FMO
Entrepreneurial
Development
Bank

SUSTAINABILITY POLICY

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1. Introduction

FMO is the Dutch entrepreneurial development bank. Since 1970, it has been a driving force behind investments that enable entrepreneurs to increase inclusive and sustainable prosperity in emerging markets and developing countries.

By engaging with underserved markets, FMO invests in some of the world's most challenging business environments and economies, many of which have fragile private sectors, limited job security, and high poverty rates.

2. FMO Sustainability Policy

The Sustainability Policy is the leading policy document within FMO's Sustainability Policy Universe—a comprehensive policy framework that defines FMO's approach to financing development impact[1] and addresses environmental, social, and governance (ESG) and human rights impacts[2] across its investment portfolio.

Further information on the Sustainability Policy Universe can be found in Appendix I: FMO's Sustainability Policy Universe.

2.1. Purpose

The Sustainability Policy defines FMO's commitment to achieving development impact and serves as a guide for its investment decisions and actions.

[1]Development impact is the overall positive impact that FMO's investments and activities have, either primarily or secondarily, on people and environment.

[2]FMO has updated the language in the Sustainability Policy Universe to align with the terminology and definitions in the ESRS 2 'double materiality assessment' (DMA) regarding "impact" and "impact materiality". The DMA helps FMO identify which sustainability-related matters are material from an impact and/or financial perspective and therefore need to be included in its reporting under the EU Corporate Sustainability Reporting Directive (CSRD). A sustainability-related matter is considered material from an impact perspective when it relates to FMO's potential or actual—positive or negative—impacts on people or the environment over the short, medium, and long term.

It establishes a framework and the guiding principles to manage both the potential and actual, positive and negative[3] impacts of its investments on people and the environment. The policy also strengthens FMO's contribution to creating value, opportunities, and development impact by aligning with its strategic impact ambitions and internationally recognized ESG and human rights principles and standards. Through this alignment, FMO supports customers in managing their ESG and human rights impacts, while strengthening corporate governance and improving overall ESG performance.

The Sustainability Policy also underpins FMO's commitment to responsible business conduct by upholding high standards of ethics and integrity—including transparency and accountability in FMO's investment actions and decision-making—which safeguard its assets and reputation.

The policy is supplemented by a series of Position Statements that provide further context on FMO's sustainability choices, as well as additional policy requirements in relation to major global sustainability issues, specific themes, and investment sectors. They outline how FMO selects investments, works with customers and other stakeholders, and monitors customers' ESG performance.

FMO's approach to sustainability is shaped by many factors and continues to evolve as part of an ongoing process. This process involves monitoring and responding to changes in the broader context in which it operates, continuously engaging with stakeholders, effectively addressing dilemmas and challenges in order to uphold its commitments, and taking appropriate steps based on lessons learned.

Consequently, the Sustainability Policy is a living document that is regularly reviewed and updated over time[4].

2.2. Scope of Application

The Sustainability Policy is the leading document in FMO's Sustainability Policy Universe. It sets the core policy requirements guiding FMO's approach to financing development impact and

[3]FMO works with customers to avoid and mitigate, and, where not possible, minimize potential and actual negative impacts.

[4]The Sustainability Policy was approved by FMO's Management Board on 23 December 2016. It was last updated in April 2026.

managing ESG and human rights impacts across its investment portfolio. Together with the eight supplementary Position Statements—which include additional policy requirements on major sustainability issues, themes, and sectors—and the Exclusion List—which identifies activities FMO will not finance or support—these documents form the foundation of the Sustainability Policy Universe. This section explains their combined scope of application.

FMO applies its Exclusion List, Sustainability Policy, and, as applicable, its Position Statements to all "investments".

An investment is defined as the provision of equity, debt, or guarantees—through direct or indirect financing to a "customer," using FMO funds or with funds managed fully or partially by FMO—to finance or acquire an asset.

A customer is the entity—regardless of the type of financing or fund structure—that has a direct contractual relationship with FMO, receives the investment funds, uses those funds as agreed in the contractual documentation, and to which FMO holds direct financial risk exposure under its investment portfolio.

Certain activities—for example, Development Contributions[5]—are not considered investments and therefore fall outside the scope of the Sustainability Policy and Position Statements.

Some investments where FMO does not have a direct contractual relationship with the entity receiving the investment funds—such as B Loans and sub-delegations—remain within the scope of the Sustainability Policy Universe[6].

Additionally, FMO's Management Board may assess investments[7] to determine whether the Sustainability Policy Universe applies.

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[5]Development Contributions are designed to complement investments by providing targeted support that reduces enterprise risks, creates value, and catalyzes impact for customers, prospects, and ecosystems.

[6]While these types of investments fall within the scope of application of the Sustainability Policy Universe, the specific approach to implementation may vary depending on the circumstances, and is guided by an equivalence assessment of FMO's financing partners' policies, as described in Section 5.6: Working with Partners.

[7]A strategic investment is an FMO investment—whether a majority or minority stake—that is designated by the Management Board as serving FMO's institutional strategic objectives. These investments, which may deviate from FMO's typical ownership, exit, or relationship structures, are rare.

The approach to implementation[8], as well as the extent to which FMO is able to implement the policy requirements within the Sustainability Policy Universe, may vary depending on circumstances and several factors, including—but not limited to—working with financing partners, as described in Section 5.6: Working with Partners, and FMO's level of influence and leverage with customers[9]. Finally, the investment process (as outlined in Section 5. FMO Investment Process) may differ based on the approach to implementation.

3. FMO Vision & Strategy

FMO envisions a world where, by 2050, more than nine billion people live well within planetary boundaries[10].

