

# UNEP FI Principles for Responsible Banking

## Reporting and self-assessment 2023

In 2020, FMO became a signatory to the UN Principles for Responsible Banking – a single framework for a sustainable banking industry developed through an innovative partnership between banks worldwide and United Nations Environment’s Finance Initiative. The Principles for Responsible Banking set out the banking industry’s role and responsibility in shaping a sustainable future and in aligning the banking sector with the objectives of the UN Sustainable Development Goals and the 2015 Paris Climate Agreement. Signatory banks are required to report no later than 18 months after signing the Principles, and annually thereafter. FMO published its first PRB report and self-assessment in March 2022. This is the second PRB report, where we report on our progress towards implementing the UNEP FI PRB. This report has not obtained third-party assurance.

# Principle 1: Alignment



We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

## Business model

Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities across the main geographies in which your bank operates or provides products and services. Please also quantify the information by disclosing e.g. the distribution of your bank's portfolio (percent) in terms of geographies, segments (i.e. by balance sheet and/or off-balance sheet) or by disclosing the number of customers and clients served.

### Response

Founded in 1970, FMO is a public-private development bank. The Dutch government is a major shareholder, holding a 51 percent stake. Other shareholders include large Dutch banks (42 percent) and employers' associations, trade unions and individual investors (7 percent). We comply with internationally accepted banking standards and are supervised by the Dutch Central Bank.

### Our business model

FMO has investments in more than 85 countries, offering private sector companies and financial institutions in developing and emerging markets a variety of financial products, as well as expertise and access to its networks.

We focus on three key sectors: agribusiness, food and water, energy, and financial institutions. We also finance other sectors indirectly through our investments in financial institutions and private equity (PE) funds. We offer long-term financing through loans (including syndicated loans) and equity. Beyond financing, we offer advisory services and technical assistance to support customers in building profitable and sustainable businesses.

### Links and references

[FMO Annual Report 2022 – 'At a glance'](#)

[FMO Annual report 2022 – 'Our value creation model'](#)

[FMO Strategy 2030](#)

[FMO Climate Action Plan 2030](#)

[FMO World map](#)

## Strategy alignment

**Does your corporate strategy identify and reflect sustainability as strategic priority/ies for your bank?**

- Yes  
 No

Please describe how your bank has aligned and/or is planning to align its strategy to be consistent with the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

**Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?**

- UN Guiding Principles on Business and Human Rights  
 International Labour Organization fundamental conventions  
 UN Global Compact  
 UN Declaration on the Rights of Indigenous Peoples  
 Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk - please specify which ones: TCFD  
 Any applicable regulatory reporting requirements on social risk assessments, e.g. on modern slavery - please specify which ones: -----  
 None of the above

### *Response*

At FMO, we believe in a world in which, by 2050, more than 9 billion people live well and within planetary boundaries. This is the future we are working towards. And while our vision and our determination have not changed, the circumstances in which we operate have. Significantly.

Progress towards achieving the Sustainable Development Goals (SDGs) is lagging behind worldwide: inequality is on the rise while the climate crisis continues to unfold. To counter this trend, there is an urgent need for more bankable opportunities.

Our strategy towards 2030 addresses the above and many other challenges. The essence of our strategy is captured in just three words:

Pioneer – Develop – Scale

Our contribution focuses on three SDGs that we can most impact through our financing of the private sector in emerging markets: Decent Work and Economic Growth (SDG 8), Reduced Inequalities (SDG 10) and Climate Action (SDG 13). We want to maximize our impact and work closely with our partners to achieve this.

Through the progression model of pioneer, develop and scale, we aim to maximize our impact, generate financial returns and grow a diversified portfolio in a balanced manner. It is how we are additional in financing the private sector. By focusing on three sectors - Agribusiness, Food and Water; Energy; and Financial

### *Links and references*

[FMO Sustainability Policy](#)

[FMO website: Profile](#)

[FMO website: Strategy](#)

[FMO Climate Action Plan 2030](#)

[FMO TCFD report 2022](#)

Institutions - our portfolio contributes to food security, access to renewable energy and a healthy financial sector. In doing so, it also contributes to Zero Hunger (SDG 2), Gender Equality (SDG 5) and Renewable and Affordable Energy (SDG 7).

**Paris Agreement and Dutch Climate Accord**

Since 2019 we have been reporting on our approach to climate-related risks and opportunities in line with the Task Force on Climate-Related Financial Disclosures (TCFD). FMO has also committed to the Dutch Climate Accord, a major push to achieve the goals of the Paris Agreement. The commitment of the Dutch financial sector to this Accord is a signal that both investors and finance institutions are taking climate action. In December 2022, FMO published its Climate Action Plan, which provides a framework for the actions we will take to 2030 to fulfil our Sustainable Development Goal 13 (Climate Action) objectives. The Climate Action Plan provides guidance how we will build on the strong foundation of work we have already done toward this goal, given that SDG 13 has long been an integral part of FMO’s core strategy.

## Principle 2: Impact and Target Setting



We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

### 2.1 Impact Analysis (Key Step 1)

Show that your bank has performed an impact analysis of its portfolio/s to identify its most significant impact areas and determine priority areas for target-setting. The impact analysis shall be updated regularly<sup>1</sup> and fulfil the following requirements/elements (a-d)<sup>2</sup>:

**a) Scope:** What is the scope of your bank's impact analysis? Please describe which parts of the bank's core business areas, products/services across the main geographies that the bank operates in (as described under 1.1) have been considered in the impact analysis. Please also describe which areas have not yet been included, and why.

#### Response

FMO's impact ambitions for all its activities are embedded in our 2030 strategy. It is the guiding document for the positive impact FMO wants to achieve. We create higher impact by investing in regions where our impact can be greatest and in sectors that are crucial to economic, environmental, and social progress.

The direction of our 2030 strategy remains the same with our previous strategy, which we covered in last year's PRB report. This means we will continue to invest for impact in our three core sectors of Agribusiness, Food & Water, Energy, and Financial Institutions, focusing on Africa, Asia, Latin America, and the Europe and Central Asia (ECA) region. Furthermore, we will cover the following activities:

- Financial products, including debt, equity, guarantees and capacity development
- Environmental, social, governance value add (e.g., sector initiatives)
- Opening up new 'markets' (e.g., Venture Capital) and creating new investment vehicles (e.g., DFCD, Nasira) & spin-offs (e.g., CFM, TCX)

#### Materiality assessment

FMO conducts a materiality assessment once a year, which enables us to validate the relevance of our strategic choices and identify shifting topics that affect our work.

#### Links and references

[FMO Strategy 2030](#)

[FMO Annual Report 2022 - 'Stakeholder engagement and materiality assessment'](#)

<sup>1</sup> That means that where the initial impact analysis has been carried out in a previous period, the information should be updated accordingly, the scope expanded as well as the quality of the impact analysis improved over time.

<sup>2</sup> Further guidance can be found in the [Interactive Guidance on impact analysis and target setting](#).

Next to our regular stakeholder engagement process, the materiality assessment allows us to capture the insights, interests, and perception of our impact performance of our relevant stakeholders. The results are published in the annual report and inform our strategic thinking.

For the development of our Strategy 2030 we ensured to get the “outside-in” (e.g., external trends, stakeholder expectations) and “inside-out” (e.g., organizational capabilities) perspectives to provide fresh insights and help shape FMO’s role & ambitions towards 2030.

**b) *Portfolio composition:*** Has your bank considered the composition of its portfolio (in percent) in the analysis? Please provide proportional composition of your portfolio globally and per geographical scope  
 i) by sectors & industries<sup>3</sup> for business, corporate and investment banking portfolios (i.e. sector exposure or industry breakdown in percent), and/or  
 ii) by products & services and by types of customers for consumer and retail banking portfolios.

If your bank has taken another approach to determine the bank’s scale of exposure, please elaborate, to show how you have considered where the bank’s core business/major activities lie in terms of industries or sectors.

*Response*

Our mandate as a development finance institution (DFI) and the results of our materiality assessment have led us to conclude that our most significant impacts are in SDGs 8, 10, and 13. By focusing on three sectors - Agribusiness, Food and Water, Energy, and Financial Institutions - our portfolio contributes to food security, access to renewable energy and a healthy financial sector. In doing so, it also contributes to Zero Hunger (SDG 2), Gender Equality (SDG 5) and Renewable and Affordable Energy (SDG 7).

