FMO

Entrepreneurial
Development
Bank

Task Force on Climate-related Financial Disclosures (TCFD)

TCFD Disclosure 2023

March 2024

Entrepreneurial
Development
Bank

TCFD DISCLOSURE 2023

Table of contents

1. Introduction

At FMO, we believe in a world in which, by 2050, more than 9 billion people live well and within planetary boundaries.

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). By building on what we already do, by recognizing what we are capable of, and by challenging ourselves, our customers, and our partners to go where many others do not yet dare to go. The essence of our strategy is captured in just three words: Pioneer – Develop – Scale.

Climate action remains one of the focus areas of our Strategy 2030 and is further detailed in our Climate Action Plan that we launched in December 2022. To take Climate Action (SDG 13), we remain committed to the goals of the Paris Agreement and to reach net-zero by 2050, striving to align our investments and portfolio with a 1.5-degree pathway, taking into consideration a just and inclusive transition. We recognize the difficult challenges this poses across sectors and countries, but also see opportunities here. We invest in activities that support our SDG 13 objectives and engage with our customers and help them move towards a sustainable climate pathway.

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 to ensure these risks are structurally identified, assessed, and managed.

Overall, in 2023 we made good progress in our work on climate action, and below we present an overview of the main achievements in the four thematic areas of the TCFD recommendations:

Progress against TCFD recommendations in 2023

Governance	Strategy	Risk management	Metrics and Targets
• We created the Impact and Sustainability Committee (ISCO), which aims to strengthen the organizational governance structure and decision making of FMO's impact and Sustainablity agenda. • Climate action and risk topics have already been reviewed by the ISCO and the Financial Risk Committe (FRC), respectively • We created a Sustainability Strategy and Policy (SSP) team	• 2023 was the first year of implementation of our strategy 2030 'Pioneer – Develop – Scale', where Climate Action (SDG13) is one of the focus areas • We invested EUR 4.7bn toward our SDG 13 goals, representing 36 percent of our total committed portfolio in 2023 • The SDG Loan Fund was announced. Once fully invested, the fund is expected to avoid approximately 450,000 tCO2 per annum	• We formalized our portfolio scan on physical risks, which are now submitted to the FRC on a quarterly basis • We developed an application to operationalize climate risk assessments within the investment process • We contiuned working on integrating climate risk into internal policies and procedures, and we developed our Climate Risk policy	• We continued reporting our absolute GHG emissions from FMO's own operations, and our financed absolute GHG emissions generated through our investments. • We published the progress on our 2030 target of our power generation portfolio in our Annual Report • Physical risk metrics are now part of our Risk Apetite Framework and dedicated KRIs have been approved by the Management Board

We have been reporting in line with the TCFD recommendations since 2019 and this TCFD report supplements our 2023 Annual Report.

2. Governance

FMO's corporate governance structure is based on the premise that FMO has established a long-term partnership with various stakeholders who, directly or indirectly, influence or are influenced by the achievement of our objectives. Stakeholders include customers, the Dutch Government, shareholders and other providers of capital, employees, NGOs and local communities in the countries where we work, as well as partners.

FMO has a comprehensive framework in place to manage and control risk, including climate risk, reflecting its banking license, state support agreement and a mandate to do business in high-risk countries.

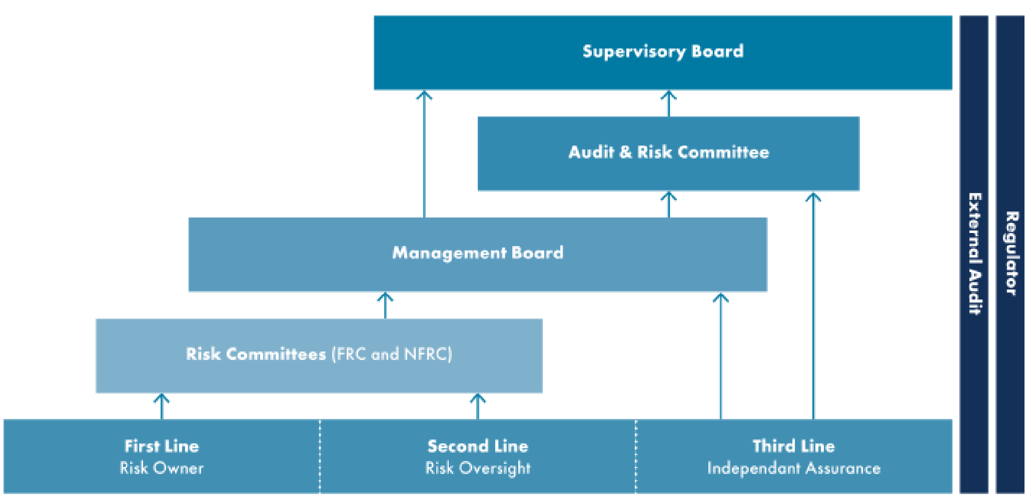
FMO has a two-tier board structure in place, consisting of a Supervisory Board (SB) and a Management Board (MB). The Supervisory Board appoints the members of the Management Board and supervises its activities. The SB advises the Management Board and approves the annual budget, the strategic development, and the risk appetite. Each SB member has specific expertise in FMO's primary areas of operation. The SB members are appointed in the Annual Meeting of Shareholders.

