

MFO BALANCED FUND
a Sub-Fund of MFO Funds
FINANCIAL STATEMENTS
For the year ended 31 December 2023

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For the year ended 31 December 2023

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MFO BALANCED FUND

a Sub-Fund of MFO Funds

OFFICERS AND PROFESSIONAL ADVISORS

| | |
|----------------------|--|
| Management Company | MFO Asset Management Ltd |
| Depository | Eurobank Cyprus Ltd |
| Independent Auditors | KPMG Limited |
| Legal Advisors | Karides & Karides LLC |
| Broker | Eurobank Cyprus Ltd |
| Registered Office | Akropoleos, 66 2012 Strovolos, Nicosia, Cyprus |
| License number | UCITS14/78 |

Responsibilities of the Management Company for the financial statements

The Management Company is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the UCI Law, and for such internal control as the Management Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Company is responsible for assessing the Sub-Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to either liquidate the Sub-Fund or to cease operations, or there is no realistic alternative but to do so.

The Management Company is responsible for overseeing the Sub-Fund's financial reporting process.

Auditors' responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sub-Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Company.
- Conclude on the appropriateness of the Management Company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Sub-Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Sub-Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

Auditors' responsibilities for the Audit of the Financial Statements (continued)

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

Other Matter

This report, including the opinion, has been prepared for and only for the Sub-Fund's members as a body in accordance with Section 69 of the Auditors Law 2017, L.53(I)/2017, as amended from time to time and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



Petros M. Mavrommatis, FCCA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia
Cyprus

26 March 2024

MFO BALANCED FUND

a Sub-Fund of MFO Funds


STATEMENT OF FINANCIAL POSITION**As at 31 December 2023**

| | Note | 2023 € | 2022 € |
|---|------|------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | 9 | 264.717 | 200.627 |
| Financial assets at fair value through profit or loss | 8 | <u>4.972.491</u> | <u>4.738.223</u> |
| Total assets | | <u>5.237.208</u> | <u>4.938.850</u> |
| Liabilities | | | |
| Other payables | 11 | <u>13.169</u> | <u>12.325</u> |
| Total liabilities (excluding net assets attributable to unitholders) | | <u>13.169</u> | <u>12.325</u> |
| Net assets attributable to unitholders | 10 | <u>5.224.039</u> | <u>4.926.525</u> |

On 26 March 2024 the Management Company of MFO Balanced Fund approved and authorised these financial statements for issue.



.....
Markos Drakos
Director



.....
Andreas Theophanous
Director

The notes on pages 9 to 26 are an integral part of these financial statements.

MFO BALANCED FUND

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a Sub-Fund of MFO Funds**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME****For the year ended 31 December 2023**

| | Note | 2023 € | 2022 € |
|--|------|----------------|------------------|
| Dividend income | | - | 904 |
| Interest income | | 10.403 | 2.654 |
| Net gain/(loss) on trading in financial instruments | | 25.101 | (313.465) |
| Net fair value gains/(losses) on financial assets at fair value through profit or loss | | 312.723 | (506.877) |
| Net exchange (loss)/profit | | <u>(1.490)</u> | <u>3.059</u> |
| Total revenue | | <u>346.737</u> | <u>(813.725)</u> |
| | | | |
| Management fees | 12 | 34.891 | 37.183 |
| Depositary fees | | 2.250 | 5.400 |
| Other expenses | 7 | 6.468 | 4.065 |
| Transactions costs | | <u>5.614</u> | <u>12.630</u> |
| Total operating expenses | | <u>49.223</u> | <u>59.278</u> |
| | | | |
| Increase/(decrease) in net assets attributable to unitholders | | <u>297.514</u> | <u>(873.003)</u> |

The notes on pages 9 to 26 are an integral part of these financial statements.

