875
<b>Total Liabilities and Equity</b>	<b>846,573</b>	586,229

Items of note are as follows:

**Total assets** are \$260.3 million higher than December 2022, primarily due to growth within our loan and equity investment portfolios.

**Loans receivable** increased by \$201.4 million during the year mainly due to net disbursements, including loans to ETC Group (\$74.2 million), Banco de Bogota S.A. (\$67.5 million), Banco Bolivariano CA (\$54.0 million) and Gennea S.A. (\$45.0 million) and the impact of foreign exchange translation (\$12.5 million). At the end of the year, we have outstanding loan commitments of \$98.4 million.

**Allowance for losses on loans** increased by \$15.3 million during the year primarily due to growth in the loan portfolio as well as downward credit migration.

**Equity investments** increased by \$56.3 million in 2023 primarily due to net disbursements for \$66.7 million, partially offset by fair market valuation losses of \$6.1 million, including management fees, and the effects of foreign exchange of \$4.3 million. During the year we signed and disbursed a \$27.0 million follow on commitment with M-Kopa. Other significant disbursements during the year included \$11.1 million for African Development Partners III Mauritius LP and \$7.6 million for African Infrastructure Investment Fund 4. At the end of the year, we have outstanding equity investment commitments of \$168.6 million.

**Other assets** increased by \$19.2 million in 2023 primarily due to an increase of \$15.0 million in derivative instrument assets as a result of foreign exchange translation and a higher balance of foreign exchange swaps.

In 2023, we received a capital injection of \$300 million, resulting in an increase in **equity** compared to 2022. The capital injection was used to pay down the floating rate revolving loan facility with EDC.

# Corporate Plan Discussion

(2024 discussion is based on Corporate Plan submitted in 2023; numbers may vary from final approved Corporate Plan)

The following section discusses our 2023 results and financial position in comparison to Corporate Plan projections. We begin by looking back to our 2023 Corporate Plan and compare actual results to what was expected. Then we look forward to 2024 and provide an explanation of where we anticipate changes from our 2023 results and financial position.

## Financial Performance

<i>for the year ended December 31 (in thousands of Canadian dollars)</i>	2024 Corporate Plan	2023 Actuals	2023 Corporate Plan
Net financing and investment income	58,983	<b>29,149</b>	39,777
Donor contributions	1,398	<b>1,120</b>	2,249
Other (income) expenses	-	<b>6,259</b>	(3,408)
Administrative expenses	37,421	<b>26,801</b>	29,279
Provision for (reversal of) credit losses	14,912	<b>21,294</b>	15,951
Net income	8,048	<b>(24,085)</b>	204

### 2023 CORPORATE PLAN

Net loss for 2023 was \$24.1 million compared to the 2023 Corporate Plan net income of \$204 thousand. Items of note are as follows:

**Net Financing and Investment Income** was \$10.6 million lower than the Corporate Plan primarily due to the delay in receiving the capital injection, which resulted in an increase to interest expense as a result of higher borrowing requirements. Lower than planned net loan disbursements further contributed to the decrease when compared to the Corporate Plan.

**Other expenses** were \$9.7 million higher than the Corporate Plan primarily due to management fees as unrealized losses on direct investments were mostly offset by unrealized gains on fund investments.

**Administrative expenses** decreased by \$2.5 million compared to the Corporate Plan mainly due to lower expenses related to the GAC concessional facility, lower average headcount and a reduction in professional service fees and travel expenses when compared to the Corporate Plan.

The **provision for credit losses** of \$21.3 million compared to the \$16.0 million in the Corporate Plan is primarily the result of downward credit migration not anticipated in the Plan.

### 2024 CORPORATE PLAN

Net income is planned to be \$8.0 million in 2024, resulting in an increase of \$36.8 million compared to 2023. Items of note are as follows:

**Net financing and investment income** is expected to increase by \$29.8 million, largely due to anticipated growth in the loan portfolio as well as a reduction in interest expense as the 2024 capital injection will be used to pay down debt and fund new loan and equity investment disbursements.

**Other expenses** are expected to decrease in 2024. Due to the volatility and difficulty in estimating fair value gains or losses on financial instruments, a forecast for unrealized gains or losses was not included in 2024 Corporate Plan.

**Administrative expenses** are expected to increase by \$10.6 million, mainly due to additional headcount to support the continued growth of the organization.

