FMO

Entrepreneurial
Development
Bank

Mobilising Finance for Forests

Annual Report 2024

UK Government

Government of the Netherlands

FMO manages the Mobilising Finance for Forests (MFF) programme on behalf of the UK Government (DESNZ, Department for Energy Security and Net Zero) and the government of the Kingdom of the Netherlands. MFF was established in 2021 by the UK government and FMO. As of December 31, 2024, the UK government has committed £152 million to MFF. The Netherlands' Ministry of Foreign Affairs joined MFF as a second funder in 2024 with a $33.5 million commitment. In 2024 the UK government also pledged a further £48 million commitment to MFF at COP29, which is currently being reviewed.

The front and back photos are from MFF's Investee The Reforestation Fund (TRF) in Brazil. TRF is a private equity forestry fund developed to invest in Latin America, targeting marginal pasturelands for the purpose of protecting and restoring natural forests as well as planting sustainable commercial tree farms.

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

Stepping Up

At the heart of FMO's strategy lies the commitment to enable entrepreneurs to increase inclusive and sustainable prosperity. Looking back on 2024, we must acknowledge several concerning trends: rising geopolitical turmoil and weakening institutional foundations threaten global stability and solidarity, disproportionately affecting the most vulnerable people. Additionally, we are witnessing the public withdrawal of several major financial players from their climate and environmental, social and governance (ESG) commitments. In this context, FMO calls on the financial sector to remain resolute in advancing sustainable investment strategies. Financial institutions are pivotal in enabling local economic growth, reducing inequality and driving meaningful climate action, key factors in global stability. Investing in access to (green) energy, food and finance creates long-term value, something FMO has demonstrated consistently over 50 years of impactful and profitable investments.

Amidst these challenges, FMO recognizes the urgent need to step up even more. However, meaningful change cannot be achieved alone, partnerships are essential. By working together, we can drive sustainable investments, create economic opportunities in our markets, and build a more resilient, inclusive future.

The strengths of partnerships

By providing crucial financial support and mobilizing additional funding for underserved regions - in 2024 we managed to directly mobilize more than 60 cents from investors for each Euro we invested from our own balance sheet - FMO has continued to make a tangible impact. The strength of our partnerships - evident in the success of initiatives such as the SDG Loan Fund and European Commission guarantees - enable us to expand programmes like NASIRA and the FMO Ventures Program. These programmes contribute to local livelihood options for the one billion young people who will try to enter the job market over the next decade - a majority living in emerging markets. We are also grateful for the increased funding for the Dutch Fund for Climate and Development (DFCD) from the Dutch government and the European Commission, and for Mobilising Finance for Forests (MFF) from both the Dutch and UK governments.

The Netherlands' Ministry of Foreign Affairs joined MFF as a second funding partner in 2024, coming in alongside the UK Government. The additional funding MFF is receiving will enable further investments that benefit tropical forests, while also enabling us to mobilize additional private finance into this critical sector.

Looking ahead

In a volatile global landscape, FMO faces three key long-term challenges: a scarcity of investment-ready companies, limited availability of concessional funding, and increasing regulatory requirements. We remain committed to our 2030 ambitions and will increase our efforts to stay on track. We will in particular focus on RI-labeled investments, especially in LDCs and on Green investments. Crucial next steps include the Market Creation initiative, onboarding of new EFSD+ programmes and our increased cooperation with the Dutch and UK governments. As we reflect on the past year and prepare for the challenges ahead, we recognize that our achievements would not have been possible without our partners, and we extend our heartfelt gratitude to them for their trust and collaboration over the past year. We remain dedicated to deliver on the impact and trust that our partners place on us. At FMO, we believe that doing makes the difference, and that amidst the global turmoil, stepping up is a must.

The Hague, 31 March 2025

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. It is funded with a £152 million commitment from the UK government. The Netherlands' Ministry of Foreign Affairs joined MFF as a second funder in 2024 with a $33.5 million commitment. FMO was chosen as the delivery partner, and with blended finance, will mobilize 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.

The figures below provide a glance at the achievements of the MFF portfolio. The total hectares of forest under management, farmland under sustainable management and jobs supported are achievements reported by the companies and funds within the MFF portfolio. These are total figures for these funds and companies, unattributed to the size of MFF's investment.

Achievements portfolio as per 31-12-2024

Total committed portfolio

$81.45mln

7
Total investments

2
Fund Investments

1
Direct Investments

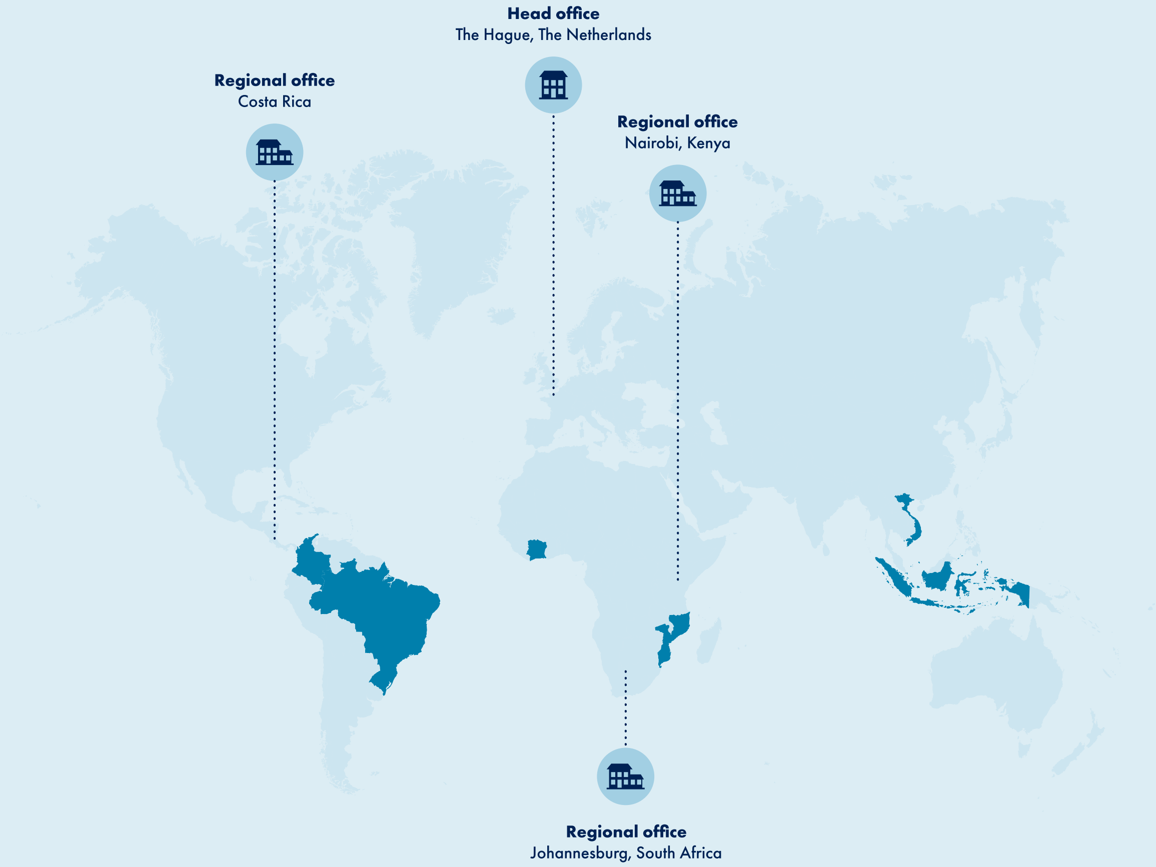
4
Development Contributions

$300+mln
Private Funding Mobilized

3,217,011
Ha Forest under management

174,669
Farmland under sustainable management

40,648
Direct Jobs



1 Countries where MFF Portfolio Companies and Funds are active.

Highlights

Mobilising Finance for Forests (MFF) is on a mission to protect and restore tropical forests by mobilizing private sector investments into sustainable forests and land use sectors. The programme was set up by FMO and the UK Government in 2021 to combat deforestation and other environmentally unsustainable land use practices contributing to global climate change.

