FMO

Entrepreneurial
Development
Bank

NASIRA

Annual report

2020

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

European Commission

In 2020, two new FMO programs have become operational: NASIRA and the Ventures Program. These blended finance programs are enabled by contributions form 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 EUR 10 mln. and EUR 60 mln. The European Commission has provided EUR 100 mln. and EUR 40 mln. respectively. FMO is expected to contribute EUR 400 mln. and EUR 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

Annual report 1 - covering the period between the 19th of August 2020 until the 31s of December 2020

Dear reader,

Without a doubt, 2020 has been one of the most challenging years for FMO and its customers. Amid the economic and social fall-out of the pandemic, the programmes under management by FMO played an important role in ensuring that our customers could stay afloat. We look back with satisfaction on our ability to deploy all tools at our disposal to keep the pipelines on track.

In 2021, substantial challenges and uncertainties remain. The pandemic aggravates existing challenges related to climate change, the deepening inequality-crisis and macro-economic precariousness. The public funds and facilities under management by FMO will continue to play their countercyclical role, generate impact on the ground and contribute to the creation of markets in which private finance can flow to those areas where it is most needed.

NASIRA is a loose Arabic translation for "she who supports". We are happy to announce that 2020 was the year that our NASIRA facility started to support entrepreneurs in the European Neighborhood and Sub – Saharan Africa. The main milestones were the contract with the European Commission becoming effective in August, and the first deal in South Africa on the 1st of October. The COVID-19 pandemic caused both the European Commission, the Dutch government and FMO to refocus NASIRA's mandate from youth, gender and migrants to entrepreneurs affected by COVID-19. The European Commission and the Dutch Government decided to increase their investment in NASIRA, for a total of EUR 27.5 mln. extra.

We believe that NASIRA is a promising instrument to mitigate the feared credit crunches in developing markets and to ensure that entrepreneurs remain able to finance themselves as well as their businesses. That is why our first transaction, a USD 35 mln. guarantee to SASFIN in South Africa, is labelled as a COVID-19 guarantee.

We thank all our stakeholders for their continuous support, including our investees and investors, the European Commission, Dutch Ministries of Finance and Foreign Affairs that help us to improve and our colleagues for giving their best every day.

The Hague, 30 June 2021

On behalf of the Management Board

Linda Broekhuizen, Chief Executive Officer, a.i.
Fatoumata Bouaré, Chief Risk and Finance Officer
Huib-Jan de Ruijter, Chief Investment Officer, a.i.

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PERFORMANCE ON OUR STRATEGY

Highlights on annual progress

It is with pleasure we present the very first annual report for our NASIRA facility. At the start of the year, we had an outlook which was completely changed and impacted by the COVID-19 pandemic

The COVID-19 pandemic changed the necessity and difficulties of providing finance to underserved entrepreneurs to a world-wide concern for liquidity crunches in developing countries. Financial institutions had to re-visit their initial business plans and think of different, innovative, solutions to keep on financing their clienteles.

The European Commission, Dutch Ministry of Foreign Affairs and FMO realized the NASIRA facility could provide important support to these financial institutions by guaranteeing loan portfolios against the systemic risks caused by the pandemic. Therefore, as early as April, all parties involved agreed to amend the NASIRA contracts and documentation to allow COVID-19 affected entrepreneurs to the eligible end-beneficiaries. This came along a USD 25 mln. increase in participation from the European Commission and USD 2.5 mln. of the Ministry of Foreign Affairs via its MASSIF fund.

Many financial institutions in the European Neighbourhood and Sub-Saharan Africa became interested in the renewed offering and have started negotiations with FMO. The more flexible mandate, allowing financial institutions to care after their larger (M)SME portfolio's, was well appreciated by our clients. The pandemic also meant that we had to adapt our way of working, switching to virtual meetings and to conduct our due diligence in a different manner. Despite these challenges, FMO was able to sign a USD 35 mln. COVID-19 guarantee with SASFIN in South Africa in September. This guarantee will provide much needed support to COVID affected entrepreneurs (including youth and gender) in South Africa. In the last days of the year, another USD 50 mln. COVID-19 guarantee was signed with Equity Bank Kenya. The latter became effective early 2021: providing much needed support. Furthermore, we have several other new COVID -19 guarantees with banks we expect to close in the first part of 2021 (in Kenya, Jordan and Armenia).

