FMO

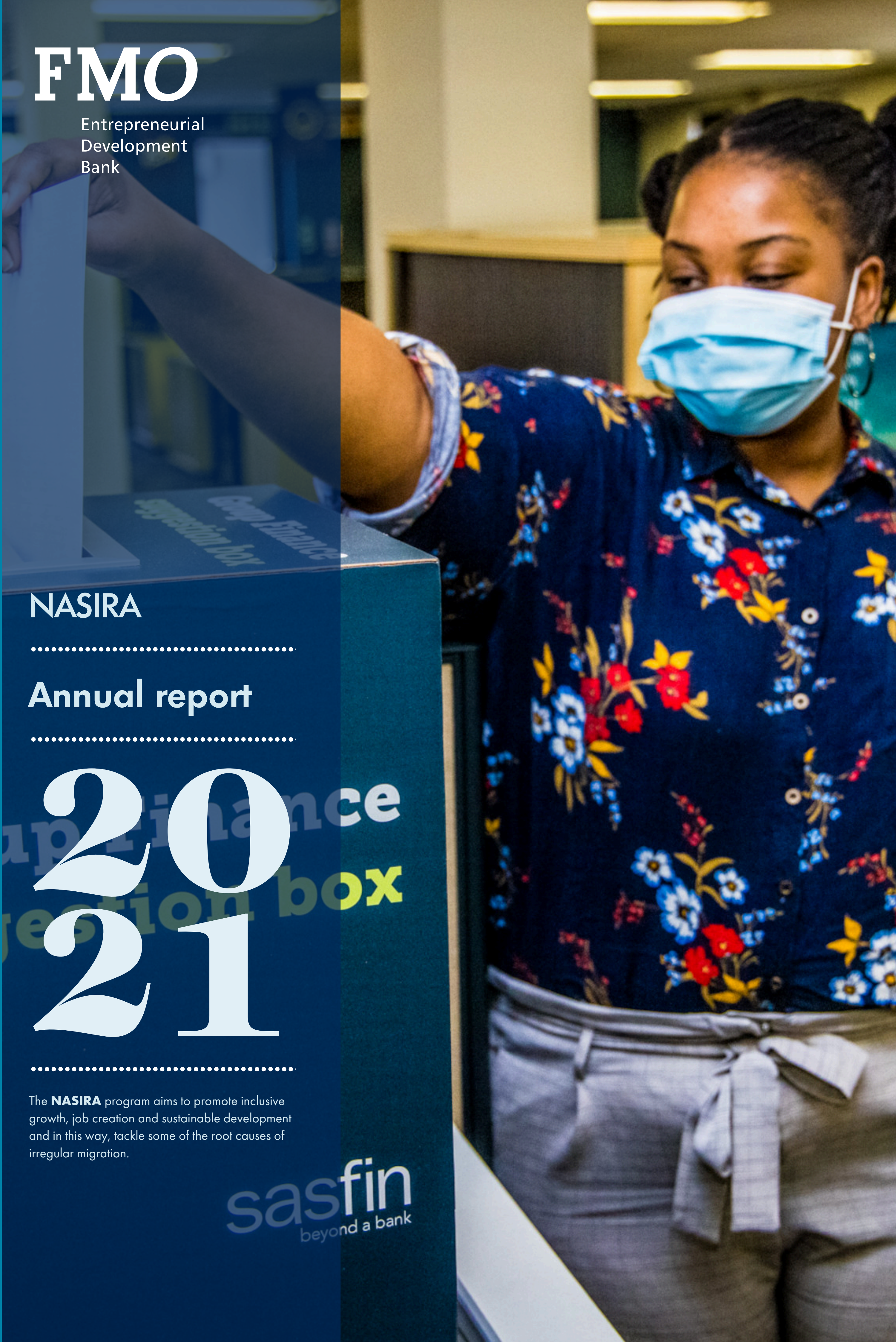
Entrepreneurial
Development
Bank

NASIRA

Annual report

2021

The **NASIRA** program aims to promote inclusive growth, job creation and sustainable development and in this way, tackle some of the root causes of irregular migration.



Government of the Netherlands

In 2020, two new FMO programs have become operational: NASIRA and the Ventures Program. These blended finance programs are enabled by contributions from the European Commission, the Dutch Ministry of Foreign Affairs, and FMO. The total contribution of the Ministry of Foreign Affairs to NASIRA and the Ventures Program is €10 mln and €60 mln. The European Commission has provided €100 mln and €40 mln respectively. FMO is expected to contribute €400 mln and €100 mln.

This innovative financial program aims to promote inclusive growth, job creation and sustainable development and in this way, tackle some of the root causes of irregular migration.

LETTER FROM THE MB OF THE PROGRAM MANAGER

Dear reader,

This was the second consecutive year in which FMO was faced with the effects of an ongoing pandemic. Challenges and change but also resilience in how we deal with new realities have characterized 2021. For most of the year we were unable to travel to our markets and carry out business as usual. Still we have supported our customers during the pandemic and at the same time stepped up our efforts in completing the Financial Economic Crime enhancement project, including an extensive Know Your Customer file remediation effort, tailored to the specific requirements of developing and emerging economies.

During these challenging times, the public funds managed to realize or come very close to their targets and therefore continued to play a key, countercyclical role in 2021. Not only did our finance solutions support our clients in facing the pandemic, it also contributed to much-needed new investments, improving the long-term resilience of our customers.

In 2022, that resilience will be further tested as the ongoing war in Ukraine and associated sanctions will have a severe impact on all markets in the global economy.

Our long-standing track record in managing public funds to catalyze private sector finance, has also contributed to a significant expansion of our responsibilities. Over the past years, FMO set up facilities and investment programs with the European Commission and the Green Climate fund. In 2021, the UK government also decided to trust FMO with the management of the UKs Mobilizing Finance for Forestry Fund.

Nasira is an innovative financial program that supports young, female, migrant and COVID-19 affected entrepreneurs in sub-Saharan Africa and countries neighboring Europe. Over the past year, we have observed increased uptake of NASIRA in our markets with both existing clients and prospects. Due to the COVID-19 pandemic, banks are increasingly interested to get protection for their portfolios, especially when expanding into new riskier segments. Also, the inclusion of COVID-19-affected MSME's in NASIRA's mandate has significantly increased the value proposition of our product to banks, as we can now also support general MSME portfolios while promoting increased lending to the original target groups.

There are eight years left in this decisive decade and to help reach the SDGs. Growing inequality continues to affect our markets and we all know the extent of the urgency to take climate action. The world calls for transformative impact to tackle these two challenges. Courage and ambition are therefore imperative in the deployment of the European Commission programs. We will continue to generate investments that create equal opportunities and equitable access to finance, that protect the value of ecosystems and forests, that provide access to renewable energy and that help build up fair value chains in agriculture.

The Hague, 28 April 2022

On behalf of the Management Board

Michael Jongeneel, Chief Executive Officer
Fatoumata Bouaré, Chief Risk and Finance Officer
Huib-Jan de Ruijter, Chief Investment Officer

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Highlights on annual progress

It is with pleasure we present the second annual report for our NASIRA facility. Over the past year, we have observed increased uptake of NASIRA in our markets with both existing clients and prospects.