2024 was a year of growth and progress across several dimensions. We proudly welcomed the Netherlands' Ministry of Foreign Affairs as a new funding partner, joining forces with the UK Government. This new partnership empowers MFF to expand its reach across Africa, Asia, and Latin America, and attract even more private capital into the sector. The UK Government also pledged to further increase funding for MFF at COP 29 in Baku.

A major milestone in 2024 was the $40 million commitment to The Reforestation Fund (TRF), a Latin America focused private equity strategy investing in projects that are dedicated to sustainable commercial tree farms across half the strategy's footprint, and the protection and restoration of native ecosystems across the other half. This ambitious project aims to restore 133,000 hectares of natural forest and establish sustainable commercial tree farms on an additional 133,000 hectares. Through these projects, TRF aims to protect and enhance biodiversity and create economic opportunities in rural communities. As one of the key goals of MFF is to mobilize private capital at scale, TRF was a clear demonstration of how MFF can use concessional funds to be catalytic. The investment by MFF, which took on higher risk in the structure, catalyzed over $300 million of additional capital.

The addition of TRF to the MFF portfolio strategically complements our existing investment in the &Green Fund. The &Green Fund is dedicated to financing inclusive, sustainable, and deforestation-free commodity production. By supporting sustainable food supply chains, &Green works not only to mitigate deforestation but also to contribute to food security for a growing global population. Through investing in these different approaches, MFF is demonstrating the variety of ways to invest in forests and sustainable land use while also building out a diversified portfolio.

Innovation and market development were at the forefront of MFF's efforts in 2024. We deployed several Development Contributions into pioneering business models across various geographies, to support these models in becoming bankable.

- **Amazonia Nativa** is an agroforestry/afforestation project in Colombia with the objective to afforest degraded pasture land with a mix of native timber species and acai palms.
- **Terrasos** is a pioneer in the biodiversity credit space and has successfully proven a novel business model and approach to biodiversity conservation through Habitat Banks in Colombia.
- **LevasFlor** is a fully FSC certified Natural Forest Management company, managing 46,000 Ha of natural Miombo forest in central Mozambique. LevasFlor estimates that their forest management has resulted in a 51% reduction in the deforestation rate and 41% more carbon stored per hectare, compared to current practices on surrounding forest lands.

MFF's Learning, Convening, and Influencing Platform (LCIP) is an important component of MFF as it works to support the mobilization of investment into the forests and sustainable land use (FSLU) sector by building investors' knowledge and capacity. In 2024, the LCIP organized or contributed to nine events and published four important knowledge products. We are seeing good evidence that other actors in the FSLU sector are using these knowledge products. For example, the ESG Guide for Forestry Investments has been used by various investors and donors to shape or improve their E&S policies and frameworks across their forestry portfolios, building further capacity.

Technical Assistance funding was also deployed to companies in the Republic of Congo, Indonesia, and Vietnam, helping them build capacity and become more attractive prospects for investors.

As we look ahead to 2025, with COP30 being held in Brazil, home to over 60% of the Amazon rainforest, we remain optimistic and determined. MFF is dedicated to expanding its portfolio, sharing key learnings with the market, and mobilizing more capital for the preservation and restoration of tropical forests.

Production

Production 2024	
TERRASOS	**Terrasos (EcoEnterprises) – $0.59 million development contribution** EcoEnterprises ("EcoE", the "Fund Manager" or "FM") is a women-led fund manager with a 20+ year track record of building investment portfolios with a focus on critical natural ecosystems in LAC. Terrasos S.A.S. ("Terrasos") structures and operates environmental investments focusing on the Colombian compliance market for biodiversity offsets. The repayable development contribution fits well with MFF's mandate as Terrasos' core business model involves the protection and restoration of valuable threatened ecosystems, including forested areas. By structuring the facility with existing FMO investee EcoE, FMO works with a familiar and trusted party with deep biodiversity expertise and a solid track record in managing impactful SME investments in LAC.
ACT	**Amazonia Nativa - $0.90 million development contribution** Amazonia Nativa S.A.S. ("AN" or "the Company") is a newly established Colombian company ("SPV") that has been set up for the purpose of this pilot project. The Company is jointly governed by ACT Group ("ACT") and Campo Capital ("CC'). ACT is a global provider of market-based sustainability solutions including carbon markets expertise and advisory, carbon project development and commercialization of carbon credits. The RDC fits well with MFF's mandate as AN's business model involves the afforestation of degraded ecosystems to deliver climate change mitigation outcomes, whilst supporting local economic development. AN is being delivered by a highly credible partnership between a local forestry operator with proven track record and deep knowledge of the Colombian context, and an international carbon project developer with experience, resources and a large network of potential funders and carbon credit off-takers.
TIG Timberland Investment Group	**The Reforestation Fund - $40.00 million equity investment** The Reforestation Fund is a private equity forestry fund developed to invest in Latin America, that seeks to acquire degraded pastureland for an equal split of forest protection and restoration as well as commercial tree planting in Brazil, a major timberland market, with opportunistic allocations to Paraguay and Colombia. TRF's investment strategy will seek attractive risk-adjusted returns via a combination of commercial timber revenues from FSC-certified plantations, and the sale of carbon credits from both the commercial plantations and areas that are restored beyond legal requirements. Additional impact will come from the sustainable manufacturing and sale of long-lived solid wood products when the commercial plantations mature, and from displacing more carbon-intensive materials like concrete, steel or plastic.
LevasFlor african hardwoods	**LevasFlor - $1.21 million development contribution** LevasFlor AB is the parent company of LevasFlor Lda. LevasFlor is a natural forest management company managing 46,000 Ha of natural Miombo forest in central Mozambique. The Miombo woodlands are a significant global carbon store, are under increasing threat and are not appropriately managed and conserved, despite their importance to livelihoods, climate and biodiversity for large parts of South and Eastern Africa. LevasFlor's model of sustainable natural forest management has the potential to reduce deforestation rates in this woodland, whilst also bringing local economic development.

