FMO
Entrepreneurial
Development
Bank

NASIRA

Annual report

2022

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,

In 2022, the global economy faced an intensification of upheaval. The Ukraine war – first and foremost a humanitarian disaster – led to political and economic crises across the region and beyond. Inequality rose, the climate crisis continued to unfold, and a global recession began to loom, pushing an increasing number of vulnerable people into food insecurity, reduced energy access and poverty. The crises also lead to a heightened stress on global trade systems, in particular in the Energy- and (agricultural) Commodities markets.

The poorest economies, where poverty reduction had already slowed down significantly, face continued challenges, confronting the resilience of society. Development finance institutions such as FMO will need to intensify their operations in the coming years to encourage the flow of private finance to meet sustainable investment needs in these societies.

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

Our long-standing track record in managing public funds to catalyze private finance, has contributed to a significant expansion of our responsibilities. Over the past few years, FMO set up facilities and investment programs with the European Commission and the Green Climate fund. In 2021, the UK government also decided to entrust FMO with the management of the UK's Mobilising Finance for Forests programme.
NASIRA's USD 10mln portfolio guarantee to Vitas Palestine Microfinance Company (Vitas), is a great example of the program's fit with the pioneer part of our strategy, as this guarantee catalyzes financing for underserved groups in a very challenging economic environment. The risk sharing facility enables Vitas to support the growth of MSMEs affected by COVID-19, including female and young entrepreneurs, operating in Gaza and the West Bank.

In 2022, we saw an increased uptake of the NASIRA guarantee product in our markets. With the €100mln EFSD guarantee, we have already leveraged a portfolio of €270mln. This is in line with reaching the target of €500mln of loans to underserved MSMEs, proving the NASIRA concept. We therefore welcome the European Commission's decision to extend the program's mandate (i.e., NASIRA+) under the EFSD+ window. 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.

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

The Hague, 26 April 2023

On behalf of the Management Board

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

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PERFORMANCE ON OUR STRATEGY

Highlights on annual progress

It is with pleasure we present the third annual report for our NASIRA facility. We saw an increased uptake of NASIRA guarantee product in our markets increasing the number of clients by four (4).

In 2022, the direct health effects of the COVID-19 pandemic had started to dissipate. In their stead, global macro-economic effects started to ensue, the main challenge seen globally was increase in headline inflation. This was on the back of rising energy prices as well as food prices following the start of the Ukrainian war in February of 2022. The world economy is expected to have its sharpest deceleration of the last 80 years. Rising borrowing costs magnify financial vulnerability which results in drastic global growth slowdown from 5.7 percent in 2021 to 2.9 percent in 2022. This meant NASIRA prospective and current clients were operating in a fundamentally different and strained economic environment. This highlighted the need for guarantee instruments in a blended structure to promote access to finance in the segments, countries and regions most in need.

New investments made through the NASIRA program in 2022 amounted to €78 million (2021: €82 million). We also ventured into new countries in Sub-Saharan Africa and the European Neighbourhood, as well as increasing our exposure in existing countries. We made investments in the State of Palestine (Vitas Palestine Microfinance Company), Jordan (Jordan Micro Finance Company "Tamweelcom"), Kenya (I&M Bank) and Egypt (CIB Bank). Bringing the NASIRA portfolio to a total of 11 signed transactions by year-end.

Kenyan MSMEs, particularly youth and women-owned businesses, generate more than one-third of the country's GDP, despite struggling to gain access to finance. I&M Bank is a wholly owned subsidiary of I&M PLC and has been an FMO customer since 2010. Recently, they have been focusing on increasing financial inclusion for MSMEs, as well as offering digital solutions (e.g., FinTech partnerships) for a smooth transition into an increasingly digital era. FMO provided a USD 15 mln NASIRA portfolio guarantee. The guarantee will foster financial inclusion, helping both banked and unbanked MSMEs in Kenya that have been hit by COVID-19. Additionally, the facility will include capacity development and technical assistance for non-financial services such as digitization, enhancing MSME lending practices, and financial literacy.