Due to the COVID-19 pandemic, banks are increasingly interested to get protection for their portfolios, especially when expanding into new riskier segments. Also, the inclusion of COVID-19-affected MSME's in Nasira's mandate has significantly increased the value proposition of our product to banks, as we can now also support general MSME portfolios while promoting increased lending to the original target groups.

After South Africa (Sasfin) and Kenya (Equity Bank) last year, in 2021 NASIRA ventured into several new countries in Sub-Saharan Africa and the European Neighborhood. We signed transactions in Jordan (Bank al Ethihad and Capital Bank of Jordan), Nigeria (Access Bank), Armenia (AraratBank) and Kenya again (Sidian Bank), bringing the Nasira portfolio to a total of seven signed transactions by year-end. Two of these are highlighted below.

In June 2021, FMO and AraratBank signed a USD 10mln NASIRA loan portfolio guarantee. The risk-sharing facility enables AraratBank to support Covid-19 affected MSMEs and an MSME business loan portfolio of youth, women, and migrant entrepreneurs from Lebanon, Syrian, Ukraine, and Iraq currently living in Armenia, to support their income-generating business activities. The facility provides AraratBank with an opportunity to deepen business lending in more vulnerable segments of the economy, in a risk-controlled manner: it enables the bank to gain more experience and data needed to develop new production lines and products (more flexibility and adjusted collateral requirements). A Technical Assistance program is also ready to support AraratBank in these efforts.

In October 2021, we signed a USD 20 mln NASIRA guarantee program with Capital Bank of Jordan earmarked for MSME loans to COVID-19-affected and young entrepreneurs. A unique feature of this program is that the loans will be originated by companies lending to small businesses in Jordan: United Liwwa for SME Financing (Liwwa) and Sanadcom. This is a landmark transaction in the MENA region, allowing alternative MSME lenders Liwwa and Sanadcom to access sustainable funding through a local tier 1 bank. It mobilises larger volumes of local funds that would otherwise not get to these alternative lenders.

NASIRA+: Extending the mandate

The past year has shown how NASIRA guarantees and accompanying TA can play an important role to reduce inequality by supporting the financing to promising female, young and migrant entrepreneurs in the European Neighborhood and Sub-Saharan Africa. With the EFSD+ opening in 2022, we see an opportunity to extent the program's mandate. By introducing the innovative financial product to a wider range of geographies and more FMO focus sectors, we can significantly increase our contribution to inclusive growth, job creation and sustainable development. Next to female, young and migrant entrepreneurs the NASIRA+ top up will also include general MSME's, MFI's and fragile states. The planned adaption of the guarantee structure will make the product a better fit for less developed institutions. NASIRA+ can become a vital instrument to support FMO's move to fragile states and cover transactions aimed at Climate Action (SDG13), Gender Equality (SDG 5) and Reducing Inequalities (SDG10).

Financial Statements

Balance sheet

At December 31, 2021

	Notes	2021	2020
Assets			
Financial guarantee contract - receivable leg	(1)	729	188
Receivables from implementing partners		14	0
Total assets		**743**	**188**
Liabilities			
Financial guarantee contract - payable leg	(2)	1,336	397
Total liabilities		**1,336**	**397**
Retained earnings			
Revenues returned to EC (-)		-	-
Accumulated surplus/(deficit)		-209	-
Economic result of the year		-384	-209
Total contributor's resources		**-593**	**-209**
Contingent liabilities			
- Guarantees - signed amount[1]	(5)	15,968	4,508

1 Maximum outstanding guarantee amount under signed and effective guarantee agreements.

Statement of financial performance

At December 31, 2021

	Notes	2021	2020
Revenue from financial guarantee contracts			
Amortization of the financial guarantee liability	(3)	197	16
Expenses from financial guarantee contracts			
Financial guarantee contract fee subsidy	(1), (2)	-569	-207
Financial result		**-372**	**-191**
Other expenses			
Foreign exchange losses	(4)	-12	-18
Result from operating activities		**-12**	**-18**
Economic result for the year		**-384**	**-209**

Statement of changes in net assets

At December 31, 2021

	Accumulated surplus/(deficit)	Economic result of the year	Total
Balance at 1 January, 2020	-	-	-
Economic result of the year	-	-209	-209
Balance at December 31, 2020	**-**	**-209**	**-209**
Balance at 1 January, 2021	-	-209	-209
Transfer economic result of the year PY to Accumulated surplus/ (deficit)	-209	209	-
Economic result of the year	-	-384	-384
Balance at December 31, 2021	**-209**	**-384**	**-593**

Statement of cash flows

No cash flows have been recorded in the Program up to 31 December 2021

Summary of accounting policies

General information

The Nasira Program (the Program) is established by the European Commission (EC) to facilitate lending to underserved entrepreneurs in developing countries through financial guarantees. FMO co-invests in the Program and administers the Program on behalf of the EC.

Basis of preparation

These financial statements relate to the EC's participation in the Program. The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) and paragraph 11 of the EFSD guarantee agreement. IPSAS 41: Financial Instruments is applied to account for the financial guarantees within the Program. The EC has prepared its own guidance on applying IPSAS 41 to financial guarantees under EFSD guarantee agreements, and this guidance has been applied in the preparation of the financial statements.

The EC’s exposure to the Nasira program is not carried through a specific legal entity, although it has similar reporting obligations. As there is no reference to a specific legal entity in the financial statements, these financial statements relate only to the EC’s share of the mezzanine tranche of the Nasira Program. A separate technical assistance subsidy is provided by the EC for the Nasira program, however this is not covered in the financial statements.

As the financial statements represent the EC's participation in the Program, no current or deferred tax implications are recognized for the financial guarantee or the guarantee fee.

The financial statements are prepared on the 'going concern principle' as the EC has committed to cover part of the losses of a part of the Program as contributor and has not given any indications that the Agreement of their participation should be terminated before the agreed term. EC's participation in the Program is not comparable to a legal entity in the sense that it would have an impact on the capital or liquidity position.

These financial statements have been prepared under the historical cost convention except for:

- The initial measurement of financial guarantee liabilities which is based on fair value.

Significant estimates and assumptions and judgements

In preparing the financial statements 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 financial statements. The most relevant estimates and assumptions relate to:

- The valuation of financial liabilities relating to financial guarantees.

Foreign currency translation

The euro is used as the unit for presenting the financial statements. All amounts are denominated in thousands of euros unless stated otherwise. Foreign currency transactions are translated to euro at the exchange rate prevailing on the date of the transaction. At the balance sheet date, monetary assets and liabilities are reported using the closing exchange rate. Non-monetary assets that are not measured at cost denominated in foreign currencies are reported using the exchange rate that existed when fair values were determined.

Offsetting financial instruments

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

Fair value of financial instruments

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

Amortized cost and gross carrying amount

The amortized cost ("AC") of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any expected credit loss allowance. The *gross carrying amount* of a financial instrument is the AC of a financial instrument before adjusting for any expected credit loss allowance.