FMO is committed to promoting inclusive and sustainable economic growth and addressing inequalities in emerging markets and developing countries—both of which are essential for reducing poverty.

FMO strives to create value, opportunities, and development impact through its investments and works closely with customers and financing partners to manage—including avoiding and mitigating, and, where not possible, minimizing—potential and actual negative impacts on people and the environment.

FMO also aims to ensure that this development impact is sustained without compromising resources for future generations.

[8]For further information, refer to the 'Implementing FMO's Sustainability Policy' document on FMO's Policy & Positions webpage.

[9]Customers are expected, as applicable, to adhere to minimum ESG-related, conditions and requirements (and related actions)—guided by the principles and standards in Section 4: FMO ESG Principles & Standards and incorporated into FMO's contractual agreements—throughout the tenor of the financing or the lifetime of the investment.

[10]For further information on FMO's vision and strategy, refer to FMO's Impact webpage.

3.1. Strategic Impact Ambitions

FMO aims to maximize its development impact by allocating capital to investments that contribute to the United Nations Sustainable Development Goals (SDGs) and by aligning its activities with the global sustainability agenda, as outlined in the 2030 Agenda for Sustainable Development[11].

FMO focuses on three priority SDGs where it can have the greatest impact:

- SDG 8: Decent Work and Economic Growth
- SDG 10: Reduced Inequalities
- SDG 13: Climate Action

Guided by SDG 10, FMO promotes inclusive development by reaching economically marginalized groups and those in the bottom 40% of income distribution[12]. It supports economic empowerment, encourages inclusive business models, and steers financial flows to where the need is deemed greatest. Moreover, FMO is committed to advancing gender equality and supporting the economic empowerment of women, as outlined in its Position Statement on Gender Equality.

3.2. Climate Action

As described in FMO's Strategy 2030 and Climate Action Plan, and in support of Climate Action (SDG 13), FMO is committed to the goals of the United Nations Framework Convention on Climate Change Paris Agreement (Paris Agreement) and to being Net Zero by 2050[13] through a just and inclusive transition. FMO acknowledges the significant challenges this presents across sectors and geographies; however, it also recognizes the opportunities to advance its climate

[11]The 2030 Agenda for Sustainability Development is a global action plan adopted by all 193 United Nations Member States in September 2015. It provides a comprehensive framework to address the world's most pressing challenges—such as poverty, inequality, and climate change—while promoting peace, prosperity, and environmental protection. The United Nations reviews progress on its 2030 Agenda for Sustainable Development each year through a structured follow-up and review system that operates at global, regional, and national levels, with the High Level Political Forum on Sustainable Development (HLPF) at its core.

[12]Source: United Nations SDGs - Goal 10 - Reduce Inequality Within and Among Countries.

[13]To remain on track and achieve its goal of Net Zero by 2050, FMO strives to align financial flows with 1.5ºC-aligned sectors and activities.

objectives while supporting customers in meeting their own climate targets.

FMO is committed to growing its portfolio to support climate mitigation, adaptation, and resilience, as well as biodiversity. It recognizes the fundamental importance of ecosystems that constitute the natural capital underpinning the global economy and aims to prevent their degradation, as this poses a risk to customers and the societies in which they operate. By aligning new investments with the climate mitigation, adaptation, and resilience goals of the Paris Agreement, FMO helps customers align with the targets set by each country for their Nationally Determined Contribution (NDC). This supports them in moving towards a sustainable climate pathway, strengthening their resilience to climate change, and improving their sustainable use of natural resources.

3.3. Human Rights

FMO recognizes its responsibility to respect human rights in line with applicable international standards, and it acknowledges that its customers likewise hold their own responsibility to respect human rights.

Aligned with the United Nations Guiding Principles on Business and Human Rights (Principle 15), FMO outlines its policy commitment to meet its responsibility to respect human rights in its Position Statement on Human Rights. Furthermore, FMO recognizes that identifying and managing actual and potential human rights impacts is central to preventing, mitigating, and addressing the negative[14] impacts of its investments on human rights. FMO has therefore integrated human rights considerations into its due diligence and monitoring processes to address and support accountability for negative impacts on human rights.

Additionally, FMO has an approach to remedy, as detailed in its Position Statement on Human Rights, that supports and enables the remediation of negative human rights impacts and aims to align United Nations Guiding Principles on Business and Human Rights, IFC Performance Standards on Environmental and Social Sustainability, and OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.

FMO respects the right to freedom of expression and acknowledges the importance of

[14]FMO uses the term "negative" to correspond directly with "adverse" as referenced in the United Nations Guiding Principles on Business and Human Rights.

protecting dissenting voices from retaliation and violent reprisals. FMO does not condone any activity by its customers that amounts to oppression, violence, or any other violation of the human rights of those who voice their opinions in relation to FMO's activities or the activities of its customers[15].

3.4. Ethics & Integrity

FMO commits to complying with the laws and regulations to which it is subject. Additionally, where gaps exist in local laws and regulations, or where they may conflict with internationally recognized principles and standards, FMO commits, to the extent possible, to implementing appropriate measures and actions to address such gaps and conflicts. FMO expects its customers and financing partners to commit to the same approach.

FMO upholds high standards of ethics and integrity through its Code of Conduct, which sets out four guiding principles for its activities, decisions, and procedures: integrity, transparency, respect, and professionalism. The Code of Conduct contributes to the welfare of FMO's stakeholders—including customers, employees, shareholders, financing partners, and the communities and environments in which FMO operates. FMO expects its customers and financing partners to act in accordance with these same principles.