Further in 2022, we signed a USD 10mln Risk Sharing Facility and Technical Assistance support to Jordan Micro Finance Company "Tamweelcom". In 2020 and 2021, Tamweelcom's lending activity was limited to well-performing clients, this was on the back of portfolio quality deteriorated due to a less favorable risk environment under Covid-19 lockdown measures. The finance company has a strong social mission and was keen to increase its reach to additional micro and small business. In addition to being underserved by local banks, this segment's income stream is highly vulnerable to Covid-19 restrictions. With this Risk Sharing Facility, Tamweelcom can increase its financing activities in line with their ambition and strategy with a focus on women and youth-owned MSMEs. The guarantee also includes Technical Assistance support in line with Tamweelcom's strategic priorities of i) strengthening the MSME banking approach by improving credit scoring models and focusing on product development coupled with expanding non-financial services offering to increase its MSME portfolio and ii) digital transformation.

NASIRA+: Extending the mandate

We are very pleased with the Commission's approval of the extended NASIRA mandate (i.e., NASIRA+) under the EFSD+ window in 2022. Geographically, the program will expand to Asia, Latin America and the Caribbean, and Turkey. Building on lessons learnt, the program will also venture into "new" sectors, supporting rural/agri-MSME's to stimulate local production and food security, and clean energy solutions.

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, furthering FMO's ambition to reach the 2030 strategy.

Balance sheet

At December 31, 2022

	Notes	2022	2021
Assets			
Financial guarantee contract - receivable leg	(1)	815	729
Receivables from implementing partners		118	14
Total assets		**933**	**743**
Liabilities			
Financial guarantee contract - payable leg	(2)	1,501	1,336
Total liabilities		**1,501**	**1,336**
Retained earnings			
Revenues returned to EC		-46	-
Accumulated surplus/(deficit)		-593	-209
Economic result of the year		71	-384
Total retained earnings		**-568**	**-593**
Contingent liabilities			
- Guarantees - signed amount[1]	(5)	35,094	15,968
of which: available for utilisation		21,630	15,968

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

Statement of financial performance

At December 31, 2022

	Notes	2022	2021
Revenue from financial guarantee contracts			
Amortization of the financial guarantee liability	(3)	311	161
Expenses from financial guarantee contracts			
Financial guarantee contract fee subsidy	(1), (2)	-177	-569
Unwind of time value of money on guarantee fee receivable		-63	36
Financial result		**71**	**-372**
Other expenses			
Foreign exchange losses	(4)	-	-12
Result from operating activities		**-**	**-12**
Economic result for the year		**71**	**-384**

Statement of changes in net assets

At December 31, 2022

	Accumulated surplus/ (deficit)	Economic result of the year	Revenues returned to EC	Total
Balance at 1 January, 2021	-	-209	-	-209
Transfer economic result of previous year to Accumulated surplus/(deficit)	-209	209	-	-
Economic result of the year	-	-384	-	-384
Balance at December 31, 2021	**-209**	**-384**	**-**	**-593**
Balance at 1 January, 2022	-209	-384	-	-593
Transfer economic result of previous year to Accumulated surplus/(deficit)	-384	384	-	-
Economic result of the year	-	71	-	71
Revenues returned to EC	-	-	-46	-46
Balance at December 31, 2022	**-593**	**71**	**-46**	**-568**

Statement of cash flows

No cash flows have been recorded in the Program up to 31 December 2022.

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, assumptions and judgments

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. The exchange rates on guarantee contracts denominated in foreign currencies are fixed at the time of contracting for the lifetime of the contract. This implies that all transactions over the life of a guarantee are converted at the exchange rate in place at the initiation of the guarantee. In the current financial period an adjustment was recorded to bring all balances in line with the contractual exchange rates. The adjustment does not have a material impact on the financial statements.

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 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, 2022	**729**
Addition of new contracts	298
Guarantee fee payments accrued	-149
Unwind of time value of money	-63
Foreign exchange impact	0
Balance at December 31, 2022	**815**

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, 2022	1,336
Addition of new contracts	476
Amortisation	-311
Foreign exchange impact	-
Balance at December 31, 2022	**1,501**

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

	2022	2021
Amortisation of financial guarantee liability	311	161
Total Amortization of the financial guarantee liability	**311**	**161**

4. Foreign exchange losses

	2022	2021
Foreign exchange losses	0	-12
Total foreign exchange losses	**0**	**-12**

5. Off-Balance Sheet information

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

	2022	2021
Contingent liabilities		
Guarantees - signed amount[1]	35,094	15,968
of which: available for utilisation	21,630	15,968
Contractual commitments - Guarantee ceiling	100,000	100,000