Financial guarantee contract – Receivable leg

The receivable legs of financial guarantee contracts relate to guarantee fees to be received over the life of the financial guarantee contracts, recognised in conjunction with the financial liabilities relating to financial guarantee contracts (see section below). Future guarantee fee receipts are discounted at a rate based on the yield on an instrument with similar characteristics to the underlying the guarantee, with reference to the credit rating, tenor, sector, and territory.

The impact of discounting the projected guarantee fees is unwound on each reporting date with the corresponding adjustments being recorded in "Other revenue" in the statement of financial performance. Guarantee fee receivables derived from financial guarantee contracts denominated in foreign currencies are remeasured based on the exchange rates on the reporting date.

Financial guarantee contract – Payable leg

Initial recognition and measurement

A financial liability is recognized to reflect the estimated obligations arising from the guarantee contracts issued by the Program, specifically for the EC's tranche. Initial recognition occurs once the financial guarantee contract becomes effective. Each financial guarantee liability is initially recognised at fair value.

The guarantee fees earned by the EC contain a concessional element and as such are not representative of an arm's length fee from which to derive an initial fair value. In accordance with IPSAS 41 and the EC's accounting guidance, a proxy guarantee fee is to be applied in estimating an arm's length initial fair value. For this purpose, the guarantee fee agreed between FMO (as the entrusted entity for the Program) and the participating financial institution is considered a reasonable proxy for an arm's length guarantee fee.

The guarantee fees arising out of the guarantee contracts are not paid upfront but in arrears. In accordance with the EC's accounting guidance, the projected future guarantee fees are present valued in order to derive an estimate of the total guarantee fee on day 1. The discount rate applied is based on the yield on an instrument with similar characteristics to the underlying the guarantee, with reference to the credit rating, tenor, sector, and territory.

Financial guarantee liabilities derived from financial guarantee contracts denominated in foreign currencies are initially measured based on the exchange rates on the date of initial recognition.

Subsequent measurement

The initial value of each financial guarantee liability is amortised over the life of the financial guarantee contract using the straight-line method. Amortisation is recognised in profit and loss in the period to which it relates, and is recorded as other revenue from operating activities in the statement of profit and loss. In addition, the carrying value of the financial guarantee liability is measured as the higher of:

- The initial fair value of the financial guarantee liability less accumulated amortisation, and
- The expected credit loss associated with the financial guarantee.

Financial guarantee liabilities derived from financial guarantee contracts denominated in foreign currencies are remeasured based on the exchange rates on the reporting date.

Guarantee claims

Claims made by the entrusted entity under the financial guarantee contract will be recognised as an expense in the period they occur. They do not reduce the value of the financial guarantee liability.

Contributor's resources

Accumulated surplus / deficit

The accumulated surplus / deficit consist of the part of the annual results that the Program accumulates over the life of the Program.

Revenues returned to EC

Revenues returned to EC represent guarantee fees paid towards the EC which result in deductions from the financial guarantee contract - receivable leg. The payments represent returns of the EC's economic interest in the program and are reflected as a deduction in contributor's resources.

Financial guarantee contract fee subsidy

"Financial guarantee contract fee subsidy" represents the estimate of the concessional amount underlying each financial guarantee contract and is based on the difference between the initial fair value of the financial guarantee liability and the initial value of the guarantee fee receivable from the entrusted entity. The expense is recognised directly in profit and loss at the point of initial recognition of each financial guarantee contract.

Notes to the financial statements

1. Financial guarantee contract - receivable leg

The following table represents the movement related to unearned guarantee fee receivable.

	Unearned guarantee fee receivable
Balance at January 1, 2020	**-**
Addition of new contracts	170
Guarantee fee payments accrued	-
Unwind of time value of money	2
Foreign exchange impact	16
Balance at December 31, 2020	**188**

Balance at January 1, 2021	**188**
Addition of new contracts	501
Guarantee fee payments accrued	-14
Unwind of time value of money	36
Foreign exchange impact	18
Balance at December 31, 2021	**729**

2. Financial guarantee contract - payable leg

The following table represents the movement related to the financial guarantee liability.

	Financial guarantee liability
Balance at January 1, 2020	**-**
Addition of new contracts	377
Amortisation	-14
Foreign exchange impact	34
Balance at December 31, 2020	**397**

Balance at January 1, 2021	**397**
Addition of new contracts	1,070
Amortisation	-161
Foreign exchange impact	30
Balance at December 31, 2021	**1,336**

3. Amortisation of the financial guarantee liability

	2021	2020
Amortisation of financial guarantee liability	161	14
Unwind of time value of money on guarantee fee receivable	36	2
Total Amortization of the financial guarantee liability	**197**	**16**

4. Foreign exchange losses

	2021	2020
Foreign exchange losses	-12	-18
Total foreign exchange losses	**-12**	**-18**

5. Off-Balance Sheet information

Off balance sheet commitments relate to unutilised portions of guarantee agreements entered into with participating financial institutions.

	2021	2020
Contingent liabilities		
Guarantees - signed amount[1]	15,968	4,508
Contractual commitments - Guarantee ceiling	100,000	100,000

1 Maximum outstanding guarantee amount under signed and effective guarantee agreements

6. Valuation of financial assets and liabilities

Valuation techniques are applied to estimate the fair value at initial recognition of the financial guarantee liabilities that arise out of the Program's financial guarantee contracts, as well as the guarantee fee receivables from the contracts. The valuation of the initial value of the financial guarantee liability is based on estimating an arm's length guarantee fee to be earned over the life of the guarantee agreement and discounting it to the date of initial recognition at a discount rate that is representative of the yield on a similar financial instrument. The initial fair value is then amortized over the life of the guarantee contract.

Guarantee fee receivables are initially valued at the present value of future guarantee fees earned over the life of the contract, discounted at the same rate as applied to the financial guarantee liability. The receivables are subsequently valued by accounting for actual receipts and the unwinding of the discount over time.

The table below illustrates the estimated fair value of financial assets and liabilities currently recognized at amortized cost on the balance sheet.

Financial assets-liabilities not measured at fair value	**2021**	
At December 31	**Carrying amount**	**Fair value**
Financial assets		
Financial guarantee contract - receivable leg	729	729
Receivables from implementing partners	14	14
Financial liabilities		
Financial guarantee contract - payable leg	1,336	1,336

Financial assets-liabilities not measured at fair value	**2020**	
At December 31	**Carrying amount**	**Fair value**
Financial assets		
Financial guarantee contract - receivable leg	188	188
Financial liabilities		
Financial guarantee contract - payable leg	397	397

7. Subsequent events

On February 24, 2022 the Russian Federation started to invade Ukraine. At reporting date, the Program has no direct exposure to Ukraine, the Russian Federation or Belarus, therefore no material impact is expected on the financial statements.

There have been no significant subsequent events between the balance sheet date and the date of approval of these accounts which should be reported by the Program and have an impact on the financial figures as per December 31, 2021.