In accordance with Dutch laws and regulations, FMO is required to maintain policies on business integrity and anti-money laundering. These policies—which apply to customers (including their shareholders, directors, managers, and other key employees) and financing partners—are guided by the OECD Anti-Bribery Convention and the United Nations Convention against Corruption. FMO maintains a zero-tolerance approach to bribery and corruption, as outlined in its Anti-Bribery and Corruption Statement. Furthermore, FMO is committed to supporting international efforts to combat money laundering and terrorist financing, as detailed in its Know Your Customer and Anti-Money Laundering Statement, which sets out the measures it implements.

FMO is committed to complying with applicable national and international tax laws and regulations and does not support investments that facilitate tax evasion. At a minimum, FMO expects its customers and financing partners to adhere to applicable tax laws and regulations

[15]FMO's Position Statement on Human Rights provides additional information on how FMO addresses allegations of human rights violations by its customers.

and to demonstrate responsible tax behavior, as outlined in its Position Statement on Responsible Tax.

4. FMO ESG Principles & Standards

FMO's general approach to financing development impact is guided by nationally and internationally recognized ESG and human rights principles and standards[16], including but not limited to:

- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises on Responsible Business Conduct
- EDFI Principles for Responsible Financing of Sustainable Development[17]
- G20/OECD Principles of Corporate Governance
- Operating Principles for Impact Management
- United Nations Principles for Responsible Investment
- United Nations Principles for Responsible Banking
- ILO Declaration on Fundamental Principles and Rights at Work

FMO primarily uses the following internationally recognized standards to guide its approach to due diligence and assessment and to inform the minimum ESG-related conditions and requirements (and related actions) applied to customers to address ESG and human rights impacts:

- IFC Performance Standards on Environmental and Social Sustainability
- World Bank Group General Environmental, Health, and Safety Guidelines[18]
- Corporate Governance Development Framework

[16]All of the principles and standards referenced in Section 4 are implemented, where applicable, in alignment with FMO's risk-based approach. As these principles and standards may be amended by their respective external custodians, the versions implemented by FMO may change over time. FMO monitors these principles and standards for updates and strives to revise the Sustainability Policy Universe and update related internal processes in a timely manner to ensure continued alignment.

[17]EDFI is the Association of European Development Finance Institutions. For further information, refer to EDFI - The Association of European Development Finance Institutions.

[18]The World Bank Group Environmental, Health, and Safety Guidelines are technical reference documents of Good International Industry Practice (GIIP). They are comprised of the General EHS Guidelines and Industry-Sector EHS Guidelines.

- Client Protection Standards

4.1. Environmental & Social (E&S)

The standards that primarily guide FMO's approach to E&S due diligence and assessment are the IFC Performance Standards on Environmental and Social Sustainability (IFC Performance Standards) and the associated World Bank Group General Environmental, Health, and Safety Guidelines (EHS Guidelines).

The IFC Performance Standards provide guidance on how to identify risks and impacts and are designed to help customers avoid, mitigate, and manage impacts as a way of doing business in a sustainable way.

The IFC Performance Standards address a significant portion of the ESG-related requirements set out in the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD Guidelines) that are relevant to FMO's investments. While they do not explicitly reference the United Nations Guiding Principles on Business and Human Rights—which are embedded within the OECD Guidelines—the IFC's approach aligns with internationally recognized human rights principles and standards and informs FMO's human rights due diligence with respect to its customers.

Where potential negative impacts cannot be fully addressed based on the IFC Performance Standards, FMO refers to its Position Statements, as applicable, for other relevant E&S standards and good international industry practice to identify and agree on appropriate mitigation measures.

4.2. Corporate Governance (CG)

Corporate governance defines how a company is directed and manages relationships among the management board, shareholders, and other stakeholders. It also provides the structures and systems through which the company is managed, objectives are set, and the means of achieving those objectives and monitoring performance are determined. Supported by effective structures and systems, strong corporate governance fosters trust, transparency, and accountability—promoting long-term investment, economic growth, and financial stability.

FMO's approach to supporting customers' corporate governance is founded on the G20/OECD Principles of Corporate Governance and guided by the Corporate Governance Development Framework.

FMO believes that corporate governance requires a proportionate approach and professional judgment and that there is no single model that fits all customers.

4.3. Client Protection (CP)

FMO uses the Client Protection Standards—formerly known as the Client Protection Principles—to assess and manage potential negative impacts on "end-customers"[19] (i.e., individuals and micro-enterprises) when it provides investments to financial service providers (FSPs)—including microfinance institutions, non-banking financial institutions, and corporates—as well as when it provides investments to FSPs through fund or holding structures.

The Client Protection Standards define the minimum level of protection that end-customers should expect to receive when doing business with an FSP and are integrated into FMO's due diligence process alongside its ESG approach.

5. FMO Investment Process

FMO has embedded the assessment and management of potential ESG and human rights impacts into its organizational structure and investment processes; together with financial risks, this is an integral part of its due diligence, approval, contracting, and monitoring stages.

FMO maintains a large, diverse, and highly experienced team of ESG specialists with strong technical expertise. The ESG specialists support investment and credit teams in conducting due diligence and assessments throughout the investment process

FMO selects customers who demonstrate a commitment to improving the management of their ESG and human rights impacts and strengthening governance. FMO works closely with customers to identify and manage potential negative impacts, add value to their businesses,

[19]FMO uses the term "end-customer" to describe a financial intermediary's customer who is the final recipient of FMO's indirect investment.

and identify further growth opportunities.