## Financial Position

as at December 31  
(in thousands of Canadian dollars)

	2024 Corporate Plan	2023 Actuals	2023 Corporate Plan
Cash and cash equivalents	29,655	<b>26,895</b>	16,239
Loans receivable	996,288	<b>624,295</b>	788,877
Allowance for losses on loans	(40,130)	<b>(40,362)</b>	(35,499)
Investments	338,129	<b>210,863</b>	250,237
Other assets	17,599	<b>24,882</b>	7,907
<b>Total Assets</b>	<b>1,341,541</b>	<b>846,573</b>	<b>1,027,761</b>
Loans payable	411,118	<b>289,301</b>	436,969
Deferred revenue	8,488	<b>7,016</b>	8,610
Allowance for losses on loan commitments	6,344	<b>6,411</b>	962
Other liabilities	8,787	<b>11,055</b>	20,419
Equity	906,804	<b>532,790</b>	560,801
<b>Total Liabilities and Equity</b>	<b>1,341,541</b>	<b>846,573</b>	<b>1,027,761</b>

### 2023 CORPORATE PLAN

**Loans receivable** for 2023 were \$164.6 million less than projected in the Corporate Plan mainly due to lower disbursements than anticipated as well as foreign exchange translation.

**Investments** for 2023 were \$39.4 million lower than Plan mainly due to lower disbursements and foreign exchange translation.

**Loans payable** were \$147.7 million less than the Corporate Plan primarily as a result of lower disbursements as mentioned above as our debt requirements are largely driven by our loan and equity investments portfolios.

### 2024 CORPORATE PLAN

Share capital will increase in 2024 per the Corporate Plan as an additional capital injection of \$350 million was received in January 2024 as part of the capital commitment increase confirmed by the April 2021 Federal Budget as well as additional funding from the announcements made in support of Canada's Indo-Pacific strategy and reiterated in Budget 2023.

The 2024 Corporate Plan is projecting an increase in both loans receivable and investments mainly due to continued growth in Latin American and the Caribbean, and Sub-Saharan Africa as well the expansion into the Indo-Pacific region, consistent with the corporation's long-term strategy. Loans payable are also expected to increase as our debt requirements are largely driven by our loan and equity investments portfolios.

## RISK AND CAPITAL MANAGEMENT

### 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 our 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 and its key governance committee

#### BOARD OF DIRECTORS

The Board is ultimately responsible for Risk Governance by setting the cultural tone, approving our ERM and Risk Appetite Frameworks 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. The Board operates a formal **Audit Committee** to assist the Board in fulfilling its oversight responsibilities with respect to our standards of integrity and behaviour, financial reporting and internal control systems.

### Management and its key risk committees

#### 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.

The Executive Management team participates in various senior 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 of these are described below.

#### **Triage Committee**

The role of this committee is to provide guidance and direction to the deal team, with the goal of pursuing transactions that align with FinDev Canada’s mandate, strategic framework and risk appetite.

## **Investment Committee**

This 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.

## **Risk Management Committee**

This 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 equity contributions from our shareholder, FinDev Canada has a capital surplus of \$229.0 million as at December 31, 2023.



# 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 2023, and the statement of comprehensive income (loss), statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DFIC as at 31 December 2023, 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 obtained at the date of this auditor's report is the Financial Results Overview but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## 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.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Ottawa, Canada  
March 11, 2024

Chartered Professional Accountants  
Licensed Public Accountants

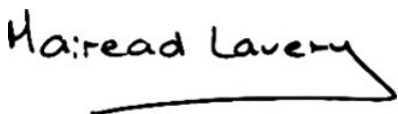
# STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

<i>(in thousands of Canadian dollars)</i>	Notes	2023	2022
<b>Assets</b>			
Cash and cash equivalents*	3	<b>26,895</b>	28,111
Derivative instruments	8	<b>15,449</b>	414
Loans receivable	4	<b>624,295</b>	422,916
Allowance for losses on loans	4	<b>(40,362)</b>	(25,103)
Equity investments	5	<b>210,863</b>	154,592
Other assets		<b>7,400</b>	3,867
Property, plant and equipment		<b>351</b>	168
Right-of-use asset	6	<b>1,682</b>	1,264
<b>Total Assets</b>		<b>\$846,573</b>	\$586,229
<b>Liabilities and Equity</b>			
Accounts payable and other credits		<b>5,651</b>	3,039
Loans payable	7	<b>289,301</b>	302,969
Owing to Export Development Canada	17	<b>3,239</b>	3,252
Deferred revenue	9	<b>7,016</b>	10,604
Derivative instruments	8	<b>370</b>	6,798
Lease liability	6	<b>1,795</b>	1,349
Allowance for losses on loan commitments	4	<b>6,411</b>	1,343
<b>Total Liabilities</b>		<b>313,783</b>	329,354
<b>Equity</b>			
Share capital	10	<b>600,000</b>	300,000
Deficit		<b>(67,210)</b>	(43,125)
<b>Total Equity</b>		<b>532,790</b>	256,875
<b>Total Liabilities and Equity</b>		<b>\$846,573</b>	\$586,229

\* Prior period numbers have been reclassified to conform to current year presentation (see Note 3).  
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 11, 2024.



