FMO
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FMO AND THE DUTCH BANKING CODE

The Dutch Banking Code (hereinafter also called: the ”Code”) was introduced in 2010 so that banks would commit to and account for treating their customers with care, while balancing the interests of the various stakeholders. The Code has played a significant role since its introduction and many of its principles on the Supervisory Board, Management Board, risk management, audit and remuneration policy have since been incorporated into legislation.
The introduction of this Code has contributed to banks having strengthened their governance and risk management and specifically making the interests of their customers more central.

Subsequently, the Code was updated at the end of 2014. The principles in the ‘old’ Code which have now been incorporated in legislation and regulation are not repeated in the new Banking Code.

The second version of the Code has come into effect on January 1, 2015. The updated version of the Code applies to all activities performed in or directed towards the Netherlands by banks established in the Netherlands and licensed by the Dutch Central Bank (De Nederlandsche Bank) pursuant to Section 2:11 of the Financial Supervision Act. The Banking Code therefore applies to (most activities of) FMO.

The new Banking Code is designed to make a major contribution to public trust in banks and their role in the community. Consequently, the principles in the updated Code emphasise the importance of sound and ethical operation by banks and set this out in the principles for the Management Board and Supervisory Board, proper risk management, thorough audit processes and a sound, balanced and sustainable remuneration policy.

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1 COMPLIANCE WITH THE CODE

The Banking Code uses the ”comply or explain” principle, which means that banks shall apply the principles of the Banking Code. However, the application of the principles depends in part on the activities and other specific characteristics of the bank (and of the group if the bank is part of a group). There are differences in many areas between the banks that are covered by the Code. For example, they have different corporate governance structures, operate in different markets or submarkets and may have a national or international focus. Departures from the Code, if substantiated, can therefore be justified.

Please find below the quoted text of the Banking Code 2015 in standard characters and printed in italics, FMO’s explanation on how FMO complies.

2 SOUND AND ETHICAL OPERATION

To build and maintain its position as a stable and reliable partner, a bank must formulate its mission, strategy and objectives. These are focussed on the long term and are expressed in part in the bank’s risk policy and the policy for sustainability and corporate social responsibility.

> *FMO complies with this principle. FMO believes in a world in 2050 in which 9 billion people live well and within the means of the planet's resources. In pursuit of this vision, FMO's mission is to empower entrepreneurs to build this better world. In our investments, we strive to multiply our impact by mobilizing and enabling other investors to follow us. Economic growth must be coupled with social and environmental considerations so that it is sustainable in the long term; our investments are guided by this approach. Towards 2020, we continue to report on our goal to double jobs supported and GHG avoided.*
> *The focus on the long term is (amongst others) expressed in FMO’s Strategy 2025, approved by the Supervisory Board and in FMO’s Environmental, Social & Corporate Governance (ESG) Policy. This policy can be found on the website under Fostering Development > Sustainability (or under Governance & Policies > Policies & Procedures).*

A bank chooses its positioning such that its commercial interests and social role are extensions of each other. This is also expressed in the bank’s governance structure and guides the implementation of its policy based on its mission, strategy and objectives.

> *FMO complies with this principle. Businesses incorporating sustainable environmental, social and governance best practices enjoy stronger financial results and long-term viability. The Strategies for Sustainable Business client cases draw on direct experience of our clients - demonstrating how improvements to sustainability performance and financial returns go hand-in-hand. These cases can be found on FMO’s website. FMO believes that the same principle applies to ourselves, applying ESG best practices is an important factor in long-term viability for FMO as well.*

The executive board and supervisory board are – with due regard for each other’s duties and powers – responsible for setting up a sound governance structure and compliance with the governance principles. The members of these boards will set an example to all of the bank’s employees and exhibit this in their day-to-day activities. The supervisory board will evaluate the way the members of the executive board are setting an example each year.

FMO complies with this principle. FMO's Supervisory Board and Management Board have set up a sound governance structure, which complies amongst others with the (Dutch and European) law, the Dutch Corporate Governance Code and the Banking Code.
The Selection, Appointment and Remuneration Committee and the Supervisory Board evaluated the "exemplary behaviour" in the beginning of 2017. It was concluded that the members of the Management Board sufficiently set an example.