**Sustainability Policy and Impact Steering**

Our Sustainability Policy guides our contribution to sustainable development and is in line with our vision of a world in 2050 where over 9 billion people can live well and within the planetary boundaries.

*Links and references*

[FMO Strategy 2030](#)

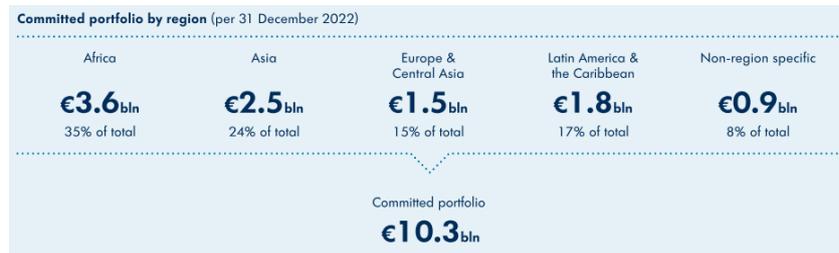
[FMO Annual Report 2022 - 'Stakeholder engagement and materiality assessment'](#)

[FMO Annual Report 2022 – 'Our value creation model'](#)

[FMO website – 'Policies and position statements'](#)

<sup>3</sup> 'Key sectors' relative to different impact areas, i.e. those sectors whose positive and negative impacts are particularly strong, are particularly relevant here.

Our portfolio has the following regional distribution:



### Evaluations

FMO conducts and commissions evaluations to reflect on its strategy, its business model, the effectiveness of its policies and processes, and the impact of its investments. Through these evaluations, we can better understand our impact in specific sectors and geographies and our actual contribution to the SGDs.

**c) Context:** What are the main challenges and priorities related to sustainable development in the main countries/regions in which your bank and/or your clients operate?<sup>4</sup> Please describe how these have been considered, including what stakeholders you have engaged to help inform this element of the impact analysis.

*This step aims to put your bank's portfolio impacts into the context of society's needs.*

#### Response

As mentioned in our response for Principle 1, at FMO we believe in a world in which, by 2050, more than 9 billion people live well and within planetary boundaries. This is the future we are working towards. And while our vision and our determination have not changed, the circumstances in which we operate have changed significantly:

- Global inequality is on the rise
- Economic growth strongly debt fueled, raising questions on its sustainability; geopolitical tensions rising
- The world is behind on Paris goals and adaptation finance; developing countries are disproportionately affected. Global temperatures are rising, and the impact – especially in the regions where FMO invests - is already evident
- There is a lack of bankable opportunities

#### Links and references

- [FMO Strategy 2030](#)
- [FMO Climate Action Plan 2030](#)
- [FMO Annual Report 2022 - 'Stakeholder engagement and materiality assessment'](#)

<sup>4</sup> Global priorities might alternatively be considered for banks with highly diversified and international portfolios.

<ul style="list-style-type: none"> <li>- New technologies create opportunities but also new (ethical) risks</li> <li>- More stringent regulations</li> <li>- Customers require speed and simplicity</li> <li>- Increased stakeholder expectations</li> <li>- The income gap between the poorest and the richest countries is widening further exacerbated by the COVID-19 pandemic. Since 2020 over half of the world's poor live in fragile states.</li> </ul> <p>All of the above challenges were taken into account when we developed our Strategy 2030.</p> <p><b>Stakeholder engagement</b></p> <p>We engage with a broad group of stakeholders on a regular basis. Stakeholders are individuals and organizations that are directly or indirectly affected by our operations, positively or negatively, or who may affect our ability to create value. We appreciate their wealth of knowledge and find their candid feedback enables us to reflect, learn and improve.</p>	
<p>Based on these first 3 elements of an impact analysis, what positive and negative impact areas has your bank identified? Which (at least two) significant impact areas did you prioritize to pursue your target setting strategy (see 2.2)<sup>5</sup>? Please disclose.</p>	
<p><i>Response</i></p> <p>FMO will continue to invest for impact in our three core sectors of Agribusiness, Food &amp; Water, Energy, and Financial Institutions, focusing on Africa, Asia, Latin America, and the Europe and Central Asia (ECA) region.</p> <p>To focus the efforts of our entire organization, we have set ourselves clear ambitions that will challenge us and require us to enhance our capabilities. By 2030, our goal is to have realized ten meaningful innovations, and to have an investment portfolio of at least €10 billion in both SDG 10, and SDG 13. We also expect to have doubled our public and mobilized portfolios. Also, by being a change agent on environmental, social and governance topics, we will create value with our customers, and together deliver impact in the societies and the local communities where they operate. By helping improve livelihoods, we will continue to contribute indirectly to alleviating poverty.</p> <p>We aim to maximize our impact on the SDGs by supporting inclusive and sustainable economic growth and reducing inequalities — both of which are conducive to reducing poverty</p>	<p><i>Links and references</i></p> <p><a href="#">FMO Strategy 2030</a></p>

<sup>5</sup> To prioritize the areas of most significant impact, a qualitative overlay to the quantitative analysis as described in a), b) and c) will be important, e.g. through stakeholder engagement and further geographic contextualisation.

— while being consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

To help create decent jobs and economic growth (SDG 8), we enable entrepreneurs to make local economies more inclusive, productive, resilient, and sustainable. We will continue to work towards job creation and increase our focus on job decency and quality.

To reduce inequalities (SDG 10) between countries, we will continue to invest in the world’s least developed markets, and in particular look to do more in fragile states. To reduce inequalities within countries, we aim to increase the opportunities and income for people in the ‘bottom 40 percent’ of income distribution. We will continue to support the growth of inclusive businesses - such as smallholder farmers, off-grid energy solutions and those owned by female or young entrepreneurs. We will also continue to increase our gender lens investments.

To take climate action (SDG 13), we remain committed to the goals of the Paris Agreement and to reach net-zero by 2050 through a just and inclusive transition. We recognize the difficult challenges this poses across sectors and countries, but also see opportunities here. We will engage with our customers and help them move towards a sustainable climate pathway. We will build up a portfolio that supports mitigation, adaptation and resilience, and biodiversity-positive contributions such as forestry – to achieve our ambitions.

**d) For these (min. two prioritized impact areas): Performance measurement.** Has your bank identified which sectors & industries as well as types of customers financed or invested in are causing the strongest actual positive or negative impacts? Please describe how you assessed the performance of these, using appropriate indicators related to significant impact areas that apply to your bank’s context.

In determining priority areas for target-setting among its areas of most significant impact, you should consider the bank’s current performance levels, i.e. qualitative and/or quantitative indicators and/or proxies of the social, economic and environmental impacts resulting from the bank’s activities and provision of products and services. If you have identified climate and/or financial health&inclusion as your most significant impact areas, please also refer to the applicable indicators in the [Annex](#).

If your bank has taken another approach to assess the intensity of impact resulting from the bank’s activities and provision of products and services, please describe this.

*The outcome of this step will then also provide the baseline (incl. indicators) you can use for setting targets in two areas of most significant impact.*

*Response*

Our strategic labels highlight the way in which individual investments align with certain criteria related to key strategic goals. FMO sets itself targets around labels (the share of its portfolio directed towards certain strategic goals) and uses them as a steering metric. We disclose on our results via our (semi-) Annual Report.

*Links and references*

[FMO Strategy 2030](#)  
[FMO website: How we measure impact](#)

**Reducing Inequalities label.** The Reducing Inequalities label relates to ‘SDG 10: Reduced inequalities’ within and among countries. Reducing inequalities is also connected to gender and equality of opportunity for women and men (as reflected in FMO’s gender strategy and SDG 5). Two tracks underlie the SDG 10 label: investment in the poorest countries (reducing inequality among countries), and investment in inclusive business (reducing inequality within countries). These two tracks are combined in one target: a deal can acquire the Reduced Inequalities label by investing in a poorest country or in inclusive business.

**Green label.** For climate action (SDG 13), FMO’s ambition is to have an investment portfolio which is aligned with a 1.5° pathway. One way to support this ambition is to grow our ‘Green’ portfolio, which is aimed at reducing greenhouse gas emissions, increasing resource efficiency, preserving, and growing natural capital, and supporting climate adaptation. The ‘Green methodology’ document describes our Green criteria, eligible investments and our internal green label process.