**Mairead Lavery**  
Director



**Lori Kerr**  
Director

# STATEMENT OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31

<i>(in thousands of Canadian dollars)</i>	Notes	2023	2022
<b>Financing and Equity Investment Revenue</b>			
Loan		<b>50,944</b>	19,741
Cash equivalents		<b>597</b>	191
Equity investments	5	<b>1,754</b>	3,242
Total financing and equity investment revenue		<b>53,295</b>	23,174
Interest expense	6, 8	<b>22,860</b>	3,927
Transaction costs	5	<b>1,286</b>	142
<b>Net Financing and Equity Investment Income</b>		<b>29,149</b>	19,105
<b>Donor Contributions</b>	9	<b>1,120</b>	2,020
<b>Other (Income) Expenses</b>	15	<b>6,259</b>	(15,138)
<b>Administrative Expenses</b>			
Salaries and benefits		<b>16,272</b>	10,885
Professional services		<b>4,144</b>	1,552
Administration costs	17	<b>1,819</b>	1,381
Occupancy		<b>1,097</b>	435
Travel, hospitality and conferences		<b>975</b>	630
Marketing and communications		<b>593</b>	517
Impact projects	9	<b>346</b>	488
Other		<b>1,555</b>	1,062
		<b>26,801</b>	16,950
<b>Income (Loss) before Provision</b>		<b>(2,791)</b>	19,313
<b>Provision for Credit Losses</b>	4	<b>21,294</b>	14,844
<b>Net Income (Loss)</b>		<b>(24,085)</b>	4,469
<b>Comprehensive Income (Loss)</b>		<b>\$(24,085)</b>	\$4,469

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	2023	2022
<b>Share Capital</b>			
Balance beginning of year		<b>300,000</b>	300,000
Shares issued	10	<b>300,000</b>	-
Balance end of year		<b>600,000</b>	300,000
<b>Deficit</b>			
Balance beginning of year		<b>(43,125)</b>	(47,594)
Comprehensive income (loss)		<b>(24,085)</b>	4,469
Balance end of year		<b>(67,210)</b>	(43,125)
<b>Total Equity End of Year</b>		<b>\$532,790</b>	\$256,875

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)

	2023	2022
<b>Cash Flows used in Operating Activities</b>		
Net income (loss)	(24,085)	4,469
Adjustments to determine net cash from (used in) operating activities		
Provision for credit losses	21,294	14,844
Depreciation	350	378
Equity investments non-cash items	(1,602)	(3,137)
Realized losses	-	2
Changes in operating assets and liabilities		
Change in accrued interest and fees receivable	(1,547)	(1,750)
Change in fair value of equity investments	6,111	(14,444)
Change in derivative instruments	(11,076)	(10,996)
Other	(3,336)	(128)
Loan disbursements	(270,472)	(169,216)
Loan repayments	59,891	33,092
<b>Net cash used in operating activities</b>	<b>(224,472)</b>	<b>(146,886)</b>
<b>Cash Flows used in Investing Activities</b>		
Disbursements for equity investments	(66,919)	(35,994)
Receipts from equity investments	1,838	5,146
Purchases of marketable securities	-	(4,662)
Sales/maturities of marketable securities	-	4,660
Purchases of property, plant, and equipment	(320)	(59)
<b>Net cash used in investing activities</b>	<b>(65,401)</b>	<b>(30,909)</b>
<b>Cash Flows from Financing Activities</b>		
Issue of long-term loans payable	347,481	165,962
Repayment of long-term loans payable	(358,537)	-
Increase (decrease) in amount due to EDC	(8)	2,448
Issuance of share capital	300,000	-
<b>Net cash from financing activities</b>	<b>288,936</b>	<b>168,410</b>
Effect of exchange rate changes on cash and cash equivalents	(279)	772
<b>Net decrease in cash and cash equivalents</b>	<b>(1,216)</b>	<b>(8,613)</b>
<b>Cash and Cash Equivalents</b>		
Beginning of year	28,111	36,724
End of year	\$26,895	\$28,111
<b>Cash and Cash Equivalents are comprised of:</b>		
Cash	10,415	12,649
Cash equivalents	16,480	15,462
	<b>\$26,895</b>	<b>\$28,111</b>
<b>Operating Cash Flows from Interest</b>		
Cash paid for interest	\$18,914	\$1,861
Cash received for interest	\$44,858	\$15,133

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

# NOTES TO THE 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 Material Accounting Policy Information

### Basis of Presentation

FinDev Canada's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS Accounting Standards) 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, 2023.