The executive board and supervisory board are – with due regard for each other's duties and powers – responsible for developing, communicating and enforcing standards on integrity, morals and leadership in the bank. In addition, they ensure there are proper checks and balances and they safeguard a solid IT infrastructure that is vital for the functioning of the bank. Among other things, thorough checks and balances mean that the compliance function is also safeguarded within the executive board and supervisory board.
The executive board will promote responsible behaviour and a healthy culture both at the top of the bank and throughout its organisation. In this, it will consider the interests of the bank's customers and other stakeholders. The supervisory board supervises this.

FMO complies with this principle. In 2016/2017 amongst others the following efforts were made. The Management Board ensures that all new FMO employees take the Banker's Oath. Elements of culture and behaviour have been enforced in FMO's agreed goals for FMO's management and other employees and in their appraisal interviews. FMO's CRFO guards IT quality and safety. Although FMO does not execute payment transfers for customers, the MB is aware of the importance of a secure IT infrastructure and the protection of client information. IT gets also special attention in the MB and SB meetings. Compliance is safeguarded in the Compliance Committee meetings. The CRFO chairs this committee. The minutes of this meeting are sent to the MB and the SB. The Chairman of the Supervisory Board holds at least a yearly meeting with the Manager Compliance. Further, Compliance is a regular topic in the MB and SB Lifelong Learning program.
The Selection, Appointment and Remuneration Committee and the Supervisory Board discussed the 2016-efforts and results on these topics in the beginning of 2017. It was concluded that sufficient effort has been made and that new goals will need to be set for the next year.

A bank's culture must also express the assumptions in the Social Charter of the Dutch Banking Association. These must be embedded in the bank's organisation and the bank will include them in its contact with its stakeholders. It will provide an insight into the way in which the bank deals with the assumptions in the Charter.

FMO complies with this principle.

Assumption 1. The banking industry is pluriform and offers customers a wide choice.

As a development Bank FMO has a special role in the markets it operates in. Within the boundaries of its resources and risk limits, FMO tries to offer its customers range of services and products that include: Equity, loans and guarantees, Capital market transactions, Mezzanine and other tailor-made solutions, Long-term and short-term project financing, Access to our expertise, vast network and partnerships. FMO also offers support for capacity development, such as financial administration and planning skills and training in sustainable business practices.

Assumption 2. Banks are reliable, service-oriented and transparent.

FMO's Management Board measures reliability, service-orientation in a two-yearly Client Satisfaction Survey. The results are compared with those of other Development Banks and presented to FMO's Supervisory Board. FMO aims to be transparent and publishes e.g. various policies that are being used on its website.

Assumption 3. Bank employees are ethical, expert and professional and ensure that customers and other stakeholders are treated with care.

The results on these topics can be derived from the aforementioned Client Satisfaction Survey. Employees are asked to fill out a two-yearly Employee Satisfaction Survey. FMO tries to treat other stakeholders with care. To establish what matters most to our key stakeholder groups we updated and validated the materiality assessment performed in 2016. As 2017 was a year of extensive stakeholder dialogues, we chose to ask their input to see if and how stakeholder needs changed during the year. The results can be found in our Annual Report 2017.

Assumption 4. Banks have a social responsibility to contribute to a sustainable economy.

FMO invests with the motive that ESG – sustainable environmental, social and governance business practices – are the solution in a world facing a surging population and increased consumption. In addition to incorporating ESG best practice standards into our investments, we also set an ambitious goal for 2020: to double impact and halve footprint. We will do this by looking at the opportunity side of sustainability and focus more on green and inclusive investments in our portfolio. In steering towards the realization of our corporate goal, we align with the UN Sustainable Development Goals ('SDGs'). These goals match our capabilities to foster economic growth, support decent jobs and combat climate change. They also align with our ability to stimulate gender equality and inclusive development, and to reduce inequalities between countries by working in the Least Developed Countries. These capabilities contribute to several key priorities of the Dutch government, with inclusive and sustainable growth as a leading principle. We aim to have a distinguishing impact on three SDGs across all our focus sectors: Decent work and economic growth (SDG 8), Reduced inequalities (SDG 10) and Climate action (SDG 13).

All employees will comply with the formal regulations and self-regulation that apply to them. The executive board and supervisory board are –with due regard for each other's duties and powers– responsible for this. The executive board is responsible for employees being and remaining familiar with all rules, values and standards applicable to the bank and will continue to pay attention to this. The supervisory board supervises this.