Statement of financial position

At December 31, 2024

	Notes	2024	2023
Assets			
Banks	(1)	3,561	3,122
Short-term deposits	(2)	113,418	86,000
Loan portfolio	(3)		
- of which: at Amortized Cost		2,611	2,317
- of which: at Fair value through profit or loss		22,001	26,206
Equity investments	(4)	21,934	-
Other receivables	(5)	-	1
Total assets		**163,525**	**117,646**
Liabilities			
Current account with FMO	(6)	312	224
Accrued liabilities	(7)	3,085	3,440
Provisions	(8)	7	-
Total liabilities		**3,404**	**3,664**
Fund capital			
Contribution DESNZ previous years		129,100	128,024
Contribution DESNZ current year	(9)	49,479	1,076
Total contribution DESNZ		**178,579**	**129,100**
Other reserves		-	-
Undistributed results previous years		-15,118	-9,977
Net profit/(loss)		-3,340	-5,141
Total capital		**160,121**	**113,982**
Total liabilities and capital		**163,525**	**117,646**
Irrevocable facilities	**(10)**	**19,962**	**1,350**

Statement of comprehensive income

At December 31, 2024

	Notes	2024	2023
Income			
Interest income from financial instruments measured at AC		341	202
Interest income from financial instruments measured at FVPL		7,321	4,911
Total net interest income	**(11)**	**7,662**	**5,113**
Fee and commission income		142	-
Result from equity investments		-755	
Results from financial transactions		-4,205	-6,405
Total income		**2,844**	**-1,292**
Expenses			
Management fees FMO		-3,021	-2,970
Capacity Development expenses		-2,809	-707
Evaluation expenses		-127	-91
Total expenses		**-5,957**	**-3,768**
Impairments on			
Loans		-221	-109
Loan commitments		-6	28
Total impairments		**-227**	**-81**
Net profit/(loss)		**-3,340**	**-5,141**
Total comprehensive income/(loss)		**-3,340**	**-5,141**

Statement of changes in capital

At December 31, 2024

	Contributed fund capital	Undistributed results previous years	Net profit/(loss)	Total fund capital
Balance at January 1, 2023	**128,024**	**-2,770**	**-7,207**	**118,047**
Transfer profit/(loss) PY to Undistr. Results PY	-	-7,207	7,207	-
Contribution DESNZ	1,076	-	-	1,076
Results current year	-	-	-5,141	-5,141
Net balance at December 31, 2023	**129,100**	**-9,977**	**-5,141**	**113,982**
Balance at January 1, 2024	**129,100**	**-9,977**	**-5,141**	**113,982**
Transfer profit/(loss) PY to Undistr. Results PY	-	-5,141	5,141	-
Contribution DESNZ	49,479	-	-	49,479
Other reserves	-	-	-	-
Results current year	-	-	-3,340	-3,340
Net balance at December 31, 2024	**178,579**	**-15,118**	**-3,340**	**160,121**

Statement of cash flows

At December 31, 2024

	Notes	2024	2023
Cash flow from operating activities			
Inflows			
Interest received on loans		719	546
Interest received on short term deposits		6,511	4,491
Sales and returns of equity instruments		1,566	-
Dividends and fees received		142	-
Outflows			
Disbursements on loans		-500	-17,400
Disbursements on Capacity Development expenses		-3,164	-1,648
Investments in equity instruments		-24,255	-
Management fees FMO		-3,021	-2,970
Other paid amounts		-127	-91
Net cash from operating activities		**-22,129**	**-17,072**
Cash flow from financing activities			
Inflows			
Contribution DESNZ current year	(9)	49,479	1,076
Net cash from financing activities		**49,479**	**1,076**
Net change in cash & cash equivalent		**27,350**	**-15,996**
Position of cash at January 1 [1)]		**88,898**	**104,896**
Foreign exchange translation		-	-2
Position of cash at end of period [1)]		**116,248**	**88,898**

1 Cash includes current account with FMO.

Summary of material 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 to date amounts to US$ 179 million. 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 and short-term deposits that are mandatorily measured at fair value.
- The loan portfolio is mandatorily measured at fair value (refer to business model assessment and contractual cash flow assessment in this chapter below).

The material accounting policies adopted are set out below.

Adoption of new standards, interpretations and amendments

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

Issued but not yet adopted standards

MFF has assessed recently completed amendment and standard development projects expected to be effective from 2025 to 2027, MFF does not expect these amendments and new standards to have a significant impact on its 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 expected credit loss allowance in accordance with IFRS 9;

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, ageing 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 statement of financial position date, monetary assets and liabilities are reported using the closing exchange rate. Non-monetary assets that are not measured at cost denominated in foreign currencies are reported using the exchange rate that existed when fair values were determined.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the statement of profit or loss under 'Results from financial transactions'.

Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. When a gain or loss for non-monetary financial asset is recognized through FVOCI (fair value through other comprehensive income), any foreign exchange component of the gain or loss is also recognized through FVOCI.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and 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 for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the fair value of an instrument is measured by using the quoted price in an active market for that instrument. If there is no quoted price in an active market, valuation techniques are used that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

In the performance of the fair value assessment for equity instruments, the exposure and impact of climate and environmental risks on the relevant investee companies are considered according to current and near-term climatic and environmental conditions, as appropriate, in developing a reasonable estimate of the fair value for these equity instruments.

Amortized cost and gross carrying amount

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

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

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 the 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.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Programme accounts for the Day 1 profit or loss.

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.

Cash and cash equivalents

Cash and cash equivalents consist of balances with 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 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. Unrealized gains or losses on the money market funds (including foreign exchange results) are reported in the 'results from financial transactions.'

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 statement of financial position of the programme majorly include loans mandatorily 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 the statement of profit or loss.

- 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 mandatorily 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 the statement of profit or loss.

Equity investments

Equity investments on the statement of financial position 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 mandatorily at fair value with changes recognized immediately in the statement of profit or 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 the statement of profit or loss unless the dividend clearly represents a recovery part of the cost of the investment. Other net gains and losses are recognized in the fair value reserve (OCI) and are never reclassified to the statement of profit or loss.

Financial assets – Impairment

The programme estimates an allowance for expected credit losses for all financial assets and loan commitments (off balance items) in scope of IFRS 9 impairment assessment.

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 Financial Risk Committee (FRC) 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:

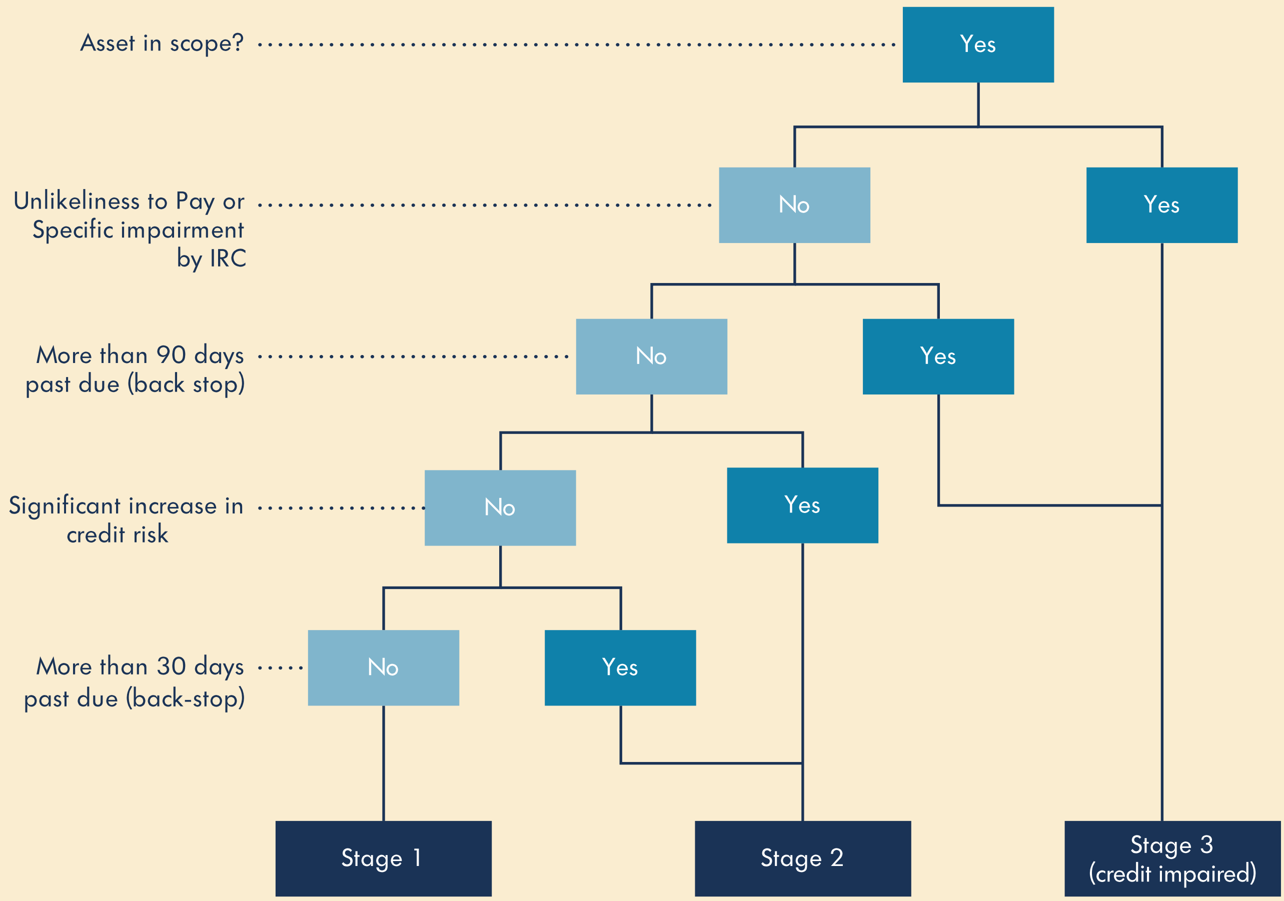
- The fact that an early warning signal has triggered financial difficulty following a transfer to the watchlist;
- The fact that the financial asset is 30 days past due or more on any material obligation to the programme, including fees and excluding on charge expenses (unless reasonable information 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 Fund judges that the client is unlikely to pay its credit obligation to the Fund due to occurrence of credit risk deterioration and the FRC or Credit department 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 FRC and there are no obligations past due for more than 90 days.

Climate and environmental (C&E) risk impact assessment

The Fund has set up a process to evaluate climate and environmental related risks on individual customers, both at origination and throughout monitoring via an internal tool, as part of the credit process. Through this process, the Fund aims to ensure that higher risk transactions undergo further assessments and appropriate measures (when feasible) are taken to address and manage climate-related and environmental risks throughout the investment cycle. As part of the annual monitoring cycle of the Fund's customers, reviews will take place to assess whether the assessments are still up to date and where needed adjusted. The performance of climate risk assessments as part of our investment process is considered to be an important mitigant for our credit risk in relation to C&E risks.

Given the current understanding of climate and environmental risks and their impact within the Fund, the Fund does not currently consider such risks in its ECL assessment directly. Central tendencies for the calibration of PDs do include a best-effort correction for uncertainty with a 10% increase of the assumed long-term average default rate to account for uncertainties from a variety of factors that could be considered to account for Climate-related and Environmental risks. Additionally, a review of past defaults found little direct impact of Climate-related and Environmental risks on defaults, with most issues being related to questions of governance and ability of a company to adapt; such factors are captured in the Fund's current rating model.

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 FRC is advised to consider a write-off.

Write-offs are charged against previously booked impairments. If no specific impairment is recorded on basis of FRC decision making from the past, the write-off is included directly in the statement of profit or loss under 'Impairments'.

Modification of financial assets

The Programme 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 be recognized again on the statement of financial position 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 statement of financial position according to the new classification.

When modification measures relate to changes in interest percentages or extensions of tenors and the loan is at amortized cost, 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 statement of financial position. 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.

Provisions

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

Fund Capital

Fund capital represents the total net assets of the Fund that are attributable to the Fund's investors at the balance sheet date. The amounts are classified as equity in accordance with IAS 32.

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 greater than 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.

Net interest income: interest income and expense

Interest income and interest expenses from financial instruments measured at AC are recognized in the statement of profit or loss for all interest-bearing financial instruments on an accrual basis using the ‘effective interest’ method based on the amortised cost at inception. Interest income and interest expenses also include amortized discounts and, premiums on financial instruments.

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 statement of profit or loss. Fee income that is part of a financial instrument carried at AC can be divided into three categories:

- *Fees that are an integral part of the effective interest rate of a financial instrument (IFRS 9)*
  These fees (such as front-end fees) are generally treated as an adjustment to the effective interest rate. When the facility is not used and the commitment period expires, the fee is recognized at the moment of expiration. However, when the financial instrument is to be measured at fair value subsequent to its initial recognition, the fees are recognized as interest-income;
- *Fees earned when services are provided (IFRS 15)*
  Fees charged by 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 statement of profit or loss immediately under 'Results from financial transactions'.

Capacity development expenses and contributions

Development contributions to recipients are recognized as an expense in the statement of profit or loss 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 statement of profit or loss when the programme incurs an irrevocable obligation to disburse the amount.

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.

Statement of cash flows

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

Undrawn loan commitments

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Programme is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

Notes to the annual accounts

1. Banks

	2024	2023
Banks	3,561	3,122
Balance at December 31	**3,561**	**3,122**

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.

	2024	2023
Money Market Funds	113,418	86,000
Balance at December 31	**113,418**	**86,000**

3. Loan portfolio

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

	Loan portfolio measured at AC	Loan portfolio measured at FVPL	Total 2024
Balance at January 1	2,426	26,206	28,632
Disbursements	500	-	500
Changes in amortizable fees	3	-	3
Changes in fair value	-	-4,205	-4,205
Changes in accrued income	12	-	12
Balance at December 31	**2,941**	**22,001**	**24,942**
Impairment	-330	-	-330
Net balance at December 31	**2,611**	**22,001**	**24,612**

	Loan portfolio measured at AC	Loan portfolio measured at FVPL	Total 2023
Balance at January 1	-	17,560	17,560
Disbursements	2,400	15,000	17,400
Changes in amortizable fees	-27	-	-27
Changes in fair value	-	-6,403	-6,403
Changes in accrued income	53	49	102
Balance at December 31	**2,426**	**26,206**	**28,632**
Impairment	-109	-	-109
Net balance at December 31	**2,317**	**26,206**	**28,523**

Change in fair value is largely caused by one exposure, due to 1) a decrease in expected returns due to a one off loss in client asset portfolio and 2) a low fixed rate coupon compared to current yields.