For further information about our Strategic Labels’ performance in 2022, please refer to section 3.2 of this report.

[FMO Annual Report 2022 – ‘Lessons learned’](#)

**Self-assessment summary:**

**Which of the following components of impact analysis has your bank completed, in order to identify the areas in which your bank has its most significant (potential) positive and negative impacts?<sup>6</sup>**

- |                          |   |                                      |                             |
|--------------------------|---|--------------------------------------|-----------------------------|
| Scope:                   | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> In progress | <input type="checkbox"/> No |
| Portfolio composition:   | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> In progress | <input type="checkbox"/> No |
| Context:                 | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> In progress | <input type="checkbox"/> No |
| Performance measurement: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> In progress | <input type="checkbox"/> No |

**Which most significant impact areas have you identified for your bank, as a result of the impact analysis?**

<sup>6</sup> You can respond “Yes” to a question if you have completed one of the described steps, e.g. the initial impact analysis has been carried out, a pilot has been conducted.

*Climate change mitigation, climate change adaptation, resource efficiency & circular economy, biodiversity, financial health & inclusion, human rights, gender equality, decent employment, water, pollution, other: please specify*

Reducing inequalities (related to SDG 10) and Climate Action (related to SDG 13)

**How recent is the data used for and disclosed in the impact analysis?**

- Up to 6 months prior to publication
- Up to 12 months prior to publication
- Up to 18 months prior to publication
- Longer than 18 months prior to publication

Open text field to describe potential challenges, aspects not covered by the above etc.:  
*(optional)*

## 2.2 Target Setting (Key Step 2)

Show that your bank has set and published a minimum of two targets which address at least two different areas of most significant impact that you identified in your impact analysis.

The targets<sup>7</sup> have to be Specific, Measurable (qualitative or quantitative), Achievable, Relevant and Time-bound (SMART). Please disclose the following elements of target setting (a-d), for each target separately:

**a) *Alignment:*** which international, regional or national policy frameworks to align your bank's portfolio with<sup>8</sup> have you identified as relevant? Show that the selected indicators and targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks.

*You can build upon the context items under 2.1.*

### Response

FMO follows a number of international, regional and policy frameworks, including:

- IFC Performance Standards
- OECD Guidelines for Multinational Enterprises
- UN Guiding Principles on Business and Human Rights
- International Labour Organization
- Partnership for Carbon Accounting Financials
- Principles for Responsible Investment
- IFC Impact Principles
- Equator Principles
- Natural Capital Declaration
- UNEP Finance Initiative
- UN Principles for Investors in Inclusive Finance
- Sustainable Development Goals Charter
- Task Force on Climate-related Financial Disclosures
- International Standards on Combating Money Laundering and the Financing

### Reduced Inequalities (SDG 10)

We will continue to invest in the world's least developed markets, and in particular look to do more in fragile states. To reduce inequalities within and between countries, we seek to create more opportunities and income for people in the 'bottom 40 percent' of income distribution, aiming for €10 billion in SDG10 portfolio investments by 2030.

We will continue to support the growth of inclusive businesses - such as smallholder farmers, off-grid energy solutions and those owned by female or young entrepreneurs, and we will blend private and public funds to enable local companies and banks to venture out to (high-risk) underserved segments.

### Links and references

[FMO Strategy 2030](#)

[FMO website – About FMO](#)

[FMO Annual Report 2022 – 'Performance against our strategy'](#)

[FMO TCFD Report 2022](#)

Additionally, by 2030 we will advance gender equality through increased gender lens investments and intensify our engagement with the 2x Collaborative.

### Climate Action (SDG13)

We will reinforce climate action through a just and inclusive transition – aiming for € 10 billion in SDG 13 portfolio investments by 2030.

We are committed to the goals of the Paris Agreement and to reach net-zero by 2050 through a just and inclusive transition and by supporting customers' alignment with the Paris goals.

We will strive to align new transactions and portfolio with 1.5°C pathway, and we will build up a portfolio that supports mitigation, adaptation, resilience, biodiversity-positive contributions, and build markets for carbon removals, including forestry. Additionally, we will implement a climate risk framework to manage for both physical and transition climate risk.

As part of our Climate Action Plan, we are committed to reduce the emissions of our power generation portfolio by 50 percent by 2030, while growing our investments in renewable energy. In line with our Position Statement on Phasing Out Fossil Fuels in Direct Investments, we will no longer invest in fossil fuel power generation plants unless a case would meet strict transition criteria.

### ESG target performance

The ESG performance target applies to the high ESG risk customers in our portfolio contracted prior to 2021 ('target list'). We register and monitor the different types of ESG risks of our high-risk customers and aim to have at least 90 percent of the ESG risks managed at a satisfactory level.

**b) Baseline:** Have you determined a baseline for selected indicators and assessed the current level of alignment? Please disclose the indicators used as well as the year of the baseline.

*You can build upon the performance measurement undertaken in 2.1 to determine the baseline for your target.*

<sup>7</sup> Operational targets (relating to for example water consumption in office buildings, gender equality on the bank's management board or business-trip related greenhouse gas emissions) are not in scope of the PRB.

<sup>8</sup> Your bank should consider the main challenges and priorities in terms of sustainable development in your main country/ies of operation for the purpose of setting targets. These can be found in National Development Plans and strategies, international goals such as the SDGs or the Paris Climate Agreement, and regional frameworks. Aligning means there should be a clear link between the bank's targets and these frameworks and priorities, therefore showing how the target supports and drives contributions to the national and global goals.

A package of indicators has been developed for climate change mitigation and financial health & inclusion to guide and support banks in their target setting and implementation journey. The overview of indicators can be found in the [Annex](#) of this template.

If your bank has prioritized climate mitigation and/or financial health & inclusion as (one of) your most significant impact areas, it is strongly recommended to report on the indicators in the Annex, using an overview table like below including the impact area, all relevant indicators and the corresponding indicator codes:

Impact area	Indicator code	Response
Climate change mitigation	...	
	...	
	...	

Impact area	Indicator code	Response
Financial health & inclusion	...	
	...	
	...	

In case you have identified other and/or additional indicators as relevant to determine the baseline and assess the level of alignment towards impact driven targets, please disclose these.

*Response*

**Power generation portfolio target**

We are committed to phasing out fossil fuels in our direct investments and implementing additional restrictions for our indirect investments. We have set an absolute emission reduction target for our power generation portfolio of 50 percent by 2030. For 2022, we report a preliminary absolute emissions figure for the power generation portfolio of 541 ktCO<sub>2</sub>e. This represents a 7 percent reduction in absolute emissions compared to the 580 ktCO<sub>2</sub>e 2021 baseline. As the 2022 preliminary figure uses 2021 emissions data, this is attributed to an overall decrease of our outstanding exposure in operational fossil fuel plants. The final 2022 figure will be made available in the 2023 FMO Annual Report.

An overview of our contribution toward the Sustainable Development Goals (SDGs) is provided in the following table:

*Links and references*

[FMO Annual Report 2022 – ‘Performance against our strategy’](#)

[FMO Climate Action Plan 2030](#)

Contributions to the SDGs by investment area (in € mln, unless stated otherwise)

Indicators	SDG	2021	2022	AFW	EN	FI	PE	OTH
Total committed portfolio*		12,503	13,238	2,128	2,802	4,367	3,796	145
FMO		8,338	8,934	1,066	1,992	2,715	3,016	145
Public funds		1,352	1,401	229	204	188	780	
Mobilized funds		2,813	2,903	833	606	1,464		
Total new investments*		1,938	2,423	373	461	1,213	376	
FMO		1,184	1,813	284	402	829	298	
Public funds		233	153	21	11	43	78	
Mobilized funds		521	457	68	48	341		
Total number of jobs supported (in thousands)**		644	750	105	92	290	263	
Direct jobs		46	43	11	5	6	21	
Indirect jobs		598	707	94	87	284	242	
Green-labelled total committed portfolio		4,118	4,427	569	2,088	1,005	763	2
Green-labelled new investments		544	1,003	127	391	371	114	
Financed avoided greenhouse gas emissions (in ktCO2e)**		1,329	1,439		1,141	0	297	
Financed absolute greenhouse gas emissions (in ktCO2e)**		5,355	6,530	1,195	1,123	2,341	1,871	
Scope 1 +2		1,408	1,377	287	595	90	405	
Scope 3		3,947	5,153	908	528	2,251	1,466	
RI-labelled total committed portfolio		4,020	4,453	998	826	1,613	1,016	
RI-labelled new investments		714	810	135	51	494	130	
ESG target performance (%)		92%	93%	98%	97%	94%	95%	75%

\* This is an alternative performance measure (APM) that is not included in the financial statements. Further details on APMs are provided in the chapter 'How we report'.

