

ENVIRONMENTAL AND SOCIAL POLICY

Principles

FMO strives to achieve positive sustainable development outcomes through our investments. At the same time we recognize that such development can also have negative impacts on local communities and the physical environment within which they live or upon which they depend for their livelihoods. FMO is committed to ensuring that the costs of economic development do not fall disproportionately on those who are poor or vulnerable, that the environment is not degraded in the process and that natural resources are managed efficiently and sustainably, i.e. are not depleted at the expense of future generations.

FMO recognizes that the primary responsibility for sustainable development and management of E&S risks and impacts rests with our clients. We also believe that given their direct involvement in the local markets within which they operate, our clients are best positioned to realize opportunities for benefit capture at the local level and create value for all parties involved. As a consequence, we view our clients as important partners in achieving our development mandate. Therefore we prefer to select clients who share our vision and commitment to sustainable development and who wish to improve their ability to manage E&S issues within their business activities, which at the same time provides them with the potential opportunity to enhance their own competitive advantage.

Policy Implementation

Minimum requirements

FMO can work with a broad array of privately owned companies, financial institutions (FI) and private equity funds (PEF). It chooses not to select clients which are part of our Exclusion List. The Exclusion List relates to activities that out of their nature are not supported by development banks such as FMO. Moreover, FMO also requires its FI and PEF clients to apply this Exclusion List to the clients they select in their portfolio.

Pricing incentives / penalties

As with Corporate Governance, FMO can support the E&S business case in structuring its financial products. From a risk-return perspective, FMO is able to support implementation of major milestones of the ESAP by offering pricing incentives and/or requiring pricing penalties (in case of non-compliance with the Environmental and Social Action Plan).

Other requirements

FMO makes a distinction between on the one hand Direct Investments, being corporates or project finance companies and on the other hand Indirect Investments, being Financial Institutions (FIs) or Private Equity Funds (PEFs).

DIRECT INVESTMENTS

All our direct investment clients (including those in which we take equity) are required to comply with national E&S law as a minimum standard, and with the Environmental and Social Performance Standards and applicable IFC Environmental Health and Social Guidelines, as developed by the International Finance Corporation (IFC), member of the World Bank Group, whichever stricter.

To help our direct investment clients establish sound E&S practices, we use a practical framework. The framework comprises of three parts: (1) Risk Categorization of clients, (2) Establishing applicable requirements, (3) Environmental and Social Action Plans and (4) pricing incentives.

(1) Risk Categorization of Clients

All new and existing clients are subject to a Risk Categorization of their (potential) Environmental and Social impacts. There are four risk categories A, B+, B and C:

A = high risk: Projects / clients with potential significant adverse social or environmental impacts which are diverse, irreversible or unprecedented.

B+ = medium high risk: Clients with potential adverse social or environmental impacts that are generally beyond the site boundaries, largely reversible and can be addressed through relevant mitigation measures.

B = medium risk: Clients with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

C = low risk: Projects with minimal or no adverse social or environmental Impacts.

The categorization of clients into the A, B+, B, or C category is largely based on an assessment against the applicable IFC Environmental and Social Performance Standards. At the same time, we cooperate closely with the European Development Finance Institutions (EDFI's) with the purpose to harmonize our definitions and requirements.

(2) Applicable requirements

Below table provides an overview of the minimum requirements per category of company. For direct investment clients in category A and B+, an assessment of the E&S practices is required as part of FMO's due diligence. All FMO's higher risk clients are required to implement an Environmental and Social Management System (ESMS). This ESMS is customized for each type of client.

Direct Investments	A	B+	B	C
Risk / impact	High	Medium / high	Medium	Low
IFC Performance Standards (PS)	Often project finance with PS 1-4 triggered as well as high risk aspects (PS 5-8)	Often corporate finance with PS 1-4 triggered, and potentially high risk aspects (PS 5-8)	Corporate in medium risk sector PS 1-3	Corporate in low risk sector
Requirements	- IFC Performance Standards - ESAP (usually)	-IFC Performance standards -ESAP (if necessary)	-IFC Performance Standards -ESAP (on request)	-National Law -No ESAP

(3) Methodology: Environmental and Social Action Plans

Based on the outcomes of the assessment carried out, an Environmental and Social Action Plan (ESAP) is to be agreed upon as necessary, with clear and practical milestones to be achieved within a certain period of time. The ESAP would normally allow clients a three year period at the maximum to reach full compliance with the requirements. For clients in category B and C, no in-depth assessment is required. However, on a voluntary basis we try to identify potential value creation that can be achieved with these clients.

