FMO
Entrepreneurial
Development
Bank

MOBILISING FINANCE FOR FORESTS

Annual Report

2022

Mobilising Finance for Forests (MFF) is the UK government programme to combat deforestation and environmentally unsuitable land use practises, managed by FMO.

FMO manages the following programme on behalf of the UK government: Mobilising Finance for Forests (MFF). The commitment from the UK government to the programme amounts to £ 150 mln as per December 31, 2022.

The front and back photos are from MFF's Investee 'Treevive B.V.', Treevive aims to create a Carbon Development Platform (CDP) that advises, structures, finances, and accelerates carbon projects arising from growing interest in Natural Climate Solutions (NCS).

The Mobilising Finance for Forests programme unlocks private investments into the forestry and sustainable land use sectors to protect forests and combat climate change.

LETTER FROM THE MB OF THE PROGRAMME MANAGER

Dear reader,

In 2022 the global economy faced an intensification of political and economic upheaval, first and foremost caused by Russia's invasion in Ukraine. The war that followed caused untold human suffering and led to dangerous stress on global trade systems, in particular in the energy- and (agricultural) commodities markets.

The poorest economies, where poverty reduction had already slowed down significantly, now face a particularly grim economic outlook and an immense lack of fiscal space while climate change continues to challenge the resilience of society. Development finance institutions such as FMO will need to intensify their operations in the coming years to encourage the flow of private finance to meet sustainable investment needs in these societies.

In close consultation with our stakeholders, we updated our strategy towards 2030. In our 'Pioneer-Develop-Scale' strategy the role of our public funds and facilities is pivotal. These help us explore higher-risk opportunities and markets to make them ready for additional private investments.

Our long-standing track record in managing public funds to catalyse private finance, has contributed to a significant expansion of our responsibilities. Over the past few years, FMO set up facilities and investment programs with the European Commission and the Green Climate fund. In 2021, the UK government also decided to entrust FMO with the management of the UK's Mobilising Finance for Forests programme (MFF).

MFF was launched with a £ 150 mln commitment from the UK Government's International Forests Unit. The programme aims to accelerate private investments in the forestry and sustainable land use sectors, such as to combat deforestation and other unsustainable land use practices that contribute to climate change.

MFF has been actively raising awareness about the ability of blended finance to unlock investment opportunities in forestry. The programme is bridging the gap and building partnerships that combine private sector investing with best practice environmental and social standards that support employment and respect local communities and biodiversity.

In 2022, MFF concretised its efforts by signing two new investments. These include a repayable development contribution of US$ 2.5 mln provided to Treevive, and a debt investment of US$ 3 mln into Ecua America Teak.

In 2023, developing countries will continue to see hardship and a variety of challenges. To support them, courage and ambition are imperative in the deployment of FMOs public funds and facilities, especially against the background of the ongoing climate crisis. We will continue to generate investments that create equal opportunities and equitable access to finance, that protect the value of ecosystems and forests, that provide access to renewable energy and that help build up fair value chains in agriculture.

The Hague, 31 March 2023

On behalf of the Management Board

Fatoumata Bouaré, Chief Finance & Operations Officer
Franca Vossen, Chief Risk Officer
Huib-Jan de Ruijter, Co-Chief Investment Officer
Michael Jongeneel, Chief Executive Officer
Peter Maila, Co-Chief Investment Officer

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AT A GLANCE

The Mobilising Finance for Forests programme officially launched in February 2021 with a £150 million commitment from the UK government. FMO was chosen as the delivery partner, and with blended finance, will mobilise private capital to combat deforestation and other environmentally unsustainable land use practices that are contributing to global climate change. Working with both direct and indirect investments, the programme aims to create value from standing forests and from (new) business models that incorporate forest protection and restoration.

Achievements portfolio as per 31-12-2022

Total committed portfolio

$38.75mln

3
Total investments

1
Fund Investments

2
Direct Investments

$3mln
Public co-investments

2
Investments per Region

Global = 2
Latin America = 1

1,354,189
Ha Forest under management

162,218
Farmland under sustainable management

15,361
Direct Jobs

**MFF invests in companies and funds that in total report the above hectares under management and direct jobs created.*


Head office
The Hague, The Netherlands
Local office
Costa Rica
Local office
Nairobi, Kenya
Local office
Johannesburg, South Africa

PERFORMANCE ON OUR STRATEGY

Highlights

This year we focused on expanding the MFF portfolio and pipeline. We added 2 loans to the portfolio: a development contribution to Treevive and a loan to Ecua America Teak that catalysed the same amount from FMO's own funding. Field visits to challenging MFF target countries fed into the further development of the programme's pipeline and provided insight into elements affecting the forestry sector in these countries. A due diligence trip to Colombia helped better understand how to address and assess historical land tenure challenges in the country.

Through the UK's International Forests Unit, FMO was invited to the UN Climate Conference, held in Sharm el-Sheikh, Egypt. This year, FMO is proud to have been recognised as a leading DFI in the forestry sector and to have been welcomed at the World Leaders Summit organised by the UK at the COP27. The session gathered major heads of state and governments, such as Prime Minister Rishi Sunak, President Akufo-Addo and EU Commission President Ursula von der Leyen, who announced their commitments for climate action. All high-level participants agreed on the importance of catalysing private finance into forestry, and 26 countries launched the Forest and Climate Leader's Partnership. The COP reinforced our confidence in MFF's added value in helping to develop the sustainable forestry sector through blended finance. At the World Leaders Summit, FMO's CEO Michael Jongeneel announced that FMO's forestry portfolio will be increased to up to EUR 1 billion by 2030.

FMO's partnership with the UK government through MFF inspired FMO to expand its forestry strategy beyond plantation business models, and now includes sustainable forestry management, as well as non-timber forest products and deforestation free commodities.

In December, the MFF team was hosted in London by IFU for the programme's recurring semi-annual meeting. Various topics were discussed, such as the programme scope and the kick-off of the MFF Community of Best Practice for DFIs on carbon credits integrity. The meeting enabled the exchange of knowledge and the exploration of collaboration opportunities between FMO's team, UK Ministerial teams and UK Foreign Embassies that were present in the London for their annual Global Gathering.

All-in-all, 2022 was an eventful year for MFF. We look forward to further developing the programme in 2023.

Production

Production 2022

Ecua America Teak (EAT) – US$ 3 mln Debt

EAT is an Ecuadorian forestry company with a total land bank of 1,085 ha that includes 869 ha of planted high-quality teak and a processing sawmill facility. EAT intends to expand its existing plantation by another 500 ha, to upgrade its sawmill, and to acquire new machinery and equipment within the next years. Together with another US$ 3 mln debt investment from FMO, MFF's financing will make the planned expansion possible, and support the development of a more sustainable teak sector in Ecuador. EAT is an investee company of Arbaro Fund, which is a fund focused on sustainable forestry projects in Latin America, the Caribbean, and Sub-Saharan Africa.

Treevive – US$ 2.5 mln Development Contribution (Debt)

The investment in Treevive was made through MFF's Development Contribution facility. Treevive aims to create a Carbon Development Platform (CDP) that advises, structures, finances, and accelerates carbon projects arising from growing interest in Natural Climate Solutions (NCS). Treevive aims to close the gap between tropical forest landscape projects in need of financial solutions and investors that seek high-quality. The company will support project owners with both funding and technical assistance to accelerate the development of the carbon asset of their project.

INTERNATIONAL PRINCIPLES

Our impact goes beyond our investments. To embrace our mission fully, we are committed to doing business in a responsible and sustainable way, guided by global standards and guidelines.