\*\* Compared to the 2021 Annual Report, the unit expression for this indicator has been adjusted for ease of interpretation.

For further information about our performance in 2022, please refer to the chapter 'Performance against our strategy' in our 2022 annual report.

**c) SMART targets** (incl. key performance indicators (KPIs)<sup>9</sup>): Please disclose the targets for your first and your second area of most significant impact, if already in place (as well as further impact areas, if in place). Which KPIs are you using to monitor progress towards reaching the target? Please disclose.

**Response**

As already mentioned in 2.1.d, our strategic labels highlight the way in which individual investments align with certain criteria related to key strategic goals. FMO sets itself targets around labels (the share of its portfolio directed towards certain strategic goals) and uses them as a steering metric. We disclose on our results via our (semi-) Annual Report.

**Reduced Inequalities (SDG 10)**

We will continue to invest in the world's least developed markets, and in particular look to do more in fragile states. To reduce inequalities within and between countries, we seek to create more opportunities and income for people in the 'bottom 40 percent' of income distribution, aiming for €10 billion in SDG10 portfolio investments by 2030.

**Links and references**

[FMO website – 'How we measure impact'](#)

[FMO's Green methodology](#)

<sup>9</sup> Key Performance Indicators are chosen indicators by the bank for the purpose of monitoring progress towards targets.

<p><b>Climate Action (SDG13)</b></p> <p>We will reinforce climate action through a just and inclusive transition – aiming for € 10 billion in SDG 13 portfolio investments by 2030.</p> <p>For further information about our Strategic Labels' performance in 2022, please refer to section 3.2 of this report.</p>	
<p><b>d) <i>Action plan:</i></b> which actions including milestones have you defined to meet the set targets? Please describe.</p> <p>Please also show that your bank has analysed and acknowledged significant (potential) indirect impacts of the set targets within the impact area or on other impact areas and that it has set out relevant actions to avoid, mitigate, or compensate potential negative impacts.</p>	
<p><i>Response</i></p> <p>Please refer to the '2023 Outlook' section in our 2022 annual report.</p>	<p><i>Links and references</i></p> <p><a href="#">FMO Annual Report 2022 – '2023 Outlook'</a></p>

<b>Self-assessment summary</b>			
Which of the following components of target setting in line with the PRB requirements has your bank completed or is currently in a process of assessing for your...			
	... first area of most significant impact: ... <i>(please name it)</i>	... second area of most significant impact: ... <i>(please name it)</i>	<i>(If you are setting targets in more impact areas) ...your third (and subsequent) area(s) of impact: ... (please name it)</i>
Alignment	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
Baseline	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
SMART targets	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No
Action plan	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> In progress <input type="checkbox"/> No

## 2.3 Target implementation and monitoring (Key Step 2)

### For each target separately:

Show that your bank has implemented the actions it had previously defined to meet the set target.

Report on your bank's progress since the last report towards achieving each of the set targets and the impact your progress resulted in, using the indicators and KPIs to monitor progress you have defined under 2.2.

**Or, in case of changes to implementation plans (relevant for 2<sup>nd</sup> and subsequent reports only):** describe the potential changes (changes to priority impact areas, changes to indicators, acceleration/review of targets, introduction of new milestones or revisions of action plans) and explain why those changes have become necessary.

### Response

Travel restrictions, economic uncertainties, and efforts to adjust operations to new regulations hampered our ability to pursue investment opportunities in 2020 and 2021 and to develop our pipeline. This affected our investment results in 2022. Once travel restrictions were lifted, we were able to resume physical customer and network meetings and engage with (potential) new customers, which led to opportunities in several areas. The investment climate, however, was affected by uncertainties caused by the war in Ukraine and surging inflation, especially with respect to energy and food prices. In general, we continued to see demand for financing, although the risk-return profile was under pressure.

In the Agribusiness, Food and Water (AFW) sector, we pursued several prospects in Latin America as well as opportunities to further grow our forestry portfolio. In the Financial Institutions (FI) sector, we observed that several customers returned to business-as-usual once COVID-19 restrictions were lifted and trade and tourism resumed. In addition, our focus on existing customers between 2020 until the end of 2022 as a result of the pandemic has led to a decline in the number of customers. However, the overall portfolio quality is good, and we have been able to close several high volume deals with existing customers. Furthermore, we experienced more demand from markets surrounding Ukraine such as Georgia, Armenia, and Moldova. As bond markets provided limited liquidity to these markets, organizations were looking to FMO for alternative sources of funding. Rising interest rates led to borrowers of financial intermediaries and agri-businesses to postpone making large capital investments.

Compared to 2021, our Energy (EN) portfolio grew, which comprises of a mix of small and large transactions. We rebuilt our activities in Latin America and the Caribbean, which accounted for 26 percent of new investments in 2022. In addition, we saw an uptick of small but impactful transactions, for example, in the commercial and industrial sector where we

### Links and references

[FMO Annual Report 2022 – 'Performance against our strategy'](#)

financed green energy solutions such as the installation of solar panels on rooftops. With the rising interest rates, we are also observing a turning point in the renewable energy market, shifting away from particularly low margins and long tenors for these projects.

For further information about our progress in 2022, please refer to the 'Performance against our strategy' chapter in our 2022 annual report and to section 3.2 of this report.

# Principle 3: Clients and Customers



We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

## 3.1 Client engagement

Does your bank have a policy or engagement process with clients and customers<sup>10</sup> in place to encourage sustainable practices?

Yes       In progress       No

Does your bank have a policy for sectors in which you have identified the highest (potential) negative impacts?

Yes       In progress       No

Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities<sup>11</sup>). It should include information on relevant policies, actions planned/implemented to support clients' transition, selected indicators on client engagement and, where possible, the impacts achieved.

*This should be based on and in line with the impact analysis, target-setting and action plans put in place by the bank (see P2).*

### Response

#### ESG risk management

FMO's ESG standards are anchored in our Sustainability Policy, which guides our contribution to sustainable development with respect to both development impact and ESG. We have adopted the IFC Performance Standards as our operating standard. Furthermore, we are guided by the United Nations Guiding Principles on Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises, the Equator Principles, the International Labour Organization Declaration on Fundamental Principles and Rights at Work, and the Center for Financial Inclusion Customer Protection Principles.

ESG risk management is a fundamental part of our investment strategy where we continuously assess and aim to improve the ESG performance of our investments. We see this as crucial to creating genuine impact in our markets and with our clients.

FMO assesses and categorizes the ESG risks of all potential investments. FMO has 33 ESG specialists who are embedded within our investment teams. They are actively involved in all high ESG risk transactions to support screening, Due Diligence (DD) contracting and transaction monitoring. They assess a potential

### Links and references

[FMO website: Sustainability policy](#)

[FMO website: Position statements](#)

[FMO website: Capacity development](#)

[FMO Annual Report 2022 – 'ESG Risk Management'](#)

[FMO Annual Report 2022 – 'Performance against our strategy'](#)

customer’s performance against our Sustainability Policy, identify risks and opportunities for improvement and prepare action plans.

Investment staff are furthermore responsible for ESG performance management on medium and low ESG risk transactions. Independent scrutiny and challenge are provided by three environmental and social specialists who are embedded in FMO’s Credit Department. Following a positive investment decision, ESG requirements are included in a customer’s contract. We monitor the implementation of ESG actions through regular contact and site visits, often supported by independent consultants. Our ESG specialists in the investment teams report to the Director of Impact & ESG. Our E&S specialists in our Credit department report to the Director of Credit, Special Operations and Legal Department.