4. Equity investments

The equity investments in developing countries are for the Fund's account and risk. The movement in fair value of the equity are summarized in the following table. Equity investments are measured at FVPL.

	Equity measured at FVPL
Net balance at January 1, 2024	-
Purchases and contributions	24,255
Return of Capital	-2,321
Net balance at December 31, 2024	**21,934**

Equity portfolio including Associates distributed by region and sector

At December 31, 2024	**Multi-Sector Fund Investments**
	Funds
Latin America & the Caribbean	21,934
Total	**21,934**

5. Other receivables

	2024	2023
Fee receivables	-	1
Balance at December 31	**-**	**1**

6. Current account with FMO

	2024	2023
Current account with FMO	312	224
Balance at December 31	**312**	**224**

The current account which can be freely disposed of.

7. Accrued liabilities

	2024	2023
Accrued liabilities	3,085	3,440
Balance at December 31	**3,085**	**3,440**

8. Provisions

	2024	2023
Allowance for loan commitments	7	-
Balance at December 31	**7**	**-**

9. Total capital

	2024	2023
Balance at January 1	**129,100**	**128,024**
Contribution DESNZ current year	49,479	1,076
Balance at December 31	**178,579**	**129,100**

10. 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 result in 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	2024	2023
Contractual commitments for disbursements of:		
Loans	850	1,350
Equity investments	19,112	-
Total irrevocable facilities	**19,962**	**1,350**

11 Net interest income

	2024	2023
Interest on loans measured at AC	341	202
Total interest income from financial instruments measured at AC	**341**	**202**
Interest on loans measured at FVPL	480	419
Interest on short-term deposits	6,841	4,492
Total interest income from financial instruments measured at FVPL	**7,321**	**4,911**
Total interest expenses	**-**	**-**
Total net interest income	**7,662**	**5,113**

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, 2024	FVPL - mandatory	Amortized cost	Total
Financial assets measured at fair value			
Short-term deposits	113,418	-	113,418
Loan portfolio	22,001	-	22,001
Total	**135,419**	**-**	**135,419**
Financial assets not measured at fair value			
Banks	-	3,561	3,561
Loan portfolio	-	2,611	2,611
Total	**-**	**6,172**	**6,172**
Financial liabilities not measured at fair value			
Current accounts	-	312	312
Total	**-**	**312**	**312**
December 31, 2023	**FVPL - mandatory**	**Amortized cost**	**Total**
Financial assets measured at fair value			
Short-term deposits	86,000	-	86,000
Loan portfolio	26,206	-	26,206
Total	**112,206**	**-**	**112,206**
Financial assets not measured at fair value			
Banks	-	3,122	3,122
Loan portfolio	-	2,317	2,317
Total	**-**	**5,439**	**5,439**
Financial liabilities not measured at fair value			
Current accounts	-	224	224
Total	**-**	**224**	**224**

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 Financial Risk Committee (FRC). The FRC 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.

	2024		2023	
At December 31	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Banks	3,561	3,561	3,122	3,122
Loan portfolio	2,611	2,946	2,317	2,317
Total non fair value financial assets	**6,172**	**6,507**	**5,439**	**5,439**

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, 2024	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Short term deposits	113,418	-	-	113,418
Loans to the private sector	-	-	22,001	22,001
Total financial assets at fair value	**113,418**	**-**	**22,001**	**135,419**

December 31, 2023	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Short term deposits	86,000	-	-	86,000
Loans to the private sector	-	-	26,206	26,206
Total financial assets at fair value	**86,000**	**-**	**26,206**	**112,206**

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

	Loans portfolio	Total 2024
Balance at January 1	**26,206**	**26,206**
Disbursements	-	-
Changes in fair value	-4,205	-4,205
Changes in accrued income	-	-
Balance at December 31	**22,001**	**22,001**

Type of debt investment	Fair value at December 31, 2024	Valuation technique	Range (weighted average) of significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Loans	22,001	Discounted cash flow model	Based on client spread	A decrease/increase of the used spreads with 1% will result is a higher/lower fair value of approx €0.2m.
Total	**22,001**			

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 Energy, Security and Net Zero (DESNZ) of the UK Government has set up the MFF programme. DESNZ is the main contributor to MFF, providing funding upon FMO's request (2024: $178.5 million; 2023: $129.1 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 DESNZ and it is reimbursed accordingly from the subsidy amount of MFF. The management fee amounts up to $3.0 million in 2024 (2023: $3.0 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 Financial Risk Committee (FRC). The larger and higher risk exposures are accompanied by the advice of the Credit department. If the Financial Risk 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

Definition

Credit risk is defined as the risk that the bank will suffer an economic loss because a customer fails to meet its obligations in accordance with agreed terms.

Risk appetite and governance

Adverse changes in credit quality can develop within fund's emerging market loan portfolio due to specific customer and product risk, or risks relating to the country in which the customer conducts its business. The main source of credit risk arises from the investments in emerging markets.

Credit risk management is important when selecting and monitoring projects. In this process, a set of investment criteria per sector and product is used that reflects minimum standards for the required financial strength of fund'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. As part of regular credit monitoring, Fund customers are subject to annual reviews at a minimum. Customers that are identified as having financial difficulties fall under an intensified monitoring regime to proactively manage loans before they become non-performing, including quarterly portfolio monitoring meetings. For distressed assets, the Special Operations department actively manages workout and restructuring.

FMO has set internal appetite levels for non-performing exposures and specific impairments on loans. If any of the metrics exceed the appetite levels, Credit will assess the underlying movements and analyze trends per sector, geography, and any other parameter. Credit will also consider market developments and peer group benchmarks. Based on the analysis, Credit will propose mitigating measures to the FRC. If any of the indicators deteriorate further, the Risk department will be involved to assess to what extent the trend is threatening FMO's capital and liquidity ratios.

Exposures and credit scoring

The following table shows MFF's total gross exposure to credit risk at year-end. The exposures, including derivatives, are shown gross, before impairments and the effect of mitigation using third-party guarantees, master netting, or collateral agreements. Regarding derivative financial instruments, only the ones with positive market values are presented. The maximum exposure to credit risk decreased during the year to $152.2 million at year-end 2024 (2023: $125.5 million).

Maximum exposure to credit risk

	2024	2023
On balance		
Banks	3,561	3,122
Short-term deposits	113,418	86,000
Loans to the private sector:		
- of which: at Amortized Cost	2,866	2,453
- of which: at Fair value through profit or loss	31,506	32,609
Other receivables	-	1
Total on-balance	**151,351**	**124,185**
Off-balance		
Irrevocable facilities	850	1,350
Total off-balance	**850**	**1,350**
Total credit risk exposure	**152,201**	**125,535**

When measuring the credit risk of the emerging market portfolio at the customer level, the main parameters used are the credit quality of the counterparties and the expected recovery ratio in case of defaults. Credit quality is measured by scoring customers on various financial and key performance indicators. FMO uses a Customer Risk Rating (CRR) methodology. The model follows the EBA guidelines regarding the appropriate treatment of a low default portfolio and uses an alternative for statistical validation to perform the risk assessment of the models when there is limited or no default data.

The CRR models are based on quantitative and qualitative factors and are different for respective customer types. The models for banks and non-banking financial institutions use factors including the financial strength of the customer, franchise value, and the market and regulatory environment. The model for corporates uses factors including financial ratios, governance, and strategy. The project finance model uses factors such as transaction characteristics, market conditions, political and legal environment, and financial strength of the borrower.