FMO complies with this principle. FMO is a bank as meant in the Dutch Financial Supervision Act and finds itself in a challenging regulatory environment, especially taking account FMO's size compared to the vast amount of not only Dutch but also European laws and regulations. It was decided to further strengthen the management of regulatory issues. A specialist has been dedicated to regulatory subjects, who will work in close contact with FMO's departments. Further, a special regulatory management system has been purchased. The Management Board and Supervisory Board deem compliance with all rules, values and standards applicable to the bank of great importance. The knowledge of employees is regularly updated amongst others, by Compliance e-learning sessions, seminars and for new employees, in the FMO on boarding program.

3 SUPERVISORY BOARD

The supervisory board will be composed in such a way that it is able to perform its tasks properly. It will form a risk committee and an audit committee. The members of the supervisory board will be prepared and able to make sufficient time available for their duties and exhibit effort and commitment. They will at the same time be critical and independent.

FMO complies with this principle. The principle has been detailed in FMO's Standing Rules of the Supervisory Board and in the profile of the Supervisory Board, which are available on FMO's website. The Supervisory Board has two committees: a combined Audit and Risk Committee and a Selection, Appointment and Remuneration Committee. All members of the Supervisory Board of FMO are sufficiently available to perform their tasks properly. Attendance to meetings of the Supervisory Board and its committees, such as the Audit and Risk Committee and the Selection, Appointment and Remuneration Committee, is practically 100%. Besides the regular meetings of the Supervisory Board and its Committees, the Chairman has monthly meetings with FMO's CEO in addition to ad-hoc meetings, if desirable. The members of the Supervisory Board are independent (as also required by Best Practice Provision 2.1.8 of the Dutch Corporate Governance Code) and are critical whenever necessary.

Each member of the supervisory board will be aware of the social role of a bank and of the interests of the various stakeholders. There are specific competence and experience requirements for members of the supervisory board's risk and audit committees.
Members of the risk committee must have thorough knowledge of the financial aspects of risk management or the necessary experience to permit a thorough assessment of risks. Members of the audit committee must have thorough knowledge of financial reporting, internal control and audit or the necessary experience to permit thorough supervision of these subjects.

FMO complies with this principle. FMO plays a specific social role in emerging markets. The Supervisory Board considers taking the interests of its stakeholders into account, as one of its tasks. This is e.g. mentioned in the Annual Report, Supervisory Board report. FMO's *(combined) Audit and Risk Committee consists of three members, who all have many years of experience at either a large bank in the Netherlands, or at a (listed) company and gained extensive knowledge of, and experience with financial reporting, internal control and audit and the financial aspects of risk management. This principle is embedded in the Standing Rules of the Audit and Risk Committee, which are published on FMO's website. The shortened versions of the resumes of the members of this committee can be found in the Annual Report on FMO's website.*

The chairman of the supervisory board will organise a programme of lifelong learning for all members of the supervisory board with the aim of maintaining their expertise at the required level and improving it where necessary. The learning programme will in any event cover relevant developments at the bank and in the financial sector, corporate governance in general and in the financial sector in particular, the duty of care towards customers, integrity, IT infrastructure, risk management, financial reporting and audit. Every member of the supervisory board will take part in the programme and meet the requirements for lifelong learning. The assessment of the effectiveness of the programme of lifelong learning will be part of the annual evaluation performed by the supervisory board.

FMO complies with this principle. The Chairman of the Supervisory Board takes care of good functioning of the Supervisory Board. Therefore, annually a new Lifelong Learning plan is prepared for the subsequent year, while taking the requirements of the Banking Code with regard to the subjects into account. In principle, every member of the Supervisory Board takes part in the program. The Chairman of the Supervisory Board can grant dispensation for one or more sessions if a Supervisory Board member can sufficiently provide proof of having followed relevant courses elsewhere or if a Supervisory Board member is an expert on the subject him/herself. Annually, an evaluation of the Supervisory Board takes place. Part of this evaluation is the assessment of the effectiveness of the lifelong learning program.

In addition to the supervisory board's annual self-evaluation, the functioning of the supervisory board will be evaluated under independent supervision once every three years. The involvement of each member of the supervisory board, the culture within the supervisory board and the relationship between the supervisory board and the executive board will be part of this evaluation.