EQUATOR PRINCIPLES	**Equator Principles** We have been implementing the Equator Principles (EP) since 2006. This risk management framework provides financial institutions with a minimum standard for due diligence and monitoring to determine, assess and manage environmental and social risks in projects. Our annual EP report is available online.	Signatory
IFC International Finance Corporation World Bank Group. Creating Markets, Creating Opportunities	**IFC Performance Standards** Our E&S approach is guided by the IFC Performance Standards of Environmental & Social Sustainability . This framework helps us understand, avoid and mitigate E&S risks and impacts, for example through stakeholder engagement and disclosure obligations of the customer in relation to project-level activities.	Adopter
OECD Guidelines for Multinational Enterprises	**OECD Guidelines for Multinational Enterprises** We follow OECD Guidelines on responsible business conduct, notably human rights, labor rights and the environment.	Adopter
UNITED NATIONS HUMAN RIGHTS OFFICE OF THE HIGH COMMISSIONER	**UN Guiding Principles on Business and Human Rights** We integrate the set of guidelines defined by the UN for states and companies to prevent, address and remedy human rights abuses in business operations.	Adopter
ILO International Labour Organization	**ILO Standards** We follow the set of ILO legal instruments that set out basic principles and rights at work.	Adopter
INVESTING FOR IMPACT: Operating Principles for Impact Management	**Operating Principles for Impact Management** In 2019, FMO became a signatory to and advisory board member of the Operating Principles for Impact Management, a global initiative led by the IFC to increase the transparency and accountability of impact investing. FMO publishes a report every year to disclose how it has interpreted and applied these nine principles. These reports are available on our website.	Signatory
Signatory of: PRI Principles for Responsible Investment	**Principles of Repsonsible Investment** FMO applies the six principles of the PRI: incorporating ESG into investment practices (Principle 1 and 2), disclosing on ESG issues (Principle 3), supporting acceptance and effective implementation of the principles (Principle 4 and 5), and reporting on progress (Principle 6). FMO's latest report is available on the PRI website.	Signatory
UNEP FINANCE INITIATIVE PRINCIPLES FOR RESPONSIBLE BANKING	**UNEP FI | Principles for responsible banking** FMO is a signatory of the Principles for Responsible Banking. FMO publishes a report every year to disclose how it has progressed towards implementing these principles.	Signatory
GIIN	**Global Impact Investing Network** We support the GIIN because it is dedicated to increasing the scale and effectiveness of impact investing through knowledge sharing, best practice exchanges, and tools and resources production.	Member
SUSTAINABLE DEVELOPMENT GOALS Charter	**Sustainable Development Goals Charter** We joined the SDG Charter Network to foster cooperation between business, civil society and local governments in the Netherlands, in order to achieve the SDGs at home and abroad.	Signatory
Natural Capital Declaration. Financial sector leadership on natural capital	**Natural Capital Finance Alliance** We closely follow the developments of the NCFA initiative to integrate natural capital considerations into loans, public and private equity, and fixed income and insurance products.	Signatory
UNEP Finance Initiative. Changing finance, financing change	**UNEP FI / EBF Working Group on Banking and Taxonomy** We are part of the UNEP Finance Initiative / European Banking Federation Working Group that assesses how the EU Taxonomy on Sustainable Activities can be implemented by banks and applied to selected banking products.	Member
	Dutch Climate Accord We signed the financial sector commitment to fight climate change and support the Dutch Climate Accord. In 2022, we published our Climate Action Plan, which is available on our website.	Signatory
CENTER for FINANCIAL INCLUSION ACCION	**Client Protection Principles** FMO has adopted the CPP which set the minimum standards that end-customers should expect to receive when doing business with a financial service provider.	Adopter

Partnership for Carbon Accounting Financials We are one of the early adopters of PCAF, an industry-led global partnership to develop and implement a harmonized approach to assess and disclose GHG emissions of loans and investments. This facilitates transparency and accountability of the financial sector to the Paris Agreement.	Signatory
Netherlands Advisory Board on Impact Investing FMO is an active member of the Netherlands Advisory Board (NAB) on Impact Investing - a foundation that is part of the Global Steering Group for impact investment and aims to accelerate the growth and improve the effectiveness of the Dutch impact investing market.	Member
Consultative Group to Assist the Poor We are part of the CGAP global partnership to test, learn and share knowledge intended to help build inclusive and responsible financial systems.	Member
European Microfinance Platform We are part of the e-MFP network to foster activities that increase global access to affordable, quality, sustainable and inclusive financial services for the un(der)banked through knowledge-sharing, partnership development and innovation.	Member
2X Challenge In 2019, FMO joined the 2X Challenge, which was launched in 2018 by DFIs from the G7 countries. The initiative allows for setting financial ambitions among DFIs and collaboration with various stakeholders towards women's empowerment. FMO continues to be a participant in the 2X Challenge and a member of the 2X Collaborative (now 2X Global)	Member
Global Private Capital Association We are a member of the GPCA. This aims to catalyze the development of private equity and venture capital industries in emerging markets through research, conferences, networking, and advocacy.	Member
Corporate Governance Development Framework We adopted the Corporate Governance Development Framework as a common approach to corporate governance risks and opportunities in DFI investment operations.	Adopter
Financial Action Task Force We use the FATF framework to combat money laundering and terrorism financing, as well as the proliferation of weapons of mass destruction.	Adopter
Global Reporting Initiative (GRI) We report according to the standards defined by the GRI to help businesses and governments understand and communicate about their impact on critical sustainability issues.	Adopter
The Paris Development Banks Statement on Gender Equality and Women Empowerment We call for accelerating the realization of gender equality and the empowerment of all women and girls through the international financial system. We recognize our substantive role in the achievement of the SDGs.	Signatory
EDFI statement on climate and energy finance We commit to this statement where EDFI group outlines shared commitments to phase out fossil fuels and mobilise private sector climate finance, aligning with Paris Agreement and high disclosure standards.	Signatory
COP26 Joint Statement on Public Finance We commit to supporting the clean energy transition and end new direct public support for the international unabated fossil fuel energy sector by the end of 2022, except in limited and clearly defined circumstances that are consistent with the 1.5°C warming limit and the goals of the Paris Agreement.	Signatory
Accelerating Investment in Adaptation and Resilience We are a signatory member to the Adaptation and Resilience Investors Collaborative, an international partnership of development finance organizations. We have committed to substantially increase investments in climate adaptation and resilience to support vulnerable developing and emerging countries.	Signatory
Value Reporting Foundation - Integrated Reporting Framework We follow the Integrated Reporting framework to produce our annual report. In line with this, we link our strategy and performance to the external environment and value creation in the longer term.	Adopter

Statement of financial position

At December 31, 2022

	Notes	2022	2021
Assets			
Banks	(1)	6,671	5,743
Short-term deposits	(2)	99,000	59,000
Loan portfolio	(3)		
- of which: at Amortized Cost		-	-
- of which: at Fair value through profit or loss		17,560	-
Other receivables	(4)	31	-
Total assets		**123,262**	**64,743**
Liabilities			
Current account with FMO	(5)	776	475
Accrued liabilities	(6)	4,381	-
Provisions	(7)	28	-
Other liabilities	(8)	30	-
Total liabilities		**5,215**	**475**
Fund capital			
Contribution BEIS previous years		67,038	-
Contribution BEIS current year	(9)	60,986	67,038
Total contribution BEIS		**128,024**	**67,038**
Undistributed results previous years		-2,770	-
Net profit/(loss)		-7,207	-2,770
Total capital		**118,047**	**64,268**
Total liabilities and capital		**123,262**	**64,743**
Irrevocable facilities	**(11)**	**18,750**	**33,250**

Statement of comprehensive income

At December 31, 2022

	Notes	2022	2021
Income			
Interest income from financial instruments measured at AC		1	-
Interest income from financial instruments measured at FVPL	(10)	1,540	3
Total net interest income		**1,541**	**3**
Total income		**1,541**	**3**
Expenses			
Management fees FMO	(13)	-3,025	-2,773
Capital Development expenses		-5,695	-
Total expenses		**-8,720**	**-2,773**
Impairments on			
Loans		-28	-
Total impairments		**-28**	**-**
Net profit/(loss)		**-7,207**	**-2,770**
Total comprehensive income/(loss)		**-7,207**	**-2,770**

Statement of changes in capital

At December 31, 2022

	Contributed fund capital	Undistributed results previous years	Net profit/ (loss)	Total fund capital
Balance at February 15, 2021	**-**	**-**	**-**	**-**
Contribution BEIS	67,038	-	-	67,038
Results current year	-	-	-2,770	-2,770
Net balance at December 31, 2021	**67,038**	**-**	**-2,770**	**64,268**
Balance at January 1, 2022	**67,038**	**-**	**-2,770**	**64,268**
Transfer profit/(loss) PY to Undistr. Results PY	-	-2,770	2,770	-
Contribution BEIS	60,986	-	-	60,986
Results current year	-	-	-7,207	-7,207
Net balance at December 31, 2022	**128,024**	**-2,770**	**-7,207**	**118,047**