Risk management

Organization of risk management

For FMO, acting in its role as the entrusted entity, it is essential to have an adequate risk management system in place to identify, measure, monitor and mitigate financial and non- financial risks. The Program's activities expose it to various risks in relation to financial instruments: currency risk, credit risk and liquidity risk. The Program's overall risk management activities focus on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Program's financial performance.

Risk management is carried out by a central risk management department under policies approved by management. Risk management identifies, evaluates and manages financial risks in close co-operation with the entity's operating units. It focuses on actively securing the Program's short to medium-term performance by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

Credit risk

Credit risk is defined as the risk that the Program will suffer economic loss because a counterparty cannot fulfil its financial or other contractual obligations arising from a financial contract. Credit risk is expected to become the main risk within the Program and occurs on investments in emerging markets and off-balance instruments such as loan commitments.

Management of credit risk is FMO's core business, both in the context of project selection and project monitoring. In this process, a set of investment criteria per sector is used that reflects benchmarks for the required financial strength of FMO's customers. This is further supported by internal scorecards that are used for risk classification. As to project monitoring, the Program's customers are subject to periodic reviews. Credit policies and guidelines are reviewed regularly and approved by the Investment Review Committee.

No limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties in the near future.

The following table includes the maximum exposure to credit risk relevant for the Program.

Maximum exposure to credit risk, including derivatives	**2021**	**2020**
Off-balance		
Contingent liabilities (guarantees - signed amount)	15,968	4,508
Total off-balance	**15,968**	**4,508**
Total credit risk exposure	**15,968**	**4,508**

The rating grade distribution of the credit risk exposure is as follows:

	Stage no-SICR	**Stage SICR**
Long-term rating		
Prime and high grade		
Moody's: Aaa/Aa1/Aa2/Aa3	-	-
Upper medium grade		
Moody's: A1/A2/A3	-	-
Lower medium grade		
Moody's: Baa1/Baa2/Baa3	1,345	-
Non-investment grade		
Moody's: Ba1 and below	14,623	-
Managed on collective basis / not rated	-	-
Total	**15,968**	**-**

Financial Guarantee Contract - gross carrying amount	**Stage no-SICR**	**Stage SICR**	**Total**
Financial Guarantee Contract - carrying amount at January 1	397	-	397
Financial Guarantee Contract - carrying amount at December 31	1,336	-	1,336

The following table shows the movement in expected credit loss on the financial guarantee contracts.

Expected Credit Losses on FGC	Stage no-SICR 12M ECL	Stage SICR Life-time ECL	Total ECL
Expected credit loss at 1 January	3	-	3
Transfer to stage SICR (+/-)	-	-	-
Transfer back to stage no-SICR (+/-)	-	-	-
Additions (new operations) (+)	30	-	30
Release of guarantees (-)	-	-	-
Remeasurement (+/-)	25	-	25
Expected credit loss at 31 December	**58**	**-**	**58**

Liquidity risk

The Program manages its liquidity needs by monitoring for long-term financial liabilities as well as forecast cash inflows and outflows.

The table below analyses the Program's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

Categorization of principal cash flows per maturity bucket

December 31, 2021	< 1 year	1-5 years	>5 years	Total
Assets				
Financial guarantee contract - receivable leg	198	423	108	729
Receivables from implementing partners	14	-	-	14
Total assets	**212**	**423**	**108**	**743**
Liabilities				
Financial guarantee contract - payable leg	1,336	-	-	1,336
Total liabilities	**1,336**	**-**	**-**	**1,336**

Categorization of principal cash flows per maturity bucket

December 31, 2020	< 1 year	1-5 years	>5 years	Total
Assets				
Financial guarantee contract - receivable leg	17	147	24	188
Total assets	**17**	**147**	**24**	**188**
Liabilities				
Financial guarantee contract - payable leg	397	-	-	397
Total liabilities	**397**	**-**	**-**	**397**

Contractual maturity of contingent liabilities

December 31, 2021	< 1 year	1-5 years	>5 years	Total
Contingent liabilities	100,000	-	-	100,000
Total off-balance	**100,000**	**-**	**-**	**100,000**

Contractual maturity of contingent liabilities

December 31, 2020	< 1 year	1-5 years	>5 years	Total
Contingent liabilities	100,000	-	-	100,000
Total off-balance	**100,000**	**-**	**-**	**100,000**

Market risk

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

Interest rate risk

Due to the nature of the Program, the EC is not exposed to interest rate risk.

Currency risk

Most of the Program's transactions are carried out in EUR. Exposures to currency exchange rates arise from the Program's overseas activities. Due to the commitment to the implementation of the development agenda and objectives, the Program does not exclusively take mitigating measures such as hedging. The Program does not take active positions in any currency for the purpose of making a profit.

Currency risk exposure (at carrying values)

December 31, 2021	EUR	USD	ZAR	KES	JOD	NGN	Other	Total
Assets								
Financial guarantee contract - receivable leg	-	164	190	226	149	-	-	729
Receivables from implementing partners	14	-	-	-	-	-	-	14
Total assets	**14**	**164**	**190**	**226**	**149**	**-**	**-**	**743**
Liabilities								
Financial guarantee liability (Net)	-	301	339	442	254	-	-	1,336
Total liabilities	**-**	**301**	**339**	**442**	**254**	**-**	**-**	**1,336**

Currency risk exposure (at carrying values)

December 31, 2020	EUR	USD	ZAR	KES	JOD	NGN	Other	Total
Assets								
Financial guarantee contract - receivable leg	-	-	188	-	-	-	-	188
Total assets	**-**	**-**	**188**	**-**	**-**	**-**	**-**	**188**
Liabilities								
Financial guarantee liability (Net)	-	-	397	-	-	-	-	397
Total liabilities	**-**	**-**	**397**	**-**	**-**	**-**	**-**	**397**

Country limits

To ensure diversification within the emerging market portfolio across regions, a country limit framework is in place to minimize concentration risk from the perspective of the portfolio as a whole. The Program is only eligible to invest in low- and middle-income countries as defined in the EFSD Agreement.

Non-financial risk

Reputational risk

Reputation risk is inevitable given the nature of the Program's operations in developing and emerging markets. FMO, as the entrusted entity, has a moderate appetite for reputation risk, accepting that reputational impact of activities may incidentally lead to negative press coverage, NGO attention or undesirable client feedback, as long as these activities clearly contribute to FMO's mission. FMO actively mitigates the risk as much as possible through strict and clear policies, thorough upfront assessments, consultations with stakeholders and when necessary, through legal agreements with customers. FMO has in place a Sustainability Policy, as well as statements on human rights, land rights and gender positions.

Environmental, social and governance risk

Environmental & Social (E&S) risk refers to potential adverse impacts of the Program's investments on the environment, employees, communities, or other stakeholders. Corporate Governance (G) risks refers primarily to risk to client business. ESG risks can lead to non-compliance with applicable regulation, NGO and press attention or reputation damage. These risks stem from the nature of the Program's projects in difficult markets, where regulations on ESG are less institutionalized. The Program has an appetite for managed risk in portfolio, accepting ESG performance below standards when starting to work with a client with the goal that performance is brought in line with our ESG risk mitigation requirements within a credible and reasonable period. ESG risks are mitigated through environmental and social action plans and monitoring. The risk appetite for deviations from the exclusion list and human rights violations is zero.