The Technical Assistance Facility ("TAF") is meant to strengthen 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 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. The NASIRA TAF is therefore seen as instrumental for successful implementation of the NASIRA RSF and to generate the envisioned impact. At years end, two TAF's are being implemented at SASFIN (to increase internal capacity for MSME lending and risk management).

In terms of the lessons learned so far we note: (i) the (perceived) complexity of a layered second loss portfolio guarantee for our clients as well as ourselves and, (ii) the complexities of reaching the markets and target groups the initial product offering aimed at. On (i), we have found that the (perceived) operational complexity of NASIRA especially hinders implementation at smaller (M)FI's, as they have less internal capacity as well as different risk appetites than larger FI's. Over the next few months, we will analyze how to better cater for these (M)FI's. On the complexities of the markets and target groups, we have found that FI's are often reluctant to limit the guarantees eligibility to single target groups, because i) they already have limited micro and small business lending due to their conservative credit culture (all loans are collateralized, no cash flow lending, short maturities, high interest rates) and ii) portfolios of these original target groups are small in terms of volume and small volumes are difficult to justify the complexities and transaction costs associated with entering into the guarantee. While the reasons for these complexities differ per target group, we have certainly seen that the flexibility that was created by the COVID-19 expansion was much appreciated and significantly increased the demand. FMO will soon reach out to the European Commission to further discuss these observations and potential solutions.

Looking back the year came with steep learning curves inherent to innovative products particular in a current world affected by the pandemic. This has certainly been the case for NASIRA, both for the financial institutions receiving the guarantees, as well as for FMO. The increased demand, caused by the urgency of the pandemic, has enabled FMO to further improve its product offerings, efficiency, and production capacity within NASIRA. As the first guarantee effectuated in the third quarter, we were pleased to note that the entire offering became operational. We are therefore excited that NASIRA can play this important role to support the financing to promising female, young and migrant entrepreneurs in the European Neighbourhood and Sub-Saharan Africa.

Statement of financial position

At December 31, 2020

	Notes	2020
Assets		
Receivables from entrusted entities	(1)	188
Total assets		**188**
Liabilities		
Financial guarantees liability (Net)	(2)	397
Total liabilities		**397**
Contributor's resources		
European Commission contribution		-
Retained earnings		
Accumulated surplus/(deficit)		-
Economic result of the year		-209
Total contributor's resources		**-209**
Contingent liabilities:		
- Guarantees - signed amount[1]	(6)	4,111

1 Maximum outstanding guarantee amount under signed and effective guarantee agreements, net of financial liabilities recognised on the balance sheet

Statement of comprehensive income / (loss)

At December 31, 2020

	Notes	2020
Financial income		
Other interest revenue	(3)	2
Other financial revenue - Financial Guarantee Liability	(4)	14
Finance costs		
Financial expenses - Financial Guarantee Liability	(2)	-207
Financial result		**-191**
Expenses from operating activities		
Foreign exchange losses	(5)	-18
Result from operating activities		**-18**
Economic result for the year		**-209**

Statement of changes in contributor's resources

At December 31, 2020

	European Commission contribution	Accumulated surplus/(deficit)	Economic result of the year	Total
Balance at 1 January, 2020	-	-	-	-
Contribution from European Commission	-	-	-	-
Economic result of the year	-	-	-209	-209
Balance at December 31, 2020	**-**	**-**	**-209**	**-209**

Statement of cash flows

At December 31, 2020 - no cash flows have been recorded.

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 will only adopt IPSAS 41 itself from the reporting year ending 31 December 2021, but approves applying the standard in these financial statements. The adoption of IPSAS 41 for the Program represents an early adoption from the EC. 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.