FMO defines clear expectations for customer performance and agrees on performance commitments related to the management of material negative impacts in its contractual agreements. In addition, FMO may provide Technical Assistance[20] to support customers in building capacity and capability and improving overall ESG performance.

5.1. Risk-Based Approach

FMO adopts a risk-based approach to assessing and managing the potential ESG and human rights impacts of both direct and indirect investments.

FMO's approach, actions, and decision making are informed by the specific context of an investment (e.g., country, sector, customer business activity or structure) and reflect—and are commensurate with—the investment's characteristics (e.g., scope, scale, relevant ESG issues[21], and the likelihood of their occurrence). They are further informed and shaped by FMO's risk appetite; by cumulative data and lessons learned from FMO's investment portfolio; by other factors such as the financial product or investment structure and the size and duration of an investment; and by FMO's leverage with the customer and its ability to influence outcomes. In practice, this means that the scope and depth of due diligence, customer engagement, and monitoring; the commitment of internal and external resources; and the minimum ESG-related conditions and requirements (and related actions) applied by FMO to its customers are determined by the potential magnitude of an investment's negative impacts and the extent to which such impacts may pose a threat to people, the environment, its customers, or FMO itself.

5.2. Initial Screening

As part of the initial screening process, FMO verifies that potential investments do not breach its Exclusion List. This EDFI-harmonized[22] document defines activities that FMO will not

[20]Technical Assistance is part of FMO's Development Contribution program.

[21]FMO applies heightened scrutiny to investments that involve complex resettlement or impacts on Indigenous Peoples, critical habitats, or cultural heritage.

[22]For further information on the EDFI harmonized approach, refer to EDFI - The Association of European Development Finance Institutions.

finance or support, directly or indirectly. It excludes or restricts certain business activities (e.g., the production of weapons) and operating conditions (e.g., production involving child labor) that FMO will not support at the customer level or within its indirect portfolio.

The Exclusion List aims to ensure that financing does not support illegal, unethical, or harmful activities, aligns investments with internationally recognized principles and standards (e.g., EDFI Principles for Responsible Financing of Sustainable Development and the United Nations Guiding Principles on Business and Human Rights), and safeguards people, the environment, and human rights.

5.3. Due Diligence & Assessment

FMO conducts due diligence to identify and assess the potential negative impacts associated with each investment, and this process extends, where relevant, to customers. The process supports alignment with FMO's Sustainability Policy and, where relevant, its Position Statements. Its findings provide critical input for investment decisions, including whether to proceed with financing or adjust the investment structure. The process also establishes the foundation for supporting customers in managing negative impacts throughout the tenor of the financing or the lifetime of the investment. It informs the minimum ESG-related conditions and requirements (and related actions) applied to customers, the relevant ESG principles and standards against which customer performance is measured, and the scope and depth of customer engagement, monitoring, and reporting.

The scope and depth of the due diligence conducted—along with the engagement of ESG specialists—are informed and guided by the risk-based approach outlined in Section 5.1 Risk-Based Approach.

FMO recognizes that due diligence is an ongoing, risk-based assessment process and that not all ESG and human rights impacts can be identified or foreseen at the time of investment approval[23]. Some impacts may become apparent only during the tenor of the financing or the lifetime of the investment, and certain negative impacts may emerge as contexts, activities, or

[23]While FMO works with its customers to identify, avoid, and mitigate—and, where avoidance or mitigation is not feasible, minimize—potential and actual negative impacts, and, where appropriate, to support the remediation of negative impacts, FMO does not warrant or guarantee that all such impacts will be identified, prevented, mitigated, minimized, or otherwise addressed.

relationships progress and evolve. As such, FMO adopts an adaptive approach to due diligence and mitigation measures—one that is proportionate to the nature and severity of potential or actual impacts and that is updated as new information becomes available.

Strategic Labels

FMO aims to allocate capital toward its strategic impact ambitions by assessing and classifying investments—using its Label Guidelines[24]—based on their *ex-ante* potential[25] to contribute to SDG 10: Reduced Inequalities and SDG 13: Climate Action. FMO also sets annual targets to encourage these investments and reports on progress in its semi-annual and annual reports[26].

Paris Alignment

FMO assesses potential investments for alignment with the goals of the Paris Agreement, following its Paris Alignment Principles and Methodology[27]. Investments are considered Paris-aligned if they are not inconsistent with the host country's mitigation, adaptation, and resilience goals[28].

ESG Risk Categorization

ESG risk categorization is an assessment process that is informed and guided by the risk-based approach outlined in Section 5.1 Risk-Based Approach, the outcome of which reflects FMO's professional judgment regarding the potential magnitude of an investment's negative impacts on people and the environment as identified at the time of the assessment.

FMO conducts three types of risk categorization: Environmental and Social (E&S) Risk Categorization, Corporate Governance (CG) Risk Categorization, and Client Protection (CP)

[24]For further information on FMO strategic labels, refer to FMO's How We Manage Impact webpage.

[25]*Ex-ante* (prior to commitment) potential refers to the expected or estimated impact of an investment before it is approved or implemented. It involves assessing the potential positive and negative impacts—such as economic, social, and environmental outcomes—based on forecasts, models, and assumptions.

[26]For further information on FMO reporting, refer to FMO's Reporting Center webpage.

[27]FMO's assessment approach is based on the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations (2023).

[28]As defined in the host country's Nationally Determined Contributions (NDC) and National Adaptation Plans (NAP).

Risk Categorization.

The resulting "risk category" informs FMO's ongoing due diligence and is a key factor in determining its differentiated approach to working with customers.