#### 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 included 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 introduced a practical expedient that allowed 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 was made on an economically equivalent basis and was a direct consequence of interest rate benchmark reform.

#### Transition to Alternative Benchmark Rates

During the year, we 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 focused 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. At December 31, 2023, all USD LIBOR loans have been converted.

The interest rate benchmark reform did not result in changes to our risk management strategy and the overall risk arising from the transition was assessed as low.

#### IAS 1 – Presentation of Financial Statements and IFRS Practice Statement 2

In February 2021, the IASB issued *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments were adopted on January 1, 2023 with no material impacts to the financial statements.

## IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued *Definition of Accounting Estimates, amendments to IAS 8*. The amendments help entities to distinguish between accounting policies and accounting estimates. The amendments were adopted on January 1, 2023 with no impact to the financial statements.

### Use of Estimates and Key Judgements

To prepare our financial statements in accordance with IFRS Accounting Standards, it is necessary for management to exercise judgement 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 materially 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 judgement 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 judgement 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. Judgement is also used in assessing material 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 cash equivalents, derivative instruments and equity investments. 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 judgement 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 judgement 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 immaterial risk of change in value.

## 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 equity 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.

Loan commitments are an off-balance sheet item subject to an impairment assessment. The allowance for credit losses related to loan commitments is presented 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, and remeasurements are recorded in the provision for credit losses in the 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 judgement.

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.

## MATERIAL INCREASE IN CREDIT RISK

At each reporting date, an assessment of whether a material 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 judgement 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 material, 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 equity 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.

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.

Our right-of-use asset pertains to office space and printers. 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 with a corresponding adjustment made to the carrying value of the right-of-use asset or the recognition of a gain or loss in other income (expenses) if the carrying value of the right-of-use asset is nil.

## Loans Payable

FinDev Canada holds fixed rate term loans and floating rate revolving loans from EDC. Loans payable are carried at amortized cost with interest recorded in interest expense using the effective interest rate method.

## 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 and forward exchange forwards) 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 are reduced upon direct client disbursements with no revenue recognized. The portion of funds received from donors that is reasonably expected to be used for direct disbursements to clients is excluded from deferred revenue.

## 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 10 of EDC's 2023 Integrated Annual Report.

## 3. Cash Equivalents

An analysis of our cash equivalents in the current year resulted in the determination that these amounts should be classified with cash rather than included within marketable securities. Balances relating to cash equivalents as at December 31, 2023 have therefore been included in cash and cash equivalents within the financial statements and notes and comparative figures have been adjusted to conform to the current year presentation. In 2023, there was no marketable security activity (2022 – purchases of \$4,662 thousand and maturities of \$4,660 thousand).

FinDev Canada holds 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. At December 31, 2023, all instruments held were cash equivalents.

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

At December 31, 2023, cash equivalents of \$16.5 million (2022 - \$15.5 million) included \$7.0 million (2022 - \$10.5 million) related to the donor contributions from Global Affairs Canada (GAC) and is restricted for the Concessional Facility (CF) project; the remaining \$9.5 million (2022 - \$5.0 million) was unrestricted. Refer to Note 9 for further details.

The yield on cash equivalents for 2023 was 4.77% (2022 – 1.79%).

The comparative figure for yield on cash equivalents has been updated to exclude bank interest income in order to conform with the current year presentation.

## 4. Loans and Allowance for Credit Losses

### Loans Receivable

The following table shows the components of our loans receivable:

<i>(in thousands of Canadian dollars)</i>	<b>Dec. 31, 2023</b>	Dec. 31, 2022
Gross loans receivable	<b>618,789</b>	420,744
Accrued interest and fees receivable	<b>10,548</b>	5,686
Deferred loan revenue and other	<b>(5,042)</b>	(3,514)
<b>Total loans receivable</b>	<b>\$624,295</b>	\$422,916