MFO BALANCED FUND**a Sub-Fund of MFO Funds****STATEMENT OF NET ASSETS ATTRIBUTABLE TO UNITHOLDERS****For the year ended 31 December 2023**

| | Note | 2023 € | 2022 € |
|---|------|------------------|------------------|
| Balance at 1 January | 10 | 4.926.525 | 5.799.528 |
| Increase/(decrease) in net assets attributable to unitholders | | <u>297.514</u> | <u>(873.003)</u> |
| Total | | <u>5.224.039</u> | <u>4.926.525</u> |
| Contributions and redemptions by unitholders | | <u>-</u> | <u>-</u> |
| Balance at 31 December | 10 | <u>5.224.039</u> | <u>4.926.525</u> |

The notes on pages 9 to 26 are an integral part of these financial statements.

MFO BALANCED FUND**a Sub-Fund of MFO Funds****STATEMENT OF CASH FLOWS****For the year ended 31 December 2023**

| | Note | 2023 € | 2022 € |
|--|------|-----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Profit/(loss) for the year | | 297.514 | (873.003) |
| Adjustments for: | | | |
| Fair value (gains)/losses on financial assets at fair value through profit or loss | | (312.723) | 506.877 |
| Dividend income | | - | (904) |
| Interest income | | (10.403) | (2.654) |
| Cash used in operations before working capital changes | | <u>(25.612)</u> | <u>(369.684)</u> |
| Decrease in other receivables | | - | 14 |
| Decrease/(increase) in financial assets at fair value through profit or loss | | 81.302 | (136.920) |
| Increase/(decrease) in other payables | | 844 | (2.303) |
| Cash generated from/(used in) operations | | <u>56.534</u> | <u>(508.893)</u> |
| Interest received | | 7.556 | 2.654 |
| Dividends received | | - | 904 |
| Net cash generated from/(used in) operating activities | | <u>64.090</u> | <u>(505.335)</u> |
| Net increase/(decrease) in cash and cash equivalents | | 64.090 | (505.335) |
| Cash and cash equivalents at beginning of the year | | <u>200.627</u> | <u>705.962</u> |
| Cash and cash equivalents at end of the year | 9 | <u><u>264.717</u></u> | <u><u>200.627</u></u> |

The notes on pages 9 to 26 are an integral part of these financial statements.

MFO BALANCED FUND**a Sub-Fund of MFO Funds****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2023****1. Reporting entity**

MFO Balanced Fund (the "Sub-Fund") is a sub-fund of MFO Funds, which is an Undertaking of Collective Investments in Transferable Securities (UCITS) operating as an Umbrella Scheme. MFO Funds (the "Fund") was granted license number UCITS 14/78 on 17 September 2018 by the Cyprus Securities and Exchange Commission.

The Fund is an open-ended investment fund primarily involved in investing in a highly diversified portfolio of securities, with emphasis on fixed income securities and money market instruments.

The Fund is managed by MFO Asset Management Ltd.

2. Basis of accounting**2.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the provisions of the Open-Ended Undertakings for Collective Investment (UCI) Law of 2012, L.78(I)/2012, as amended from time to time ("UCI Law").

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention, except in the case of investments, which are measured at their fair value.

3. Functional and presentation currency

The financial statements are presented in Euro (€) which is the functional currency of the Sub-Fund.

4. Adoption of new and revised IFRSs and interpretations by the European Union (EU)

During the current year the Fund adopted all the changes to International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2023. This adoption did not have a material effect on the accounting policies of the Fund.

At the date of approval of these financial statements, Standards, Revised Standards and Interpretations were issued by the International Accounting Standards Board which were not yet effective. Some of them were adopted by the European Union and others not yet. The Board of Directors of the Management Company expects that the adoption of these financial reporting standards in future periods will not have a significant effect on the financial statements of the Sub-Fund.

MFO BALANCED FUND**a Sub-Fund of MFO Funds****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2023****5. Use of estimates and judgements**

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Sub-Fund's accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may deviate from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively - that is, in the period during which the estimate is revised, if the estimate affects only that period, or in the period of the revision and future periods, if the revision affects the present as well as future periods.