Descriptions of each type of risk categorization assessment process and the risk categories are provided in Appendix II: ESG Risk Categorization.

Environmental and Social (E&S)

ESG specialists engage directly with FMO's investment teams on all Category A and B+ investments, while investment teams may request support or advice from specialists, as required, for Category B and C investments. In addition, the investment team's Finance Proposal is subject to enhanced scrutiny and verification on ESG and human rights matters by the credit team prior to being submitted to FMO's Investment Committee for decision.

All direct and indirect investments are expected to adhere to the applicable national ESG-related and human rights laws and regulations in the host country. Additionally, where gaps exist in local laws and regulations, or where they may conflict with internationally recognized principles and standards, FMO will, to the extent possible, implement appropriate measures and actions to address such gaps and conflicts.

For direct investments in corporates, customers are expected to adhere to minimum ESG-related conditions and requirements (and related actions)—guided by the principles and standards in Section 4: FMO ESG Principles & Standards and incorporated into FMO's contractual agreements—throughout the tenor of the financing or the lifetime of the investment.

Depending on the risk category and the type and potential magnitude and materiality of negative impacts identified, FMO may require customers to assess the scope, scale, likelihood, and potential materiality of negative E&S and human rights impacts as part of an Environmental and Social Impact Assessment (ESIA), and to implement an Environmental and Social Management System (ESMS) to manage and monitor these impacts in accordance with the IFC Performance Standards.

Additionally, customers are expected to engage stakeholders, including project-affected communities[29], through an inclusive, meaningful, and transparent consultation process. The scope and scale of the consultation process should reflect, and be commensurate with, the potential impacts identified and the extent to which they may affect stakeholders. At a minimum, it must include disclosure of relevant project information and be conducted in a manner that allows stakeholders to express their views without fear of reprisal. Customers are also expected to consider and respond to these views, and to take them into account in the project design (where possible), execution, and strategies for mitigating negative impacts.

Where appropriate, customers are expected to establish and administer suitable and effective grievance mechanisms[30] to address complaints from project-affected communities, enabling early identification, timely intervention, and prompt remediation of project-related impacts.

FMO recognizes the importance of a level playing field in which its customers can operate, particularly when they are introducing practices for managing ESG and human rights impacts in their respective markets. When FMO identifies that customers within a country or region are facing systemic barriers to the effective management of ESG and human rights impacts, it may initiate or support sector-wide approaches or initiatives as a strategic tool to promote locally owned change.

For indirect investments through financial intermediaries, FMO works with customers to manage potential negative E&S and human rights impacts and to maximize the development impacts of individual investments, as outlined in its Position Statement on ESG Impact and Financial Intermediaries.

Corporate Governance (CG)

Following Corporate Governance Risk Categorization, FMO identifies the key areas with potential corporate governance risks and determines internal responsibility for assessing and managing these risks with the customer. For all customers categorized as Medium or High

[29]FMO's Position Statement on Human Rights, Position Statement on Gender Equality, and Position Statement on Land Governance provide additional information on the approach to stakeholder engagement with affected communities and in relation to their respective topic areas.

[30]The United Nations Guiding Principles on Business and Human Rights Principle 31 provides guidance on the effectiveness criteria for non-judicial grievance mechanisms.

corporate governance risk, a further assessment is made at Financial Proposal stage. The combination of maturity and adequacy determines a Corporate Governance Performance Score. FMO conducts an annual review of the Corporate Governance Performance Score for customers categorized as Medium or High corporate governance risk.

Client Protection (CP)

For all investments in FSPs, FMO evaluates each customer's ability to manage potential negative impacts on end-customers. FMO assesses the customer's risk exposure—for example, the business context, the regulatory environment, and the customer's business model—as well as the customer's capacity to manage the identified risks. The assessment of these two elements results in an overall Client Protection Risk Rating of High, Medium, or Low, which determines the range of measures that FMO expects its customers to have in place to properly manage potential negative impacts on end-customers. FMO may also provide support to improve the customers' ability to manage these impacts and provide adequate consumer protection.

5.4. Managing & Monitoring Performance

FMO adopts a risk-based approach to managing and monitoring ESG and human rights impacts, as well as customers' ESG performance.

FMO incorporates Paris-alignment requirements and minimum ESG-related conditions and requirements into its contractual agreements with customers to manage and monitor their performance against the agreed ESG principles and standards.

FMO conducts monitoring on an ongoing basis throughout the tenor of the financing or the lifetime of the investment. The purpose is to assess customer performance against the minimum ESG-related conditions and requirements (and related actions) set out in the contractual agreement; to identify and assess negative impacts that may emerge as contexts, activities, or relationships progress and evolve over time; and to create opportunities for, and provide guidance to, customers in support of the continuous improvement of their ESG management practices and performance.

Aligned with FMO's risk-based approach, where negative impacts or gaps in the management of such impacts are identified, FMO and the customer may agree on measures and actions to

address these impacts or performance gaps. In those cases, these measures and actions—agreed prior to contracting—are formalized and implemented through an Environmental and Social Action Plan (ESAP), a Corporate Governance Action Plan (CGAP), and, where applicable, a Client Protection Standards Action Plan (CPAP) and/or a Paris Alignment Action Plan. The objective of these action plans is to support alignment with the Sustainability Policy and applicable ESG principles and standards within a reasonable time frame, and at a minimum throughout the tenor of the financing or the lifetime of the investment. FMO may also support customers in implementing these action plans through the provision of Technical Assistance.

FMO maintains frequent and intensive contact with customers on ESG and human rights matters and, where applicable, requires annual ESG performance reports from the customer to assess progress on agreed action plans. The scope and depth of customer engagement and monitoring is informed and guided by the risk-based approach outlined in Section 5.1 Risk-Based Approach.