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

<i>(in thousands of Canadian dollars)</i>	<b>2023</b>	2022
Balance beginning of year	<b>420,744</b>	261,233
Disbursements	<b>270,472</b>	169,216
Principal repayments	<b>(59,891)</b>	(33,092)
Capitalized interest	-	9
Foreign exchange translation	<b>(12,536)</b>	23,378
<b>Balance end of year</b>	<b>\$618,789</b>	\$420,744

We had country risk concentrations as outlined below:

<i>(in thousands of Canadian dollars)</i>	<b>Dec. 31, 2023</b>		Dec. 31, 2022	
Country	<b>Performing gross loans receivable</b>	<b>%</b>	Performing gross loans receivable	%
Colombia	<b>132,490</b>	<b>21</b>	68,960	17
Mauritius	<b>95,834</b>	<b>15</b>	60,880	15
Ecuador	<b>79,022</b>	<b>13</b>	34,330	8
Costa Rica	<b>52,996</b>	<b>9</b>	58,626	14
Argentina	<b>46,647</b>	<b>7</b>	-	-
Bermuda	<b>33,123</b>	<b>5</b>	-	-
Brazil	<b>26,498</b>	<b>4</b>	27,058	6
France	<b>23,771</b>	<b>4</b>	17,847	4
Jamaica	<b>23,186</b>	<b>4</b>	27,058	6
Nigeria	<b>22,082</b>	<b>4</b>	27,058	6
Curaçao	<b>21,198</b>	<b>3</b>	27,058	6
Peru	<b>17,712</b>	<b>3</b>	21,936	5
El Salvador	<b>11,924</b>	<b>2</b>	13,529	3
United States	<b>10,643</b>	<b>2</b>	6,809	2
Bolivia	<b>9,937</b>	<b>2</b>	10,147	3
Dominican Republic	<b>8,248</b>	<b>1</b>	-	-
Panama	<b>3,478</b>	<b>1</b>	5,919	2
South Africa	-	-	13,529	3
<b>Total</b>	<b>\$618,789</b>	<b>100</b>	\$420,744	100

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 \$717.1 million at December 31, 2023 (2022 - \$542.4 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, 2023			Dec.31, 2022
	Stage 1	Stage 2	Total	Total
Gross loans receivable				
Investment grade*	67,537	-	67,537	24,656
Non-investment grade	434,827	116,425	551,252	396,088
Gross loans receivable	502,364	116,425	618,789	420,744
Loan commitments				
Investment grade*	63,571	-	63,571	67,510
Non-investment grade	1,942	32,847	34,789	54,116
Loan commitments	65,513	32,847	98,360	121,626

\*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. The impact of introducing the new PD model resulted in a \$13.0 million increase to our allowance for losses and represented a change in accounting estimate.

An allowance for credit losses on loans of \$40.4 million has been recorded, an increase of \$15.3 million since December 31, 2022. The increase is primarily the result of the impact of net loan disbursements during the year as well as downward credit migration.

At the end of 2023 we had undisbursed loan commitments of \$98.4 million (2022 - \$121.6 million) with an allowance for losses of \$6.4 million (2022 - \$1.3 million).

As of December 31, 2023, if our performing portfolio was measured using Stage 1 ECL, total ECL would be \$31.9 million (2022 - \$26.4 million). If our performing portfolio was measured using Stage 2 ECL, total ECL would be \$61.2 million (2022- \$49.6 million).

Changes to the allowance for credit losses on loans receivable and loan commitments for the year ended December 31, 2023 were as follows:

<i>(in thousands of Canadian dollars)</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>2023 Total</b>	<b>2022* Total</b>
<b>Allowance for losses on loans receivable</b>				
Balance at beginning of year	25,103	-	<b>25,103</b>	9,120
Provision for (reversal of) credit losses				
Transfer to Stage 2	(15,782)	15,782	-	-
Remeasurements	(7,501)	10,813	<b>3,312</b>	9,654
New originations	14,810	-	<b>14,810</b>	6,283
Net repayments and maturities	(1,265)	(757)	<b>(2,022)</b>	(340)
Total provision for (reversal of) credit losses	(9,738)	25,838	<b>16,100</b>	15,597
Foreign exchange	(165)	(675)	<b>(840)</b>	386
Balance end of year	15,199	25,163	<b>40,362</b>	25,103
<b>Allowance for losses on loans commitments</b>				
Balance at beginning of year	1,343	-	<b>1,343</b>	2,092
Provision for (reversal of) credit losses				
Transfer to Stage 2	(2,095)	2,095	-	-
Remeasurements	1,275	4,314	<b>5,590</b>	(241)
New originations	3,600	-	<b>3,600</b>	1,457
Net repayments and maturities	(3,995)	-	<b>(3,995)</b>	(1,969)
Total provision for (reversal of) credit losses	(1,215)	6,409	<b>5,194</b>	(753)
Foreign exchange	(66)	(60)	<b>(126)</b>	4
Balance end of year	62	6,349	<b>6,411</b>	1,343
<b>Total allowance for losses on loans receivable and loan commitments</b>	<b>\$15,261</b>	<b>\$31,512</b>	<b>\$46,774</b>	<b>\$26,446</b>

\* Total gross loans receivable and loan commitments at December 31, 2022 were considered to be in Stage 1 for IFRS 9 purposes as no individual loan had experienced a significant increase in credit risk since origination.