Compliance risk

Compliance Risk is the risk of failure to comply with laws, regulations, rules, related self-regulatory organization, standards and codes of conduct applicable to FMO. Being a regulated bank, the most important applicable laws in relation to products and customers, are the Dutch Financial Supervision Law (WFT); AML (WWFT); Sanctions Law and General Data Protection Regulation.

The Program's customers follow FMO's procedures e.g. customer onboarding; assessment of compliance risks, periodic Know Your Customer (KYC) reviews as well Event Driven KYC Reviews. FMO's standards and policies and good business practices foster acting with integrity. FMO is committed to its employees, customers and counterparties, adhering to high ethical standards. FMO has a Compliance framework which entails identifying risks, designing policies, monitoring, training and providing advice. FMO has policies on topics such as financial economic crime (including KYC, sanctions, anti-bribery and corruption) conflicts of interest, internal fraud, private investments, privacy and speak-up. FMO also regularly trains its employees to raise awareness by means of e.g. virtual classroom trainings and mandatory compliance related e-learnings. Employees are also encouraged to speak up in case of suspected integrity violations conducted by a FMO employee.

Financial Economic Crime, incl. sanctions

FMO's financial economic crime procedures include, amongst others, screening of customers on compliance with applicable anti-money laundering, counter financing of terrorism and international sanctions laws and regulations. Due diligence is performed on customers, which includes checks such as 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 2021, FMO continued the FEC Enhancement program initiated in 2019 and met the agreed deadline with DNB to finalize the remediation project on December 31, 2021. All active KYC-files are remediated – using a new KYC tool - and meet the standards of the renewed CDD-AML Policy and CDD-AML Manual. In the second half of 2021, the renewed KYC organization was implemented in the front-office (first line) and business as usual processes were restarted, amongst others periodic reviews of KYC-files. Independent external validation confirmed that the remediated efforts and KYC files are demonstrably compliant with the relevant requirements, after which the Management Board provided a compliance statement to DNB end of 2021. The validation identified several recommendations that FMO will follow up on in 2022.

There is always a risk that a customer is involved or alleged to be involved in illicit acts (e.g. money laundering, fraud or corruption). If such an event occurs, FMO will initiate a dialogue with the client, if possible and appropriate given the circumstances, to understand the background to be able to assess and investigate customer will be achieved (e.g. awareness, implementing controls) or that the risk to FMO's reputation is unacceptably high, FMO may be able to exercise certain remedies under the contract such as the right to cancel a loan or suspend upcoming disbursements and will report to regulatory authorities if deemed necessary.

Operational risk

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

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

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

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

EY
Building a better working world

Independent auditor's report

To: the management board of Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. in its capacity of "Nasira" program manager

Our opinion

We have audited the financial statements 2021 of the EFSD Guarantee "Nasira" further to clause 11.5 of the agreement dated 18 December 2018 prepared by Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. as the program manager (hereinafter: FMO) based in The Hague.

In our opinion the financial statements as of 31 December 2021 of the EFSD Guarantee "Nasira" are prepared, in all material respects, in accordance with the special purpose accounting principles as defined in the agreement dated 18 December 2018 between FMO and the European Union, paragraph 11.5 (hereinafter: program requirements).

The financial Statements for the EFSD Guarantee "Nasira" (hereinafter: the financial Statements) comprise:

- Balance sheet
- Statement of financial performance
- Statement of changes in net assets
- Statement of cash flows
- Summary of accounting policies
- Notes to the financial statements
- Risk Management

Basis for our opinion

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

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

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

Emphasis of the basis for accounting and the restriction on use and distribution

We draw attention to the note Basis of preparatio in the financial statements, which describes the basis of accounting. The financial statements are intended for FMO and the European Commission and are prepared to assist FMO to comply with the program requirements. As a result, the financial statements may not be suitable for another purpose. Therefore, our auditor's report is intended solely for FMO and the European Commission and should not be distributed to or used by other parties. Our opinion is not modified in respect of this matter.

Other information

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

- Letter from the management board of the program manager
- Performance on our strategy
- Annexes

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

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

The management board of FMO is responsible for the preparation of the other information in accordance with the program requirements.

Responsibilities of management for the financial statements

The management board of FMO is responsible for the preparation of the financial statements in accordance with the program requirements. Furthermore, the management board is responsible for such internal control as the management board determines is necessary to enable the preparation of the financial statements that is free from material misstatement, whether due to fraud or error.

Our responsibilities for the audit of the financial statements

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

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

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

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

Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represents the underlying transactions and events free from material misstatements.

We communicate with the management board 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, 28 April 2022

Ernst & Young Accountants LLP

signed by J.G. Kolsters

ANNEXES[1]

Annex 1 I Annual Progress Report / Portfolio Overview

Investment Name	Country	Focus	Committed	EC tranche size
Sasfin Bank	South Africa	COVID-19 affected	ZAR equivalent of USD 35 mln	€4,158,600.70
Equity Bank Kenya	Kenya	COVID-19 affected, women, youth, and agribusiness	KES equivalent of USD 50 mln	€4,606,823.94
Bank al Etihad	Jordan	COVID-19 affected, women, and youth	JOD equivalent of USD 30 mln	€2,975,865.30
AraratBank	Armenia	COVID-19 affected, women, youth, and migrants	USD 10 mln	€1,364,639.78
Capital Bank of Jordan	Jordan	COVID-19 affected and youth	JOD equivalent of USD 20 mln	€2,129,581.31
Access Bank Nigeria	Nigeria	COVID-19 affected, women, and youth	NGN equivalent of USD 25 mln	€1,993,775.53
Sidian Bank	Kenya	COVID-19 affected, women, and youth	KES equivalent of USD 15 mln	€2,320,312.50
			USD 185 mln	**€19,549,599.06**

1 Please note that these annexes are excluded from the scope of auditor's opinion on the annual financial statements.

Annex 2 I Client Profiles

SASFIN	**South Africa**

Sasfin Bank is a South African Tier 2 commercial bank which specializes in asset backed lending to SMEs. Sasfin was established as a family-owned textile importer in 1951 and shifted toward providing trade finance in 1970. Sasfin obtained its banking license and registered as a commercial bank in 1999. Sasfin is wholly owned by Sasfin Holdings Limited which obtained a listing on the JSE in 1987. The Bank provides secured loans to SMEs in the form of office and capital equipment leases, trade finance, debtor finance, and commercial property finance.

Sasfin was chosen as first recipient of the NASIRA guarantee as a long-standing client for which our FI department was confident they would have the means to implement the NASIRA guarantee. NASIRA provided the equivalent of USD 35 mln. in ZAR in guarantees to Sasfin on the 30th of September. The guarantee focuses on COVID-19 affected entrepreneurs, with a large part of the portfolio consisting of loans to women and youth. The guarantee has a total tenor of 7 years.