**ESG performance target**

The ESG performance target applies to the high ESG risk customers in our portfolio contracted prior to 2022 (‘target list’). We register and monitor the different types of ESG risks of our high-risk customers and aim to have at least 90percent of the ESG risks managed at a satisfactory level.

We monitor all E&S risks in our portfolio. The target focuses specifically on high-risk customers. Out of a total 692 customers in our portfolio, 333 customers had a high E&S risk category (A or B+). By consolidating customers belonging to the same corporate group or group of companies, this led to a target list of 276 customers, representing a total of 3,770 ESG risks that were tracked during the year. The 2022 results showed that on average, 93percent of total risks among the customers in the target group managed their high risks adequately. When the performance of a customer deteriorates or when items are not implemented on time, customers receive lower ratings, and this brings down the average for the total portfolio.

**FMO Sustainability Policy Universe**

The FMO Sustainability Policy Universe brings together multiple sets of documents and tools that together form the framework that guides FMOs efforts in relation to Environmental, Social and Governance (ESG) issues. FMO has realized a comprehensive and holistic approach to contributing to sustainable development, aligned with the Global Goals for Sustainable Development and in compliance with the many international norms and standards that are aimed to shape corporate responsible behaviour.

<sup>10</sup> A client engagement process is a process of supporting clients towards transitioning their business models in line with sustainability goals by strategically accompanying them through a variety of customer relationship channels.

<sup>11</sup> Sustainable economic activities promote the transition to a low-carbon, more resource-efficient and sustainable economy.

**FMO Sustainability Policy**

The FMO Sustainability Policy guides FMO's contribution to sustainable development as framed by the Sustainable Development Goals (the SDGs). The policy is in line with FMO's vision of a world in 2050 where over 9 billion people can live well and within planetary boundaries.

The FMO Sustainability Policy is the leading document in the FMO Sustainable Policy Universe. The policy guides all of FMO's actions. FMO operates in specific market-circumstances that require an adaptive and realistic approach to supporting the transition to a sustainable global economy. Therefore, the policy should be read in conjunction with the "Implementing the Sustainability Policy" document that frames specific dilemma's for FMO in implementing the Sustainability Policy.

**Position Statements**

Position Statements are an integral part of the FMO Sustainability Policy Universe that steers FMO's activities. The statements explain FMO's choices in relation to major global sustainability issues and further explain how we select investments, work with clients and other stakeholders, and monitor performance.

The Position Statements apply on the date indicated on the document and not retrospectively. They reflect our objective to apply the highest possible standard of ethics and integrity to our business activities.

FMO's Position Statements include, among others:

- Position statement on phasing out fossil fuels
- Position statement on Impact and ESG and Financial Intermediaries
- Position statement on coal

**Capacity development**

We understand it takes more than finance to build a profitable and sustainable business for the long-run. To support the growth of our customers in a financially, environmentally, and socially sustainable way, we can offer capacity development.

Under the Capacity Development Program (CD), we contribute to the cost of hiring external consultants, trainers, and experts to facilitate the knowledge transfer and provision of technical expertise. It takes the form of grant-based co-financing of up to 50 percent of the project costs, with our client financing the balance.

<p>Our focus areas include:</p> <ul style="list-style-type: none"> <li>▪ Gender equality</li> <li>▪ Governance and risk management</li> <li>▪ Environmental &amp; Social Risk Management</li> </ul> <p>The development contributions through our CD program are financed by FMO, the Dutch state, the European Commission and, since 2021, the UK government through the Mobilising Finance for Forests fund. In 2022, we provided €16 million in CD support (2021: €8 million).</p> <p><b>Sector initiatives</b> Sector initiatives are projects that target and address systemic ESG and impact issues in a given sector or geography. Sector initiatives leverage FMO’s ability to bring together multiple perspectives and stakeholders to create positive change. During 2022, several sector initiatives were ongoing, and others were started.</p>	
<p><b>3.2 Business opportunities</b></p> <p>Describe what strategic business opportunities in relation to the increase of positive and the reduction of negative impacts your bank has identified and/or how you have worked on these in the reporting period. Provide information on existing products and services , information on sustainable products developed in terms of value (USD or local currency) and/or as a percent of your portfolio, and which SDGs or impact areas you are striving to make a positive impact on (e.g. green mortgages – climate, social bonds – financial inclusion, etc.).</p>	
<p><i>Response</i></p> <p>In September 2022, we published FMO’s Strategy 2030 “Pioneer, Develop, Scale”. Our Strategy towards 2030: Pioneer - Develop - Scale, derives its name from our progression model. It shows our long-term commitment to companies, supporting them from an initial high-risk phase to the point where commercial investors can (partially) take over from FMO.</p> <p>We start with market creation – developing unbankable opportunities into bankable projects.</p> <p>We move projects to public funds, developing new products &amp; segments and making higher risk investments.</p> <p>Through our own balance sheet, we provide financial support and scale investments.</p> <p>By mobilizing commercial partners, we aim to further scale our impact.</p> <p>Through this progression model of ‘pioneer, develop and scale’, we aim to maximize our impact, generate financial returns and</p>	<p><i>Links and references</i></p> <p><a href="#">FMO website: Strategy</a></p> <p><a href="#">FMO Climate Action Plan 2030</a></p> <p><a href="#">FMO TCFD Report 2022</a></p> <p><a href="#">FMO Annual Report 2022 – ‘Performance against our strategy’</a></p>

grow a diversified portfolio in a balanced manner. It is how we are additional in financing the private sector. By focusing on three sectors - Agribusiness, Food and Water; Energy; and Financial Institutions - our portfolio contributes to food security, access to renewable energy and a healthy financial sector. In doing so, it also contributes to Zero Hunger (SDG 2), Gender Equality (SDG 5) and Renewable and Affordable Energy (SDG 7).

To focus the efforts of our entire organization, we have set ourselves clear ambitions that will challenge us and require us to enhance our capabilities. By 2030, our goal is to have realized ten meaningful innovations, and to have an investment portfolio of at least €10 billion in both SDG 10, and SDG 13. We also expect to have doubled our public and mobilized portfolios. Also, by being a change agent on environmental, social and governance topics, we will create value with our customers, and together deliver impact in the societies and the local communities where they operate. By helping improve livelihoods, we will continue to contribute indirectly to alleviating poverty.

### **Climate Action Plan**

In December 2022, FMO published its Climate Action Plan, which provides a framework for the actions we will take to 2030 to fulfil our Sustainable Development Goal 13 (Climate Action) objectives. The Climate Action Plan provides guidance how we will build on the strong foundation of work we have already done toward this goal, given that SDG 13 has long been an integral part of FMO's core strategy.

As part of the Climate Action Plan, we aim to reduce emissions in our investments so that in 2050, our portfolio's aggregate absolute emissions, when added with our carbon removal investments' negative emissions, results in net zero emissions. We will strive to align the overall portfolio emission reductions with aggregate country- and sector-specific 1.5°C emission reduction pathways, taking into account a just and inclusive transition.

Additionally, we aim to reduce power generation portfolio emissions by 50 percent to 2030 while at the same time approximately doubling our sustainable power generation portfolio and overall energy portfolio. Consider additional targets on other parts of the portfolio.

### **FMO TCFD report 2022**

Since 2021 we have set up a project structure to embed climate risk within our operations and activities, and to implement the expectations of the ECB guide on climate-related and environmental risks. Central to the project is to create an environmental and climate risk framework for FMO and clients to ensure these risks are structurally identified, assessed, and managed.

For further information about our progress in 2022 on how we are embedding climate risks and opportunities in our work, please refer to the TCFD report 2022 that is available on the FMO website.

## **SDG 8 | Decent Work and Economic Growth**

### Total investment volume

In stimulating economic growth, FMO provides long-term financing that the market does not provide or does not provide on an adequate scale or on reasonable terms. We measure our contribution in terms of total committed portfolio<sup>4</sup> and new investments.

Our total committed portfolio amounted to €13.2 billion (2021: €12.5 billion), of which €8.9 billion was on FMO's own books (2021: €8.3 billion), €1.4 billion was through public funds (2021: €1.4 billion) and €2.9 billion was through mobilized funds (2021: €2.8 billion). Compared to 2021, our FMO committed portfolio increased by seven percent, exceeding our target of €8.8 billion. This was mainly driven by a higher volume of new investments and the appreciation of the US dollar.