## 5. Equity investments

<i>(in thousands of Canadian dollars)</i>	Dec. 31, 2023		Dec. 31, 2022	
	Cost	Fair Value	Cost	Fair Value
Direct investments	<b>102,793</b>	<b>102,912</b>	72,871	82,033
Fund investments	<b>102,882</b>	<b>107,951</b>	70,298	72,559
Total equity investments	<b>\$205,675</b>	<b>\$210,863</b>	\$143,169	\$154,592

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 \$168.6 million for fund and direct investments (2022 - \$121.2 million).

Equity investments income from our direct and fund investment portfolios of \$1.8 million (2022 - \$3.2 million) was recorded in the Statement of Comprehensive Income (Loss). This consisted mainly of capitalized dividends on preferred shares, accrued interest recognized as income on the conversion of a convertible note instrument into equity shares, and dividend income earned from the fund portfolio.

Transaction costs on the establishment of fund investments of \$214 thousand (2022 - \$2 thousand) were recorded in the Statement of Comprehensive Income (Loss).

## 6. Right-of-Use Asset and Lease Liability

### Right-of-Use Asset

FinDev Canada leases office space and printers. We have included a one-year extension option for our head office in the measurement of our lease liabilities as it is reasonably certain we will exercise the extension option. During the year, changes to our right-of-use asset were as follows:

<i>(in thousands of Canadian dollars)</i>	2023	2022
Balance beginning of year	<b>1,264</b>	1,275
Additions	<b>715</b>	183
Depreciation	<b>(297)</b>	(194)
Balance end of year	<b>\$1,682</b>	\$1,264



## Lease Liability

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

<i>(in thousands of Canadian dollars)</i>	<b>2023</b>	2022
Under 1 year	<b>396</b>	223
1 to 5 years	<b>1,468</b>	1,193
Over 5 years	<b>119</b>	119
Total undiscounted lease liabilities	<b>1,983</b>	1,535
Total lease liabilities end of year	<b>\$1,795</b>	\$1,349

Interest expense on the lease liability for the year ended December 31, 2023 was \$69 thousand (2022 - \$29 thousand). Total cash outflow for the leases was \$337 thousand (2022 - \$206 thousand), including \$268 thousand (2022 - \$177 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 2023 were \$2.1 million (2022 - \$1.5 million).

## 7. Debt Instruments

We issue 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 8 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:

<i>(in thousands of Canadian dollars)</i>	<b>Dec. 31, 2023</b>	Dec. 31, 2022
Long-term payables *		
due within current year	<b>33,123</b>	54,116
over one year	<b>250,813</b>	246,904
Total long-term payables	<b>283,936</b>	301,020
Accrued interest	<b>5,365</b>	1,949
Total	<b>\$289,301</b>	\$302,969

\* The comparative figures for long-term payables have been restated to segregate the amount due within current year.

In 2023, there were foreign exchange translation gains of \$6.1 million (2022 - losses of \$14.9 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 15 for our consolidated foreign exchange translation (gain) loss.

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

<i>(in thousands of Canadian dollars)</i>	<b>2023</b>	2022
Balance beginning of year	<b>302,969</b>	120,303
Net cash flows	<b>(11,056)</b>	165,962
Foreign exchange translation	<b>(6,133)</b>	14,902
Change in accrued interest	<b>3,521</b>	1,802
<b>Balance end of year</b>	<b>\$289,301</b>	\$302,969

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.