Based on these scores, FMO assigns ratings to each customer on an internal scale from F1 (lowest risk) to F20 (default) representing the probability of default. This rating system is equivalent to the credit quality rating scale applied by Moody's and S&P. Likewise, the loss given default is assigned by scoring various dimensions of the product-specific risk and incorporating customer characteristics. The probability of default and loss given default scores are also used as parameters in the IFRS9 expected credit loss model. Please refer to the 'Significant accounting policies' section, for details of the expected credit loss calculation methodology.

The majority of our gross loan portfolio (87 percent) remains in the F11 to F16 ratings categories.

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.

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

Loan portfolio at December 31, 2024 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+)	-	-	-	31,506	31,506
F14-F16 (B-,B,B+)	-	-	-	-	-
F17 and lower (CCC+ and lower)	-	2,954	-	-	2,954
Sub-total	**-**	**2,954**	**-**	**31,506**	**34,460**
Less: amortizable fees	-	-23	-	-	-23
Less: ECL allowance	-	-320	-	-	-320
Plus: Fair value adjustments	-	-	-	-9,505	-9,505
Carrying value	**-**	**2,611**	**-**	**22,001**	**24,612**

Loan portfolio at December 31, 2023 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+)	-	-	-	32,609	32,609
F14-F16 (B-,B,B+)	-	2,453	-	-	2,453
F17 and lower (CCC+ and lower)	-	-	-	-	-
Sub-total	**-**	**2,453**	**-**	**32,609**	**35,062**
Less: amortizable fees	-	-27	-	-	-27
Less: ECL allowance	-	-109	-	-	-109
Plus: Fair value adjustments	-	-	-	-6,403	-6,403
Carrying value	**-**	**2,317**	**-**	**26,206**	**28,523**

Loan commitments at December 31, 2024 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+)	-	-	-	724	724
F14-F16 (B-,B,B+)	-	-	-	-	-
F17 and lower (CCC+ and lower)	-	17,166	-	-	17,166
Sub-total	**-**	**17,166**	**-**	**724**	**17,890**
Less: ECL allowance	-	-6	-	-	-6
Carrying value	**-**	**17,160**	**-**	**724**	**17,884**

Loan commitments at December 31, 2023 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+)	-	-	-	750	750
F14-F16 (B-,B,B+)	-	600	-	-	600
F17 and lower (CCC+ and lower)	-	-	-	-	-
Sub-total	**-**	**600**	**-**	**750**	**1,350**
Less: ECL allowance	-	-81	-	-	-81
Carrying value	**-**	**519**	**-**	**750**	**1,269**

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

Non-performing exposures

A customer is considered non-performing when it is not probable that the customer will be able to pay his payment obligations in full without realization of collateral or calling on a guarantee, regardless of the existence of any past-due amount or the number of days past due.

This situation is considered to have occurred when one or more of the following conditions apply:

- The customer is past due more than 90 days on any outstanding facility;

- An unlikeliness to pay (UTP) trigger is in place that automatically leads to NPE;
- An impairment analysis, done upon a UTP trigger that possibly leads to NPE, results in an impairment higher than 12.5% on any outstanding facility;
- There are additional criteria for a customer to enter NPE status in case of Forbearance. If a customer with (No) Financial Difficulty - Forbearance status under probation is extended additional forbearance measures/ concessions or becomes more than 30 days past-due, it shall be classified as non-performing. This only applies if the customer has been non-performing while it was forborne.

NPE is applied at customer level

There are no non - performing loans in MFF's loan portfolio.

Concentration risk

Definition

Concentration risk is the risk that the programme's exposures are too concentrated within or across different risk categories. Concentration risk may trigger losses large enough to threaten the fund's health or ability to maintain its core operations or trigger a material change in our risk profile.

Risk appetite and governance

Strong diversification within the programme's emerging market portfolio is ensured through stringent limits on individual counterparties (single and group risk limits), sectors, countries, and regions. These limits are monitored by Risk, reviewed regularly, and approved by the FRC, the Managing Board, and the Supervisory Board. Diversification across countries, sectors, and individual counterparties is a key strategy to safeguard the credit quality of the portfolio.

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 exposure risk

Single risk refers to an individual client or a group of clients which are so interconnected that while they might be separate legal entities on paper, from the risk perspective, they behave as if they were a single entity. A single risk exposure refers to the sum of all exposures on entities that constitute a single risk.

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

Counterparty credit risk

Definition

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.

Risk appetite and governance

The main responsibility of FMO's Treasury department is to fund the core business of FMO, and to efficiently and effectively mitigate risks in line with Treasury's mandate. Treasury's portfolio aims to maintain a liquidity buffer such that FMO can meet its liquidity needs in regular and stressed circumstances. The Treasury department does not have its own trading book and does not actively take open positions in the pursuit of profits. FMO aims to balance between keeping losses within its limited risk tolerance and supporting FMO's business strategy, thereby minimizing credit risk and concentration risk in the treasury portfolio, derivative portfolio, and several bank accounts.

The Treasury department is responsible for day-to-day counterparty risk management. The Risk department is the second line and responsible for assessing, quantifying, and monitoring counterparty risk daily. Limit excesses and material findings are reported to the FRC on a monthly basis, together with recommended mitigations and actions. The Risk department is also responsible for updating policies and processes and for setting up limits, including minimum credit rating requirements, exposure limits, and transaction limits. The policies, processes, relevant parameters, and limits are reviewed and approved by the FRC periodically.

Liquidity risk

Definition

Liquidity risk is defined as the risk for programme not being able to fulfill its financial obligations due to insufficient availability of liquid means.

Risk appetite and governance

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 is the risk that the value and/or the earnings of the bank decline because of unfavorable market movements. At FMO, this includes interest rate risk and currency risk.

Interest rate risk in the banking book

Definition

Interest rate risk is the risk of potential loss due to adverse movements in interest rates. Changing interest rates mainly influence the fair value of fixed interest balance sheet items and affect programme's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII).

Credit spread risk is the risk driven by changes of the market price for credit risk, for liquidity and for potentially other characteristics of credit-risky instruments, which is not captured by another existing prudential framework such as IRRBB or by expected credit/(jump-to-) default risk.

Risk appetite and governance

FMO has no trading book and all assets (loans and investments) are part of the banking book. FMO’s policy is to match assets and liabilities within defined limits. As the loan portfolio is more granular, loans are pre-funded and new funding is obtained periodically and matched to the asset portfolio in terms of expected maturity and interest rate sensitivity. Interest rate risk arises from the residual tenor mismatch, mismatch in fixed rate assets funded by floating rate liabilities, and differences in reference rates or currencies resulting in basis risk. FMO has little optionality in its portfolio and has no material exposure to rates-driven prepayment risk. The volatility of the market value of assets and liabilities over the holding period due to interest rate movements is of less concern as these are held until maturity.

Interest rate risk management falls under the responsibility of the FRC. The Treasury department acts as the first line and is responsible for the day-to-day management of interest rate risk and daily transactions. The quantification, monitoring and control of market risk is the responsibility of the Risk department as second line.