## **SDG 10 | Reduced Inequalities**

### RI-labelled investments

FMO labels and steers its investments towards reducing inequalities (RI). When an investment receives an RI label, it identifies ex-ante potential for contributing to this objective in the following areas: investment in LDCs, micro-financial services, financial services to underserved SMEs, smallholders and women in the value chain and last mile delivery of power. Our focus on ESG management encourages customers to increase their inclusivity.

Compared to last year, our RI-labelled committed portfolio increased by 11 percent from EUR 4 billion to EUR 4.5 billion at the end of 2022. This represents a 34 percent share of the total committed portfolio (2021: 32 percent). The growth is mainly attributed to a higher volume of new RI-labelled new investments and the appreciation of the US dollar.

In 2022, FMO invested €810 million in reducing inequalities (2021: €714 million), representing 33 percent of our total new investment volume (2021: 37 percent). Of this, €580 million was invested from our own books, €87 million from funds managed on behalf of public entities and €143 million from mobilized funds. Some €617 million was invested in inclusive businesses, focusing mostly on microfinance and micro-financial services, women-owned or women-led SMEs and youth-owned or youth-led SMEs. Some €237 million was invested in companies and projects operating in LDCs such as Tanzania, Cambodia and Yemen.

The share of new investments in LDCs, however, was lower compared to previous years. During the pandemic we were unable to visit prospective customers and explore opportunities in these markets. Following the pandemic, we focused on rebuilding the portfolio, including in LDCs. However, such transactions generally have a longer lead time as they take place in riskier markets, and few of these opportunities materialized in 2022. In addition, we exerted more caution around new investments in these countries as a result of observed increases of non-performing loans and a deterioration of the quality in some parts of our portfolio. Furthermore, several LDCs were subject to interest rate caps, which did not meet our risk/return criteria, and political conditions in countries like Myanmar and Burkina Faso limited our ability to do business in these markets.

### **SDG 13 | Climate Action**

#### Green-labelled investments

FMO labels and steers its investments towards SDG 13. Tackling climate change has been central to our strategy since adopting our 2050 vision in 2013. Our ambition is to align our investment portfolio with a 1.5-degree pathway. One way to support this ambition is to grow our Green portfolio, which is aimed at reducing GHG emissions, increasing resource efficiency, preserving and growing natural capital, and supporting climate adaptation. We label our investments to capture the ex-ante potential to contribute towards climate action.

Compared to last year, the Green-labelled total committed portfolio increased by seven percent from €4.1 billion to €4.4 billion at the end of 2022. This represents a 33 percent share of the total committed portfolio (2021: 33 percent). The increase is due to a higher volume of Green-labelled new investments and the appreciation of the US dollar.

We invested €1 billion in Green projects (2021: €544 million), representing 41 percent of total new investments (2021: 28 percent). Of this total, €760 million was invested from FMO's own books, €69 million from public funds and €174 million from mobilized funds. Most of our Green-labelled new investments are in renewable energy projects (wind, solar, and hydro), agriculture and green credit lines.

We almost doubled our investments in Green projects compared to 2021 and came close to achieving our 2022 target. This was driven mainly by a number of large renewable energy transactions that materialized at the start of 2022, as well as FI outperforming its target. This marks a notable turnaround compared to last year when we noticed lower demand and greater availability of (concessional) finance in the FI market. However, it should be noted that this turnaround mainly applies to Green opportunities in the FI sector in Latin America, possibly resulting from less competition, fewer concessional funding

opportunities, and higher customer demand for sustainable investments in this region.

However, we also observed trends in certain markets that negatively affected the demand for Green financing. For example, in some countries, due to the difficult market conditions and the rise in the cost of living, some local banks and customers were not able to prioritize green investing and instead focused on business continuity. In these markets, transition risks to a green economy are high and often dependent on public financial stimulus, which in the current environment is geared more towards short term economic goals instead of long-term sustainability considerations. Furthermore, with rising interest rates capital investments have been deferred.

For further information, please refer to the 'Performance against our strategy' chapter in our 2022 annual report.

# Principle 4: Stakeholders



We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

## 4.1 Stakeholder identification and consultation

Does your bank have a process to identify and regularly consult, engage, collaborate and partner with stakeholders (or stakeholder groups<sup>12</sup>) you have identified as relevant in relation to the impact analysis and target setting process?

Yes       In progress       No

Please describe which stakeholders (or groups/types of stakeholders) you have identified, consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders, what issues were addressed/results achieved and how they fed into the action planning process.

*Response*

We have a broad group of stakeholders with whom we hold frequent stakeholder dialogues, including customers, our employees, government entities and public investment partners, investors, shareholders, regulators/supervisors, NGOs/civil society, think tanks/academia.

We see stakeholder engagement as a two-way dialogue. On the one hand we reach out to stakeholders to create partnerships, invest together, harmonize our approaches, and seek insights to inform our policies. For instance, our Position Statement on Fossil Fuels in Direct Investments was informed through a consultation process with our stakeholder community, including the Dutch government, several NGOs and financial institutions. We also organized a virtual multi-stakeholder forum to gather input for the update to the 2030 strategy.

On the other hand, we are also open to receive input from our stakeholders who bring critical perspectives. They alert us to different viewpoints, provide us with critical feedback and challenge us to be more transparent and accountable as an organization. Our dialogue holds up an important mirror, so we remain self-reflective and strengthen our processes.

Links and references

[FMO Annual Report 2022 – 'Stakeholder engagement and materiality assessment'](#)

[FMO Annual report 2022 – 'Performance against our strategy'](#)

<sup>12</sup> Such as regulators, investors, governments, suppliers, customers and clients, academia, civil society institutions, communities, representatives of indigenous population and non-profit organizations

**Materiality assessment**

We carry out a materiality assessment to identify topics that may affect our business and/or our stakeholders. This informs our strategy, targets, and reporting.

For further information, please refer to the ‘Stakeholder engagement and materiality assessment’ section in our annual report 2022.

**Customer satisfaction survey**

Each year, we carry out a customer satisfaction survey to gauge how customers perceive our products and how we can better support them in carrying out their business activities.

**Employee engagement**

We conduct employee engagement surveys to get a global picture of the satisfaction and engagement level of our staff.

For further information, please refer to the ‘Performance against our strategy’ chapter in our annual report 2022.

# Principle 5: Governance & Culture



We will implement our commitment to these Principles through effective governance and a culture of responsible banking

## 5.1 Governance Structure for Implementation of the Principles

Does your bank have a governance system in place that incorporates the PRB?

Yes       In progress       No

Please describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support the effective implementation of the Principles. This includes information about

- which committee has responsibility over the sustainability strategy as well as targets approval and monitoring (including information about the highest level of governance the PRB is subjected to),
- details about the chair of the committee and the process and frequency for the board having oversight of PRB implementation (including remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected), as well as
- remuneration practices linked to sustainability targets.

### Response

The Supervisory Board (SB) Impact Committee advises FMO's SB on its decision-making on Impact and ESG. The SB oversees both the Management Board (MB) and general developments at FMO, and the business connected with it. The daily management of our bank lies with the MB. The responsibilities are further delegated to the following teams within FMO:

- Strategy team, which manages FMO's corporate strategy setting. Our corporate strategy and goals are cascaded down to the different investment teams through the development of annual business plans.
- For each investment, deal teams, including the investment teams, Environmental, Social and Governance (ESG) teams as well as the technical assistance team, identify opportunities to optimize development impact.
- Impact team, which is tasked with the strategic thought leadership as well as policy development on these topics, informing impact strategy goals and targets and supporting investment teams in developing and managing impact on a deal-by-deal basis.

### Links and references

[FMO Annual Report 2022 – 'Corporate Governance'](#)

- ESG Teams responsible for ESG performance assessments at the transaction level.
- Stakeholders, Strategy, Evaluations and Knowledge Management teams, which are responsible for setting the impact strategy, stakeholder engagement and conducting multi-year impact evaluations.
- Impact Measurement and Integrated Reporting team, which is responsible for operationalizing and harmonizing methodologies and periodic reporting.
- Credit team, which is responsible for reviewing and approving impact labels and ESG performance assessments at the transaction level.
- Impact Management Team, which is chaired by the director of Impact and ESG and includes multiple managers relevant to our impact management. The Impact MT is an operational MT and can (1) approves decisions on how to operationalize MB or committee level decisions, (2) endorses prepared decision making for the MB and (3) gives guidance on impact matters.
- The Investment Committee advises the MB and decides within a particular framework about the credit and other risks, including that of ESG, of all investment decisions.