Signed and effective	Committed not disbursed	Disbursed	Total commitment
SASFIN BANK LIMITED	-	4,158	4,158
EQUITY BANK LIMITED	-	4,607	4,607
BANK AL ETIHAD	-	2,976	2,976
ARARATBANK	-	1,365	1,365
CAPITAL BANK OF JORDAN	-	2,129	2,129
SIDIAN BANK LIMITED	-	2,320	2,320
VITAS PALESTINE MICROFINANCE COMPANY	2,577	1,498	4,075
Total	**2,577**	**19,053**	**21,630**
Signed and not yet effective			
ACCESS BANK PLC	1,994	-	1,994
CIB	6,490	-	6,490
JORDAN MICRO FINANCE COMPANY LTD	2,148	-	2,148
I AND M BANK LIMITED	2,832	-	2,832
Total	**13,464**	**-**	**13,464**
Total signed	**16,041**	**19,053**	**35,094**

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	**2022**	
At December 31	**Carrying amount**	**Fair value**
Financial assets		
Financial guarantee contract - receivable leg	815	815
Receivables from implementing partners	118	118
Financial liabilities		
Financial guarantee contract - payable leg	1,501	1,501

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

7. Subsequent events

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, 2022.

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	2022	2021
Off-balance		
Contingent liabilities (guarantees - signed amount)	35,094	15,968
Total off-balance	**35,094**	**15,968**
Total credit risk exposure	**35,094**	**15,968**

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	-	-
Non-investment grade		
Moody's: Ba1 and below	17,471	4,159
Managed on collective basis / not rated	-	-
Total	**17,471**	**4159**

Financial Guarantee Contract - gross carrying amount	Stage no-SICR	Stage SICR	Total
Financial Guarantee Contract - carrying amount at January 1	1,336	-	1,336
Financial Guarantee Contract - carrying amount at December 31	1,225	276	1,501

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	58	-	58
Transfer to stage SICR (+/-)	-25	25	-
Transfer back to stage no-SICR (+/-)	-	-	-
Additions (new operations) (+)	49	-	49
Release of guarantees (-)	-	-	-
Remeasurement (+/-)	310	233	543
Expected credit loss at 31 December	**392**	**258**	**650**

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, 2022	< 1 year	1-5 years	>5 years	Total
Assets				
Financial guarantee contract - receivable leg	159	570	86	815
Receivables from implementing partners	118	-	-	118
Total assets	**277**	**570**	**86**	**933**
Liabilities				
Financial guarantee contract - payable leg	1,501	-	-	1,501
Total liabilities	**1,501**	**-**	**-**	**1,501**

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**

Contractual maturity of contingent liabilities

December 31, 2022	< 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, 2021	< 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
The Program’s transactions are carried out in EUR. The exchange rates on guarantee contracts denominated in foreign currencies are fixed at the time of contracting for the lifetime of the contract. This implies that all transactions over the life of a guarantee are converted at the exchange rate in place at the initiation of the guarantee. The Program does not take active positions in any currency for the purpose of making a profit.

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. Furthermore, FMO as Program manager has embedded specific policies and control in accordance with the EFSD agreement to monitor activities of the Program with the purpose to mitigate potential reputation damage to FMO and EC.

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’s services and activities.

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

The governance of compliance also entails the following key risks:

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

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

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

General Data Protection Act (GDPR)

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

Sanctions

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

Operational risk

Operational risk is 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.

FMO has in place an operational risk framework that governs the process of identifying, measuring, monitoring, reporting and mitigating operational risks, based on the 'three lines of defense' governance principle. 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.

Building a better working world

Independent auditor's report

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

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

Our opinion

We have audited the financial statements for the year ended 31 December 2022 of 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 2022 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 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 preparation" 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.

Description of responsibilities regarding the financial statements

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 these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

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

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

Communication

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

Amsterdam, 26 April 2023

Ernst & Young Accountants LLP

signed by J.G. Kolsters

Annex 1 I Annual Progress Report / Portfolio Overview[1]

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

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
Vitas Palestine	Palestine	COVID-19 Affected, Female and Young Entrepreneurs	USD 10 mln	€4,074,750.00
Tamweelcom	Jordan	COVID-19 Affected, Migrant, Female and Young Entrepreneurs	JOD equivalent of USD 10mln.	€2,147,039.03
I&M Bank	Kenya	COVID-19 Affected, Female and Young Entrepreneurs	KES equivalent of USD 15mln.	€2,832,445.68
Commercial International Bank (CIB)	Egypt	COVID-19 Affected, Female and Young Entrepreneurs	USD 50 mln	€6,490,384.62
			USD 270 mln	**€35,094,218.39**

Annex 2 I Client Profiles

Sasfin Bank	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.