Up to 2020 there were no effective deals in the Program, therefore there are no comparatives provided 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, for financial assets, adjusted for any expected credit loss allowance. The *gross carrying amount* of a financial asset is the AC of a financial asset before adjusting for any expected credit loss allowance.

Receivables from entrusted entities

Receivables from entrusted entities 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 financial revenue" in the statement of profit and loss. Guarantee fee receivables derived from financial guarantee contracts denominated in foreign currencies are remeasured based on the exchange rates on the reporting date.

Financial liabilities relating to financial guarantees

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.

The expected credit loss applied in the above assessment is based on the lifetime expected credit loss. The EC considers lifetime expected credit losses a closer representation of fair value.

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

European Commission contribution
This reserve contains the capital provided by the European Commission to the Program.

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.

Other financial expenses - financial guarantee liability

"Other financial expenses - financial guarantee liability" 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. Receivables from entrusted entities

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 received	-
Unwind of time value of money	2
Foreign exchange impact	16
Balance at December 31, 2020	**188**

2. Financial guarantee liability

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**

3. Other interest revenue

	2020
Unwind of time value of money on guarantee fee receivable	2
Total other interest revenue	**2**

4. Other financial revenue - Financial Guarantee Liability

	2020
Amortisation of financial guarantee liability	14
Total other financial revenue - Financial Guarantee Liability	**14**

5. Foreign exchange losses

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

6. Off-Balance Sheet information

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

	2020
Contingent liabilities	
Guarantees - signed amount[1]	4,111
Contractual commitments - Guarantee ceiling	100,000

1 Maximum outstanding guarantee amount under signed and effective guarantee agreements, net of financial liabilities recognised on the balance sheet

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, 2020.

8. 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	**2020**	
At December 31	**Carrying amount**	**Fair value**
Financial assets		
Receivables from entrusted entities	188	188
Financial liabilities		
Financial guarantees liability (Net)	397	397

Given the close proximity of the effective date of the underlying guarantee contracts to the reporting date. The carrying values of the above financial assets and liabilities are considered to be a reasonable estimation of their fair value at the reporting date.

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 arises from the financial guarantee contracts. The entrusted entity is responsible for managing and analyzing the credit risk for each new guarantee holder before terms and conditions are offered. The entrusted entity assesses the credit quality of the beneficiary, taking into account its financial position, past experience and other factors. The utilization of credit limits in relation to the tranching system is regularly monitored.

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	**2020**
Off-balance	
Contingent liabilities (guarantees - signed amount)	4,508
Total off-balance	**4,508**
Total credit risk exposure	**4,508**

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, 2020	**< 3 months**	**3-12 months**	**1-5 years**	**>5 years**	**Maturity undefined**	**Total**
Assets						
Receivables from entrusted entities	-	17	147	24	-	188
Total assets	**-**	**17**	**147**	**24**	**-**	**188**
Liabilities						
Financial guarantee liability	-	-	-	397	-	397
Total liabilities	**-**	**-**	**-**	**397**	**-**	**397**

Contractual maturity of contingent liabilities

December 31, 2020	**< 3 months**	**3-12 months**	**1-5 years**	**>5 years**	**Total**
Contingent liabilities	-	-	-	4,047	4,047
Total off-balance	**-**	**-**	**-**	**4,047**	**4,047**

Market 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, 2020	EUR	USD	ZAR	KES	Other	Total
Assets						
Receivables from entrusted entities	-	-	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.

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 clients. 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, clients and counterparties, adhering to high ethical standards. FMO has a Compliance framework which entails identifying risks, designing policies, monitoring, training and providing advices. 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 in order to raise awareness by means of e.g. face-to-face 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 client or employee level. In case of violations, management will take appropriate actions. In 2020 no significant integrity incidents related to FMO employees have been reported and there were no incidents at existing clients' outside FMO's risk appetite.