The MB currently comprises of five statutory directors: the Chief Executive Officer (CEO), two Co-Chief Investment Officers (CIO), the Chief Finance and Operations Officer (CFOO) and the Chief Risk Officer (CRO). The MB is accountable for compliance with relevant legislation and regulations.

The Supervisory Board, overseeing and advising the Management Board, consists of six members appointed by the General Meeting of Shareholders. The SB has three committees: the Audit and Risk Committee, the Selection, Appointment and Remuneration Committee, and the Impact Committee. These SB committees each consist of three SB members. The committees assist the SB and report to it.

Similar to our approach to other types of risk, the responsibility of overseeing climate and environmental risks is part of the CRO role, and we will continue embedding climate risk roles and responsibilities within our 'three lines' model.

FMO's organizational structure



The MB 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 2023 we continued embedding climate risk in the roles of the following committees:

The Financial Risk Committee (FRC)
The FRC is appointed by the Management Board as an independent body for the purpose of monitoring, challenging and deciding upon the execution of financial risk management within FMO.

The Impact and Sustainability Committee (ISCO)
In 2023 the Impact and Sustainability Committee (ISCO) was established to strengthen the governance of FMO's Impact Management Framework. The ISCO drives the Impact and Sustainability agenda through improved decision-making and promotes coordinated end-to-end operationalization and implementation of Impact and Sustainability related topics and sense-making of external developments.

The Investment Review Committee (IRC)
The IRC is responsible for monitoring the portfolio asset quality and for reviewing financial exposures, which require specific attention, and decide on needed measures. The IRC also decides on specific loan impairments, approves credit risk and concentration risk policies, and is responsible for internal credit rating models. It is chaired by the CRO.

During 2023, we also put in place a Sustainability Strategy and Policy (SS&P) team, which delivers actionable strategic and policy advice, and facilitates direction setting and executive decision making in respect of FMO's SDG and Development Impact agenda, including SDG 13 ('climate action').

Lastly, we launched various internal knowledge hubs, including the Climate Action Knowledge hub, to continue raising awareness and sharing knowledge with FMO colleagues on the topic of climate action. The hub is part of the implementation of Strategy 2030 that was launched in 2022, and it serves as a central point of access, supporting the following areas: Increasing climate investments and customer support, Paris-alignment of investments, and active management of climate action.

3. Strategy

Climate action remains one of the focus areas of our Strategy 2030 'Pioneer – Develop – Scale' and we aim to achieve a €10 billion in SDG 13 portfolio investments by 2030. Furthermore, we are committed to the goals of the Paris Agreement and to reaching net-zero by 2050. We will strive to align our investments and portfolio with a 1.5-degree pathway, while supporting our customers' efforts for their own alignment with the Paris goals.

Climate action is needed in our markets, but finance is lacking

Developing countries are disproportionately affected by climate change but are also part of the solution. A substantial share of the population in these low-emitting countries lack access to modern energy services. Importantly, eradicating poverty and energy poverty can be achieved without significant global emissions growth.

Upper-middle income countries, combined with the global emissions of the lower-emitting lower-middle income and low-income countries, now account for more than two-thirds of global CO_2 emissions. As low-income and low-middle income countries grow, a focus must be on low-emission growth to avoid contributing further to the problem.

Our Commitments to Climate Action (SDG 13) to 2030

In December 2022 we launched our Climate Action plan to 2030, as part of our Climate Commitment of the Dutch Financial sector that we signed in 2019, and as an elaboration of our climate objectives in our Strategy 2030.

Aligning our portfolio and investments with the Paris goals

By 2030 we will have acted upon our commitment to reach a 'net zero' portfolio by 2050. We will support our customers' increased alignment with the Paris goals from both a mitigation and resilience perspective, while balancing the need for a just and inclusive transition and considering the specific circumstances of our countries and sectors. Additionally, we will strive to align both new transactions and our portfolio with a 1.5°C pathway.

We are committed to reducing 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. We are working on developing additional fossil fuel restrictions for our indirect investments, as described in our joint commitment to the EDFI Climate and Energy Statement.

In 2023, we launched two key workstreams to further guide the Paris alignment of our new investments and portfolio. One aims to develop a methodology for FMO to align our new investments with the Paris alignment goals for mitigation and resilience (country-level). The second aims to develop additional Key Performance Indicators (KPIs) for our climate action strategy and commitments. As part of this effort, we work closely with our peers from other development and commercial banks. In October 2023, FMO hosted a two-day workshop on Paris Alignment, gathering a diverse group of colleagues from the European Development Finance Institutions. The workshop was convened with the objective of sharing information on new developments for Paris alignment especially for lower-income countries.

For further information about our target for our power generation portfolio, please refer to the 'Metrics and targets' section of this report, and to our Climate Action Plan that is available on the FMO website.