Vitas Palestine	Palestine
	In April 2022, FMO and microfinance institution Vitas Palestine signed a USD 10mln Nasira portfolio guarantee to support the financial inclusion of MSMEs affected by Covid-19, including female and young entrepreneurs, operating in Gaza (40%) and the West Bank (60%). The urgent need for better access to financial means for entrepreneurs in West Bank and Gaza is clear. With a growing population of which more than 70 percent is under the age of 30, and one of the highest unemployment rates in the world (50% in Gaza in 2018), economic growth and financial inclusion is high on the priority list of the Palestinian authorities.

Vitas is a subsidiary of Global Communities Palestine ("GCP", 97%) and Vitas Group ("Vitas Group" or "the Group", 3%). GCP and Vitas Group are both owned by Global Communities US ('GC").

The Nasira product offering has a comprehensive Covid-19 support package to MSMEs in the region. The accompanying Technical Assistance program will aim at supporting Vitas to expand its value proposition towards youth- and women owned MSMEs.

Tamweelcom	Jordan

Tamweelcom was established as a microfinance company in 1999 and became licensed by the Central Bank of Jordan in 2018. It is the third largest MFI in Jordan with total assets of USD 78mln, and a stable track record for the past 20 years. In 2020 and 2021, although Tamweelcom's loan disbursements were limited to existing well-performing clients, portfolio quality still deteriorated, and loan portfolio shrank due to a less favorable risk environment under full lockdown measures in Jordan. As the Jordanian economy slowly recovers, Tamweelcom would like to continue supporting its clients and reach additional micro/small businesses in line with its social mission.

To support the bank's overall ambition and the overall Jordanian MSME's community, FMO and Tamweelcom have signed a USD 10mln in JOD equivalent revolving portfolio guarantee. This guarantee will cover Tamweelcom's existing and new MSME portfolio of COVID-19 affected MSMEs including migrants, women and youth owned in Jordan.

I&M Bank	**Kenya**

I&M Bank Kenya is wholly owned subsidiary of I&M Holdings Limited, a publicly traded company at the Nairobi Bourse. The bank was founded in 1974 and evolved from a community financial institution to a major regional commercial bank offering a full range of corporate, SME and retail banking services. I&M Bank has been a client of FMO since 2010 and has demonstrated consistent growth and stable performance over the years, growing its balance sheet from USD 0.9mln in 2010 to USD 2.7bln in 2021, whilst maintaining a strong Capital Adequecy Ratio and good profitability.

FMO and I&M Bank Kenya signed a USD 15mln (in LCY equivalent) Nasira portfolio guarantee covering loans provided to Covid-19 affected micro and small enterprises (MSEs) in Kenya. MSMEs in Kenya, especially youth and women-owned, have limited access to external financing despite being a key driver of the Kenyan economy.

The NASIRA facility will also include Capacity Development and Technical Assistance support through non-financial services such as business digitization, enhancing MSME lending practices, financial literacy.

Commercial International Bank (CIB)	**Egypt**

Commercial International Bank (CIB) is the largest privately-owned commercial bank in Egypt with total assets of USD 32bln and a market share of ~5%. In 2018, CIB underwent a transformation to revamp the SME lending business by launching a tailored loan program, with various products and advisory services. This was largely motivated by the Central Bank of Egypt's requirement for all banks to lend 25% of their loan portfolioto SMEs (of which 10% to MSMEs) by end of 2022. However,CIB'sexposure to the segment has remained limited as its efforts were challenged by the COVID-19 crisis.

The USD 50mln Nasira guarantee facility will focus on CIB supporting youth entrepreneurs and stimulating MSME lending to entrepreneurs with less collateral. The guarantee will cover MSME loans up to max.USD 500,000, falling under the bank's Business Banking unit, which accounts for <5% of CIB's productive loanportfolio. The Nasira team will be working with CIB on their risk management and help set up research to better understand the youth market (52% of Egyptian youth is unemployed currently).