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. Following a DNB onsite inspection in 2018, DNB identified several shortcomings in the way FMO conducts Customer Due Diligence/Know Your Customer. As FMO sees this as an area where the risk of non-compliance with Wwft and Sanctions Law is present, a FEC Enhancement program was set up to demonstrate full compliance by the end of 2021. In 2019 FMO started with execution of the FEC EP which consisted of a.o. conducting the Systematic Integrity Risk Assessment (SIRA), the Risk Appetite Statement on Integrity, which was updated to include Tax Integrity Risk as well, and enhancing the CDD-AML Policy, CDD-AML Manual and a wide range of guidance notes. It became clear in September 2020 that the progress of the FEC Enhancement program was not fast enough. The updated FEC Framework has meanwhile been implemented. Part of the FEC EP consists of remediation of the customer KYC files and bringing them in line with the updated framework. The remediation of customer KYC files will continue in 2021 and progress is closely monitored by the Management Board. As agreed with DNB, the remediation is to be finalized on December 31, 2021.

There is always a risk that a client 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 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 client 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.

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 cannot always be eliminated. FMO, however, systematically collects risk event information and analyses such events in order to take appropriate actions. Furthermore, operational risks resulting from changes in activities are assessed in FMO's Change Risk Assessment Process and could trigger the Product Approval and Review Process. No risk events outside FMO's risk appetite have been reported.

Legal risk

Legal risk is defined as the risk of a counterparty (client, supplier, stakeholder or otherwise) not being liable to meet its obligations under law or FMO being liable at law for obligations not intended or expected, caused by lack of awareness or misunderstanding of, ambiguity in, or indifference to the way law and regulation apply to business, relationships, processes, products and services, leading to financial or reputational loss.

Given the specific nature of legal risks that can occur, no risk appetite metrics are assigned to this risk type. Instead, the most relevant developments are included in the risk appetite report on a quarterly basis. FMO's Legal team is responsible for the review of the legal aspects of the Program's contracts with clients and for mitigating legal risks arising from the Program's businesses and operations. Where applicable, the team seeks external expertise.

Tax risk

Tax risk includes Tax Integrity risk. Tax Integrity risk is defined as the risk of facilitating or involvement in unlawful tax evasion or undesirable tax avoidance by clients or investees. FMO is indirectly exposed to the tax matters of its investees and clients through its investments. FMO could unwittingly support or be perceived to support aggressive tax structures. FMO could breach EU DAC6 reporting requirements on potentially aggressive tax planning arrangements involving an EU member state. Certain ownership structures could contain indicators of tax evasion that require reporting of financial crime. FMO is averse to Tax structures that are clearly aggressive. FMO is cautious with accepting structures that have been set up for multiple underlying purposes and where the principle purpose is not tax. FMO seeks to transpose its Responsible Tax Principles to its clients. Further, the EU delegation programs which have been allocated to FMO, subjects FMO to EU tax integrity requirements and as Dutch licensed bank FMO must follow the client acceptance tax standards of the Dutch Central Bank.

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 2020 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 2020 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(s):

- Statement of financial position
- Statement of comprehensive income/(loss)
- Statement of changes in contributor's resources
- Statement of cash flows
- Summary of accounting policies
- Notes to the financial statements

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 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
- Risk management

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, 30 June 2021

Ernst & Young Accountants LLP

signed by J.G. Kolsters

Annex 1 I Annual Progress Report / Portfolio Overview

Investment Name	Country	Sector	Commited
SASFIN	South Africa	COVID-19 affected	35 mln
Equity Bank Kenya	Kenya	COVID-19 affected	50 mln
			85 mln

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.

Annex 2 I Progress Indicators / Impact reporting

Impact Reporting

The below impact reporting on progress indicators only concerns the SASFIN Transaction in South Africa. Th Equity Bank Kenya Transaction in Kenya was not yet effectuated by years' end.