The ESAP is, in cooperation with the client, made “SMART”, i.e. Specific, Measurable, Achievable, Realistic and Time-Bound, and included in the loan documentation. Non-compliance with key milestones of the ESAP constitutes an event of default under the loan documentation. For FMO’s direct equity transactions, the ESAP shall be firmly agreed and the E&S principles to be applied by the company shall be firmly constituted in the Shareholders Agreement. The ESAP shall be under implementation before disbursement of FMO’s funds.

Effective implementation of the ESAP adds value to the client, it mitigates E&S risks and it contributes to E&S development impact that FMO achieves through its financing.

INDIRECT INVESTMENTS

For our financial institution (FI) clients and private equity funds (PEF) in which we invest, we focus on how they address the environmental and social risk in their portfolios. Depending on the risk category, we expect the FIs and PEFs to apply certain environmental and social standards when financing or investing in their clients. This entails that, FIs and PEFs will be required to establish and maintain an E&S Management System to ensure that their investments meet (or over time become compliant with) FMO’s requirements. The level of detail and sophistication of this management system and of the monitoring approach will depend on the E&S risk profile of the FI / PEF and the type of financing that they provide.

(1) Categorization and requirements

In the table below, the risk categorization for FIs and PEFs is presented, together with the applicable requirements.

Indirect Investments: Financial Institutions	FI-A	FI-B	FI-C
Risk / impact	High	Medium	Low
FI Criteria for Categorization	Portfolio > 20% in high risk sectors	Portfolio < 20% in high risk sectors, as well as Microfinance Institutions	Consumer finance (under review)
FI Requirements	<ul style="list-style-type: none"> - Apply Exclusion List - Client has or develops an ESMS, to apply IFC PS to their high risk portfolio clients - ESAP to develop ESMS 	<ul style="list-style-type: none"> - Apply Exclusion List - A selection of clients have developed or will develop an ESMS, to apply <u>local laws and regulations</u> for their <u>entire portfolio</u>. - ESAP to develop ESMS (if applicable) - Client to be compliant with local laws and regulations 	<ul style="list-style-type: none"> - Apply Exclusion List - National Law
For FI-B client: selection conditions to require development of an ESMS	<p>The selection criteria for an FI-B client to require the development of an ESMS are based on the following:</p> <ul style="list-style-type: none"> o Willing and able clients (example clients) o Partner transactions* o Clients with identified increased risk profile** <p>*In cases where we are unable to convince <u>partners</u> to follow suit in the above ESMS implementation approach, the following shall apply:</p> <ul style="list-style-type: none"> • ESMS to be implemented according to IFC PS to their high risk portfolio clients and according to local laws and regulations for the rest of the portfolio. <p>**Condition under which a client has <u>an increased risk</u> profile will include, but not limited to:</p> <ul style="list-style-type: none"> • Portfolio breakdown (i.e. sectors). • Type of product offering • E+S Country risk, referring to degree of enforcement of local laws and regulations • Reputational risk for FMO 		
Indirect Investments: Private Equity Funds	PEF-A	PEF-B	PEF-C
Risk / impact	High	Medium	Low

PEF Criteria for Categorization	>15% Investee companies in high risk sectors	<15% Investee companies in high risk sectors	In principle Investments in low risk sectors only
Fund Requirements	<ul style="list-style-type: none"> -Apply exclusion list - Commit to E&S Investment Code before first investment - ESMS based on IFC PS for high risk clients -ESMS ready before first investment 	<ul style="list-style-type: none"> - Apply exclusion list - Commit to E&S Investment Code before first investment - ESMS based on IFC PS for high risk clients -ESMS ready before first investment 	<ul style="list-style-type: none"> - Apply exclusion list - Commit to E&S Investment Code before first investment - ESMS based on IFC PS for high risk clients -ESMS ready before first investment
Investee Company Requirements	<ul style="list-style-type: none"> - National Law and ILO core conventions. - Work to ultimately comply with IFC PS (for high risk investee companies only) - Policy for continuous improvement 	<ul style="list-style-type: none"> - National Law and ILO core conventions. - Work to ultimately comply with IFC PS (for high risk investee companies only) - Policy for continuous improvement 	<ul style="list-style-type: none"> - National Law and ILO core conventions. - Work to ultimately comply with IFC PS (for high risk investee companies only) - Policy for continuous improvement

(2) Methodology: Environmental and Social Action Plans

For those FIs where an ESMS is required, an action plan can be agreed upon with timelines for the various elements (policy, training, procedures, full implementation). The Environmental and Social Action Plan (ESAP) is to be agreed upon as necessary, with clear and practical milestones to be achieved within a certain period of time. For FI clients in category FI-B and FI-C, opportunities will be actively explored on how FMO can assist these clients with development of an ESMS for their portfolio, on a voluntary basis. Through this, we identify potential value creation that can be achieved with these clients.