Increasing climate investment and supporting our customers

We aim to build a portfolio of at least EUR 10 billion dedicated to SDG 13 goals in climate mitigation, adaptation & resilience (both including nature-based solutions), biodiversity, and other footprint reduction. By 2030 we will invest significantly in activities that contribute to carbon removals, including forestry, aiming for up to EUR 1 billion in investments (including mobilization).

Together with our partners, we will engage on climate adaptation and resilience, and biodiversity, by creating coalitions with key nature conservation organizations, contributing to the understanding of the landscape approach, promoting community and stakeholder engagement. We will invest in market creation and in mobilization for climate action in order to both support new solutions and to bring additional capital to have a higher impact.

FMO's Green label

FMO has two labels to steer its objectives to grow its portfolio in investments that specifically support its goals of SDGs 10 (Reduced Inequalities) and 13 (Climate Action). FMO sets annual targets based on the labels (the share of its portfolio directed towards certain strategic goals) and uses them as a steering metric.

In 2023, FMO embarked on another workstream to meet our SDG 13 objectives, which was to update our Green Label criteria. Our new criteria, which took effect at the beginning of 2024, are largely based on the MDB Common Principles for Climate Mitigation and Adaptation and Resilience Finance Tracking. In addition, we have added new categories, including biodiversity and other categories that contribute to our SDG 13 objectives.

To facilitate steering on SDG 13 through our Green label, we set an annual target on Green as a percentage of new commitments that influences customer selection, project preparation and investment decisions. For further information please refer to the 'Green methodology' document that is available on the FMO website, which describes our Green criteria, eligible investments, and our internal green label process.

At the end of 2023 our Green-labelled committed portfolio was €4.7 billion, which was an increase of seven percent over the previous year. For further details regarding our Green label performance in 2023, you can refer to the 'Performance against our strategy' chapter in our annual report 2023.

Making high impact by leveraging public funding

FMO also makes high-impact and high-risk investments possible by leveraging public funding to support entrepreneurs working on new business models or operating in low-income countries. We receive public funds from the Dutch government and the UK government that are focused on climate adaptation. These funds, the Dutch Fund for Climate and Development (DFCD) and Mobilizing Finance for Forests (MFF), enable private sector investments in projects aimed at climate adaptation, enhancing climate resilience in developing countries, combating deforestation, and other environmentally unsustainable land practices, and targeting climate mitigation activities in the forestry and agricultural sector. The total fund sizes for DFCD and MFF are €160 million and up to £150 million, respectively. The programs' investees are also supported with technical assistance post investment.

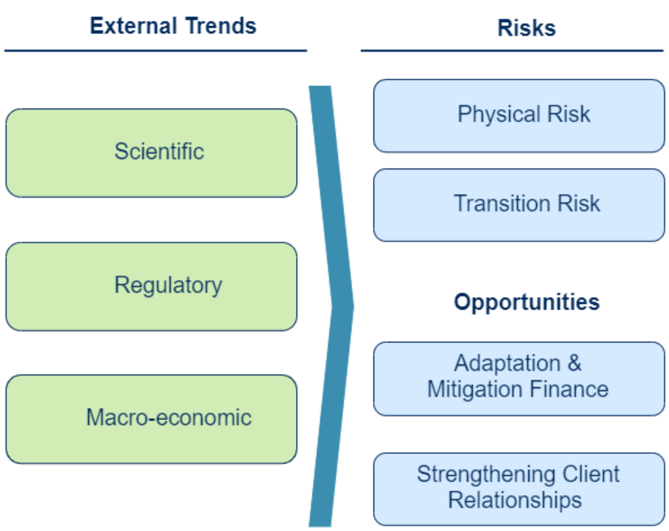
SDG Loan Fund

Publicly announced and activated in late 2023, the US$1.1billion SDG Loan Fund is the latest in FMO's Investment Management (IM) portfolio. Commitments to the fund, including those from Allianz and Skandia, are enabled by the first loss investment from FMO and the unfunded guarantee from John D. and Catherine T.MacArthur Foundation. Together, these credit enhancements mobilize institutional investors in emerging and frontier markets. This enables a mobilization ratio of 1:9, where US$1 of catalytic capital from FMO mobilizes US$9 of private sector capital. Allianz Global Investors manages the fund and FMO IM manages the loan portfolio. The capital of the fund will be invested as participations in FMO loans across FMO's focus sectors. Once fully invested, the fund expects to support close to 60,000 jobs and to avoid approximately 450,000 tCO2 eq per annum. The fund has participated in the first 11 loans at a committed portfolio of €93 million. Around 37 percent of the committed portfolio has a Green label.

External scan on developments that impact climate-related and environmental risks

In 2022 we performed for the first time our external scan on major external trends as part of the work of our climate risk project. The framework of our external scan is shown below:

FMO's external scan framework



By monitoring major scientific, regulatory, and macro-economic trends, we aim to gain a better understanding of the potential climate-related and environmental risks that may impact FMO's strategy and operations.

During 2023 we continued sharing updates on the latest developments through our monthly bulletin.

