

Annex XII: The Fund's financial risk categorization and management*

	ASSET-SIDE RISK	LIABILITY-SIDE RISK	ASSET-LIABILITY MISMATCH RISK
Aspect of the Fund's business	Funding extended to developing country entities to fund climate mitigation and adaptation projects and programmes <ul style="list-style-type: none"> • Grants • Concessional loans • Other financial instruments, as may be approved by the Board 	Financial contributions pledged or received from partners <ul style="list-style-type: none"> • Grants • Capital contributions • Loans • Any other input received by the Fund 	Mismatch between the Fund's assets and liabilities
Key nature of risks (non-exhaustive list)	<ul style="list-style-type: none"> • Counter-party risk: counter-party evaluation, etc. • Implementation risk (non-performing borrower/intermediary or implementing entity (IE), as appropriate) • Technical risk (risky technology) • Market risk (price movements) • Foreign exchange risk, as may be approved by the Board (exchange rate risk, currency availability) • Country risk (war and civil disturbance, expropriation, breach of contract) 	<ul style="list-style-type: none"> • Arrears in contributions • Foreign exchange movements in currencies held • Interest rate movements • Liquidity risk • Counter-party risk relating to the Trustee 	<ul style="list-style-type: none"> • Maturity and tenor: mismatch in duration of funding received and funding granted • Interest rate: mismatch in pricing of funding received and granted • Currencies: mismatch in currencies of funding granted and received • Liquidity mismatch between assets and liabilities • Non-performing loan (NPL) rate: aggregate NPLs and grants provided exceed grants received • Cross-subsidy risk: grants from certain contributors serve to cross-subsidize loan repayments to other partners

*Excludes global financial and political risks.

	ASSET-SIDE RISK	LIABILITY-SIDE RISK	ASSET-LIABILITY MISMATCH RISK
	<p>Asset-side risks need to be monitored and managed in aggregate at the portfolio level</p> <p>At the project level, risks will be managed and mitigated by the IE or intermediary, as appropriate:</p> <ul style="list-style-type: none"> • Risk assessment: technical and financial appraisal to evaluate the overall risk profile of the project/programme • Implementation risk: borrower/ implementer accreditation, third-party guarantees of performance • Technical risk: independent engineering review • Market risk: hedging, contractual terms (e.g. take-or-pay) • Foreign exchange risk: foreign exchange hedging, swaps • Country risk: political risk insurance 	<ul style="list-style-type: none"> • Arrears in contributions pledged: mitigated through contracts and/or backup guarantees • Foreign exchange risk: mitigated through institutional exchange policies, hedging and/or swaps • Interest rate risk: mitigated through hedging such as swaps • Liquidity risk: mitigated by the Trustee through cash management • Counter-party risk: counter-party evaluation and/or performance guarantees/bonds 	<ul style="list-style-type: none"> • Monitoring of asset/liability match in real time to avoid exceeding Board-established ceilings on maturity and tenor; interest rate; currencies; and NPL rate • Ongoing asset-liability management process to track asset-liability mismatch