The remuneration policies are aligned with the principle of attaching equal importance to investment and risk functions, by ensuring similar salary scales for both functions and avoiding bonus structures that incentivize excessive risk taking. As a purpose-driven organization, FMO does not offer Identified Staff (senior management and staff whose professional activities have a material impact on FMO’s risk profile) any form of variable remuneration (e.g., bonuses). Most of the results are based on team effort, innovation, knowledge sharing and collaboration between colleagues in different disciplines, which does not align very well with offering bonuses related to individual performance.

**5.2 Promoting a culture of responsible banking:**

Describe the initiatives and measures of your bank to foster a culture of responsible banking among its employees (e.g., capacity building, e-learning, sustainability trainings for client-facing roles, inclusion in remuneration structures and performance management and leadership communication, amongst others).

*Response*

*Links and references*

### **FMO's Code of Conduct**

The FMO Code of Conduct serves as an umbrella for several policies and procedures within FMO and contributes to the welfare of all FMO's stakeholders like clients, employees, shareholders, partners and others with whom we do business, as well as the communities and environments in which FMO operates.

### **Company policies**

One of FMO's core values is integrity. FMO has embedded integrity into its policies, products, and procedures. The KYC Framework, the Anti Bribery & Corruption Policy as well as the Gifts, Entertainment & Hospitality Policy address the minimum standards our stakeholders, including our employees, should adhere to. In addition, since 2020 has FMO published a diversity and inclusion statement in which we express our commitment to a society in which everyone feels valued, respected, and included.

### **Training**

FMO has developed trainings and modules on various sustainability, compliance, and KYC-related topics. Part of these trainings are directly related to the role of the employee and are compulsory.

All new FMO employees are required to complete a number of training courses (in person and e-learning) as part of their onboarding process. These courses cover, among others, the following relevant topics:

- Introduction to FMO
- General compliance
- Human rights fundamentals
- Anti-bribery and corruption
- Introduction to banking (for employees without banking background)

Next to the onboarding program we offer several relevant courses to support employees with their development, such as Sustainable Management Risks & opportunities and Corporate Governance. During the year, we also launched our first e-learning module on climate risk, to raise awareness and inform FMO staff on the topic of climate risk.

In addition, new investment staff need to complete the Know Your Customer (KYC) e-learning and are also required to undertake additional training related to the FEC program and remediation project.

[FMO Annual Report 2022 – 'Performance against our strategy'](#)

[FMO Diversity & Inclusion statement](#)

[FMO website: Code of Conduct](#)

[FMO Annual Report 2022 – 'Our Investment process'](#)

[FMO TCFD report 2022](#)

**Culture**

In 2022 FMO employees were required to attend several culture conversations on Diversity & Inclusion, Workplace Behaviour, Unconscious Bias, and Feedback and Appreciation.

**5.3 Policies and due diligence processes**

Does your bank have policies in place that address environmental and social risks within your portfolio?<sup>13</sup> Please describe.

Please describe what due diligence processes your bank has installed to identify and manage environmental and social risks associated with your portfolio. This can include aspects such as identification of significant/salient risks, environmental and social risks mitigation and definition of action plans, monitoring and reporting on risks and any existing grievance mechanism, as well as the governance structures you have in place to oversee these risks.

*Response*

We strive to create sustainable impact in developing countries. We have a framework in place to guide our way of working, - the FMO Sustainability Policy Universe. Our integrated approach ensures sustainability is at the heart of our operations and aligned with the Sustainable Development Goals, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines and the IFC Performance Standards. Below we present the steps we follow to ensure that we create value on an individual project level:

**1) Sourcing of opportunities**

Within our key sectors we identify potential opportunities through a deep-rooted network in developing countries. Our initial assessment focuses on country, investment plan, development impact and our role as financier. Increasingly, we steer our investments towards projects that foster the transition to a more inclusive and greener economy.

**2) Screening of opportunities**

If the financing opportunity meets our investment criteria, we continue to analyze potential risks and challenges. To ensure the client complies with anti-money laundering, anti-corruption, and anti-terrorist financing regulations, we conduct a Know-Your-Customer assessment. Furthermore, we categorize the project based on its potential effects on environmental, social and human rights conditions, as well as governance structures.

**3) Due diligence**

To fully understand the risks and opportunities, we conduct a thorough due-diligence including on-the-ground research through local visits. We visit the client and local stakeholders to discuss the impact of FMO's financing, their business, and environmental,

*Links and references*

[FMO Annual Report 2022 – ‘Our investment process’](#)

[FMO website – ‘How we invest’](#)

[FMO website - ‘Our commitment to respecting human rights’](#)

[FMO website – ‘Implementation of our human rights commitment’](#)

[Human rights defender’s approach](#)

[Position statement on human rights](#)

[FMO world map](#)

[FMO independent complaints mechanism](#)

<sup>13</sup> Applicable examples of types of policies are: exclusion policies for certain sectors/activities; zero-deforestation policies; zero-tolerance policies; gender-related policies; social due diligence policies; stakeholder engagement policies; whistle-blower policies etc., or any applicable national guidelines related to social risks.

social and human rights risks. We also analyse the client's tax practices and policies. Our tax department provides expert advice where needed. If we identify gaps in meeting international standards or policies, we develop an action plan to mitigate and manage any of the identified risks and promote positive development in these areas.

**4) Stakeholder engagement**

Besides regular meetings and dialogue sessions with our main stakeholders, we also offer the opportunity to provide input to our decisions on new transactions with a high environmental or social risk profile. We disclose the potential investment online to ensure that we have not overlooked any important concerns. From identification to implementation, we consult key stakeholders to properly assess, monitor and manage the impacts of all projects.

**5) Contracting**

For each investment, we have assessed the environmental, social and governance risks, identified where improvements can be made, and established action plans for further development. After internal approval, we sign an agreement with our clients ensuring that our requirements and conditions are legally binding. We disclose our investments on our website after contracting.

**6) Monitoring and value creation**

Throughout the lifetime of the investment we monitor our client's financial performance as well as progress on the environmental, social and governance requirements. We receive annual or more frequent financial reports, conduct (ESG) audits with the help of local consultants and visit them, depending on the nature of the project, every other year. If needed, we support our clients with capacity development and technical assistance to improve their business and identify new opportunities.

Our investment departments are responsible for FMO's portfolio, and they are supported by the Impact and ESG department on high-risk transactions. Our ESG staff is embedded in our investment teams. They support with screening, assessment, structuring and monitoring FMO's investments with respect to human rights and environmental and social risk management. The Director of Impact & ESG reports to FMO's Management Board via the Chief Investment Officer. FMO's credit department, which includes ESG specialists, is independent of the investment teams and reports to the Management Board via FMO's Chief Risk & Finance Officer. The credit department provides advice to the Investment Committee based on scrutiny and challenge of potential investments.

[FMO TCFD report 2022](#)

## Know your customer (KYC)

FMO plays an important role as gatekeeper to help prevent financial economic crime (FEC) and preserve the integrity and reputation of the financial system. We only want to deal with customers of good standing. Therefore, we obtain and monitor information and documents concerning the identity of a customer, gain insight into the business and its structure, and assess customer integrity risk holistically. Referred to as Know Your Customer (KYC), this is an integral part of the investment process and the customer relationship throughout its life cycle. We work in countries where it is hard to obtain and verify documents. Nevertheless, FMO has a robust FEC framework in place, which complies with national and international FEC and KYC standards.

Since 2021, we have significantly increased the number of FTEs in both the first and second lines. In the first line, the Know Your Customer (KYC) department supports and works closely with the investment teams that are responsible for customer contact and the comprehensive risk assessment of the customer. As part of the implemented deal team approach, in-depth customer due diligence is performed. The Compliance department forms the second line and has transferred some of its tasks to the first line, to better reflect their responsibility towards KYC.