Statement of cash flows

At December 31, 2022

	Notes	2022	2021
Cash flow from operating activities			
Inflows			
Interest received on loans		125	-
Other received amounts	(10)	1,355	3
Outflows			
Disbursements on loans		-17,500	-
Disbursements on Capital Development expenses		-1,313	-
Management fees FMO		-3,025	-2,773
Net cash from operating activities		**-20,358**	**-2,770**
Cash flow from financing activities			
Inflows			
Contribution BEIS current year	(9)	60,986	67,038
Net cash from financing activities		**60,986**	**67,038**
Net change in cash & cash equivalent		**40,628**	**64,268**
Position of cash at January 1 [1)]		64,268	-
Foreign exchange translation		-	-
Position of cash at end of period [1)]		**104,896**	**64,268**

1 Cash includes current account with FMO.

Summary of accounting policies

General information

Mobilising Finance for Forests (MFF), the programme, was established by the UK Government in 2021 to support the combat against deforestation and environmentally unsuitable land use practices. FMO executes the programme at the risk and expense of the UK government. The total contribution received till date amounts to US$ 128 million and a £150 million commitment from the UK government. The programme's initiation date was 15 February 2021 and the duration is for 15 years.

Basis of preparation

The annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These annual accounts are based on the 'going concern' principle.

The annual accounts are prepared under the historical cost convention, except for:

- Equity investments, short-term deposits, and all derivative instruments that are mandatory measured at fair value.
- A part of the loans to the private sector which is mandatory measured at fair value (refer to business model assessment and contractual cash flow assessment in this chapter below).

Adoption of new standards, interpretations and amendments

There are no new standards, interpretations or amendments adopted that have an impact on the financial statements.

Issued but not yet adopted standards

The Programme has assessed the issued but not yet adopted standards and does not expect them to have an impact on the financial statements.

Significant estimates, assumptions and judgements

In preparing the annual accounts in conformity with IFRS, management is required to make estimates and assumptions affecting reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment is inherent to the formation of estimates. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from such estimates and the differences may be material to the annual accounts. The most relevant estimates and assumptions relate to:

- The determination of the fair value of financial instruments based on generally accepted modeled valuation techniques;
- The determination of the ECL allowance for loans to private sector, loans commitments.

Information about judgements made in applying accounting policies are related to the following:

- Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payments of principal and interest;
- The inputs and calibration of the ECL model which include the various formulas and the choice of inputs, aging criteria and forward-looking information;

Foreign Currency translation

The programme's annual accounts are stated in US Dollar(US$), which is the presentation and functional currency. All amounts are denominated in thousands of US$ unless stated otherwise. In accordance with IAS 21, foreign currency transactions are translated to US$ at the exchange rate prevailing on the date of the transaction. At the balance sheet date, monetary assets and liabilities are reported using the closing exchange rate. Non-monetary assets that are not measured at cost denominated in foreign currencies are reported using the exchange rate that existed when fair values were determined. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the profit and loss account under 'results from financial transactions'.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Fair value of financial instruments

Fair value is the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the fair value of an instrument is measured by using the quoted price in an active market for that instrument. If there is no quoted price in an active market, valuation techniques are used that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Amortized cost and gross carrying amount

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

The *gross carrying amount* of a financial asset is the AC of a financial asset before adjusting for any expected credit loss allowance.

Assets

Financial assets – Classification

On initial recognition, a financial asset is classified as measured at amortized cost (AC), fair value through P&L (FVPL) or fair value through other comprehensive income (FVOCI).

A financial asset is measured at AC if it meets both of the following conditions and is not classified as at FVPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not measured at FVPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

For equity investments that are not held for trading an irrevocable election exists (on an instrument-by-instrument basis) to present subsequent changes in fair value in OCI

All financial assets not measured at AC or FVOCI as described above are measured at FVPL. In addition, on initial recognition the programme may irrevocably designate a financial asset that otherwise meets the requirements to be measured at AC or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Transaction costs related to financial assets, not measured at FVPL, are directly added to its fair value for initial recognition and therefore attributed directly to its acquisition.

Business model assessment

The programme has made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that is considered includes:

- How the performance of the portfolio is evaluated and reported to management of the programme;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the programme stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets whose performance is based on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Contractual cashflow assessment

For the purpose of the contractual cash flow assessment, related to solely payments of principal and interest (SPPI), 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the programme has considered the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the programme has considered among others:

- Contingent events that would change the amount and timing of cash flows – e.g. prepayment and extension features, loans with performance related cash flows;
- Features that modify the consideration for the time value of money – e.g. regulated interest rates, periodic reset of interest rates;
- Loans with convertibility and prepayment features;
- Terms that limit the programme's claim to cash flows from specified assets – e.g. non-recourse assets;
- Contractually linked instruments.

Reclassification

Financial assets can be only reclassified after initial recognition in very infrequent instances. This happens if the business model for managing financial assets has changed and this change is significant to the programme's operations.

Financial assets – Impairment

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

- Banks;
- Loans;
- Loan commitments.

No impairment loss is recognized on equity investments.

Impairment stages: loans and banks

The programme groups its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are first recognized, an allowance is recognized based on a 12-month expected credit loss;
- Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, an allowance is recorded for the lifetime expected credit loss;
- Stage 3 –Credit-impaired loans: a lifetime expected credit loss is recognized for these loans. In addition, in Stage 3, interest income is accrued on the AC of the loan net of allowances;

ECL measurement

The programme's ECL model is primarily an expert based model and this model is frequently benchmarked with other external sources if possible.

ECL measurement Stage 1 and Stage 2

IFRS 9 ECL allowance reflects unbiased, probability-weighted estimates based on loss expectations resulting from default events over either a maximum 12-month period from the reporting date or the remaining life of a financial instrument. The method used to calculate the ECL allowances for Stage 1 and Stage 2 assets are based on the following parameters:

- PD: the Probability of Default is an estimate of the likelihood of default over a given time horizon. The programme uses a scorecard model based on quantitative and qualitative indicators to determine PDs. The output of the scorecard model is mapped to the Moody's PD master scale based on idealized default rates. A point in time adjustment is made to these PDs using a z-factor approach to account for the business cycle;
- EAD: the Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, scheduled by contract or otherwise, expected drawdowns and accrued interest from missed payments;
- LGD: the Loss Given Default is an estimate of the programme's loss arising in the case of a default at a given time. It is based on the difference between the contractual cash flows due and any future cashflows or collateral that the programme would expect to receive;
- Z-factor: the Z-factor is a correction factor to adjust the client PDs for current and expected future conditions. The Z-factor adjusts the current PD and PD two years into the future. GDP growth rates per country from the IMF, both current and forecasted, are used as the macro-economic driver to determine where each country is in the business cycle. Client PDs are subsequently adjusted upward or downward based on the country where they are operating.

Macro economic scenarios in PD estimates
In addition to the country-specific Z-factor adjustments to PD, the programme applies probability-weighed scenarios to calculate final PD estimates in the ECL model. The scenarios are applied globally, and are based on the vulnerability of emerging markets to prolonged economic downturn. The scenarios and their impact are based on IMF data and research along with historical default data in emerging markets

The three scenarios applied are:

- Positive scenario: Reduced vulnerability to an emerging market economic downturn;
- Base scenario: Vulnerability and accompanying losses based on the programme's best estimate from risk models;
- Downturn scenario: Elevated vulnerability to an emerging market economic downturn.

ECL measurement Stage 3
The calculation of the expected loss for Stage 3 is different when compared to the Stage 1 and Stage 2 calculation. Reason for this is that loan-specific impairments provide a better estimate for Stage 3 loans in the programme's diversified loan portfolio. The following steps are taken which serve as input for the Investment Review Committee (IRC) to decide about the specific impairment level:

- Calculate probability weighted expected loss based on multiple scenarios including return to performing (and projected cash flows), restructuring, and write-off or sale;
- Based on these probability weights, a discount curve is generated and the discounted cashflow (DCF) model is used to determine the percentage to be applied on the outstanding amount of a loan;
- Take expected cash flows arising from liquidation processes and "firm offers" into account. The cashflows from "firm offers" serve as a cap for the provision (or a floor for the value of the loan).