In conjunction with the guarantee facility, FMO will provide Technical Assistance to strengthen CIB's ability to serve the Nasira target groups, and the broader SME segment. This will be done on two levels: 1) developing and implementing a strategy to deepen CIB's market penetration into the lower end of the SME segment, with a special focus on female entrepreneurs; and 2) FMO will support the strengthening of CIB's risk management capabilities for SMEs through the design of complementary risk management tools (credit risk scorings, digital early warning system).

Annex 3 I Progress Indicators and Impact reporting

	Total	Jordan	Armenia	Kenya	South Africa	Palestine	Egypt	Nigeria
Number of risk sharing facilities	11	3	1	3	1	1	1	1
Total number of unique beneficiaries	20,309	318	561	17,339	1,793	298	-	-
Total Number of MSME's provided with loans	20,953	380	619	17,471	2,185	298	-	-
							-	-
Employment Indicators								
Indirect jobs supported Total	36,528	1,112	815	31,790	2,737	74	-	-
Of which Women	17,953	117	302	16,291	1,171	11	-	-
Of which Youth	6,340	142	64	5,945	175	13	-	-
Direct jobs supported Total	100	3	14	45	32	5	-	-
Of which Women	53	1	9	20	19	2	-	-
Of which Youth	13	0	1	8	2	1	-	-
Access to finance Indicators								
Amount of loans to:								
Young women entrepreneurs	4,728,413	859,382	568,998	2,261,522	961,906	76,605	-	-
35+ women entrepreneurs	37,993,159	1,012,815	1,630,046	17,138,873	17,913,968	297,457	-	-
Young men entrepreneurs	11,156,727	5,999,149	1,730,131	2,460,165	-	967,282	-	-
COVID-19 affected entrepreneurs	77,941,884	10,482,972	5,763,429	46,230,551	14,551,826	913,106	-	-
Migrants	-	-	-	-	-	-	-	-
Number of loans to:								
Young women entrepreneurs	385	16	43	236	73	17	-	-
35+ women entrepreneurs	7,128	22	127	5,875	1,071	33	-	-
Young men entrepreneurs	691	113	118	317	-	143	-	-
COVID-affected entrepreneurs	12,749	229	331	11,043	1,041	105	-	-
Migrants	-	-	-	-	-	-	-	-
Investment leverage ratio								
EU Leverage Ratio	5.45	5.73	5.21	5.61	6.04	1.11	6.04	9.56
Multiplier Ratio	5.45	5.73	5.21	5.61	6.04	1.11	6.04	9.56

1 As at end of 2022, 4 facilities were not effectuated yet. These are: Access Bank Nigeria, Tamweelcom, I&M Bank Kenya and Commerical International Bank (CIB). As a result, not impact data is reported for these clients

2 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.

3 Indirect job supported data is modeled based on the Joint Impact Model (JIM). Further details on the use of this model are described in Annex 7.

4 Due to a change in methodology in 2022, we noted 3% less attributed jobs compared to 2021 on a like to like basis. See further details in annex 7.

Annex 4 | 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. Most activities and procurements have either been developed in-house or paid for from the Organization's own communications budget.

FMO ensures media coverage on newsworthy developments around the program. 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.

In 2022 the publications included:

- Interview with The Africa Report on scaling up the Nasira program, published May 2022. Dutch development bank FMO wants to scale-up loan guarantees in fragile states (theafricareport.com)
- Video and press release on the Vitas Palestine guarantee: NASIRA & Vitas Palestine: Improving the prospects of microfinance entrepreneurs (via Home - NASIRA and FMO's Linkedin)
- Video and press release on the Bank al Etihad guarantee: Bank al Etihad | Innovative finance for underserved Jordanian entrepreneurs (via Home - NASIRA and FMO's Linkedin)
- Press release on the I&M Nasira guarantee: FMO supports I&M Bank Kenya's expanded MSME strategy with USD 15 mln NASIRA portfolio guarantee, July 18, 2022
- Press release on the Sidian Nasira Guarantee: news - Small entrepreneurs in Kenya supported by EU, Sidian Bank and FMO - FMO

The NASIRA team attended several conferences to promote the program, amongst others the SPARK ignite conference (the Netherlands), IFC SME finance forum (Cambodia), MENA guarantee forum (online) and the EU Palestinian Business forum (Palestine).