This may include conducting on-site visits and, when necessary, commissioning an independent External Monitor or expert consultant. FMO also considers monitoring an important opportunity to support customers in achieving their sustainability goals and to assess the development impact of its investments through commissioned evaluations.

5.5. Exit

FMO considers the consequences of exiting[31] an investment on ESG and human rights impacts, seeking, to the extent possible, to preserve development impacts and avoid negative impacts, including those on affected stakeholders. Depending on the circumstances, several factors are taken into account, including, but not limited to, the timing of the exit, the selection of buyers with an aligned ESG approach for equity investments, the status of ESG action plans, and the project stage. When FMO considers an exit from an investment, it follows its internal procedures to support the responsible execution of such an exit.

FMO also seeks to enhance customers' continued positive ESG performance at exit by actively engaging them on this topic throughout the tenor of the financing or the lifetime of the investment.

[31] FMO has a legal and administrative process to end a financing or investment relationship with a customer. There are several types of exit: pre-contract; grant end; normal end (not equity); equity exit; and irregular end.

5.6. Working with Partners

FMO is committed to cooperating with other institutions, including Development Finance Institutions (DFIs), Multilateral Development Banks (MDBs), and other financing partners. This cooperation includes exchanging information; collaborating to develop a mutual understanding of ESG impacts and mitigation strategies; co-financing; and engaging with customers.

With regard to the varying approaches to implementing the policy requirements within the Sustainability Policy Universe, as outlined in Section 2.2 Scope of Application, FMO may, in certain cases, rely—either partially or entirely—on pre-identified financing partners, designated as "Qualified Partners," to implement the objectives of the Sustainability Policy Universe during due diligence, contracting, and monitoring. Although these types of investments fall within the scope of application of the Sustainability Policy Universe, these Qualified Partners apply ESG principles and standards considered equivalent to those of FMO through their own established policy frameworks and processes. FMO enters into agreements with these partners to formalize the working arrangements, including due diligence and monitoring activities.

6. FMO Accountability

FMO is committed to responsible business conduct and upholds high standards of ethics and integrity. This commitment includes promoting transparency and accountability in investment actions and decision-making, as well as addressing dilemmas, concerns, and unintended consequences that may arise from its investments and activities.

6.1. Transparency & Disclosure

FMO recognizes that transparency through disclosure is fundamental to fulfilling its development mandate. Accordingly, disclosure is a mandatory element of the FMO investment process. FMO believes that transparency enhances the quality of investment decisions and reinforces accountability to stakeholders by demonstrating the extent to which it meets its commitments and achieves its development impact objectives.

FMO's Customer Disclosure Policy defines the scope and type of information that FMO makes

publicly available. In addition to its annual reports[32], press releases, and corporate- and policy-related disclosures, FMO also discloses selected information about its investments both prior to contracting (*ex-ante*) and after contracting (*ex-post*), and explicitly invites stakeholder comments between these two phases to support better investment decision-making.

6.2. Complaints

FMO invites comments and concerns from stakeholders, regarding its business conduct and its investments, through its complaints procedures.

FMO provides stakeholders with distinct channels for submitting complaints relating to its investments, general conduct and activities (General Complaints), and whistleblowing (Speak Up Complaints). Stakeholders can access each complaint procedure through the FMO website.

Investment-Related Complaints

FMO is committed to achieving development impact and works with customers to manage—including avoiding and mitigating, and, where not possible, minimizing—negative impacts on people and the environment. At the same time, FMO recognizes that its investments may have actual negative impacts or unintended consequences for local communities and the environment.

FMO recognizes that it operates as part of a wider remedy ecosystem[33] in which a range of actors—including its customers—play different but complementary roles. Aligned with the expectations set out in the United Nations Guiding Principles on Business and Human Rights, FMO acknowledges the importance of using its leverage with customers, to the extent possible, to support affected communities' access to remedy.

Within this remedy ecosystem, FMO has established a robust and independent grievance mechanism—the Independent Complaints Mechanism (ICM)—to address investment-related complaints. The ICM is guided by international standards, including the effectiveness criteria

[32]Further information can be found on FMO's Reporting Center webpage.

[33]FMO outlines its approach to remedy in its Position Statement on Human Rights.

for non-judicial grievance mechanisms described in the United Nations Guiding Principles on Business and Human Rights, as well as the membership criteria for IAMnet.

The ICM ensures the right to be heard for complainants who believe that they have been, or may be, adversely impacted by a DFI Financed Operation[34]. It aims to provide predictable, transparent, and equitable processes through which complainants can raise their concerns and have their complaints resolved when they cannot be fully resolved at the customer-level.

The ICM Policy clearly defines the criteria for determining which investments fall within or outside the scope of the ICM. To be considered in scope, **all** of the following criteria must be met: the investment falls within the scope of application of the Sustainability Policy Universe; an exit has not yet occurred or, where exit has occurred, the investment has been determined to be admissible pursuant to the ICM's post-exit criteria; and FMO has a direct contractual relationship with the customer. Consequently, some investments that are within the scope of the Sustainability Policy Universe fall outside the scope of the ICM[35].

7. Stakeholder Consultation & Feedback

FMO considers stakeholder consultation an integral part of policy development and strives to ensure that its policies are ambitious, relevant, realistic, and enforceable; contribute to societal needs; and underpin its license to operate.

The Sustainability Policy Universe has undergone extensive stakeholder consultation since its inception. FMO proactively seeks input from internal and external stakeholders on their expectations and perspectives and is committed to conducting inclusive and meaningful consultation during policy development.