Our climate risk methodology

Since 2021 we have been co-developing with an external party our methodology for performing climate risk assessments on a portfolio and investment level, in order to identify exposure to physical and transition risks. We plan to use this methodology as part of our assessment and action toward the Paris alignment of new investments, which will continue development in 2024.

In the 'Risk Management' section of this report, we provide further information about the progress we made in 2023 with our climate risk methodology.

4. Risk Management

FMO defines risk as the effect of uncertainty on objectives. FMO has a comprehensive framework in place to manage and control risk, reflecting its banking license, State Support Agreement and a mandate to do business in high-risk countries. The risk management framework helps us realize our ambitions and safeguard our viability. Risk management practices are integrated across the organization, from day-to-day activities to strategic planning, to ensure both compliance with relevant regulations and adherence to the risk appetite. A sound risk management framework is required to preserve FMO's integrity, which is essential for fulfilling its mission and upholding its good reputation.

The Management Board defines and promotes the desired corporate culture and high ethical and professional standards. Employees are encouraged to take the right risks in an informed manner, with integrity and careful consideration of the interests of all stakeholders.

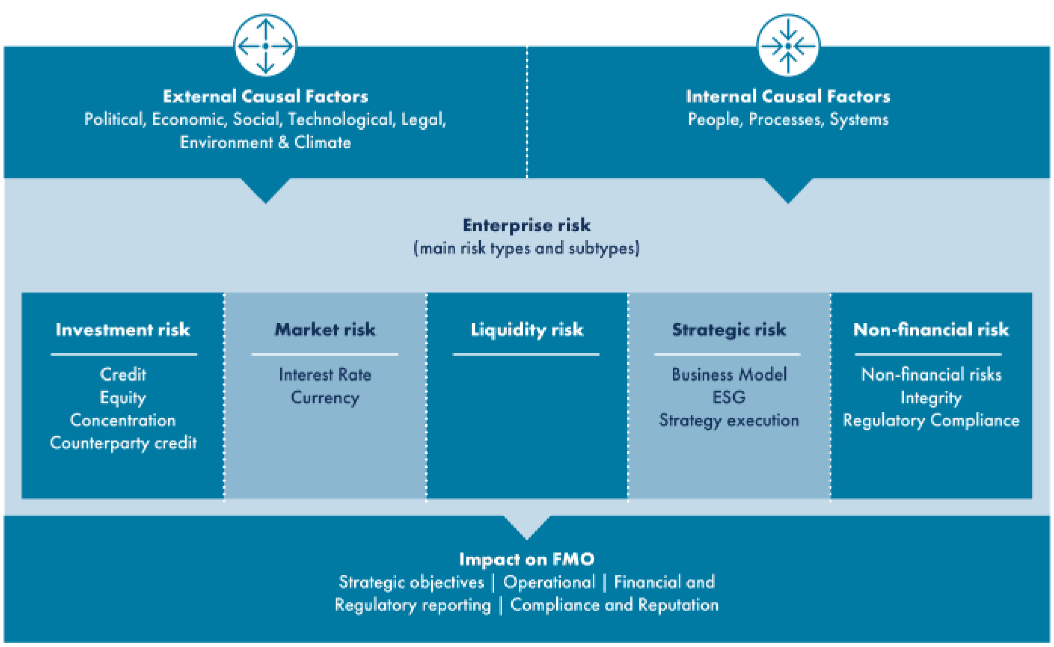
The risk management framework is based on the 'three lines model', where the first line (Investment department and supporting functions) is challenged and advised by the second line (Risk department, Compliance department and Credit department), and the third line (Internal Audit) that performs independent assessments of the functioning of first and second line.

Risk appetite and taxonomy

The Risk Taxonomy defines the main risk types and risk subtypes FMO is exposed to in the pursuit of its objectives. This common set of risk categories, types and subtypes facilitates the structuring of other elements of the risk management framework, such as the risk appetite and risk policies.

The risk appetite defines appetite bandwidths, alert and tolerance levels for main risk types and subtypes. The Risk Appetite Framework (RAF) is reviewed by the Management Board and approved by the Supervisory Board on an annual basis. If necessary, it can be revised during the year in case of material developments or a change in the strategic goals.