At the time of signing, South Africa was relatively hard hit by COVID-19 compared to other African countries. The government took very swift and far-stretching measures. Exports were minimalized, and consumer spending had dropped to a 9-year low point. Preliminary evidence showed that small businesses are severely affected by COVID-19: 95% could not afford to pay their employees, 93% don't have any other sources of income and half of them expect that their business can't survive the crisis. The NASIRA guarantee hopes to allow Sasfin to sustain and grow its portfolio during the aftermath of the crisis.

Equity Bank	**Kenya**

EBK, a partner of FMO since 2007, is part of the Equity Group, one of the largest financial service groups in East Africa. The bank was founded in 1984 in Nairobi and originally acted as a provider of mortgage financing for the low-income population. Since 2006, the Group is listed on the Nairobi Securities Exchange. The bank offers a broad range of financial products and services for retail and business clients and historically has a special focus on SME's and Micro SME's.

EBK is one of Kenya's most innovative and MSME-oriented banks. To support Kenyan entrepreneurs during these challenging times and to support the bank's overall (M)SME ambitions, FMO will provide a NASIRA loan portfolio guarantee covering loans provided to MSMEs affected by the COVID-19 crisis, including female and young entrepreneurs and companies in the agri value chain.

As of September 2020, Kenya had a relative moderate number of COVID-19 infections. However, the potential disruptive shock to the health care system is large, as there is low resilience. Furthermore, the Kenyan government took harsh measures: imposing a 7pm – am curfew and closing schools and bars. A study done by Dalberg for FMO among 150 MSMEs in Kenya, shows that 95% of MSMEs have seen their revenues decrease.

Bank al Etihad	**Jordan**

Bank al Etihad is dedicated to serving the underbanked SME segment in Jordan, including women-led businesses, young entrepreneurs, and start-ups. Founded in 1978 under the name Union Bank, the bank has built a reputable track record in the Jordanian banking sector: in recent years it has grown from the 8th to the 3rd largest bank with 53 branches and a total asset size of USD 6.7bln. Its share in MSME financing has been increasing over the past years. Bank al Etihad has a strong focus on achieving SDG 10 (Reducing Inequalities) which is demonstrated by its active membership of the Global Banking Alliance for Women and the launch of its comprehensive program to empower female entrepreneurs.

The COVID-19 crisis has hit (M)SMEs hard in Jordan. In response, Bank al Etihad launched tailor-made financial services, such as the COVID-19 relief fund, to support entrepreneurs in continuing their business. Additionally, it provided non-financial services in the form of digital capacity-building workshops to strengthen SMEs' resilience during these difficult circumstances.

To support and strengthen Bank al Etihad's efforts to address the needs of SMEs, FMO provided a Nasira loan portfolio guarantee covering loans provided to SMEs affected by the COVID-19 crisis, including female and young entrepreneurs. The underlying loans will be used for income-generating activities. The guarantee is complemented with Technical Assistance to strengthening the Bank's capacities to effectively provide financial and non-financial services and develop new and improved products for the target groups.

AraratBank	**Armenia**

AraratBank is a mid-sized universal bank in Armenia focusing on MSME and retail customers. The bank has 53 branches across the country, employs around 1025 staff and has a total asset size of USD 501 million. The economic fallout resulting from the Covid-19 pandemic has adversely affected Armenia's economic growth, forcing it in a phase of recession.

Faltering domestic demand due to the costly lockdown to combat Covid-19 and weak external demand for Armenian exports (except gold) further exacerbated this situation. This situation has significantly decreased consumer activity, caused shortages of inputs in trade and manufacturing (MSMEs), lowered external demand for agricultural exports and tourism. The USD 10mln Nasira loan portfolio guarantee enables AraratBank to support Covid-19 affected MSMEs and an MSME business loan

portfolio of youth, women and migrant entrepreneurs – from Lebanon, Syrian, Ukraine and Iraq currently living in Armenia - to support their income generating business activities. Nasira risk sharing facility provides AraratBank with an opportunity to deepen business lending in more vulnerable segments of the economy, in a risk-controlled manner: it enables the bank to gain more experience and data needed to develop new production lines and products (more flexibility, adjusted collateral requirements).

Capital Bank of Jordan	**Jordan**

Capital Bank of Jordan is part of Capital Bank Group, one of the largest banking institutions operating in the Jordanian and regional markets servicing corporate, SME and retail clients. With an increasing focus on the SME segment since its inception in 1995, the bank has a binary strategy whereby it serves the well-established medium to larger SMEs directly, and the smaller enterprises by means of partnerships with local Fintechs and other alternative SME lenders as a way of reaching out to all layers of the MSME ecosystem.

In October 2021, Capital Bank of Jordan signed a USD 20 mln NASIRA guarantee programme earmarked for MSME loans to COVID-19-affected and young entrepreneurs. Loans for this program will be originated by companies lending to small businesses in Jordan: United Liwwa for SME Financing (Liwwa) and Sanadcom.

This is a landmark transaction in the MENA region, allowing alternative MSME lenders Liwwa and Sanadcom to access sustainable funding through a local tier 1 bank. It mobilises larger volumes of local funds that would otherwise not get to these alternative lenders.

Access Bank **Nigeria**

Access Bank Plc is a strategic partner of FMO (since 2005) and has developed from the 65th position among Nigeria's 95 banks in 2002 to become the largest bank in 2019. The Nasira guarantee program is a new step in this partnership, working together towards more financial inclusion in Nigeria.

Access Bank is a full-service commercial bank operating through a network of 567 branches across Nigeria. Apart from the Nigerian operations, which constitute 88% of total operations, the bank has seven subsidiaries in Africa, one in the UK and four rep offices. Historically, Access Bank has focused on the corporate and commercial banking space.

To support the Nigerian MSME's during these challenging COVID-times and to support the bank's overall ambition to reach more small entrepreneurs, FMO and Access Bank have signed a USD 25 mln (NGN equivalent) NASIRA guarantee program. The portfolio guarantee will cover loans provided to MSMEs affected by the Covid-19 crisis including female and young entrepreneurs. The guarantee also includes a Technical Assistance program focused on development of financial and nonfinancial products and services for young and female entrepreneurs, and support for MSME clients hit by the Covid-19 pandemic. Additional training on new developments will be offered for both staff and end-borrowers.

Sidian Bank **Kenya**

Sidian Bank is a full-service commercial bank providing an array of financial services to individuals and enterprises. The bank, formerly known as K-rep Bank has been a leading player in Kenya's enterprise banking sector. Sidian Bank's mission is to create wealth through provision of transformational financial solutions that meet entrepreneurs' needs and facilitate growth through convenience and choice. The bank has a network of 42 branches representing most counties as well as a strong digital platform offering mobile and internet banking.

FMO and Sidian Bank signed a USD 15 million NASIRA loan portfolio guarantee to strengthen Sidian Bank's ability to provide financing to MSMEs affected by the COVID-19 crisis in Kenya. A minimum of 30 percent of the total guarantee facility will be allocated specifically to young and female entrepreneurs. The guarantee will be provided in a Kenyan Shilling equivalent.