FMO complies with this principle. Annually, an evaluation of the Supervisory Board takes place. The Supervisory Board uses an external, independent evaluator at least once every three years.

Each member of the supervisory board will receive appropriate compensation for the amount of time that he or she spends on supervisory board activities. This compensation will not depend on the bank's results.

FMO complies with this principle. FMO does not compensate members of the Supervisory Board with performance related pay, shares or loans. The remuneration of members of the Supervisory Board is determined by the General Meeting of Shareholders.

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4 EXECUTIVE BOARD

The executive board will be composed in such a way that it is able to perform its tasks properly. Each member of the executive board will be aware of the social role of a bank and of the interests of the various stakeholders.

FMO complies with this principle. FMO's Management Board consists of three members: the Chief Executive Officer, the Chief Risk & Finance Officer and the Chief Investment Officer. The Management Board is composed adequately, given the size and character of FMO. In case of vacancies, attention is given to the composition of the Management Board with respect to professional experience and competencies - and if possible in this relatively small setting - to gender, nationality and cultural background. The fact that the Management Board is aware of the social role of FMO, in FMO's particular setting, is demonstrated in several ways, e.g. in our mission: FMO's mission is to empower entrepreneurs to build a better world. The Management Board is well aware of FMO's various stakeholders, amongst others: its clients, the Dutch State, other shareholders, NGOs and its employees. Client satisfaction surveys as well as employee satisfaction surveys are held on a regular basis. In 2015 a materiality survey was conducted amongst important stakeholder groups in which 27 individual stakeholders took part. These stakeholder groups were asked, what is material to them and which actions they feel FMO should take on these themes. To give more depth to some of the outcomes, separate discussions were held in 2016 and 2017 with representatives from the Dutch government, the Dutch business community, NGO's and other interested parties. The outcomes can be found in the Annual Report 2017.

One member of the executive board will have the duty of preparing decision-making by the executive board on risk management. This member will be involved in good time in the preparation of decisions that are of material significance for the bank's risk profile, especially where these decisions may result in a departure from the risk appetite approved by the supervisory board. This member may combine his or her function with other responsibilities, provided that he or she does not bear any individual commercial responsibility and operates independently from commercial areas.

FMO complies with this principle. Risk Management is the responsibility of the Chief Risk & Finance Officer. The CRFO is involved in the preparation of decisions that are of material significance for the bank with regard to the risk profile. Our Chief Risk & Finance Officer combines Risk Management with the responsibility for amongst others Finance, ICT and Legal&Compliance. The commercial responsibility is in the hands of the Chief Investment Officer.

Risk management will also include a focus on the impact that systemic risk could have on the bank's risk profile.

The CFRO and the Risk Management department, which reports to the CRFO, focus on financial stability and on the impact that systemic risk could have by setting strict limits and by stress testing, which includes severe downturn scenarios.

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The chairman of the executive board will organise a programme of lifelong learning for all members of the executive board with the aim of maintaining their expertise at the required level and improving it where necessary. The learning programme will in any event cover relevant developments at the bank and in the financial sector, corporate governance in general and in the financial sector in particular, the duty of care towards customers, integrity, risk management, financial reporting and audit. Every member of the executive board will take part in the programme and meet the requirements for lifelong learning.

> *FMO complies with this principle. Every member of the Management Board takes part in the lifelong learning program of the Supervisory Board and follows other courses depending on their specific needs. The efforts of the MB members with regard to Lifelong Learning are discussed in the yearly performance review meetings with the Chairman and another member of the SB.*

5 RISK POLICY

A bank's risk policy is characterized by a comprehensive approach, is transparent and has both a short- and long-term focus. The risk policy also takes reputational risks and non-financial risks into account.

> *FMO complies with this principle. FMO's risk profile is captured in FMO's risk appetite framework. This framework consists of a risk appetite statement which is based on FMO's ambition in terms of its risk profile, mission strategy and stakeholders expectations. Our Risk Control Framework ensures management of our main financial risks, being credit risk, equity risk, currency risk, interest rate risk, liquidity risk and capital management. Non-financial risks covered are reputational risk and operational risk. Every year, in FMO's Annual Report, details are provided on how these risks are managed.*

A bank's executive board will be responsible for its risk policy and ensure proper risk management. The executive board will propose the risk appetite to the supervisory board for approval at least once a year. Any material changes to the risk appetite in the interim will also require the supervisory board's approval.