FMO's Risk Taxonomy

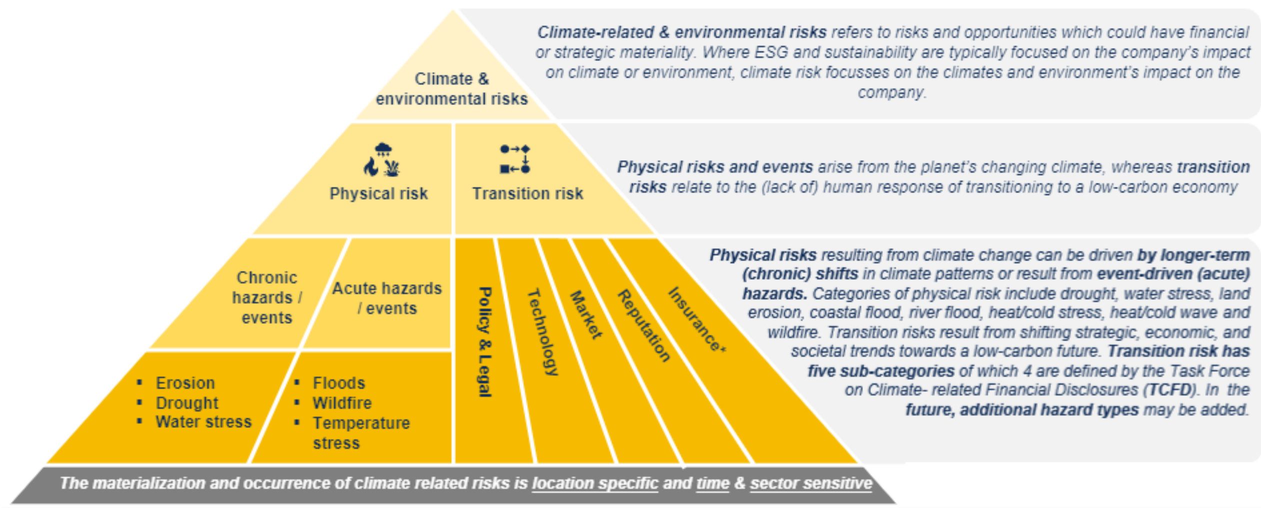


For further information about our approach to Risk Management please refer to the Risk Management chapter in our annual report 2023.

Integrating climate risk with our Risk Management Framework

We have developed FMO's Climate Risk Framework based on market practices, inhouse expertise, and external specialist knowledge.

FMO's Climate Risk Framework

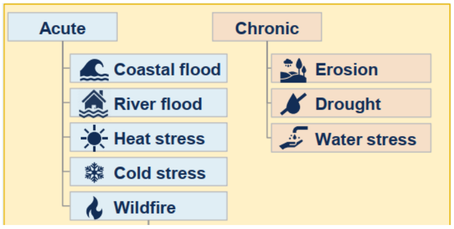


Climate risk is not a separate risk type but an external causal factor of FMO's existing risk types and represented as such in FMO's internal taxonomy. Climate risk is understood as the risk of underperformance or non-viability of customers, investments or FMO itself, caused by physical climate change related events (acute or chronic) and/or climate transition related events and uncertainties. These include two strongly interlinked perspectives:

- An inside-out perspective, defined as the impact by FMO and its clients on climate
- An outside-in perspective, defined as the impact on FMO due to transition and physical risks

Based on the recommendations of the TCFD, we use the following definitions for transition and physical risks: Physical risks result from climate change, and they can be driven by chronic (long term) shifts in climate patterns or result from acute (event driven) hazards. Categories of physical risks include coastal flood, drought, water stress, land erosion, coastal flood, river flood, heat/cold stress, heat/cold wave, and wildfire.

Categories of physical risks



Transition risks result from shifting strategic, economic, and societal trends towards a low-carbon future. In our definition, transition risk has the following four sub-categories, in line with the TCFD recommendations:

1. Market
2. Technology
3. Policy and legal
4. Reputation

FMO's Climate Risk methodology

Since 2021 we have been co-developing with an external party our methodology for performing climate risk assessments on a portfolio and investment level, in order to identify exposure to both physical and transition risk. Since 2022 we started piloting our methodology by performing a portfolio scan in our four sectors (Financial Institutions, Energy, Agriculture, Food and Water, and Private Equity). The portfolio scan is the aggregated overview of climate related risks in FMO's investment portfolio (i.e., all loans + private equity exposures) and provides an initial assessment of climate-related risk exposures in industries and geographies providing a view of risk concentrations in the portfolio. Risk areas identified by the portfolio scan can be followed up by a more in-depth analysis of specific transactions, industries, or geographies. This is in line with the recommendations set out by the TCFD and the ECB Guide on climate-related and environmental risks.

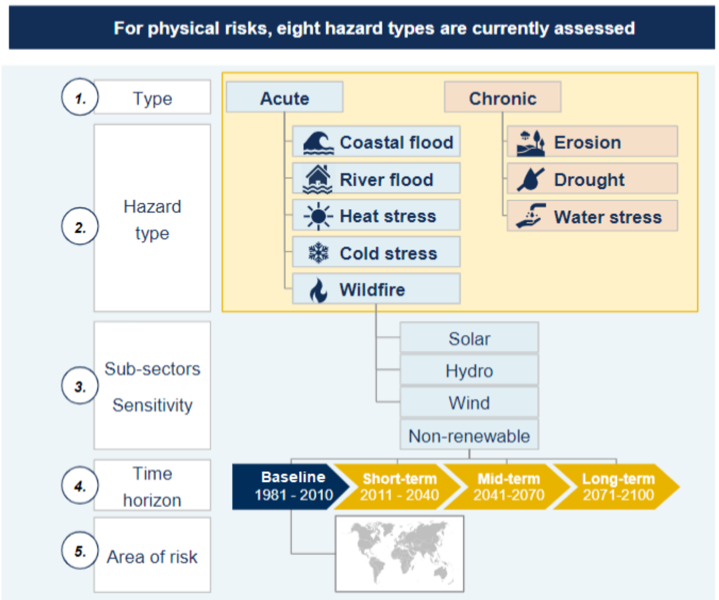
The portfolio scan reveals potential physical and transition risks in a portfolio in the short, medium, and long term. We are expecting this scan to provide us with an initial understanding of climate-related and environmental risk exposures in industries and geographies, and to indicate if there are any risk concentrations in a portfolio.