<i>(in thousands of Canadian dollars)</i>	<b>Dec. 31, 2023</b>		Dec. 31, 2022	
Year of maturity	<b>Debt issues</b>	<b>Yield* (%)</b>	Debt issues	Yield* (%)
<b>Fixed rate issues</b>				
2023	-	-	54,116	0.29
2024	<b>33,123</b>	<b>1.11</b>	33,822	1.11
2025	<b>13,249</b>	<b>4.21</b>	13,529	4.21
2027	<b>26,498</b>	<b>3.39</b>	27,058	3.39
2028	<b>49,684</b>	<b>4.30</b>	10,147	3.55
Subtotal	<b>122,554</b>	<b>3.82</b>	138,672	2.90
<b>Floating rate issues</b>				
2034 and beyond	<b>161,382</b>		162,348	
Subtotal	<b>161,382</b>	<b>5.72</b>	162,348	5.30
Total	<b>\$283,936</b>		\$301,020	

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

At the end of 2023, the contractual cash flows, including principal and estimated interest (using current contractual rates), related to our debt portfolio were as follows:

<i>(in thousands of Canadian dollars)</i>	<b>Dec. 31, 2023</b>
Year of maturity	
Under 1 year	<b>48,523</b>
1 to 3 year	<b>38,584</b>
3 to 5 year	<b>99,649</b>
Over 5 year	<b>250,334</b>
Total	<b>\$437,090</b>

The December 31, 2023 balance of floating rate loans was repaid in January 2024 after receipt of the capital injection.

## 8. 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 two months to six months) and forward exchange forwards with EDC to convert funds between Canadian dollars and U.S. dollars. As at December 31, 2023, the notional value of the swaps was \$569.9 million (2022 - \$280.0 million). Interest expense on these swaps of \$1.3 million (2022 - \$47 thousand) was recorded in the Statement of Comprehensive Income (Loss).

## 9. 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. Deferred revenue is recognized in revenue when expenses are incurred.

In 2023, an analysis of the overall portfolio concluded that \$2,250 thousand of the GAC CF and \$218 thousand of the GAC Technical Assistance Facility funds are expected to be used for direct disbursements to clients to help them reach their full impact potential, and were removed from deferred revenue as a result.

<i>(in thousands of Canadian dollars)</i>	<b>Dec. 31, 2023</b>	Dec. 31, 2022
Deferred Revenue for Contributions		
GAC Technical Assistance Facility	-	426
Other	-	12
	-	438
Deferred Revenue for Concessional Facility		
GAC CF Admin Expense	<b>6,816</b>	7,666
GAC CF Technical Assistance Facility	<b>200</b>	2,500
	<b>7,016</b>	10,166
Total	<b>7,016</b>	10,604

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

<i>(in thousands of Canadian dollars)</i>	<b>2023</b>	2022
GAC CF Admin Expense	<b>850</b>	1,362
GAC Technical Assistance Facility	<b>208</b>	333
GAC CF Technical Assistance Facility	<b>50</b>	-
Other	<b>12</b>	325
<b>Total</b>	<b>\$1,120</b>	2,020

## 10. Share Capital

As at December 31, 2023 FinDev Canada's share capital is \$600 million consisting of 6 million shares (2022 - \$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. During the year, FinDev Canada received a capital injection of \$300 million in exchange for 3 million shares. No dividends were declared or paid in 2023 (2022 – nil).

In January 2024 FinDev Canada received a capital injection of \$350 million in exchange for 3.5 million shares with a par value of \$100 each.

## 11. 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 the 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) as well as 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 are 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, operational, market and strategic risks. 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 an increase in the risk profile of our portfolio and/or a reduction of our capitalization.

## 12. 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 the Financial Risk Management Framework ("FRMF") in place which sets out governance and oversight of financing and equity transactions as well as its treasury operations activities. 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:

### Capital Management Risk

Capital Management risk is assessed under two sub-categories:

- Capital Adequacy Risk – The risk that FinDev Canada's implied solvency level may impact its ability to deliver on its strategic objectives. Capital adequacy risk includes the risk of insolvency as well as lack of available capital to execute its strategy.
- Liquidity Risk – The risk of loss due to the inability of FinDev Canada to raise or borrow funds to meet its financial obligations or its inability to convert its treasury assets into cash without giving up significant capital and/or income.

### Credit and Counterparty Risk

Credit and Counterparty risk is assessed under three main sub-categories:

- 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, or an entity in which FinDev Canada holds an equity stake to meet its business performance.
- 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.

### Market Risk

Market Risk is the risk of loss due to adverse movements in market prices, interest rates and/or foreign exchange rates.

- Foreign Exchange Rate Risk – The risk of potential adverse impact on the value of financial instruments resulting from exchange rate movements. FinDev Canada is exposed to foreign exchange rate risk when there is a mismatch between assets and liabilities in any currency.
- Interest Rate Risk – The risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. FinDev Canada is exposed to potential adverse impacts on the value of financial instruments resulting from differences in the maturities or repricing dates of assets and liabilities.