Staging criteria and triggers
Financial instruments classified as low credit risk
The programme considers all financial instruments with an investment grade rating (BBB- or better on the S&P scale or F10 or better on programme's internal scale) to be classified as low credit risk. For these instruments, the low credit risk exemption is applied and irrespective of the change of credit risk (as long as it remains investment grade) a lifetime expected credit loss will not be recognized. This exemption lowers the monitoring requirements and reduces operational costs. This exemption is applied for 'Current Accounts with FMO'.

No material significant increase in credit risk since origination (Stage 1)
All loans which have not had a significant increase in credit risk since contract origination are allocated to Stage 1 with an ECL allowance recognized equal to the expected credit loss over the next 12 months. The interest revenue of these assets is based on the gross amount

Significant increase in credit risk (Stage 2)
IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognized based on their lifetime ECLs. The programme considers whether there has been a significant increase in credit risk of an asset by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. Interest revenue for these financial assets is based on the gross amount. This assessment is based on either one of the following items:

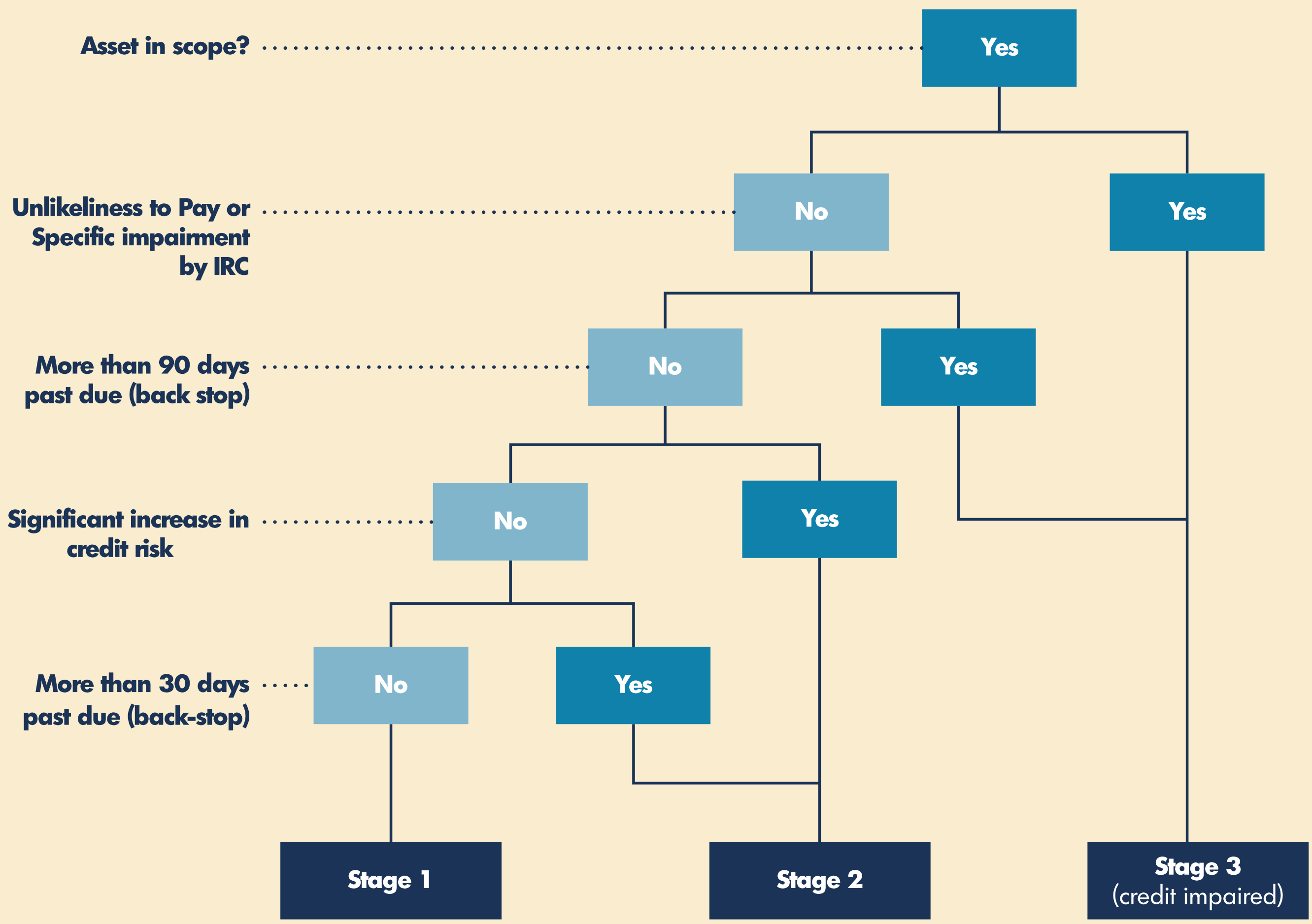
- The fact that an early warning signal has triggered financial difficulty following a transfer to the watchlist;

- The fact that the financial asset is 30 days past due or more on any material obligation to the programme, including fees and excluding on charge expenses (unless reasonable information and supportable information is available demonstrating that the client can service its debt).

Definition of default (Stage 3)
A financial asset is considered as default when any of the following occurs:

- The client is past due more than 90 days on any material obligation to the programme, including fees (excluding on-charged expenses);
- The programme judges that the client is unlikely to pay its credit obligation to the programme due to occurrence of credit risk deterioration and the IRC decides on a specific impairment on individual basis. The triggers for deciding on specific impairment include among others bankruptcy, days of past due, central bank intervention, distressed restructuring or any material adverse change or development that is likely to result in a diminished recovery of debt;

The following diagram provides a high level overview of the IFRS 9 impairment approach at the programme.



Reversed staging
Reversed staging relates to criteria which trigger a stage transfer to Stage 1 for loans which are in Stage 3 or Stage 2. The following conditions must apply for a transfer to stages representing lower risk:

- Loans in Stage 2 will only revert to Stage 1 when there is no indication of financial difficulty and the exposure is removed from the watchlist, the regulatory forbearance probation period of minimum two years has passed and no material amounts are past due for more than 30 days.
- Loans in Stage 3 will revert to Stage 2 when the specific impairment is released by the IRC and there are no obligations past due for more than 90 days.

Written-off financial assets

A write-off is made when a claim is deemed non-collectible, when the programme has no reasonable prospects of recovery after, among others, enforcement of collateral or legal enforcement with means of lawsuits. Furthermore, a write-off is performed when the loan is being forgiven by the programme. There are no automatic triggers, which would lead to a write-off of the loan; specific impaired loans are assessed on individual basis depending on their circumstances. Generally when the impairment percentage exceeds 95%, the IRC is advised to consider a write-off.

Write-offs are charged against previously booked impairments. If no specific impairment is recorded on basis of IRC decision making from the past, the write-off is included directly in the profit and loss account under ‘Impairments’.

Modification of financial assets

The Program has defined specific events-based triggers, related to the type of restructuring being carried out in order to determine whether a specific change in contractual terms gives rise to derecognition or modification, instead of relying only on a quantitative threshold related to differences in net present value (NPV).

Modification of terms and conditions arise from lending operations where the programme enters into arrangements with clients, which implies modifications to existing contractual cash flows or terms and conditions. Such arrangements are usually initiated by the programme when financial difficulty occurs or is expected with a borrower. The purpose of such an arrangement is usually to collect original debt over different terms and conditions from the borrower. Modifications may include extending the tenor, changing interest rate percentages or their timing, or changing of interest margin.

During the modification assessment, the programme will evaluate whether the modification event leads to a derecognition of the asset or to a modification accounting treatment. Generally loans that are sold to a third party or are written off lead to a derecognition. When existing debt is converted into equity, a derecognition of the debt will occur and recognized again on the balance sheet as equity. For modifications in interest percentages or tenor changes of existing amortized cost loans do not pass the SPPI test, the loan will also be derecognised and will be recognised as new loans on the programme's balance sheet according to the new classification.