FMO's key stakeholders include, but are not limited to, the Dutch Government; shareholders and investors; peer institutions and financing partners; customers; project-affected communities; and civil society organizations (CSOs).

[34]The ICM uses the defined term 'DFI Financed Operation' to describe the investments within the scope of the ICM Policy.

[35]For example, B Loans fall within the scope of the Sustainability Policy Universe but are outside the scope of the ICM Policy, as FMO does not have a direct contractual relationship with the customer.

Furthermore, as outlined in Section 6.1 Transparency & Disclosure, FMO considers and integrates stakeholder feedback into its decision-making and monitoring processes to enhance quality and to maximize the development impact of its investments.

Finally, FMO welcomes feedback on its Sustainability Policy, which can be submitted by email to consultation@fmo.nl.

Appendix I: FMO's Sustainability Policy Universe

The Sustainability Policy Universe is a comprehensive policy framework that defines FMO's approach to financing development impact and addresses ESG and human rights impacts across its investment portfolio.

The Sustainability Policy Universe consists of the following documents:

- Sustainability Policy;
- Exclusion List; and
- Position Statements
  - Combined Position Statement on Fossil Fuels
  - Position Statement on ESG Impact and Financial Intermediaries
  - Position Statement on Human Rights
  - Position Statement on Gender Equality
  - Position Statement on Land Governance
  - Position Statement on Hydropower
  - Position Statement on Responsible Tax
  - Position Statement on Animal Welfare

The Sustainability Policy defines FMO's commitment to achieving development impact and serves as a guide for its investment decisions and actions.

The Exclusion List is an EDFI-harmonized document that defines activities that FMO will not finance or support, directly or indirectly.

The Position Statements are an integral part of the Sustainability Policy Universe and are supplementary to the Sustainability Policy. They are not stand-alone policy documents; however, they provide additional context on FMO's sustainability choices, as well as additional policy requirements in relation to major global sustainability issues, specific themes, and investment sectors. Additionally, they outline how FMO selects investments, works with customers and other stakeholders, and monitors customers' ESG performance.

Appendix II: ESG Risk Categorization

Environmental & Social (E&S) Risk Categorization

FMO assesses all investments for potential negative E&S impacts, following the IFC's risk categorization approach, and categorizes them as A, B+, B, or C.

For direct investments in corporates, the risk category is based on (i) the customer's business activities and related E&S issues—such as impacts on Indigenous Peoples, land rights, water, or deforestation—and (ii) the prevailing country-specific context.

For indirect investments through financial intermediaries, the risk category is determined by the likelihood and potential materiality of negative E&S impacts associated with the financial intermediary's portfolio or the specific asset class financed. Due to the indirect nature of the relationship between FMO and end-customers, FMO does not have full visibility at project-level; therefore, the assessment is based on portfolio-level exposure and other contextual factors, including, but not limited to the financial intermediary's business activities, country- and sector-specific context.

Direct Investments in Corporates	
Category A	Business activities with potential material negative environmental and/or social impacts that are diverse,irreversible, or unprecedented.
Category B+	Business activities with potential negative environmental and/or social impacts that are generally beyond the site boundaries, largely reversible, and can be addressed through relevant mitigation measures.
Category B	Business activities with potential limited negative environmental and/or social impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
Category C	Business activities with minimal or negligible negative environmental and/or social impacts.

Indirect Investments through Financial Intermediaries (FI)	
Category FI-A	FIs with an existing or proposed portfolio that includes, or is expected to include, substantial financial exposure to business activities with potential material negative environmental and/or social impacts that are diverse, irreversible, or unprecedented.
Category FI-B	FIs with an existing or proposed portfolio that includes, or is expected to include, business activities that have potential limited negative environmental and/or social impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential material negative environmental and/or social impacts that are diverse, irreversible, or unprecedented.
Category FI-C	FIs with an existing or proposed portfolio that includes and is expected to include business activities that predominantly have minimal or negligible environmental and/or social impacts.

Private Equity Funds	
Category A **'Fund A'**	<u>Mandate</u> Funds that have a mandate to pursue Category A investments; **and/or** <u>Investments</u> Funds with existing Category A investment(s) or a high likelihood to onboard such investments during their lifetimes; and a minimum of two (2) Category A investments during their lifetimes.

Category B+ **'Fund B+'**	Mandate Funds that have a mandate to pursue up to Category B+ investments; **and/or** Investments Funds with existing Category B+ investment(s) or a high likelihood to onboard such investments during their lifetimes; and no or a maximum of one (1) Category A investment during their lifetimes.
Category B **'Fund B'**	Mandate Funds that have a mandate to pursue up to Category B investments; **and/or** Investments Funds with existing or planned Category B investment(s), and a high likelihood that no Category A investments will be onboarded during their lifetimes, and no or a maximum of two (2) Category B+ investments during their lifetimes.
Category C **'Fund C'**	Mandate Funds that have a mandate to pursue only Category C investments; **and/or** Investments Funds with existing or planned Category C investment(s), and a high likelihood that no Category B+ or A will be onboarded during their lifetimes, and no or a maximum of two (2) Category B investments.

Corporate Governance (CG) Risk Categorization

FMO assesses all investments for corporate governance risks and categorizes customers[36] as High, Medium, or Low.

The corporate governance risk categorization process identifies risk drivers across five key elements, using two questions per element: (1) Commitment to Good Corporate Governance; (2) Board Structure and Functioning; (3) Control Environment; (4) Transparency and Ownership Structure; and (5) Contextual Risks.