5.1 Measurement of fair values

A number of the Sub-Fund's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Management Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements and which is segregated from portfolio management.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Sub-Fund uses observable market data as far as possible.

The fair value of financial instruments traded in active markets, such as publicly traded trading is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Sub-Fund is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

MFO BALANCED FUND**a Sub-Fund of MFO Funds****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2023

5. Use of estimates and judgements (continued)

The Sub-Fund recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in notes:

- Note 14 - Financial instruments

6. Significant accounting policies

The following accounting policies have been applied consistently for all the years presented in these financial statements.

6.1 Revenue recognition

Net realised/unrealised gain from financial assets at fair value through profit or loss includes all realised and unrealised fair value changes and foreign exchange differences, where applicable.

Interest income from cash and cash equivalents is recognised on a time-proportionate basis using the effective interest method.

6.2 Dividend income

Dividend income is recognised in the statement of comprehensive income when the right to receive income is established. For quoted equity securities this is usually the ex-dividend date. For unquoted equity securities this is usually the date when the owners have approved the payment of a dividend. Dividend income from equity securities designated at fair value through profit or loss is recognised in the statement of profit or loss and other comprehensive income as dividend income.

6.3 Financial instruments***6.3.1 Recognition and initial measurement***

Financial assets and financial liabilities at FVTPL are recognised on the trade date, which is the date when the Sub-Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

6.3.2 Classification and subsequent measurement

On initial recognition, the Sub-Fund classifies financial assets as measured at amortised cost or FVTPL.

MFO BALANCED FUND

a Sub-Fund of MFO Funds

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. Significant accounting policies (continued)

6.3 Financial instruments (continued)

Financial assets are not reclassified subsequent to their initial recognition unless the Sub-Fund changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- 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 on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets.

Financial assets - Business model assessment

The Sub-Fund makes 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 considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Sub-Fund's management;
- 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;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Fund's continuing recognition of the assets.

The Sub-Fund has determined that it has two business models.

- Held-to-collect business model: this includes cash and cash equivalents. These financial assets are held to collect contractual cash flow.
- Other business model: this includes debt securities and equity investments. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

MFO BALANCED FUND

a Sub-Fund of MFO Funds

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. Significant accounting policies (continued)

6.3 Financial instruments (continued)

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, '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 and 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 Sub-Fund considers 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 this assessment, the Sub-Fund considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Sub-Fund's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition unless the Sub-Fund were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

Financial assets - Subsequent measurement and gains and losses:

| | |
|------------------------------------|--|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |

MFO BALANCED FUND

a Sub-Fund of MFO Funds

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. Significant accounting policies (continued)

6.3 Financial instruments (continued)

6.3.2.1 Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities at amortised cost:

- This includes other payables.

Amortised cost measurement:

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 amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

6.3.3 Impairment

- Financial instruments and contract assets

The Sub-Fund recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- contract assets.

The Sub-Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

MFO BALANCED FUND

a Sub-Fund of MFO Funds

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. Significant accounting policies (continued)

6.3 Financial instruments (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Sub-Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

The Sub-Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Sub-Fund considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Sub-Fund in full, without recourse by the Fund to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Sub-Fund considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Sub-Fund considers this to be Baa3 or higher per Moody's rating agency or BBB- or higher per Moody's Rating Agency.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Sub-Fund is exposed to credit risk.

- Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

- Credit-impaired financial assets

At each reporting date, the Fund assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

MFO BALANCED FUND

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

6. Significant accounting policies (continued)

6.3 Financial instruments (continued)

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

- **Presentation of allowance for ECL in the statement of financial position**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

6.4 Derecognition of financial assets and liabilities

Financial assets

The Sub-Fund derecognises a financial asset (or, where applicable a part of a financial asset or part of a Fund of similar financial assets) when:

- the contractual rights to receive cash flows from the asset have expired;
- the Sub-Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Sub-Fund transfers the rights to receive the contractual cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

Any interest in such derecognised financial assets that is created or retained by the Sub-Fund is recognised as a separate asset or liability

MFO BALANCED FUND**a Sub-Fund of MFO Funds****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2023****6. Significant accounting policies (continued)****6.4 Derecognition of financial assets and liabilities (continued)*****Financial liabilities***

The Sub-Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Sub-Fund also derecognises a financial liability when it is replaced by another from the same lender on substantially different terms, or when the terms of the liability are substantially modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

6.5 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Fund has a currently enforceable legal right to offset the recognised amounts and it intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL and foreign exchange gains and losses.

6.6 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and time deposits. Bank overdrafts that are repayable on demand and form an integral part of the Sub-Fund's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

6.7 Provisions

Provisions are recognised when the Sub-Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Sub-Fund expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

MFO BALANCED FUND

a Sub-Fund of MFO Funds

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2023**7. Other operating expenses**

| | 2023 € | 2022 € |
|------------------------------------|---------------------|---------------------|
| Independent auditors' remuneration | 1.190 | 1.190 |
| Annual licensing fees | 1.800 | 1.800 |
| Other expenses | <u>3.478</u> | <u>1.075</u> |
| | <u><u>6.468</u></u> | <u><u>4.065</u></u> |

8. Financial assets at fair value through profit or loss

| | 2023 € | 2022 € |
|--------------------------------|-------------------------|-------------------------|
| Balance at beginning of period | 4.738.223 | 5.108.180 |
| Additions | 1.558.256 | 3.486.699 |
| Disposals | (1.639.558) | (3.349.779) |
| Change in fair value | 312.723 | (506.877) |
| Accrued interest change | <u>2.847</u> | <u>-</u> |
| Balance at end of period | <u><u>4.972.491</u></u> | <u><u>4.738.223</u></u> |

The financial assets at fair value through profit or loss are marketable securities and are valued at market value at the close of business on 31 December.

In the statement of cash flows, financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital. In the statement of profit or loss and other comprehensive income, changes in fair values of financial assets at fair value through profit or loss are recorded in revenue.

The exposure of the Sub-Fund to market risk in relation to financial assets is reported in note 14 to the financial statements.

9. Cash and cash equivalents

| | 2023 € | 2022 € |
|--------------|-----------------------|-----------------------|
| Cash at bank | <u>264.717</u> | <u>200.627</u> |
| | <u><u>264.717</u></u> | <u><u>200.627</u></u> |

The exposure of the Sub-Fund to credit risk and impairment losses in relation to cash and cash equivalents is reported in note 14 to the financial statements.

MFO BALANCED FUND**a Sub-Fund of MFO Funds****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2023****10. Net assets attributable to unitholders****Units**

The Sub-Fund's units are classified into Class A and Class B units.

The Minimum Initial Subscription and Minimum Additional Subscription required for Class A units is €200.000.

The Minimum Initial Subscription and Minimum Additional Subscription required for Class B units is €5.000.

The Sub-Fund's issued units and NAV per unit are as follows:

| | 2023 | 2022 | 2021 |
|--|-------------------|-------------------|-------------------|
| Class A Units | <u>55.396,440</u> | <u>55.396,440</u> | <u>55.369,440</u> |
| Net Asset Value per Unit | <u>€94,3028</u> | <u>€88,9322</u> | <u>€104,6914</u> |
| Net assets attributable to Class A unitholders | <u>€5.224.039</u> | <u>€4.926.525</u> | <u>€5.799.528</u> |
| Class B Units | - | - | - |
| Net Asset Value per Unit | - | - | - |
| Net assets attributable to Class B unitholders | <u>-</u> | <u>-</u> | <u>-</u> |

11. Other payables

| | 2023 | 2022 |
|----------|---------------|---------------|
| | € | € |
| Accruals | <u>13.169</u> | <u>12.325</u> |
| | <u>13.169</u> | <u>12.325</u> |

Other creditors include management fee accruals payable to MFO Asset Management Ltd amounting to €8.829 (2022: €9.335), depositary fee accruals payable to Eurobank Cyprus Ltd amounting to €1.800 (2022: €1.800), audit fee accruals amounting to €1.190 (2022: €1.190) and Safekeeping fees accruals €1.350 (2022: €0).

