



FMO

Entrepreneurial
Development
Bank

Task Force on
Climate-related
Financial Disclosures
(TCFD)

Disclosure 2022

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1. Introduction

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

As such, in September 2022 we launched our Strategy 2030. Our contribution focuses on three SDGs that we can most impact through our financing of the private sector in emerging markets: Decent Work and Economic Growth (SDG 8), Reduced Inequalities (SDG 10), and Climate Action (SDG 13). By building on what we already do, by recognizing what we are capable of, and by challenging ourselves, our customers and our partners to go where many others do not yet dare to go. The essence of our strategy is captured in just three words: Pioneer – Develop – Scale.

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

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

Overall, in 2022 we made good progress in our work on climate action, and below we present an overview of the main achievements in the four thematic areas of the TCFD recommendations:

Progress against TCFD recommendations in 2022

Governance	Strategy	Risk management	Metrics and Targets
<ul style="list-style-type: none"> • We included the responsibility of overseeing the climate-related and environmental risks as part of the Chief Risk Officer (CRO) role • We co-developed our first e-learning module on Climate Risk, in order to raise awareness and inform FMO staff on the topic of climate risk 	<ul style="list-style-type: none"> • We launched our new strategy 2030 'Pioneer – Develop – Scale', where Climate Action (SDG13) continues to be one of the focus areas • We launched our Climate Action Plan to 2030, as part of our Climate Commitment of the Dutch financial sector and as an elaboration of our Strategy 2030 • We invested EUR 4.4bn toward our SDG 13 goals, representing 33 percent of our total investments in 2022 • We performed an annual external scan to identify major trends in climate science, regulations and the macro-economy, and to assess how these trends influence FMO's climate risk framework 	<ul style="list-style-type: none"> • We started piloting our methodology for performing climate risk assessments in all our sectors (FI, Energy, Agri- Food and Water and PE). This scan is expected to inform us regarding the different types of physical and transitional risks we are exposed to (in line with TCFD's recommended risk categories) • We performed a mapping exercise to identify how climate-related and environmental risks affect other existing risks categories in our Risk Appetite Framework (RAF), and added climate risk in several other risk policies • We developed our first internal Climate Risk report 	<ul style="list-style-type: none"> • We continued reporting our absolute GHG emissions from FMO's own operations, and our financed absolute GHG emissions generated through our investments. • We published our 2030 target of our power generation portfolio, as part of our Climate Action Plan

We have been reporting in line with the TCFD recommendations since 2019 and this TCFD report supplements our 2022 Annual Report.

2. Governance

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

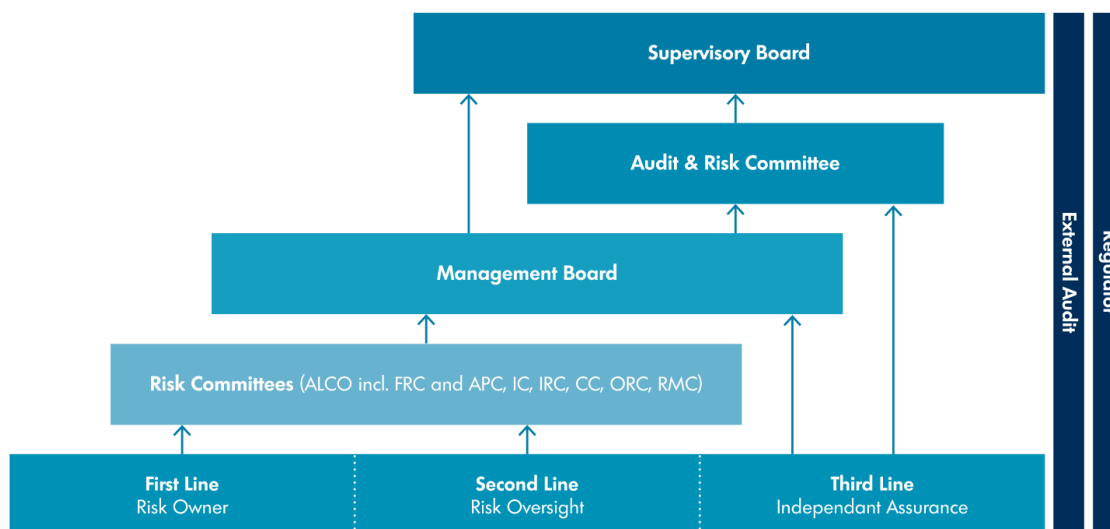
The risk management framework is based on the 'three lines model', where the first line (Investment department and supporting functions) is challenged and advised by the second line (Risk department and Compliance department), and the third line (Internal Audit) that performs independent assessments of the functioning of first and second line. The appointment of a separate CRO reinforces FMO's risk management framework and the oversight responsibilities for risk management.