FMO considers the liquidity investment portfolio, assets accounted at fair value and amortized cost and the funding portfolio as the main balance sheet items sensitive to credit spread risk. For liabilities, credit spread risk would relate to the FMO’s own credit risk.

Interest rate risk is monitored using earnings-based metrics and value-based metrics.

Earnings-based methods capture short-term effects of interest rate refixing or repricing that may impact NII. The following two metrics are used for this purpose.

The interest rate risk limits were not breached in 2024. The following table summarizes the interest repricing characteristics for fund’s assets and liabilities.

- - The interest rate gap provides a static overview of the full balance sheet’s repricing and refinancing characteristics. The gap is monitored over different time buckets with limits in place per bucket and on a cumulative level, for all currencies (aggregate and currency-by-currency).

- NII at Risk provides a dynamic projection of net interest income sensitivity to yield curve shocks. FMO monitors NII at Risk on a two-year forward-looking basis and applies different scenarios simultaneously that also allow for identification of basis risk.

Economic value methods capture changes in net present values of assets, liabilities and off-balance sheet items to changes in yield curves. Value-based metrics measure long-term effects of interest rate changes over the full tenor of the balance sheet. The following economic value metrics are calculated:

- Basis Point Value (BPV) provides the change in market value of assets, liabilities and interest-rate risk sensitive off-balance items for a one basis point change in yield curves. Limits are in place for the whole balance sheet, and for main currencies (EUR and USD) separately.
- Delta Economic Value of Equity (delta EVE) provides changes in the economic value of the shareholder's equity, given certain shift in yield curves. The impact of a 200 basis-points parallel shifts and SA-IRRRB scenarios are reported.

The interest rate gap and BPV exposure are monitored on a weekly basis against limits set by the FRC. BPV limits are defined dynamically to accommodate a 200 basis-points shock within five percent of Tier I. The delta EVE limit is defined in the RAF and set at five percent of Tier I. The NII at Risk limit is defined based on one percent of Tier 1.

Credit spread risk is measured under both economic value and NII, in line with IRRBB.

The interest rate positions were within risk appetite in 2024. In spite of rates volatility in the United States, Europe and globally our positions remain within limits.

Exposures

The interest rate risk limits were not breached in 2024. The following table summarizes the interest re-pricing characteristics for MFF's assets and liabilities.

Interest re-pricing characteristics

December 31, 2024	<3 months	>5 years	Non-interest-bearing	Total
Assets				
Banks	3,561	-	-	3,561
Short-term deposits	113,418	-	-	113,418
Loan portfolio	-	-	-	-
- of which: at Amortized Cost	438	2,173	-	2,611
- of which: at Fair value through profit or loss	-	22,001	-	22,001
Equity investments			21,934	21,934
Other receivables	-	-	-	-
Total assets	**117,417**	**24,174**	**21,934**	**163,525**
Liabilities and capital				
Current accounts with FMO	312		-	312
Accrued liabilities	-		3,085	3,085
Provisions	-		7	7
Fund capital	-		160,121	160,121
Total liabilities and capital	**312**	**-**	**163,213**	**163,525**
Interest sensitivity gap 2024	**117,123**	**24,156**	**-141,279**	

Interest re-pricing characteristics

December 31, 2023	<3 months	>5 years	Non-interest-bearing	Total
Assets				
Banks	3,122	-	-	3,122
Short-term deposits	86,000	-	-	86,000
Loan portfolio	-	-	-	-
- of which: at Amortized Cost		2,317	-	2,317
- of which: at Fair value through profit or loss	-	26,206	-	26,206
Other receivables	-	-	1	1
Total assets	**89,122**	**28,523**	**1**	**117,646**
Liabilities and capital				
Current accounts with FMO	224		-	224
Accrued liabilities	-		3,440	3,440
Provisions	-		-	-
Other liabilities				
Fund capital	-		113,982	113,982
Total liabilities and capital	**224**	**-**	**117,422**	**117,646**
Interest sensitivity gap 2023	**88,898**	**28,523**	**-117,422**	

Currency risk

Definition

Currency risk is defined as the risk that changes in foreign currency exchange rates have an adverse effect on the value of the programme’s financial position and future cash flows.

Risk appetite and governance

FMO has limited appetite for currency risk. Exposures are hedged through matching currency characteristics of assets with liabilities, or through derivative transactions such as cross-currency swaps and FX forwards conducted with either commercial parties or with The Currency Exchange Fund (TCX Fund N.V.). Most currency exposures are hedged to US dollars on a micro-hedge basis, whereby the US dollar position is managed on a portfolio basis accordingly. FMO does not take any active positions in any currency for purpose of making a profit. Each individual currency is managed within a strict position limit and an overall appetite level is set at one percent of shareholder’s equity for the total open position across all currencies. Both the individual and overall open positions are monitored by the Risk department on a daily basis. Additionally, FMO maintains a deliberately unhedged foreign currency position for the purpose of structural hedge which is reported to the FRC monthly. Please refer to the 'Structural hedge' sub-section for further details.

Exposures

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, 2024	USD	Total
Assets		
Banks	3,561	3,561
Short-term deposits	113,418	113,418
Loan portfolio		
- of which: at Amortized Cost	2,611	2,611
- of which: at Fair value through profit or loss	22,001	22,001
Equity investments	21,934	22,689
Other receivables		
Total assets	**163,525**	**164,280**
Liabilities and capital		
Current account with FMO	312	312
Accrued liabilities	3,085	3,085
Provisions	7	7
Fund capital	160,121	160,876
Total liabilities and capital	**163,525**	**164,280**
Currency sensitivity gap 2024	-	
Currency sensitivity gap 2024 excluding equity investments	-	

Currency risk exposure (at carrying values)

December 31, 2023	USD	Total
Assets		
Banks	3,122	3,122
Short-term deposits	86,000	86,000
Loan portfolio		
- of which: at Amortized Cost	2,317	2,317
- of which: at Fair value through profit or loss	26,206	26,206
Other receivables	1	1
Total assets	**117,646**	**117,646**
Liabilities and capital		
Current account with FMO	224	224
Accrued liabilities	3,440	3,440
Provisions		
Other liabilities		
Fund capital	113,982	113,982
Total liabilities and capital	**117,646**	**117,646**
Currency sensitivity gap 2023	-	-
Currency sensitivity gap 2023 excluding equity investments	-	-

Strategic Risk

Environmental, social and governance risk

Definition

ESG risk is defined as the risk that our investments realize adverse impacts on people and the environment, and/or contribute to corporate governance practices, that are inconsistent with FMO policy commitments. FMO is exposed to ESG risk via our investment selection (the risks associated with our investments, which include the investments of our clients/investees) and the effectiveness of clients'/investees' ESG risk management, including the effectiveness of FMO's engagement thereon. In addition to potential adverse impacts to people and the environment, ESG risk can for example result in financial (remediation, legal) costs to FMO or client, jeopardized access to capital for FMO (external investors), jeopardized license to operate/shareholder relations or reputation damage.