### Climate Change Risk

We started tracking climate change risk and its impact on our financial sustainability. The two categories under the climate change risk are as follows:

- Physical Risk – The risk of financial impacts stemming from acute and chronic physical climate risks resulting from climate events, such as floods, storms, wildfires, droughts as well as from longer term shifts in climate patterns such as sustained higher temperatures that may cause sea level rise or chronic heat waves.
- Transition Risk – The risk of financial impacts stemming from transition risks resulting from policy, legal, technology or market action taken to transition to a low-carbon economy.

## 13. 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 \$534.5 million (2022 – \$344.5 million) and those classified as Level 3 have a fair value of \$103.7 million (2022 – \$56.4 million). Our loans receivable have a carrying value of \$583.9 million (2022 – \$397.8 million) as at December 31, 2023.

### Cash Equivalents

We estimate the fair value of cash equivalents 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 cash equivalents are classified as level 1.

### Equity 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 equity 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, 2023, we held two equity investments for which there were unobservable inputs used in their valuation techniques: the first utilized a multiple of sales of 1.82 resulting in a fair value of \$57.0 million and the second used a weighted average discount rate of 13.33% resulting in a fair value of \$13.2 million.

The following table summarizes the reconciliation of Level 3 fair values between 2023 and 2022 for equity investments:

<i>(in thousands of Canadian dollars)</i>	<b>2023</b>	2022
Balance at beginning of year	<b>154,592</b>	97,529
Purchases of equity investments	<b>68,521</b>	42,993
Unrealized gains (losses) included in other (income) expenses	<b>(6,111)</b>	14,444
Return of capital	<b>(1,838)</b>	(9,008)
Foreign exchange translation	<b>(4,301)</b>	8,634
Balance at end of year	<b>\$210,863</b>	\$154,592
Total gains (losses) for the year included in comprehensive income (loss) for instruments held at end of the year	<b>\$(6,111)</b>	\$14,444

In 2023, 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 equity investments, we adjusted the unobservable inputs. The unobservable inputs used to value our Level 3 equity 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 equity investments ranged from an unfavourable change of \$15.0 million to a favourable change of \$23.0 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 \$283.7 million (2022 - \$298.0 million) and have a carrying value of \$289.3 million (2022 - \$303.0 million).

## 14. 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, 2023, purchase obligations not otherwise disclosed in the notes to our financial statements amounted to \$5.8 million (2022 - \$4.3 million).

## 15. Other (Income) Expenses

<i>(in thousands of Canadian dollars)</i>	2023	2022
Net unrealized (gain) loss on equity investments*	5,961	(14,456)
Foreign exchange translation (gain) loss	9	(593)
Net unrealized (gain) loss on derivatives	288	(91)
Net unrealized loss on cash equivalents and marketable securities	1	2
<b>Total other (income) expenses</b>	<b>\$6,259</b>	<b>\$(15,138)</b>

\*Net unrealized loss on equity investments due to fund investment management fees of \$5.4 million and net unfavourable fair market value adjustments of \$588 thousand (2022 - Net unrealized gain due to favourable fair market value adjustments of \$18.5 million partially offset by fund investment management fees of \$4.0 million).

## 16. 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 10 of EDC's 2023 Integrated Annual Report.

We fund these benefits based on an allocation rate determined by EDC. In 2023, our allocation to fund our participation in the benefit plan was \$910 thousand (2022 - \$628 thousand) which was included in salaries and benefits.

## 17. 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 maintained separately from our accounts and consolidated within the financial statements of the Government of Canada. The remaining balance of these contributions at December 31, 2023 is \$50.4 million, with the decline mainly due to disbursements for loans and equity investments, as well as administrative fees earned by FinDev Canada. 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 9 for further details.

### Derivative Instruments

As described in Note 8, FinDev Canada transacts foreign exchange swaps and foreign exchange forwards with EDC.

### Loans Payable

As described in Note 7, 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 \$289.3 million as at December 31, 2023 (2022 - \$303.0 million).

### Owing to Export Development Canada

In 2023, FinDev Canada paid EDC \$1.8 million (2022 - \$1.4 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 \$3.2 million as at December 31, 2023 (2022 - \$3.3 million), 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 \$3.1 million (2022 - \$2.4 million).

## **18. Subsequent Events**

Subsequent to December 31, 2023 one of our obligors has experienced financial challenges. The loan receivable is \$7.3 million and the allowance for expected credit losses is \$400 thousand as at December 31, 2023. At this time we expect the future recoverability of this receivable to be 40%.