FMO considers a customer's corporate governance risk to be High if five or more corporate governance risk drivers are triggered across the five elements assessed.

Following the corporate governance risk categorization process, FMO identifies the key areas with corporate governance risks and determines internal responsibility for assessing and managing these risks with the customer.

	CG Risk Drivers
High	5-10
Medium	2-4
Low	0-1

[36]Some customers do not receive a CG risk category due to their structure (i.e., start-ups, Venture Capital) and/or the type of investment structure (e.g., Project Finance in the energy sector, some debt funds).

FMO
Entrepreneurial
Development
Bank

Client Protection (CP) Risk Categorization

FMO assesses all investments in FSPs for potential negative impacts on end-customers and categorizes them as A, B, or C.

The client protection risk category is determined based on a number of criteria and indicators, including the percentage of loan portfolio allocated to end-customers; the business context (such as market saturation and levels of over-indebtedness); the regulatory environment; and the customer's business model (including profitability and pricing).

Indirect Investments through Financial Institutions	
Category A	More than 30% of the loan portfolio is allocated to end-customers; **and** • three or more indicators are identified as high risk; **or** • the Pricing and Profitability indicator is identified as high risk; **or** • the country of operation is on the list of countries determined by FMO as an operating context and regulatory environment with extremely high risks.
Category B	More than 30% of the loan portfolio is allocated to end-customers; **and** • less than three indicators are identified as high risk; **and** • Pricing and Profitability indicator is NOT identified as high risk; **and** • the country of operation is NOT on the list of countries determined by FMO as an operating context and regulatory environment with extremely high risks.
Category C	Less than 30% of the loan portfolio is allocated to end-customers.

Indirect Investments through Funds & Holdings	
Category A	Mandate is dedicated to supporting Financial Institutions or Corporates to provide financial services to end-customers; In case of a different mandate: • For Debt Funds or Holdings: 30% or more of the aggregated investee or holding portfolio—or projected investee or holding portfolio—supports financial services to end-customers; • For Private Equity Funds: 30% or more of the commitments are expected to be invested in Financial Institutions or Corporates (and their subsidiaries) who primarily provide financial services to end-customers (e.g. based on pipeline, strategy, sector allocation, predecessor funds); **and** three or more indicators are identified as high risk; **or** the country of operation for 30% or more of the operating portfolio is on the list of countries determined by FMO as an operating context and regulatory environment with extremely high risks.
Category B	Mandate is dedicated to supporting Financial Institutions or Corporates to provide financial services to end-customers; In case of a different mandate: • For Debt Funds or Holdings: 30% or more of the aggregated investee or holding portfolio—or projected investee or holding portfolio—supports financial services to end-customers;

	• For Private Equity Funds: 30% or more of the commitments are expected to be invested in Financial Institutions or Corporates (and their subsidiaries) who primarily provide financial services to end-customers (e.g. based on pipeline, strategy, sector allocation, predecessor funds); **and** less than 3 indicators identified as high risks; **and** the country of operation for less than 30% of the operating portfolio is on the list of countries determined by FMO as being an operating context and regulatory environment as extremely high risk.
Category C	Mandate is dedicated to supporting Financial Institutions or Corporates to provide financial services to end-customers; In case of a different mandate: • For Debt Funds or Holdings: less than 30% of the aggregated investee or holding portfolio—or projected investee or holding portfolio—supports financial services to end-customers; • For Private Equity Funds: less than 30% of the commitments are expected to be invested in Financial Institutions or Corporates (and their subsidiaries) who primarily provide financial services to end-customers (e.g. based on pipeline, strategy, sector allocation, predecessor funds);

Reference List

This list includes all references within this policy in order that they first appear in the document.

ESRS 2 'double materiality assessment' (DMA)

EU Corporate Sustainability Reporting Directive

FMO's Exclusion List

United Nations Sustainable Development Goals (SDGs)

- *Decent Work and Economic Growth (SDG 8)*
- *Reduced Inequalities (SDG 10)*
- *Climate Action (SDG 13)*

2030 Agenda for Sustainable Development

FMO's Position Statement on Gender Equality

FMO's Strategy 2030

FMO's Climate Action Plan

United Nations Framework Convention on Climate Change Paris Agreement

FMO's Position Statement on Human Rights

United Nations Guiding Principles on Business and Human Rights

IFC Performance Standards on Environmental and Social Sustainability

OECD Guidelines for Multinational Enterprises on Responsible Business Conduct

FMO's Independent Complaints Mechanism

FMO's Code of Conduct

OECD Anti-Bribery Convention

United Nations Convention Against Corruption

FMO's Anti-Bribery and Corruption Statement

FMO's Know Your Customer and Anti-Money Laundering Statement

FMO's Position Statement on Responsible Tax

EDFI Principles for Responsible Financing of Sustainable Development

- *EDFI - The Association of European Development Finance Institutions*

G20/OECD Principles of Corporate Governance

Operating Principles for Impact Management

United Nations Principles for Responsible Investment

United Nations Principles for Responsible Banking

ILO Declaration on Fundamental Principles and Rights at Work (1998)

World Bank Group General Environmental, Health, and Safety Guidelines

Corporate Governance Development Framework

Client Protection Standards

FMO's Label Guidelines

FMO's Paris Alignment Principles and Methodology

Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations (2023)

FMO's Position Statement on Land Governance

FMO's Position Statement on ESG Impact and Financial Intermediaries

FMO's Customer Disclosure Policy

FMO's Complaints Procedures

General Complaints

Speak Up Complaints

IAMnet

FMO's ICM Policy