When modification measures relate to changes in interest percentages or extensions of tenors and the loan is at amortized cost, the programme will recalculate the gross carrying amount of the financial asset by discounting the modified expected cash flows using the original effective interest rate and recognizes the difference in the gross carrying amount as a modification gain or loss. However when the NPV of the original loan is substantially different than the NPV of the modified loan, the original loan is derecognized and rerecognized on the balance sheet. The gain or loss following from the derecognition is recognized in line item 'gains and losses due to derecognition'. The programme considers a variance of greater than 10% as substantially different.

Modification of contractual terms versus forbearance

Forbearance is not an IFRS term, but relates to arrangements with clients which imply modifications to cashflows or modification to existing terms and conditions due to financial difficulties of the client. Financial difficulties include, among others, prospects of bankruptcy or central bank intervention. Forbearance must include concessions to the borrower such as release of securities or changes in payment covenants that implies giving away payment rights. Forbearance measures do not necessarily lead to changes in contractual cash flows (e.g. waiver of specific covenant breaches).

Theoretically modification of contractual cash flows or terms and conditions, does not necessarily apply to clients in financial difficulties or performed due to potential higher credit risk. However for the programme, a modification of the contractual terms is usually initiated when financial difficulty occurs or is expected. Therefore only in exceptional cases, changes in modifications of contractual terms not following from credit risk related triggers, will not lead to forbearance e.g. in case of an environmental covenant breach. For the programme, generally modifications will follow from financial difficulties of the borrower and will be classified as forborne assets.

Cash and cash equivalents

Cash and cash equivalents consist of banks, current account maintained with FMO and short-term deposits that usually mature in less than three months from the date of acquisition. Short-term deposits are consist of money market funds which are measured at FVPL. These financial instruments are very liquid with high credit rating and which are subject to an insignificant risk of changes in fair value. There is no restriction on these financial instruments and the programme has on demand full access to the carrying amounts.

Loans

Loans originated by the programme include loans to the private sector in developing countries for the account and risk of the programme.

Loans on the balance sheet of the programme include:

- Loans measured at AC which comply with the classification requirements for AC as indicated in the section Financial assets – classification. These loans are initially measured at cost, which is the fair value of the consideration paid, net of transaction costs incurred. Subsequently, the loans are measured at AC using the effective interest rate method.
- Loans mandatory measured at FVPL which do not comply with the classification requirements for AC as indicated in the section Financial assets – classification. These are measured at fair value with changes recognized immediately in profit and loss.

Equity investments

Equity investments on the balance sheet of the programme include:

- Equity investments are measured at FVPL. The programme has a long-term view on these equity investments, usually selling its stake within a period of 5 to 10 years. Therefore these investments are not held for trading and are measured at fair value with changes recognized immediately in profit and loss;
- Equity investments designated as at FVOCI. The designation is made, since these are held for long-term strategic purposes. These investments are measured at fair value. Dividends are recognized as income in profit and loss unless the dividend clearly represents a recovery part of the cost of the investment. Other net gains and losses are recognized in the fair value reserve (OCI) and are never reclassified to profit and loss.

Provisions

Provisions line item include ECL impairments for loan commitments (for ECL methodology, refer to the Impairment section above).

Contributed Capital

The contributed capital contains the subsidies provided by the UK government to finance the portfolio of loans and equity investments.

The capital is revolvable when the current value of assets is equivalent or the sum of the capital put into the programme by the funding party.

Undistributed results previous years

The undistributed results consist of the part of the annual results that the programme is accumulating to maintain the recoverability of the programme.

Profit and Loss

Net interest income: interest income and expense

Interest income and interest expenses from financial instruments measured at AC are recognized in the profit and loss account for all interest-bearing financial instruments on an accrual basis using the 'effective interest' method based on the fair value at inception. Interest income and interest expenses also include amortized discounts, premiums on financial instruments and interest related to derivatives.

When a financial asset measured at AC is credit-impaired and regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net AC of the financial asset. If the financial asset is no longer credit-impaired, the calculation of interest income reverts to the gross basis.

Interest income and interest expenses from financial instruments measured at FVPL reflect fair value gains and losses mainly related to short-term deposits. Moreover, interest income from loans measured at FVPL are also recognized under 'Interest income from financial instruments measured at FVPL.

Fee and commission income and expense

The programme earns fees from a diverse range of services. The revenue recognition for financial service fees depends on the purpose for which the fees are charged and the basis of accounting for the associated financial instrument. Fees that are part of a financial instrument carried at fair value are recognized in the profit and loss account. Fee income that is part of a financial instrument carried at AC can be divided into three categories:

- *Fees that are an integral part of the effective interest rate of a financial instrument (IFRS 9)*
  These fees (such as front-end fees) are generally treated as an adjustment to the effective interest rate. When the facility is not used and the commitment period expires, the fee is recognized at the moment of expiration. However, when the financial instrument is to be measured at fair value subsequent to its initial recognition, the fees are recognized as interest-income;
- *Fees earned when services are provided (IFRS 15)*
  Fees charged by the programme for servicing a loan (such as administration fees and agency fees) are recognized as revenue when the services are provided. Portfolio and other management advisory and service fees are recognized in line with the periods and the agreed services of the applicable service contracts;
- *Fees that are earned on the execution of a significant act (IFRS 15)*
  These fees (such as arrangement fees) are recognized as revenue when the significant act has been completed.

Dividend income

Dividends are recognized in dividend income when a dividend is declared. The dividend receivable is recorded at declaration date.

Results from equity investments

Gains and losses in valuation of the equity investment portfolio are recognized under 'Results from equity investments'. These gains and losses include foreign exchange results of equity investments which are measured at fair value.

Results from financial transactions

Results from financial transactions include foreign exchange results (excluding foreign exchange results related to equity investments measured at fair value), valuation gains driven by changes in the market. Furthermore, the valuation gains and losses related to loans measured at fair value are recognized in the profit and loss immediately under 'Results from financial transactions.

Capacity development expenses and contributions

Development contributions to recipients are recognized as an expense in the profit and loss account when the programme incurs an irrevocable obligation to disburse the amount. Development contributions which contain repayment rights which meet the recognition criteria of an asset are treated in accordance with the policy on financial assets described above. Development contributions which do not contain a right to payment that meets the asset recognition criteria are recognized as an expense in the profit and loss account when the programme incurs an irrevocable obligation to disburse the amount.

Statement of cash flows

The statement of cash flows from operations are presented using the direct method.

Taxation

The programme is not subject to income tax in the UK. As a result there are not any tax related balances presented in the annual accounts.

Notes to the annual accounts

1. Banks

	2022	2021
Banks	6,671	5,743
Balance at December 31	**6,671**	**5,743**

The cash on bank accounts can be freely disposed of. The bank account is held by FMO on behalf of the programme.

2. Short-term deposits

Short-term deposits are very liquid accounts with high credit ratings and are subject to an insignificant risk of changes in fair value. The programme has on demand full access to the carrying amounts.

	2022	2021
Short Term Deposits	99,000	59,000
Balance at December 31	**99,000**	**59,000**

3. Loan portfolio

Loans originated by the Program include loans to the private sector in developing countries for the account and risk of the Program.

	Loan portfolio measured at FVPL	Total 2022
Balance at January 1	-	-
Disbursements	17,500	17,500
Changes in accrued income	60	60
Balance at December 31	**17,560**	**17,560**

4. Other receivables

	2022	2021
Fee receivables	31	-
Balance at December 31	**31**	**-**

5. Current account with FMO

	2022	2021
Current account with FMO	776	475
Balance at December 31	**776**	**475**

The current account which can be freely disposed of.

6. Accrued liabilities

	2022	2021
Accrued liabilities	4,381	-
Balance at December 31	**4,381**	**-**

7. Provisions

	2022	2021
Allowance for loan commitments	28	-
Balance at December 31	**28**	**-**

8. Other liabilities

	2022	2021
Unearned front end fees	30	-
Balance at December 31	**30**	**-**

9. Total capital

	2022	2021
Balance at January 1	**67,038**	-
Contribution BEIS current year	60,986	67,038
Balance at December 31	**128,024**	**67,038**

10. Net interest income

	2022	2021
Interest on loans measured at AC	1	-
Total interest income from financial instruments measured at AC	**1**	**-**
Total on loans measured at FVPL	185	-
Interest on short-term deposits	1,355	3
Total interest income from financial instruments measured at FVPL	**1,540**	**3**
Total interest expenses	**-**	**-**
Total net interest income	**1,541**	**3**

11. Off-Balance Sheet information

To meet the financial needs of borrowers, the programme enters into various irrevocable commitments (loan commitments, equity commitments). Though these obligations are not recognized on the balance sheet, they do obtain Credit Risk similar to the loan portfolio. Therefore, provisions are calculated for commitments of AC loans according to the ECL measurement methodology.