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

MFO BALANCED FUND

a Sub-Fund of MFO Funds

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

12. Related party transactions

The transactions and balances with related parties are as follows:

12.1 Management Company

The Sub-Fund appointed MFO Asset Management Ltd, a UCITS management company incorporated in Cyprus, to implement the investment strategy as specified in the prospectus. As per the prospectus, the management fee is per annum on the average net asset value of the Sub-Fund at the end of each month. The management fee includes fees to enable the Management Company to perform its tasks and functions, or to provide services, irrespective of whether those functions are carried out by the Management Company itself or have been outsourced to third parties. The Sub-Fund pays the Management Company a management fee of 0.70% per annum on Class A units and 0.95% per annum on Class B units, calculated on the Sub-Fund's average net asset value. The management fees incurred during the year ended 31 December 2023 amounted to €34.891 (2021: €37.183). Included in other payables at 31 December 2023 were management fees payable of €8.829 (2022: €9.335).

(i) Directors' remuneration

The following table depicts the total remuneration paid by the Management Company to its staff and beneficiaries for the financial year ending 31 December 2023.

| | Number of beneficiaries | Total remuneration | Fixed remuneration | Variable remuneration |
|---|----------------------------|-----------------------|-----------------------|--------------------------|
| Total Remuneration paid by the Management Company | <u>24</u> | <u>732.645</u> | <u>688.595</u> | <u>44.050</u> |

Remuneration paid to employees who have a material impact on the risk profile of the Fund:

| | | | | |
|---|----------|----------------|----------------|---------------|
| Senior Management, risk takers and other identified staff | <u>7</u> | <u>465.585</u> | <u>431.535</u> | <u>34.050</u> |
|---|----------|----------------|----------------|---------------|

The following table depicts the total remuneration paid by the Management Company to its staff and beneficiaries for the financial year ending 31 December 2022.

| | Number of beneficiaries | Total remuneration | Fixed remuneration | Variable remuneration |
|---|----------------------------|-----------------------|-----------------------|--------------------------|
| Total Remuneration paid by the Management Company | <u>16</u> | <u>619.616</u> | <u>582.216</u> | <u>37.400</u> |

Remuneration paid to employees who have a material impact on the risk profile of the Fund:

| | | | | |
|---|----------|----------------|----------------|---------------|
| Senior Management, risk takers and other identified staff | <u>8</u> | <u>374.655</u> | <u>340.855</u> | <u>33.800</u> |
|---|----------|----------------|----------------|---------------|

MFO BALANCED FUND**a Sub-Fund of MFO Funds****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2023****12. Related party transactions (continued)**

The remuneration policy of the Management Company applies to all categories of staff, including senior management, risk takers, control functions and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and those risk takers, whose professional activities have a material impact on the risk profiles of the managed UCITS/AIFs to all employees. The last review of remuneration policy of the Management Company was conducted by its Internal Auditor during 2023 with no deficiencies identified. There were no changes to the remuneration policy during the year.

The Board of Directors of the Management Company has adopted the remuneration policy in order to comply with the regulatory and legislative framework. The remuneration components are:

- fixed remuneration (including fixed supplements);
- performance-based remuneration (variable salary);
- provident fund contributions;
- other benefits.

The fixed remuneration is determined on the basis of the role and position of the individual employee, including professional experience, responsibility, job complexity and local market conditions. The performance-based remuneration motivates and rewards high performers who significantly contribute to sustainable results, perform according to set expectations for the individual in question, strengthen long-term customer relation, and generate income and value to the company. The Board of the Management Company has determined a maximum percentage of performance-based remuneration relative to the fixed remuneration. The maximum limit on variable remuneration remains as 50 per cent of fixed salary inclusive of provident fund contributions. The limit will be reduced if required by applicable legislation.