A technical assistance program will be offered alongside the guarantee to support Sidian Bank in building staff capacities and developing financial and non-financial service for the NASIRA target groups in particular those active in the agricultural sector.

Annex 3 | Progress Indicators / Impact reporting

Nasira Indicators

The impact reporting on progress indicators (next page) mostly concerns four Nasira transactions: **Sasfin** (South Africa), **Equity Bank** (Kenya), **AraratBank** (Armenia), and **Bank al Ethihad** (Jordan). Because the other three transactions were only signed close to year-end 2021, no disbursements were made, thus there is no impact to report on yet. This is why Access Bank Nigeria, Capital Bank of Jordan, and Sidian Bank Kenya are only considered for indicators 'leverage ratio' and 'volume of risk-sharing facilities' (table 2, countries indicated with *).

Nasira target groups are disaggregated by sex and age (youth/young entrepreneurs are 18-35 years). To prevent double-counting, women and youth are excluded from the COVID-19 affected entrepreneurs' data.

Please note that **Equity Bank Kenya** (current loan balance: €65,145,362.35) is not reporting on the age of its end-beneficiaries. Its amounts of loans and numbers of loans data are therefore considered for 35+ women entrepreneurs and COVID-19 affected entrepreneurs, leading to higher figures for these target groups. As the Nasira guarantee to Equity Bank Kenya (EBK) is partially aimed at including agribusiness entrepreneurs, we would like to highlight that ~35% (~€22.8mln amount of loans) of EBK's portfolio currently consists of entrepreneurs in this target group.

Employment						
Country	Total indirect jobs supported	Women	Youth	Total direct jobs supported	Women	Youth
South Africa	333	98	14	28	10	1
Kenya	32,310	9,397	3,610	129	34	15
Armenia	344	100	18	19	7	1
Jordan	15	2	1	-	-	-
Nigeria	-	-	-	-	-	-
Total	**33,002**	**9,597**	**3,643**	**176**	**51**	**17**

Leverage Ratios				
Country	Investment leverage ratio	Eligible FI financing leverage ratio	Private financing leverage ratio	Volume risk sharing facilities*
South Africa	7.41	7.41	7.41	1
Kenya	7.26	7.26	7.26	2*
Armenia	6.54	6.54	6.54	1
Jordan	8.21	8.21	8.21	2*
Nigeria	11.11	11.11	11.11	1*
Total	**8.08**	**8.08**	**8.08**	**7**

Access to Finance												
	Amount of loans					**Number of loans**						
Country	Young women entrepreneurs	35+ women entrepreneurs	Young men entrepreneurs	COVID-19 affected entrepreneurs	Mirant entrepreneurs	Young women entrepreneurs	35+ women entrepreneurs	Young men entrepreneurs	COVID-affected entrepreneurs	Mirant entrepreneurs	Total MSMEs	Total unique MSMEs/ beneficiaries
South Africa	€1,845,389.14	€5,177,815.19	€2,755.47	€880,917.39	-	56	209	1	56	-	322	256
Kenya	-	€16,172,659.24	-	€48,972,703.12	-	-	5,768	-	12,361	-	18,129	18,045
Armenia	€236,529.99	€742,677.10	€740,642.90	€2,715,044.84	-	15	53	54	142	-	264	230
Jordan	-	-	-	€191,529	-	-	-	-	4	-	4	2
Nigeria	-	-	-	-	-	-	-	-	-	-	-	-
Total	**€2,081,919.14**	**€22,093,151.53**	**€743,398.37**	**€52,760,194.30**	-	**71**	**6,030**	**55**	**12,563**	-	**18,719**	**18,533**

Annex 4 I Communication and Visibility

In line with the EU Visibility guidelines for External Action, FMO's communication and visibility strategy is based on two pillars: Awareness and Reporting. In the first year of NASIRA visibility and communication, emphasis was placed on creating internal and external awareness of the program, to highlight benefits, applicability, and scalability. Most activities and procurements have either been developed in-house or paid for from the Organization's own communications budget.

FMO has developed a communications toolkit to supply its investments teams with marketing materials and training to promote the NASIRA program with existing and potential new financial institutions customers. In addition to direct outreach to potential customers, FMO ensures media coverage on newsworthy developments around the program (deals & signings)

NASIRA's communications toolkit is under construction. The toolkit currently consists of:

- **Corporate identity** : In order to ensure the NASIRA program will be recognised and remembered, the Organization hired an external agency to develop a consistent corporate identity. The agency designed 3 NASIRA persona's which feature in an infographic and animation video explaining the basic information on how the program works in practice.
- **Website** : The Organization developed a 2-page website which is fully dedicated to the NASIRA program: www.nasira.info . The website currently features the NASIRA infographic, animation, videos and news updates. The website's applications can be updated an extended with i.e. reporting and mapping.
- **Pitch deck** : An external agency was hired to develop a NASIRA pitch deck which supports the Organization's investment teams with promoting the NASIRA offering to existing and potential new financial institutions customers
- **Video's** : FMO hired an external agency to develop an animated video to explain how the NASIRA program works. In addition to this, The European Commission provided a video on the first customer under the program: Tamweelcom.

FMO ensures media coverage on newsworthy developments around the program. So far, nine press releases have been issued to relevant press contacts in close collaboration with the European Commission's communication team as well as the relevant European Union Delegations. In addition to these publications, FMO shares regular updates on its social media channels, i.e. responding to external news developments, to increase external awareness about the Nasira program.

Annex 5 I NASIRA Technical Assistance Facility

Complementary to the Nasira Risk Sharing Facility, FMO manages the Nasira Technical Assistance Facility ("Nasira TAF"). The TAF strengthens the ability of FIs to better serve the Nasira target groups and to unlock and enhance their potential. Not only are the target groups often perceived by FIs as being highrisk, leaving them with limited or no access to formal financial services, but FIs also often lack the tools or knowledge on how to identify and assess the needs of these groups. In 2021, both Sasfin Bank in South Africa and Bank al Etihad (BAE) in Jordan benefited from such a TA project. Additionally, a Sahel market study was performed to showcase the potential investment opportunities and landscape of the Nasira target groups in Mali, Burkina Faso, Benin and Niger. The full assessment of the contribution of these technical assistance activities can be found in the detailed Nasira Technical Assistance Progress Report 2021.

Summary of recovery action

No recovery action was needed in 2021.

Annex 6 | Summary of controls and audits carried out

External audit 2021:

EY performed the financial audit of the NASIRA facility for the year ended 31 December 2021 and provided FMO with an unqualified audit opinion.

Internal audit 2021:

As part of the internal audit plan 2020, Internal audit performed a review engagement on the NASIRA program, which resulted in a number of findings. The agreed actions have been addressed in 2020 and 2021. An issue related to impact of privacy regulation on NASIRA, was, as part of a company-wide GDPR project, closed in Q1 2022.

Annex 7 I How do we report

We prepared this integrated annual report using the principles of the Integrated Reporting framework of the International Integrated Reporting Council (IIRC) and the GRI standards. We strive for transparent reporting on our strategy, the dilemmas that we face and the way in which we are implementing our strategy in order to create value for our stakeholders.