Nominal amounts for irrevocable facilities are as follows:

Irrevocable facilities	2022	2021
Contractual commitments for disbursements of:		
Loans	18,750	33,250
Total irrevocable facilities	**18,750**	**33,250**

12. Analysis of financial assets and liabilities by measurement basis

The significant accounting policies summary describes how financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized. The following table gives a breakdown of the carrying amounts of the financial assets and financial liabilities by category as defined by balance sheet heading.

December 31, 2022	FVPL - mandatory	Amortized cost	Total
Financial assets measured at fair value			
Short-term deposits	99,000	-	99,000
Loan portfolio	17,560	-	17,560
Total	**116,560**	**-**	**116,560**
Financial assets not measured at fair value			
Banks	-	6,671	6,671
Loan portfolio	-	-	-
Total	**-**	**6,671**	**6,671**
Financial liabilities not measured at fair value			
Current accounts	-	-766	-766
Total	**-**	**-766**	**-766**

December 31, 2021	FVPL - mandatory	Amortized cost	Total
Financial assets measured at fair value			
Short-term deposits	59,000	-	59,000
Total	**59,000**	**-**	**59,000**
Financial assets not measured at fair value			
Banks	-	5,743	5,743
Total	**-**	**5,743**	**5,743**
Financial liabilities not measured at fair value			
Current accounts	-	475	475
Total	**-**	**475**	**475**

Fair value of financial assets and liabilities

Fair value hierarchy

All financial instruments for which fair value is recognized or disclosed are categorized within the fair value hierarchy, based on lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 – Valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable.

Valuation processes

For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the Fund has a valuation process in place to decide its valuation policies and procedures and analyze changes in fair value measurement from period to period.

The Fund's fair value methodology and governance over its methods includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. The responsibility of ongoing measurement resides with the relevant departments. Once submitted, fair value estimates are also reviewed and challenged by the Investment Review Committee (IRC). The IRC approves the fair values measured including the valuation techniques and other significant input parameters used

Valuation techniques

When available, the fair value of an instrument is measured by using the quoted price in an active market for that instrument (level 1). A market is regarded as active if transactions of the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, valuation techniques are used that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Valuation techniques include:

- Recent broker / price quotations
- Discounted cash flow model
- Option-pricing models

The techniques incorporate current market and contractual prices, time to expiry, yield curves and volatility of the underlying instrument. Inputs used in pricing models are market observable (level 2) or are not market observable (level 3). A substantial part of fair value (level 3) is based on net asset values.

The table below presents the carrying value and estimated fair value of non fair value financial assets and liabilities.

	2022		2021	
At December 31	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Banks	6,671	6,671	5,743	5,743
Total non fair value financial assets	**6,671**	**6,671**	**5,743**	**5,743**

The following table gives an overview of the financial instruments measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

December 31, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Short term deposits	99,000	-	-	99,000
Loans to the private sector	-	-	17,560	17,560
Total financial assets at fair value	**99,000**	**-**	**17,560**	**116,560**

December 31, 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Short term deposits	59,000	-	-	59,000
Loans to the private sector	-	-	-	-
Total financial assets at fair value	**59,000**	**-**	**-**	**59,000**

The following table shows the movements of financial assets measured at fair value based on level 3.

	Loans portfolio	**Total**
Balance at January 1, 2022	-	-
Disbursements	17,500	17,500
Changes in accrued income	60	60
Balance at December 31, 2022	**17,560**	**17,560**

Type of debt investment	**Fair value at December 31, 2022**	**Valuation technique**	**Range (weighted average) of significant unobservable inputs**	**Fair value measurement sensitivity to unobservable inputs**
Debt Funds	17,560	Net Asset Value	n/a	n/a
Total	**17,560**			

13. Related party information

The programme defines the UK Government, FMO and its Management Board and Supervisory Board as related parties.

UK Government

The Department for Business, Energy and Industrial Strategy (BEIS) of the UK Government has set up the MFF programme. BEIS is the main contributor to MFF, providing funding upon FMO's request (2022: $128.0 million; 2021: $67.0 million).

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("FMO")

The Dutch development bank FMO supports sustainable private sector growth in developing and emerging markets by leveraging its expertise in agribusiness, food & water, energy, financial institutions and Dutch business focus areas to invest in impactful businesses. FMO is a public-private partnership, with 51% of FMO's shares held by the Dutch State and 49% held by commercial banks, trade unions and other members of the private sector. FMO has a triple A rating from both Fitch and Standard & Poor's.

FMO has been entrusted by the Dutch Government to execute the mandates of several Dutch Government Funds and by the UK Government to execute the mandate of MFF. Currently MASSIF, Building Prospects, Access to Energy – I, FOM, FOM-OS, the Land Use Facility (of the Dutch Fund for Climate and Development, DFCD) and MFF are under FMO's direct management; the execution of Access to Energy – II and the other facilities of DFCD are performed by third parties on behalf of FMO.

FMO charges a management fee to BEIS and it is reimbursed accordingly from the subsidy amount of MFF. The management fee amounts up to $3.0 million in 2022 (2021: $2.8 million).

14. Subsequent events

There has been no significant subsequent event between the balance sheet date and the date of approval of these accounts which should be reported by the programme.

Risk management

Organization of risk management

For FMO, acting in its role as Programme manager (hereafter 'FMO') to be able to carry out the programme's strategy, it is essential to have an adequate risk management system in place to identify, measure, monitor and mitigate financial and non- financial risks. MFF (hereafter 'the programme') has a pre-defined risk appetite translated into limits for group, customer, country, region and currencies exposures. Limit usages are monitored on a monthly basis and for each proposed transaction.

The Programme manager reviews each transaction and provides consent to eligible proposals. The Investment Committee, comprising of senior representatives of several departments, reviews financing proposals for new transactions. Each financing proposal is assessed in terms of specific counterparty, product risk as well as country risk. All financing proposals are accompanied by the advice of the Credit department. This department is responsible for credit risk assessment of both new transactions and the existing portfolio. For small exposures, Credit department has the authority to review new transactions.

In addition, financial exposures in emerging markets are subject to a periodic review, which are in general executed annually. Exposures that require specific attention are reviewed by the Investment Review Committee (IRC). The larger and higher risk exposures are accompanied by the advice of the Credit department. If the Investment Review Committee concludes that a customer has difficulty in meeting its payment obligations, the customer is transferred to the Special Operations department – responsible for the management of distressed assets – where it is intensely monitored.

Financial risk

Credit risk

Credit risk is defined as the risk that the programme will suffer economic loss because a counterparty cannot fulfil its financial or other contractual obligations arising from a financial contract. Credit risk is the main risk within the programme and occurs in two areas of its operations: (i) credit risk in investments in emerging markets and off-balance instruments such as loan commitments; and (ii) credit risk in the treasury portfolio, only consisting of bank accounts and money market instruments.

Credit Risk management is very important at FMO, both in the context of project selection and project monitoring. In this process, a set of investment criteria per sector and product is used that reflects minimum standards for the required financial strength of FMO's customers. This is further supported by credit risk models that are used for risk quantification, calculations of expected credit loss allowance, and the determination of economic capital use per transaction. Funding decisions depend on the risk profile of the customer and financing instrument. For credit monitoring, FMO's customer are subject to annual reviews at a minimum. FMO also monitors customers that are identified due to financial difficulties through a Watch List process to proactively manage loans before they become non-performing. For distressed assets, the Special Operations department actively manages workout and restructuring.

FMO has embarked on an overhaul of its credit risk policy and processes. The objective is to implement a more aligned and effective portfolio management framework across the organization. Implementation has started in 2021 via the Investment Risk Project, which will continue further in 2023.

Credit quality analysis

In addition to on balance loans, irrevocable facilities (off-balance) represent commitments to extend finance to customers and consist of contracts signed but not disbursed yet which are usually not immediately and fully drawn.