We formalized our portfolio scan on physical risks, which are now submitted to the Financial Risk Committee (FRC) on a quarterly basis. Moreover, we developed an application to operationalize climate risk assessment into the investment process.

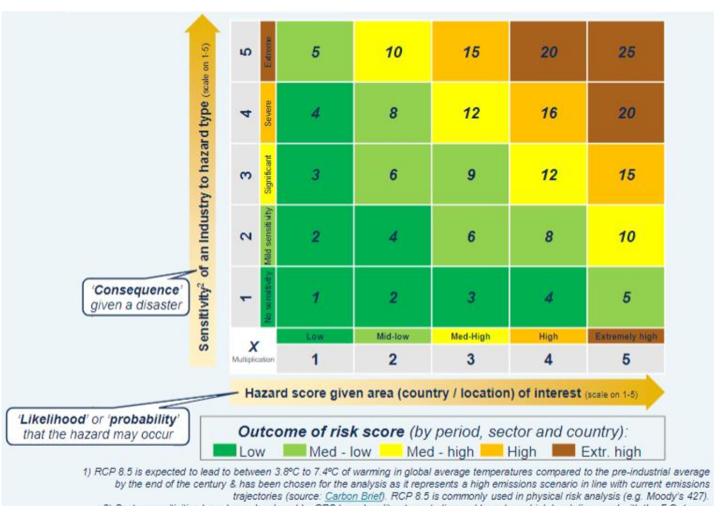
With regards to Transition risk, we have further developed our methodology for Policy and Legal and Reputation, while Market and Technology are expected to be further developed in 2024. Finally, we continued working on integrating climate risks into internal policies and procedures, including the establishment of a climate risk policy.

Physical risk portfolio assessment - pilot

The physical risk scan shows the high-level risk exposure of different sectors and industries to physical risk hazards. The results illustrate the risks of changing physical hazards in the IPCC RCP 8.5 scenario (high emissions scenario 1) to FMO's investments in all FMO regions and three future time periods.



A score is then determined per hazard type by industry and country of investment:



Throughout 2023, FMO has been developing an application to operationalize climate risk assessment into the investment process, which will support FMO's deal teams to carry out the climate risk assessments step by step, while at the same time our data collection will be improved. The application will be implemented as of 2024 and FMO expects that the roll-out of this tool will significantly improve our data collection. FMO is iteratively working on improving the application before implementation. Thus far, the tool has been piloted for around 25 customers, in collaboration with investment teams from all departments (Agribusiness, Food and Water, Energy, Financial Institutions and Private Equity).

Challenges with our Climate Risk methodology

We should mention that we faced some challenges during the pilot phase of our Climate Risk methodology. Regarding data input and quality, we found that data is often not available at the required level of granularity, which created challenges for our data analysis. Additionally, our data collection process will need to be improved over time. The application will allow FMO to capture more granular data, for instance for investments that are geographically diversified or with customers that are active in multiple sectors.

5. Metrics and Targets

FMO has been a pioneer among development finance institutions (DFIs) for having reported our absolute GHG emissions from our own operations and our financed absolute GHG emissions for several years already. In 2022, we set a firm power generation emission reduction target for 2030, as part of our Climate Action Plan. Lastly, we also started working on defining the KPIs related to our climate action strategy and commitments and KRIs related to climate risk.

GHG emissions

Measuring and reporting the GHG emissions linked to FMO's activities and investments provides insights into our positive and negative climate-related impact and how to steer our investments towards more positive impact in the future.

We report on:

<u>Financed absolute GHG emissions</u> generated through our investments. These give an understanding of our portfolio's overall emissions and opportunities to reduce them.