> *FMO complies with this principle. FMO's risk appetite framework is reviewed at least once a year. Based on the advice of the Audit and Risk Committee, the Supervisory Board approves the risk appetite. FMO's Risk Management is well aware of the fact that material changes in the interim require the approval of the Supervisory Board.*

The supervisory board will supervise the risk policy pursued by the executive board. As part of its supervision, the supervisory board will discuss the bank's risk profile and assess at a strategic level whether capital allocation and liquidity requirements are generally in line with the approved risk appetite and whether operations in general are in line with the bank's risk appetite. In the performance of this supervisory role, the supervisory board will be advised by its risk committee.

FMO complies with this principle. For every Supervisory Board meeting, FMO's Management Board prepares a Risk Appetite Report containing an overview of the main risks of FMO, including liquidity risk and changes in the capital ratios. The Audit and Risk Committee discusses the Risk Appetite Report and reports to the Supervisory Board.

6 AUDIT

A bank's executive board will ensure that a systematic audit is conducted of the management of the risks related to the bank's operations. To this end, a bank will have its own internal audit department with an independent position within the bank. The head of the internal audit department will report to the chairman of the executive board and also have a direct reporting line to the chairman of the supervisory board's audit committee.

FMO complies with this principle. The Management Board of FMO has ensured that systematic audits are performed according to a yearly Audit Plan, which is based on a yearly risk assessment. The audit reports are submitted to the Management Board and a progress report to the Audit and Risk Committee. FMO has its own internal audit department with an independent position within the bank. The Director Internal Audit reports to the Chairman of the Management Board. The direct reporting line to the Chairman of the Audit and Risk Committee is incorporated in the Standing rules of the Audit and Risk Committee.

The internal audit department, external auditor and supervisory board's audit committee will consult periodically.

FMO complies with this principle. This is common practice at FMO. The internal and external Auditors meet regularly and attend all meetings of the Audit and Risk Committee. The internal and external Auditors make a risk analysis, which is taken into account when the yearly audit plan is prepared.

The internal audit department will take the initiative in arranging talks with DNB (the Dutch central bank) and the external auditor at least once a year to discuss each other's risk analyses, findings and audit plans at an early stage. The bank's executive board and internal audit department will encourage these tripartite talks, aiming for a clear delineation of each other's duties and responsibilities.

FMO complies with this principle. Every year, two tripartite discussions take place between the internal and external Auditors and the Dutch Central Bank. FMO strives to annually hold these discussions in June and December.

7 REMUNERATION POLICY

The bank will implement a detailed, restrained and long-term remuneration policy that is unambiguous and transparent and in line with national and international regulations.

FMO complies with this principle. The Management Board endorses this principle and takes these principles into account when determining the remuneration policy of FMO and when determining the remuneration package of individual employees. The Supervisory Board endorses this principle as well and has taken these elements into account when proposing the remuneration policy of the Management Board to the General Meeting of Shareholders. More information on FMO's remuneration policy and remuneration practice can be obtained from the Annual Report and related documents published on FMO's website.

The remuneration policy will have a primarily long-term focus and be in line with the bank's risk policy. It will incorporate an internal and external balance of interests, taking into account the expectations of the various stakeholders and social acceptance. It will also take the relevant international context into account.

FMO complies with this principle. One of FMO's most important stakeholders and majority shareholder, the Dutch State, published its Memorandum State Participations Policy 2013 (in Dutch: Nota Deelnemingenbeleid Rijksoverheid 2013) on the internet. In this document the State expresses its (general) expectations regarding the remuneration policies for Management Board members of State participations. In 2016, the General Meeting of Shareholders approved an adjusted remuneration policy of the Management Board. In 2018, a new update will follow.

The total income of a member of a bank's executive board will at the time it is set be below the median for comparable positions inside and outside the financial industry, taking into account the relevant international context.

FMO complies with this principle. In the current remuneration policy of the Management Board of FMO a maximum salary level applies for each position in the Management Board. These maximum levels are well below the median level for comparable positions in the relevant (international) financial sector markets. The remuneration policy of the Management Board is approved by the General Meeting of Shareholders. FMO does not compensate members of the Management Board with shares, options or loans.

The variable remuneration of a member of the executive board will be set in accordance with national and international regulations.

FMO complies with this principle. The variable pay for Management Board members has been abolished in May 2012.