Maximum exposure to credit risk

	2022	2021
On balance		
Banks	6,671	5,743
Short-term deposits	99,000	59,000
Loans to the private sector:		
- of which: at Amortized Cost	-	-
- of which: at Fair value through profit or loss	17,560	-
Other receivables	31	-
Total on-balance	**123,262**	**64,743**
Off-balance		
Irrevocable facilities	18,750	33,250
Total off-balance	**18,750**	**33,250**
Total credit risk exposure	**141,982**	**97,993**

The following tables provide insights in the credit risk allocation of loan portfolio and loan commitments according to internal ratings.

Loan portfolio at December 31, 2022 Indicative counterparty credit rating scale of S&P	**Stage 1**	**Stage 2**	**Stage 3**	**Fair Value**	**Total**
F1-F10 (BBB- and higher)	-	-	-	-	-
F11-F13 (BB-,BB,BB+)	-	-	-	17,560	17,560
F14-F16 (B-,B,B+)	-	-	-	-	-
F17 and lower (CCC+ and lower)	-	-	-	-	-
Sub-total	**-**	**-**	**-**	**17,560**	**17,560**
Less: amortizable fees	-	-	-	-	-
Less: ECL allowance	-	-	-	-	-
Plus: Fair value adjustments	-	-	-	-	-
Carrying value	**-**	**-**	**-**	**17,560**	**17,560**

Loan commitments at December 31, 2022 Indicative counterparty credit rating scale of S&P	**Stage 1**	**Stage 2**	**Stage 3**	**Other [1)]**	**Total**
F1-F10 (BBB- and higher)	-	-	-	-	-
F11-F13 (BB-,BB,BB+)	-	-	-	15,750	15,750
F14-F16 (B-,B,B+)	3,000	-	-	-	3,000
F17 and lower (CCC+ and lower)	-	-	-	-	-
Sub-total	**3,000**	**-**	**-**	**15,750**	**18,750**
Less: ECL allowance	-28	-	-	-	-28
Carrying value	**2,972**	**-**	**-**	**15,750**	**18,722**

Loan commitments at December 31, 2021 Indicative counterparty credit rating scale of S&P	**Stage 1**	**Stage 2**	**Stage 3**	**Other [1)]**	**Total**
F1-F10 (BBB- and higher)	-	-	-	-	-
F11-F13 (BB-,BB,BB+)	-	-	-	33,250	33,250
F14-F16 (B-,B,B+)	-	-	-	-	-
F17 and lower (CCC+ and lower)	-	-	-	-	-
Sub-total	**-**	**-**	**-**	**33,250**	**33,250**
Less: ECL allowance	-	-	-	-	-
Carrying value	**-**	**-**	**-**	**33,250**	**33,250**

1 Other loan commitments consist of transactions for which no ECL is calculated.

Concentration risk

Country risk

Country risk arises from country-specific events that adversely impact the Programme’s exposure in a specific country. Within FMO, country risk is broadly defined. It includes all relevant factors that have a common impact on the Programme’s portfolio in a country such as economic, banking and currency crises, sovereign default and political risk events. The assessment of the country rating is based on a benchmark of external rating agencies and other external information.

The level of the country limits depends on the sovereign rating. FMO recognizes that the impact of country risk differs across the financial products it offers.

Single and group risk exposures

In the programme risk appetite, the maximum customer exposure for MFF is set at 40% aggregated of funds.

Counterparty credit risk

Credit risk in the treasury portfolio stems from bank account holdings and placements in money market instruments to manage the liquidity in the programme. The Risk department approves each obligor to which the programme is exposed through its treasury activities and sets a maximum limit for the credit exposure of that obligor. Depending on the obligor’s short and long-term rating, limits are set for the total and long-term exposure. The programme pursues a conservative investment policy.

Liquidity risk

Liquidity risk is the risk of not being able to fulfil the financial obligations and meet financial commitments due to insufficient availability of liquid means. The programme aims to maintain adequate liquidity buffers, enough to support the implementation of the Programme’s development agenda and impact objectives while avoiding putting pressure on UK Government subsidy budget allocated to the programme. To realize this ambition, the programme benefits from the experience of FMO’s treasury and risk management functions in managing the liquidity risk, which primarily involves periodical forecasting of the programme's liquidity position under normal and stress scenarios. During these periodical exercises, the assumptions underlying the liquidity model are reviewed and changes in expected cashflows, stemming from updated portfolio management strategies and changes in the programme's operating environment, are reflected on the said assumptions. As a result of the forecasting activity, the predicted liquidity shortfall is avoided through arrangements in investments portfolio.

Market risk

Market risk can be divided into interest rate risk and currency risk.

Interest rate risk

Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Changing interest rates mainly have an effect on the fair value of fixed interest balance sheet items. Given the balance sheet and capital structure of the programme interest rate risks are considered limited.

Interest re-pricing characteristics

December 31, 2022	<3 months	>5 years	Non-interest-bearing	Total
Assets				
Banks	6,671	-	-	6,671
Short-term deposits	99,000	-	-	99,000
Loan portfolio	-	-	-	-
- of which: at Amortized Cost	-	-	-	-
- of which: at Fair value through profit or loss	-	17,560	-	17,560
Other receivables	-	-	31	31
Total assets	**105,671**	**17,560**	**31**	**123,262**
Liabilities and capital				
Current accounts with FMO	776	-	-	776
Accrued liabilities	-	-	4,381	4,381
Provisions	-	-	28	28
Other liabilities	30	-	-	30
Fund capital	-	-	118,047	118,047
Total liabilities and capital	**806**	**-**	**122,456**	**123,262**
Interest sensitivity gap 2022	**104,865**	**17,560**	**-122,425**	

Interest re-pricing characteristics

December 31, 2021	<3 months	>5 years	Non-interest-bearing	Total
Assets				
Banks	5,743	-	-	5,743
Short-term deposits	59,000	-	-	59,000
Total assets	**64,743**	**-**	**-**	**64,743**
Liabilities and capital				
Current accounts with FMO	475	-	-	475
Fund capital	-	-	64,268	64,268
Total liabilities and capital	**475**	**-**	**64,268**	**64,743**
Interest sensitivity gap 2021	**65,218**	**-**	**64,268**	

Currency risk

Currency risk is defined as the risk of having an adverse effect on the value of the programmes' financial position and future cash flows due to changes in foreign currency exchange rates. The programme offers debt, equity and guarantee instruments denominated in USD, while the main source of funding to the programme, are subsidies received from UK Government in GBP converted to USD. Due to its commitment to the implementation of the programmes' development agenda and impact objectives, the programme does not exclusively look for investments that counter-balance this currency risk exposure in its portfolio; the programme also does not use derivatives and other financial instruments to hedge against the currency risk, and avoids bearing the cost of these engineered measures. The programme does not take active positions in any currency for the purpose of making a profit.

Currency risk exposure (at carrying values)

December 31, 2022	US$	Total
Assets		
Banks	6,671	6,671
Short-term deposits	99,000	99,000
Loan portfolio		
- of which: at Amortized Cost	-	-
- of which: at Fair value through profit or loss	17,560	17,560
Other receivables	31	31
Total assets	**123,262**	**123,262**
Liabilities and capital		
Current account with FMO	776	776
Accrued liabilities	4,381	4,381
Provisions	28	28
Other liabilities	30	30
Fund capital	118,047	118,047
Total liabilities and capital	**123,262**	**123,262**
Currency sensitivity gap 2022	**-**	
Currency sensitivity gap 2022 excluding equity investments	**-**	

Currency risk exposure (at carrying values)

December 31, 2021	US$	Total
Assets		
Banks	5,743	5,743
Short-term deposits	59,000	59,000
Total assets	**64,743**	**64,743**
Liabilities and capital		
Current account with FMO	475	475
Total liabilities and capital	**475**	**475**
Currency sensitivity gap 2021	**-**	
Currency sensitivity gap 2021 excluding equity investments	**-**	

Non-financial risk

Environmental, social and governance risk

Environmental & Social (E&S) risk refers to potential adverse impacts of the programmes' investments on the environment, employees, communities, or other stakeholders. Corporate Governance (G) risks refers primarily to risk to customer business. ESG risks can lead to non-compliance with applicable regulation, NGO and press attention or reputation damage. These risks stem from the nature of the programmes' projects in difficult markets, where regulations on ESG are less institutionalized.