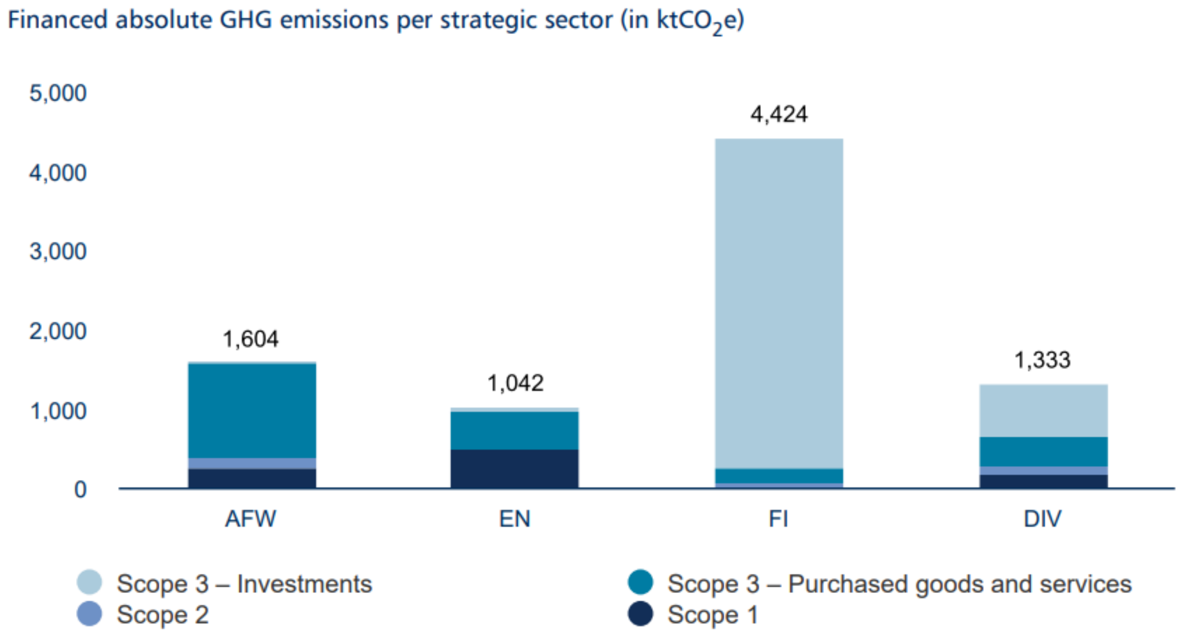
<u>Financed avoided GHG emissions</u> as a result of our investments, for example through the power production of a new solar park. These emissions quantify our contributions to climate change mitigation activities, which cannot be fully captured by absolute emissions.
.
<u>Absolute GHG emissions from FMO's own operations</u> associated with heating and electricity used in our office buildings, as well as staff business travel. These are much smaller than our financed absolute emissions but show our own operational footprint.

Financed absolute GHG emissions

We report on absolute emissions scopes 1, 2 and 3 in line with the GHG Protocol. Scope 1 relates to direct emissions resulting from the activities of an organization or under its control (e.g., a power plant burning gas). Scope 2 relates to indirect emissions from energy used by an organization (electricity, heat and steam). Scope 3 relates to all other indirect emissions in the value chain related to, for instance, business travel or purchased goods and services.

To report on financed absolute GHG emissions, we follow the Global GHG Accounting and Reporting

Standard for the Financial Industry published by the Partnership for Carbon Accounting Financials (PCAF). The majority of FMO's financed absolute GHG emissions are estimated through economic modelling using the Joint Impact Model (JIM). While we continue to improve our data collection on GHG emissions, it is important to note that such data are not yet readily available in many of our markets. In the meantime, the JIM provides insights into our portfolio and its sources of emissions.



In 2023, our outstanding portfolio resulted in an estimated 8,403 $ktCO_2e$ financed absolute GHG emissions (2022: 8,093 $ktCO_2e$), of which 990 ktCO2e were scope 1 emissions, 312 $ktCO_2e$ were scope 2 and 7,101 $ktCO_2e$ were scope 3. The scope 3 emissions consist of two main GHG Protocol categories: purchased goods and services (2,186 $ktCO_2e$) and investments related to emissions in the portfolios of our customers, (4,915 $ktCO_2e$), which are particularly relevant for FIs. Overall, 71 percent of emissions were attributed to our own balance sheet, 13 percent were attributed to funding from public funds and 16 percent to direct mobilized funds.

Our portfolio scope 1 and 2 emissions declined from 1,629 $ktCO_2e$ in 2022 to 1,302 $ktCO_2e$ in 2023 as a result of lower exposure in high-emitting customers, such as fossil fuel power plants as well as more primary emissions data. Scope 3 emissions increased from 6,464 $ktCO_2e$ in 2022 to 7,101 $ktCO_2e$ in 2023 due to, among others, data refinements and better coverage[1].

We do not yet report on emissions removals from, for example, our forestry activities. This is something we will work towards in the future.

Financed avoided GHG emissions

In 2023, our portfolio resulted in an estimated 2,061 ktCO2e total avoided GHG emissions (2022: 1,735 $ktCO_2e$). Notably, 84 percent originated from the EN sector, eight percent from AFW and eight percent

[1] The amounts reported may not be fully comparable across years because of differences in data quality and coverage. To estimate the attributed impact, we rely on information from our customers. To increase comparability, we try to ensure we have the most recent data and broadest data coverage.

from diverse sectors. A significant proportion of avoided emissions, specifically (1,310 $ktCO_2e$), was attributable to our debt and equity portfolios in on-grid renewable power projects.