Annex 5 | 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 Financial Institutions ("FIs") to better serve the NASIRA target groups and to unlock and enhance their potential. Not only are the target MSME groups often perceived by FIs as being high risk, 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 2022, three projects were under implementation. Two internal capacity projects to improve MSME lending practices were implemented for Access Bank (Nigeria) and Sidian Bank (Kenya). For Vitas Palestine, we implemented a risk management capacity building project. The full assessment of the contribution of these technical assistance activities can be found in the detailed NASIRA Technical Assistance Progress Report 2022.

Summary of recovery action

No recovery action was needed in 2022.

Annex 6 | Summary of controls and audits carried out

External audit 2022:

EY performed the financial audit of the NASIRA facility for the year ended 31 December 2022 and provided FMO with an unqualified audit opinion.

Internal audit 2022:

Internal Audit reported on three investment process related engagements in 2022, being: (i) Audit Private Equity Portfolio Management; (ii) Audit Investments; and (iii) Audit Disbursements.

These audit engagements resulted in the identification of relevant enhancements to further strengthen the investment process and procedures. Internal Audit monitors the follow-up and reports upon it accordingly. Furthermore, Internal Audit reports are made available to the external auditor to take into account in their procedures.

Annex 7 | How do we report

We prepared the sustainability information in this integrated annual report using the principles of the Integrated Reporting framework and the GRI Standards 2021. We strive for transparent reporting on our strategy, the dilemmas that we face and the way in which we implement our strategy in order to create value for our stakeholders.

Reporting policy

The period covered by this report is the calendar year 2022. There have been no significant changes to our legal structure, activities, or policies in the course of 2022 that would require a restatement of information.

Many of our financing and investing activities take place in foreign currencies, mostly in US dollars unless explicitly stated otherwise, all investment amounts mentioned throughout the report have been translated into our functional currency, the Euro, based on the foreign exchange rates on the date of contracting. Figures referring to the year-end (total) 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 our 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. Information on human resources comes from our HR systems and is linked to our salary administration system.

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. During 2022, an internal audit was performed on FMO's Sustainability Information System (SIS) with respect to the design and effectiveness of key controls, ensuring completeness and accuracy of the data captured in SIS.

Joint Impact Model

Over the years, development finance institutions (DFIs) and multilateral development banks (MDBs) used input-output modelling to estimate indirect impact associated with their investments. In 2019, AfDB, BIO, CDC, FinDev Canada, FMO and Proparco together with Steward Redqueen (SRQ) signed a Memorandum of Cooperation to harmonize their methodologies on indirect jobs, value added and emissions estimations. Later, CIF, OeeB, KFW, and PIDG joined the initiative and formed the Development Panel. The initiative was named the Joint Impact Model (JIM).

In 2021, these partners worked on several work streams to further improve the JIM and align it with international standards. In November 2021, the JIM 2.0 was launched, which aligned with the PCAF Global Standard. Currently, we are using the JIM version 2.01 which has some technical corrections in comparison to the previous version. This is the same version that was used in the 2021 Annual Report. A full description of all the version changes can be found on the JIM website. Please refer to our website for further information about how FMO applies the JIM and its methodology.

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 JIM is an economic input-output model, which enables us to trace product and money flows through an economy. It can provide more complete impact insights as it is applicable to the full portfolio and has low data burden. As with any model, there are several limitations:

1. 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.
2. Estimates are based on historical relations, while the methodology is based on the most recent (macro) economic data available, which means that the JIM reflects neither the COVID-19 pandemic nor the war in Ukraine.
3. 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.

JIM attribution rules

FMO provides part but not all the capital a company may need. Other investors likely also contribute to a company's business (either by providing capital or advice). In addition, external circumstances such as changing market conditions, climate change and technological developments may also influence the impact created by a business. This raises the question of attribution: which portion of impact from 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. In line with the PCAF Global Standard, we use book values for debt investments and apply an ownership percentage for equity. However, the PCAF standards does not yet covers guarantees. As a result, the attribution formula was adapted as follows: for the numerator, we use the used guarantee amount and for the denominator we are fully aligned with the PCAF standard. For unlisted clients, we use the sum of total debt and total equity as denominator. If not available, we use the total balance sheet as a fall back approach. For listed clients, we use the enterprise value as denominator. If not available, use the denominator as described for unlisted clients. For a full description of the PCAF aligned attribution please see the JIM application methodology.

Colophon

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