13. Other key contracts

The Sub-Fund has appointed the Depositary to provide depositary services pursuant to a depositary agreement dated 7 November 2018. Under the terms of the agreement the Fund pays the depositary 0,08% custody commission per annum on the average net value of the Sub-Fund's assets held by the Depositary during the relevant fiscal year for average net assets of €10.000.000 or less and 0,07% per annum on the average net value of the Sub-Fund's assets if the average assets are more than €10.000.000.

MFO BALANCED FUND

a Sub-Fund of MFO Funds

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2023**14. Financial instruments - fair values and risk management****Financial risk factors**

The Sub-Fund is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Management Company has the overall responsibility for the establishment and oversight of the Sub-Fund's risk management framework.

The Sub-Fund's risk management policies are established to identify and analyse the risks faced by the Sub-Fund, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Sub-Fund's activities.

A. Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | Carrying amount | | | Fair value | |
|---|----------------------|------------------------------------|------------------|------------------|------------------|
| | Mandatorily at FVTPL | Financial assets at amortised cost | Total | Level 1 | Total |
| 31 December 2023 | € | € | € | € | € |
| Assets measured at fair value | | | | | |
| Sovereign debt securities | 3.119.350 | - | 3.119.350 | 3.119.350 | 3.119.350 |
| Corporate debt securities | 729.441 | - | 729.441 | 729.441 | 729.441 |
| Money markets | 569.473 | - | 569.473 | 569.473 | 569.473 |
| Equity securities | 554.227 | - | 554.227 | 554.227 | 554.227 |
| Total | 4.972.491 | - | 4.972.491 | 4.972.491 | 4.972.491 |
| Financial assets not measured at fair value | | | | | |
| Cash and cash equivalents | - | 264.717 | 264.717 | - | - |
| Total | - | 264.717 | 264.717 | - | - |
| Financial liabilities not measured at fair value | | | | | |
| Other payables | - | 13.169 | 13.169 | - | - |
| Total | - | 13.169 | 13.169 | - | - |

MFO BALANCED FUND

a Sub-Fund of MFO Funds

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

14. Financial instruments - fair values and risk management (continued)

| | Carrying amount | | | Fair value | |
|---|----------------------|------------------------------------|----------------|------------|-----------|
| | Mandatorily at FVTPL | Financial assets at amortised cost | Total | Level I | Total |
| 31 December 2022 | € | € | € | € | € |
| Assets measured at fair value | | | | | |
| Sovereign debt securities | 2.364.982 | - | 2.364.982 | 2.364.982 | 2.364.982 |
| Corporate debt securities | 1.339.767 | - | 1.339.767 | 1.339.767 | 1.339.767 |
| Money market securities | 551.310 | - | 551.310 | 551.310 | 551.310 |
| Equity securities | 482.164 | - | 482.164 | 482.164 | 482.164 |
| Financial assets not measured at fair value | | | | | |
| Cash and cash equivalents | - | 200.627 | 200.627 | - | - |
| Total | - | 200.627 | 200.627 | - | - |
| Financial liabilities not measured at fair value | | | | | |
| Other payables | - | 12.325 | 12.325 | - | - |
| Total | - | 12.325 | 12.325 | - | - |

B. Financial risk management

The Sub-Fund has exposure to the following risks arising from financial instruments:

- credit risk (see note B(i));
- liquidity risk (see note B(ii)); and
- market risk (see note B(iii)).
- operational risk (see note B(iv)).

(i) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date.