We evaluate our policies and procedures on an ongoing basis, enabling the investment teams to conduct in-depth due diligence in line with applicable laws and regulations. Additionally, new employees receive KYC training, as well as other integrity awareness trainings during their first weeks at FMO. In 2022, we continued to provide mandatory anti-bribery and corruption training sessions, as well as financial economic crime and unusual transaction reporting training for all investment personnel and relevant support functions.

## Our commitment to respecting human rights

We implement our human rights commitment through our Impact and ESG management framework, which is aligned with the Sustainable Development Goals (SDGs).

We strengthen specific human rights by investing in sectors that are crucial to economic, environmental, and social progress: Energy, Agribusiness, Food & Water, and Financial Institutions. Our human rights commitment is also an integral part of our ESG risk management. Adopting a human rights-based lens in our ESG risk management helps us to bring local employee, affected community and other stakeholder perspectives to the center of our ESG assessment and influences the engagement with our customers. It also helps us in our review of land tenure related

risks, broad community support and contextual human rights risk and in defining individual customer requirements and support in these areas.

The IFC Performance Standards are our main instrument for implementing our human rights commitment. We use them as a key reference for identifying human rights risks and impacts, defining customer requirements and responsibilities, and for reviewing human rights performance during the tenor of our engagement. We are further guided by the United Nations Guiding Principles for Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises, and the other standards referenced in our Sustainability Policy.

### **Management and Board involvement in human rights issues**

Investment staff, management and the Management Board consider human rights issues in their investment decisions and engage with key stakeholders on impact and ESG issues, including human rights. Further, they discuss human rights risk events as they surface through internal management reports and FMO's Independent Complaints Mechanism. This includes signals pointing to the oppression of or violence (acts or threats) against individuals because of their engagement with projects or activities financed or considered for financing by FMO (see also our Human rights defender approach).

### **Employee awareness of FMO's human rights commitment**

FMO employees are guided in their human rights work by our Code of Conduct, Sustainability Policy Framework and our ESG target. Our human rights commitment is fully integrated in our investment process and in the templates and tools that accompany and guide employees at each step in this process. Furthermore, the FMO Academy, our internal training center, offers a range of ESG courses to FMO employees, including an advanced human rights training.

New FMO employees take part in an introduction and onboarding program. The onboarding program includes a variety of reading materials and training courses on FMO's vision and strategy, our governance, our culture, compliance matters, travel safety and a mandatory e-learning on human rights fundamentals.

### **Independent Complaints Mechanism**

FMO has implemented an Independent Complaints Mechanism (ICM), which allows external parties to file a complaint concerning projects financed by FMO.

The Mechanism ensures the right to be heard for Complainants that feel affected by an FMO-Financed Operation, in order to enable resolution of disputes and assist FMO in drawing lessons

learned for current and future operations. FMO strives to implement a robust and independent procedure and to communicate transparently about it to stakeholders.

**Embedding climate risk in our work and operations**

The Management Board has established risk committees to assist it in fulfilling its oversight responsibilities regarding the risk appetite of FMO, the risk management framework, and the governance structure that supports it. During 2022 we continued embedding climate risk in the roles of the following committees: Asset and Liability Committee (ALCO), Investment Committee (IC), and Investment Review Committee (IRC)

As a first step of our process of integrating climate risk with our overall Risk Management Framework, in 2022 we performed a mapping exercise to identify how climate risk may affect other existing risks categories in our Risk Appetite Framework. Additionally, we started embedding climate risk in several other risk policies and existing processes, such as the investment process, liquidity risk policy, and market risk policy.

For further information, please refer to the TCFD Report 2022 that is available on the FMO website.

**Self-assessment summary**

Does the CEO or other C-suite officers have regular oversight over the implementation of the Principles through the bank’s governance system?

Yes  No

Does the governance system entail structures to oversee PRB implementation (e.g. incl. impact analysis and target setting, actions to achieve these targets and processes of remedial action in the event targets/milestones are not achieved or unexpected neg. impacts are detected)?

Yes  No

Does your bank have measures in place to promote a culture of sustainability among employees (as described in 5.2)?

Yes  In progress  No

# Principle 6: Transparency & Accountability



We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

## 6.1 Assurance

Has this publicly disclosed information on your PRB commitments been assured by an independent assurer?

Yes       Partially       No

If applicable, please include the link or description of the assurance statement.

### Response

This UNEP FI PRB self-assessment report has not been externally assured. However, most of the responses in this report have direct references to the FMO Annual Report 2022, which has been externally assured.

### Links and references

[FMO Annual Report 2022 – 'External assurance'](#)

## 6.2 Reporting on other frameworks

Does your bank disclose sustainability information in any of the listed below standards and frameworks?

- GRI
- SASB
- CDP
- IFRS Sustainability Disclosure Standards (to be published)
- TCFD
- Other: ....

### Response

For the sustainability information in the FMO Annual Report 2022 we report in accordance with the GRI Standards.

We have been reporting in line with the TCFD recommendations since 2019, and in 2023 we issued a standalone TCFD report for the calendar year 2022.

### Links and references

[FMO Annual Report 2022 – 'GRI Content Index'](#)

[TCFD Report 2022](#)

### 6.3 Outlook

What are the next steps your bank will undertake in next 12 month-reporting period (particularly on impact analysis<sup>14</sup>, target setting<sup>15</sup> and governance structure for implementing the PRB)? Please describe briefly.

#### Response

As we mentioned in our previous responses, in 2022 we launched our strategy towards 2030 ‘Pioneer – Develop – Scale’ and 2023 will be the first year of our strategy implementation. For further information please refer to the ‘2023 outlook’ section in the FMO Annual Report 2022.

In the coming 12 months we will also start implementing our Climate Action Plan, and we will continue our work on embedding climate risk in our work and operations. Additionally, we will continue working on improving our Impact Management Framework.

#### EU Sustainable Finance regulation

FMO is faced with a fast-evolving, complex regulatory landscape and increasing stakeholder expectations. As a regulated bank, it is imperative we respond to these changes adequately and in the most effective way possible. In 2023, we will continue focusing on adapting to regulatory requirements, such as the EU Sustainable Finance regulation, which also entails core elements of the PRB principles.

#### Links and references

[FMO Annual Report 2022 – ‘2023 outlook’](#)

[FMO Annual Report 2022 – ‘External environment’](#)

[FMO Climate Action Plan 2030](#)

[FMO TCFD report 2022](#)

### 6.4 Challenges

Here is a short section to find out about challenges your bank is possibly facing regarding the implementation of the Principles for Responsible Banking. Your feedback will be helpful to contextualise the collective progress of PRB signatory banks.

What challenges have you prioritized to address when implementing the Principles for Responsible Banking? Please choose what you consider the top three challenges your bank has prioritized to address in the last 12 months (optional question).

If desired, you can elaborate on challenges and how you are tackling these:

<sup>14</sup> For example outlining plans for increasing the scope by including areas that have not yet been covered, or planned steps in terms of portfolio composition, context and performance measurement

<sup>15</sup> For example outlining plans for baseline measurement, developing targets for (more) impact areas, setting interim targets, developing action plans etc.

- |  |  |
|--|--|
| <input type="checkbox"/> Embedding PRB oversight into governance                               | <input type="checkbox"/> Customer engagement             |
| <input type="checkbox"/> Gaining or maintaining momentum in the bank                           | <input type="checkbox"/> Stakeholder engagement          |
| <input type="checkbox"/> Getting started: where to start and what to focus on in the beginning | <input type="checkbox"/> Data availability               |
| <input type="checkbox"/> Conducting an impact analysis   | <input type="checkbox"/> Data quality                    |
| <input type="checkbox"/> Assessing negative environmental and social impacts                   | <input type="checkbox"/> Access to resources             |
| <input type="checkbox"/> Choosing the right performance measurement methodology/ies            | <input type="checkbox"/> Reporting                       |
| <input type="checkbox"/> Setting targets   | <input type="checkbox"/> Assurance                       |
| <input type="checkbox"/> Other: ...  | <input type="checkbox"/> Prioritizing actions internally |

If desired, you can elaborate on challenges and how you are tackling these:

A challenge we potentially see regarding the implementation of the Principles for Responsible Banking is the frequency of the revisions of the framework, as this affects the resources and effort needed to meet the framework's requirements.

As part of our ongoing improvement in the area of impact management, we will continue working on our Impact Management Framework.