Indicator Set for the NASIRA program		Current portfolio as per YE 2020
1.	Indirect jobs supported (total / woman / youth)	9/3/1
2.	Direct jobs supported (total / woman / youth)	1/1/0
3.	Total number of unique beneficiaries	57
4.	Investment leverage ratio	8.22358
5.	Volume of risk sharing facilities	2
6.	Access to finance: amount of loans to woman entrepreneurs	€539,094.49
7.	Access to finance: amount of loans to COVID-19 affected entrepreneurs	€102,385.82
9.	Access to finance: number of loans to woman entrepreneurs	70
10.	Access to finance: number of loans to COVID-19 affected entrepreneurs	11
11.	Access to finance: number of MSME's provided with loans	81
12.	Total number of MSME's	57

Last year, FMO changed the way it measured the number of jobs that are supported by our customers. As a result the number of jobs FMO supported by the end of 2020 is lower compared to the end of 2019. FMO replaced its old tool to measure jobs supported by a new methodology: the Joint Impact Model (JIM). In absolute numbers, the Joint Impact Model leads to lower estimated jobs, as the future effects are no longer calculated. This was visible for the first time in the interim report for 2020. As a different methodology is used, we will no longer use the results of the previous Impact Model for comparison or benchmarking purposes.

Creating the JIM was a collaboration between consultancy firm Steward Redqueen, Proparco, CDC, AfDB, BIO, FinDev Canada, and FMO. The new methodology will be accessible for all development banks and impact investors who wish to use it: a big step forward in harmonizing impact measurement.

For more information on the JIM, visit jointimpactmodel.com or see the FMO news section on the topic.

Annex 3 I Communication and Visiblity

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 highlighting benefits, replicability, 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, eight press releases have been issued to relevant press contacts in close collaboration with the European Commission's communication's 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 NASRIA program.

Over the reporting period, the Technical Assistance Facility team supported FMO's Communications teams with information on the Sasfin TA project, linked with the Nasira guarantee. These communications were deployed by FMO using various media channels, such as the FMO website, LinkedIn, and Twitter.

Annex 4 | Summary of controls and audits carried out

External audit 2020:

EY performed the financial audit of the NASIRA facility for the year ended 31 December 2020 and provided FMO with an unqualified audit opinion. No significant audit findings or significant deficiencies in internal control were identified during their audit.

Internal audit 2020:

As part of the Internal Audit plan 2020, the Internal Audit Department performed a review on NASIRA. The objective of the review was to assess the design and implementation of key controls relevant for providing the NASIRA product to clients, while mitigating the main risks.

In 2020, Internal Audit has reported five medium risk findings:

1. Outsourcing of activities to Hypoport (facility registration): outsourcing materiality and risks have not been adequately assessed and acted upon.
2. Detailed impact assessment of privacy regulations and Dutch Anti-Money Laundering legislation (Wwft) on NASIRA has not been performed.
3. It is not yet clear and therefore not described how and when exactly the annual verification is to be performed, by whom and whether or not to follow a tender process for this.
4. The NASIRA credit risk model has not been validated and comprehensive model documentation is absent.
5. Roles and responsibilities not clearly defined yet. As a result, several tasks for NASIRA have not been conducted yet.

Agreed actions to respond to the findings have been completed in 2020 and during the first quarter of 2021, except for the finding related to impact of privacy regulation on NASIRA. Remediation of this finding, that does not only apply to NASIRA, requires a comprehensive approach and will be addressed as part of a companywide GDPR project.

Colophon

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

Corporate Communications +31 (0)70 314 96 96 info@fmo.nl www.fmo.nl

Mailing address P.O. Box 93060 2509 AB The Hague The Netherlands

Street address Anna van Saksenlaan 71 2593 HW The Hague The Netherlands

Text FMO N.V.

Photography Opmeer Reports, www.opmeerreports.nl | FMO photo library | Amref Flying Doctors (cover picture and p.10) www.amref.nl

Design Studio Duel, The Hague www.studioduel.nl

Production F19 Digital Reporting, Eindhoven www.f19.nl

FMO
Anna van Saksenlaan 71
2593 HW The Hague
The Netherlands

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