Reporting policy

Many of our financing and investing activities take place in foreign currencies, mostly in US dollars. Unless explicitly stated, all investment amounts mentioned throughout the report have been translated into our functional currency, the Euro, based on the foreign exchange rates at the date of contracting. Figures referring to the year-end committed portfolio have been translated into euros using the year-end foreign exchange rates.

For the closing-of-the-books processes, data was taken from our internal systems. Data pertaining to our portfolio was taken from financial systems. Non-financial elements of our portfolio, specifically data for measuring impact and footprint, are based on data from customers and macroeconomic data sources.

Data quality is important as it forms the basis for management reporting and steering. To safeguard data quality, financial and non-financial data registration are embedded in our core investment process. The results are analyzed by an employee independent of the investment process, both on project level during the year and on an aggregated level after closing of the books. Beyond that, as a third line of defense, FMO's Internal Audit department considers data quality and the underlying processes to be important audit areas.

Joint Impact Model

The Joint Impact Model (JIM) is the successor of FMO's impact model which was introduced in 2015. Since early 2019, FMO and Steward Redqueen, together with other strategic partners, have worked on the harmonization of the underlying methodology and the inputs required. A full methodological description is available on FMO's website. We use the Joint Impact Model to estimate the number of jobs supported through our investment portfolio and the financed absolute GHG emissions.

Limitations of the model

The impact model allows quantifying the wider impact of investing in various economic regions and sectors, both directly and through financial institutions and funds. The model makes use of data from international statistical sources and investment-specific information which we obtain from our customers' annual accounts. The impact model is an economic input-output model, which enables the model to trace product and money flows through an economy. However, it is also important to point out the limitations of this methodology:

- Estimates of indirect impact are based on industry averages (via input/output tables). In reality indirect effects will be different at the individual company level due to differences in individual company characteristics. As a result, model outcomes become less accurate for smaller numbers of investments.
- Estimates are based on historical relations, while the methodology is based on the most recent (macro) economic data available.
- FMO's investments are treated as investments from any other lender and it has been assumed that FMO's financial support does not affect the relations of sectors within an economy.
- Given that the analysis is conducted for a specific moment in time, it does not take into account any structural changes in the economy (e.g. increased productivity).
- Taking the limitations of the model into account, we use the results only on the portfolio (and sub portfolio) level. In addition, we perform activities to provide insight in ex-post development effects, such as monitoring of direct effects, sector evaluations, effectiveness studies and impact evaluations. Find more information on how we measure impact and the Joint Impact Model Methodology on our website: How we measure impact - FMO

JIM attribution rules

FMO provides part of the capital a company needs, and hence other investors likely contribute to a company's business as well (either by providing capital or advice). Furthermore, external circumstances such as changing market conditions, climate change and technological developments may also influence the business. This raises the question of attribution: 'which portion of results of an invested company or portfolio of companies is due to the activities of an investor, taking into account other investors and additional factors that may have influenced the achievement of the results'? The JIM takes a pragmatic approach to this attribution question and applies prorating to attribute part of the impact to the investor's intervention: attribution is based on the share of FMO's net carrying value (loan or equity) in a customer's assets.

Colophon

Contact details Should you have any feedback or questions, please feel free to contact us.

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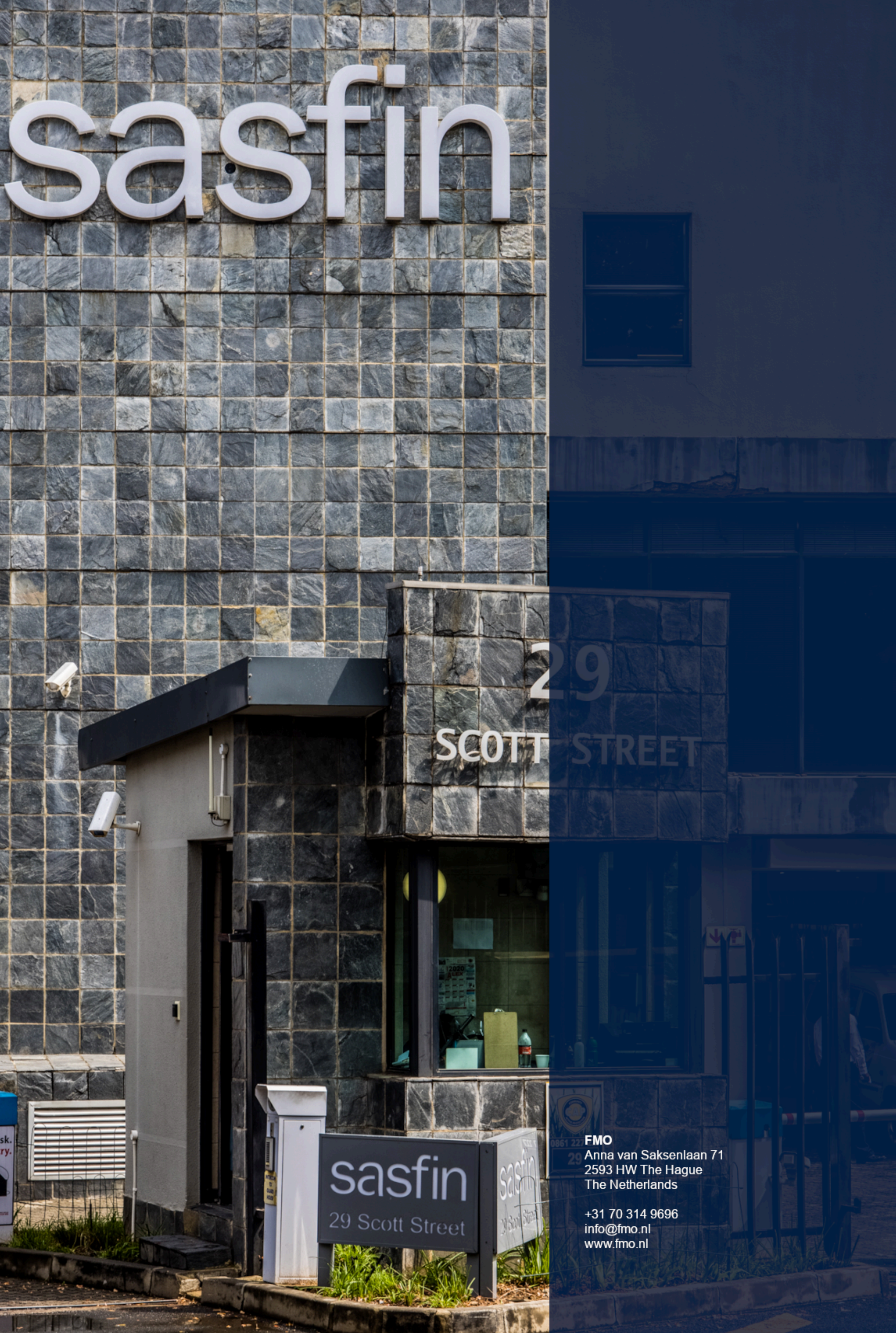

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