Risk appetite and governance

FMO has a cautious appetite for ESG risk in investments. FMO strives for investments to be brought in line with our ESG risk mitigation requirements in a credible and reasonable period of time. It is understood and accepted that customers/investees need knowledge and resources to implement ESG improvements, so full adherence cannot generally be expected at the start of the relationship. Consequently, the appetite for ESG risk is open during the initial phases of an investment and reduces over time. The appetite for unmitigated ESG risk is minimal for repeat investments. At the portfolio level, FMO also has a cautious appetite for ESG risk. In view of FMO's own capacity to support and monitor customers/ investees in improving their ESG risk mitigation, FMO seeks a manageable mix of customers/investees with (partially) unmitigated ESG risk and customers/ investees with adequate risk mitigation in place.
FMO accepts a limited gap in successful ESG risk management to our standards. This gap acknowledges residual risk posed by contextual and implementation challenges in our markets

As part of its investment process, FMO screens and categorizes all customers on ESG risk according to their gross ESG risk profile, i.e. risk that is inherent to the activity to be financed irrespective of a client's risk management performance.

For FMO's high ESG risk investments and for investments where FMO Corporate Governance officer is allocated, we monitor our net ESG risk exposure through FMO's proprietary Sustainability Information System (SIS); The net ESG risk exposure is the investment's gross risk exposure corrected for by the customer's performance managing down these risks. ESG risk performance tracking in SIS is integrated within the investment process and forms the basis of FMO's ESG target. SIS ratings are monitored and updated throughout the lifetime of the investment as part of the annual review cycle of each customer, enabling FMO to have an up-to-date portfolio-wide view of the ESG risks in its portfolio.

Non-financial risk

Operational risk

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks, excluding strategic risks. This is the Basel definition of operational risk, which covers a wide range of non-financial risks.

FMO adopted the Operational Risk Data Exchange Association (ORX) risk taxonomy to structure all non-financial risk types, such as people, data, model, technology, third party, information and cyber security, business continuity, statutory reporting, transaction execution, et cetera. FMO uses the terms operational risk and non-financial risk interchangeably.

Risk appetite and governance

FMO is in general cautious about non-financial risks. We do not seek them as they have no direct material reward in terms of return/income generation, but they are inherent to our business. We prefer safe options, with low inherent risk, even if they limit rewards or lead to higher costs. There is no appetite for high residual risk.

First and second line functions work closely together to understand the full and varied spectrum of non-financial risks, and to focus their risk and control efforts on meaningful and material risks. Risk identification and assessment draws on multiple sources of data, such as topic-specific risk-assessments, results of half-yearly control monitoring and testing rounds, internal loss data and root cause analysis, audit results, supervisory findings, and key risk indicators. Policies and operating procedures clarify control standards, accountabilities, and mandate training on key risks.

Management of the first line is responsible for understanding risks and implementing and operating internal controls in the day-to-day business processes. Key controls are monitored and tested twice a year. The first line performs these responsibilities in line with the risk management framework, using the methods and tools provided by the second-line Operational Risk function. The Operational Risk function challenges and advises the first line, performs oversight and maintains the Integrated Control Framework.
Risk events will occur, despite the implementation of internal controls. Risk events can result in losses, non-compliance, misstatements in the financial reports, and reputational damage. Risk events are centrally registered and reviewed and classified by the Operational Risk team. Root cause analyses of high-concern risk events require approval by the Non-financial Risk Committee and follow-up of remediating actions is tracked and reported.

Non-financial Risk metrics are reported on a quarterly basis. These metrics cover operational risks, such as the amount of loss per quarter, timely follow-up of remediating actions by management, and specific metrics for all non-financial risk subtypes. All departmental directors evaluate the operational risks in their area of responsibility and sign a departmental in control statement at year end.

Financial economic crime risk

Definition

Financial economic crime risk is the risk that FMO, its subsidiaries, investments, customers and/or employees are involved or used for any crime that has a financial component, even though at times such transactions may be hidden or not socially perceived as criminal. This includes (but is not limited to): money laundering, terrorism financing, bribery and corruption, sanction breaches or any other predicate offence as defined by the Dutch Penal Code or any other rules or regulations related to financial crime that are applicable to FMO.

Risk appetite and governance

FMO acknowledges that as a financial institution it has been entrusted with a gatekeeper role. FMO attaches great value to this role and will always strive for full and timely adherence to financial economic crime regulations. We are aware that in line with FMO’s mandate, the operational working environment (countries with high(er) financial crime risks) as well as the risk maturity level of its clients, risks are present and incidents within customer complexes (i.e. the customer and any associated and/or third parties) may happen.

Financial economic crime framework

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

In our continued efforts to implement learnings, FMO’s Compliance department reviews its FEC framework in cooperation with the KYC (Know Your Customer) department on an ongoing basis, taking into account any monitoring results, risk analysis, incidents and updates in regulations and industry best practices. In addition, continuous risk-based quality monitoring takes place both in first- and second-line including sample-based and thematic monitoring. In 2024, the sample-based monitoring consisted of at least 10 percent of all finalized KYC files in every quarter. FMO also conducts ongoing training programmes for its employees to raise awareness on topics related to FEC. Further, FMO continues to remind its customers of the importance of integrity in the business operations, including sanctions compliance.

FMO continues to work on strengthening the risk culture and creating awareness on FEC, potential unusual transactions and anti-bribery and corruption practices. In 2024, all FMO employees were required to complete the Compliance ‘Annual Integrity refresher e-learning that addresses customer and personal integrity topics, such as bribery and corruption.

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). When FMO is of the opinion that there is a breach of law that cannot be remedied, that no improvement by the customer will be achieved (e.g., awareness, implementing controls) or that the risk to FMO's reputation is unacceptably high, FMO may exercise certain remedies under the contract, such as the right to cancel a loan or suspend upcoming disbursements. FMO will report to the regulatory authorities when necessary.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report

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

Report on the audit of the annual accounts for the year ended 31 December 2024 included in the annual report

Our opinion

We have audited the annual accounts for the financial year ended 31 December 2024 of Mobilising Finance For Forests (hereinafter: MFF or the Programme), based in The Hague.

In our opinion the accompanying annual accounts give a true and fair view of the financial position of MFF as at 31 December 2024 and of its result and its cash flows for the year ended 31 December 2024 in accordance with IFRS Accounting Standards as adopted in the European Union (IFRS Accounting Standards).

The annual accounts comprise:

- The statement of financial position as at 31 December 2024
- The statement of comprehensive income for the year ended 31 December 2024
- The statement of changes in capital
- The statement of cash flows for the year ended 31 December 2024
- Summary of material accounting policies
- Risk management
- The notes comprising material accounting policy information 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 annual accounts section of our report.

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

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

The annual report contains other information in addition to the annual accounts and our auditor's report thereon. This consists of:

- The management report
- At a glance
- Performance on our strategy

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

We have read the other information. Based on our knowledge and understanding obtained through our audit of the annual accounts 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 annual accounts.

Management is responsible for the preparation of the other information.

Description of responsibilities regarding the annual accounts

Responsibilities of management for the annual accounts

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

As part of the preparation of the annual accounts, 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 annual accounts 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 annual accounts.

Our responsibilities for the audit of the annual accounts

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 misstatements, whether due to fraud or error 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 annual accounts. 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. The Information in support of our opinion section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the annual accounts, 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
- Evaluating the overall presentation, structure and content of the annual accounts, including the disclosures
- Evaluating whether the annual accounts 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 2025

EY Accountants B.V.

signed by P.J.A.J. Nijssen

Colophon

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