The programme has an appetite for managed risk in portfolio, accepting ESG performance below standards when starting to work with a customer, with the goal that performance is brought in line with our ESG risk mitigation requirements within a credible and reasonable period. ESG risks are mitigated through environmental and social action plans and monitoring. The risk appetite for deviations from the exclusion list and human rights violations is zero.

As part of the investment process, all customers are screened on ESG risk and categorizes them according to the ESG risk that their activities represent. FMO assesses in detail customers with a high ESG risk category to identify ESG impact and risks and to assess the quality of existing risk management and mitigation measures. Due diligence also includes an analysis of contextual and human rights risk. In case of gaps in ESG risk management, FMO works with customers to develop and implement an Action Plan to avoid adverse ESG impacts and/or to improve ESG risk management over time. Key ESG risk items are tracked during the tenor of the engagement. FMO’s ESG risk management support to customers is an important part of development impact ambitions.

In addition, for customers with a high ESG category, FMO monitors customer performance on key ESG risk themes (against the IFC Performance Standards) using the ESG Performance Tracker (ESG-PT). The ESG-PT keeps track of key ESG risks and customer performance level, enabling FMO to have a portfolio-wide view of its ESG risks.

Compliance risk

Compliance Risk is the risk of failure to comply with laws, regulations, rules, related self-regulatory organization, standards and codes of conduct applicable to FMO's services and activities.

Definition

FMO's standards and policies and good business practices foster acting with integrity. FMO is committed to its employees, customers, and counterparties, adhering to high ethical standards. FMO has a compliance framework that entails identifying risks, designing policies, monitoring, training, and providing advice. FMO has policies on topics such as financial economic crime (including KYC, sanctions, anti-bribery, and corruption and transaction monitoring and unusual transaction reporting), conflicts of interest, anti-fraud, private investments, protection of personal data and speak-up.
FMO also regularly trains its employees to raise awareness through virtual classroom trainings and mandatory compliance related e-learnings. Employees are also encouraged to speak up in case of suspected integrity violations conducted by an FMO employee. Management is periodically informed via the Compliance Committee or when required on an ad-hoc basis, on integrity related matters at customer or employee level. In case of signals of violations, e.g., money laundering, fraud or corruption, Management will take appropriate actions.

The governance of compliance also entails the following key risks:

Financial Economic Crime, incl. sanctions

FMO's financial economic crime procedures include, amongst others, screening of customers on compliance with applicable anti-money laundering, counter financing of terrorism and international sanctions laws and regulations. Due diligence is performed on customers, which includes checks such as identifying and verifying the ultimate beneficial owners of the customer we finance, identifying politically exposed persons, and screening against relevant international sanctions lists. These checks are also performed regularly during the relationship with existing customers.

There is always a risk that a customer is involved or alleged to be involved in illicit acts (e.g. money laundering, fraud or corruption). If such an event occurs, FMO will initiate a dialogue with the customer, if possible and appropriate given the circumstances, to understand the background in order to be able to assess and investigate the severity. When FMO is of the opinion that there is a breach of law that cannot be remedied or that no improvement by the customer will be achieved (e.g. awareness, implementing controls) or that the risk to FMO's reputation is unacceptably high, FMO may be able to exercise certain remedies under the contract such as the right to cancel a loan or suspend upcoming disbursements and will report to regulatory authorities if deemed necessary.

In 2021, FMO completed its financial economic crime (FEC) enhancement project. This included an extensive Know Your Customer (KYC) file remediation, tailored to the specific requirements of developing and emerging economies. The external validation, which was overall positive, identified several recommendations that FMO has followed up in 2022. For certain compliance themes, such as anti-bribery and corruption, as well as sanctions and unusual transactions, awareness sessions (refreshers) were organized with targeted front-office departments.

We are determined to continue to improve in the regulatory domain and to ensure that the changes we implement are tailored to the day-to-day realities and complexities of the markets we are active in.

General Data Protection Act (GDPR)

In 2021, FMO started a project to further develop a data privacy framework and raise privacy awareness within the organization. The project is almost completed and has delivered several essential privacy improvements. A GDPR eLearning for all employees was rolled out to ensure the necessary knowledge within the organization. Next to that the privacy governance is strengthened in the organization by appointing a Data Protection Officer (DPO). The DPO conducts privacy assessments in new projects and initiatives, gives advice on reducing privacy risks and monitors FMO's privacy compliance.

Sanctions

Several additional measures have been taken since the start of 2022 in relation to sanctions involving Russia, Belarus and Myanmar to ensure FMO's funds are not directly or indirectly provided to sanctioned parties. These measures include, setting up of a Sanctions Working Group, increased frequency of adverse news screenings and communication with customers in the affected regions and industries. In August 2022, FMO received a request from DNB to participate in an industry-wide investigation on the effectiveness of its sanctions screening system (transaction screening and customer screening).

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks, excluding strategic risks. Operational risks are not actively sought and have no direct material upside in terms of return/income generation, yet operational risk events are inherent in operating a business. Operational risk events can result in non-compliance with applicable (internal and external) standards, losses, misstatements in the financial reports, and reputational damage.

Overall, FMO is cautious with operational risks. Safe options, with low inherent risk are preferred, despite consequence of limited rewards (or higher costs). There is no appetite for high residual risk. Risk metrics are reported on a quarterly basis. These metrics cover operational risks in general, such as the amount of loss per quarter and timely follow-up of management actions, and specific metrics for risk-(sub)types.

Management of the first line of defense is primarily responsible for managing (embedded) risks in the day-to-day business processes. The first line acts within the risk management framework and supporting guidelines defined by specialized risk functions that make up the second line of defense. Internal Audit in its role of the third line of defense provides independent assurance on the effectiveness of the first and second lines.

Departmental risk control self-assessments are conducted annually in order to identify and assess risks and corresponding controls. The strategy and business objectives are also reviewed annually by the Directors in a risk perspective. Based on among others these Risk and Control Self Assessments, the Directors sign a departmental In Control Statement at the year-end, which provides the underpinning for the management declaration in the Annual Report. Despite all preventive measures, operational risk events will occur. FMO systematically collects risk event information and analyses such events to take appropriate actions.

Independent auditor's report

To: the management board of the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

Report on the audit of the financial statements for the year ended 31 December 2022 included in the annual report

Our opinion

We have audited the financial statements for the year ended 31 December 2022 of Mobilising Finance For Forest (hereinafter: MFF or the Programme), based in The Hague.

In our opinion the accompanying financial statements give a true and fair view of the financial position of MFF as at 31 December 2022, and of its result and its cash flows for the year ended 31 December 2022 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS).

The financial statements comprise:

- The Statement of Financial Position as at 31 December 2022
- The Statement of Comprehensive Income for the year ended 31 December 2022
- The Statement of Changes in Capital
- The Statement of Cash Flows for the year ended 31 December 2022
- The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of MFF in accordance with the the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The management report
- Performance on our strategy
- International principles

Based on the following procedures performed, we conclude that the other information is consistent with the financial statements and does not contain material misstatements.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information.

Description of responsibilities regarding the financial statements

Responsibilities of management for the financial statements

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

As part of the preparation of the financial statements, management is responsible for assessing the Programme's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the Programme or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the Programme's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Programme's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding 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 the Programme'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 a Programme to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication

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

Amsterdam, 31 March 2023

Ernst & Young Accountants LLP

signed by J.G. Kolsters

Colophon

Contact details
Should you have any feedback or questions, please feel free to contact us.
Corporate Communications T +31 (0)70 314 96 96 | E info@fmo.nl | www.fmo.nl
Mailing address P.O. Box 93060 2509 AB The Hague The Netherlands
Street address Anna van Saksenlaan 71 2593 HW The Hague The Netherlands

Text
FMO N.V.

Photography
MFF Investee: Treevive B.V., www.treevive.nl/

Design
Studio Duel, www.studioduel.nl

Production
F19 Digital Reporting, www.f19.nl

FMO
Anna van Saksenlaan 71
2593 HW The Hague
The Netherlands

+31 70 314 9696
info@fmo.nl
www.fmo.nl