Absolute GHG emissions from FMO's own operations
In our Climate Action Plan, we also addressed FMO's operational emissions. In 2023, the carbon footprint of our own operations amounted to 5.79 $ktCO_2e$ (2022: 3.89 $ktCO_2e$). Scope 1 emissions amounted to 0.08 $ktCO_2e$, which came from lease cars used by our employees. Scope 2 emissions amounted to 0.03 $ktCO_2e$ connected to district heating that we obtain for our head office. Scope 2 emissions related to the use of electricity were equal to zero since we purchase electricity from renewable sources[2]. Scope 3 emissions amounted to 5.68 $ktCO_2e$, mainly from staff travel. As explained in our Climate Action Plan, for us to invest responsibly, conduct our business, and strengthen our value add to our customers around the world, we must travel to meet our customers. As a result, 84 percent of our own emissions resulted from air travel. The easing of COVID-19 measures increased staff travel and office use, which significantly increased our carbon footprint compared to the past three years[3].

In our travel policy, FMO employees are encouraged to consider the environment in planning their travel. Travel up to 500km in Continental Europe must be done by train or car and all fights shorter than six hours must be economy class. FMO offsets its operational emissions by investing in a mix of different credits, including VCS REDD+ certified forestry credits, VCS Afforestation/Reforestation credits, Gold Standard Household Biogas credits and Puro Biochar credits[4].

We are committed to reducing our power generation emissions

In the 'Strategy' section of this report we already mentioned that in 2022 FMO published its Climate Action Plan, providing a framework for the actions we will take to 2030 to fulfil our objectives towards Sustainable Development Goal 13 (Climate Action).

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 2023, we report absolute GHG emissions for the power generation portfolio of 441 $ktCO_2e$, based on 2022 emissions data and our 2023 outstanding exposures. This is a decrease compared to the final result recorded for 2022 (2022: 544 $ktCO_2e$) and a 24 percent reduction compared to the 2021 baseline (2021: 582 $ktCO_2e$)[5]. The reduction is due to an overall decrease of our outstanding exposure in operational fossil fuel plants. We will publish the final 2023 figure in the 2024 FMO Annual Report.

For further information about our power generation emissions reduction target, please refer to Appendix 1 in our Climate Action Plan that is available on the FMO website.

Climate Strategy KPIs

In 2023, we continued to assess how best to set additional KPIs related to our climate strategy and commitments, including our 2050 net zero portfolio commitment. There remain a number of challenges to setting additional emission-related targets, in particular, given the fact that most of our emissions data is modelled and challenging to obtain from many of our customers. In addition, fundamental questions regarding target-setting and how to account for Paris Agreement principle of "common but differentiated

2 These are the market-based Scope 2 emissions. Location-based Scope 2 emissions amounted to 0.40 $ktCO_2e$

3 The absolute GHG emissions from FMO's own operations do not include any (additional) emissions as a result of employees working from home, such as (increased) electricity use and heating in home offices

4 VCS is the Verified Carbon Standard, a standard for certifying carbon emissions reductions. REDD+ refers to the focus on Reducing Emissions from Deforestation and forest Degradation, including sustainable management of forests

5 The 2021 baseline value has been slightly adjusted to correct for a database issue that was recently identified. The 2022 value reported in the Annual Report 2022 using 2021 emissions data was 541 $ktCO_2e$, so using the updated 2022 emissions data only lead to a small adjustment.

responsibilities" remain. However, we continue to explore what we can do to take additional steps on both climate mitigation, climate adaptation and resilience, and biodiversity-related KPIs.

Climate risk related KPIs and KRIs

In order to steer FMO's climate related risk exposure, we need to define the appropriate Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs). In 2022 we started defining FMO's climate risk KPIs and KRIs, as well as the related appetite level, based on the TCFD recommended metrics for banks. At the end of 2023, FMO formalized its first set of KRIs for its internal Risk Appetite Framework (RAF). For the 2024 RAF, the Physical risk exposure is introduced, and transition Risk is expected to be included by 2025. FMO articulates the risk appetite for Physical Risk for the time being as "Active", implying that FMO actively takes justified risks and uncertainty is anticipated. The following reasons justify the choice for an "Active" appetite:

1. It is part of FMO's strategic ambition to create development impact in low- and middle- income countries. These countries are typically most affected by change in climate. Accepting a high tolerance towards climate risk is inherent to the realization of our impact objectives.

2. Considering that climate risk is not a separate risk type but an external causal factor of FMO's existing risk types for which separate appetites are in place, a more cautious appetite for physical risk may be redundant or conflicting with these existing risk types.

3. There is a need for FMO to further improve its methodology and the quality of data collected. At this stage, FMO measures the risk only a-priori, not considering possible adaptation capacity or specificities of the customer. Since the methodology will be gradually implemented throughout 2024, FMO should be willing to innovate and remain open for this risk while it is 'learning by doing'.

4. Although climate risk has a strong forward-looking component compared to various risk types, a recently carried-out assessment on historical loss events did not disclose an imminent presence of climate related events as contributor to financial losses. Considering the largely amortizing character of our portfolio within the next years, an active appetite can still be acceptable, and it will be further finetuned in the next years.

The metrics align with the "Active" appetite FMO has articulated with respect to climate risk. FMO will use the quarterly portfolio scan on physical risks to monitor and manage this risk, whereby for the time being this shall not lead to mandatory interventions in case a certain level is breached.