MFO BALANCED FUND

a Sub-Fund of MFO Funds

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 2023**14. Financial instruments - fair values and risk management (continued)****(i) Credit risk (continued)**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | 2023 € | 2022 € |
|---------------------------|-----------------------|-----------------------|
| Cash and cash equivalents | <u>264.717</u> | <u>200.627</u> |
| | <u><u>264.717</u></u> | <u><u>200.627</u></u> |

Debt securities

The maximum exposure to credit risk for debt securities classified at FVTPL at the reporting date by geographic region was as follows:

| | Carrying amount | |
|--------------------|-------------------------|-------------------------|
| | 2023 € | 2022 € |
| Eurozone countries | 3.848.791 | 3.446.659 |
| Asia | <u>-</u> | <u>258.090</u> |
| | <u><u>3.848.791</u></u> | <u><u>3.704.749</u></u> |

At 31 December, the Sub-Fund invested in corporate debt securities with the following credit quality.

| | Carrying amount | |
|-----|-------------------------|-------------------------|
| | 2023 € | 2022 € |
| AA | 799.495 | 1.179.242 |
| A | 1.718.729 | 1.611.940 |
| BBB | 402.519 | 116.534 |
| BB | 928.048 | 414.199 |
| B | <u>-</u> | <u>382.834</u> |
| | <u><u>3.848.791</u></u> | <u><u>3.704.749</u></u> |

MFO BALANCED FUND

a Sub-Fund of MFO Funds

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

14. Financial instruments - fair values and risk management (continued)**(i) Credit risk (continued)****Cash and cash equivalents**

The table below shows an analysis of the Fund's bank deposit by the credit rating of the bank in which they are held:

| <u>Bank group based on credit ratings by Moody's</u> | <u>No of banks</u> | 2023 | 2022 |
|--|--------------------|----------------|----------------|
| | | € | € |
| Without credit rating | <u>1</u> | <u>264.717</u> | <u>200.627</u> |
| | <u>1</u> | <u>264.717</u> | <u>200.627</u> |

(ii) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Sub-Fund has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

The following are the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

| 31 December 2023 | Carrying amounts € | Contractual cash flows € | 3 months or less € |
|---|-----------------------|-----------------------------|-----------------------|
| Non-derivative financial liabilities | | | |
| Other payables | 13.169 | 13.169 | 13.169 |
| Net assets attributable to unitholders | <u>5.224.039</u> | <u>5.224.039</u> | <u>5.224.039</u> |
| | <u>5.237.208</u> | <u>5.237.208</u> | <u>5.237.208</u> |
| 31 December 2022 | | | |
| Non-derivative financial liabilities | | | |
| Other payables | 12.325 | 12.325 | 12.325 |
| Net assets attributable to unitholders | <u>4.926.525</u> | <u>4.926.525</u> | <u>4.926.525</u> |
| | <u>4.938.850</u> | <u>4.938.850</u> | <u>4.938.850</u> |

MFO BALANCED FUND**a Sub-Fund of MFO Funds****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2023****14. Financial instruments - fair values and risk management (continued)*****(iii) Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Fund's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Sensitivity analysis

An increase in equity prices by 5% at 31 December 2023 would have increased net assets attributable to unitholders by €248.482 (2022: €236.911) thousand and profit or loss by €248.482 (2022: €236.911) thousand. For a decrease of 5% there would be an equal and opposite impact on the profit and other equity.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Sub-Fund invests in securities and other investments that are denominated in currencies other than the Euro. Accordingly, the value of the Sub-Fund's assets may be affected favorably or unfavorably by fluctuations in currency rates and therefore the Sub-Fund is subject to foreign exchange risks. The Sub-Fund undertakes certain transactions denominated in foreign currencies and hence is exposed to the effects of exchange rate fluctuations. The Sub-Fund's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

(iv) Operational risk

Operational risk is the risk that derives from the deficiencies relating to the Sub-Fund's information technology and control systems as well as the risk of human error and natural disasters. The Fund's systems are evaluated, maintained and upgraded continuously.

15. Events after the reporting period

There were no material events after the reporting period, which have a bearing on the understanding of the financial statements for the year ended 31 December 2023.

On 26 March 2024 the Management Company of MFO Balanced Fund approved and authorised these financial statements for issue.