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

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

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

FMO's organizational structure



The MB has established risk committees to assist it in fulfilling its oversight responsibilities regarding the risk appetite of FMO, the risk management framework, and the governance structure that supports it. During 2022 we continued embedding climate risk in the roles of the following committees:

The Asset and Liability Committee (ALCO)

The ALCO assists the MB by evaluating, monitoring and steering the financial risk profile of FMO in accordance with the risk appetite approved by the SB. The ALCO approves, monitors and evaluates policies, limits and procedures to manage the financial risk profile of FMO on a portfolio level, except for credit and equity risk related policies. The ALCO is responsible for overseeing FMO's capital and liquidity positions and defining possible interventions. The CRO (Chair), CFOO, Director Risk, Director Treasury, Director Credit & Special Operations (CSO) and two Directors from investment departments are voting members of the ALCO.

The Investment Committee (IC)

The IC is responsible for approving financing proposals and advising MB on transactions in terms of specific counterparty, product as well as country risk. The IC is chaired by the Director CLS and consists of senior representatives of investment departments and CRO departments. All financing proposals are accompanied by the advice of the Credit department. This department is responsible for credit risk assessment of both new transactions and the existing portfolio. Credit also has the authority to approve new transactions with small exposures.

The Investment Review Committee (IRC)

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

Our first internal e-learning module on climate risk

We believe that it is important for all our employees to be aware on the topic of climate risk. As such, in 2022 we co-developed our first internal e-learning module on climate risk. The module has been designed to provide our employees with a basic understanding of the challenge of climate risk and why it is important for our work and our customers.

3. Strategy

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

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

Developing countries are disproportionately affected by climate change but are also part of the solution. In 2019, 41 percent of the global population live in countries emitting less than 3 tCO₂e per capita. A substantial share of the population in these low-emitting countries lack access to modern energy services. Importantly, eradicating poverty and energy poverty can be achieved without significant global emissions growth.

Upper-middle income countries, combined with the global emissions of the lower-emitting lower-middle income and low-income countries, now account for more than two-thirds of global CO₂ emissions. As low-income and low-middle income countries grow, a focus must be on low-emission growth to avoid contributing further to the problem.

Our Commitments to Climate Action (SDG 13) to 2030

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

Aligning our portfolio and investments with the Paris goals

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

We are committed to reducing the emissions of our power generation portfolio by 50 percent by 2030, while growing our investments in renewable energy. In line with our [Position Statement on Phasing Out Fossil Fuels in Direct Investments](#), we will no longer invest in fossil fuel power generation plants, unless a case would meet strict transition criteria. We are implementing additional fossil fuel restrictions for our indirect investments, as described in our joint commitment to the [EDFI Climate and Energy Statement](#).

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

Increasing climate investment and supporting our customers

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

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

FMO's Green label

Our labels highlight the way in which individual investments align with certain criteria related to key strategic goals. FMO sets itself targets around labels (the share of its portfolio directed towards certain strategic goals) and uses them as a steering metric.

For Climate Action (SDG 13), FMO's ambition is to have an investment portfolio which is increasingly aligned with a 1.5 pathway. One way to support this ambition is to grow our Green-labelled investments, which contribute to climate mitigation, climate adaptation, or other footprint reduction (in themes of water, waste, biodiversity).

To facilitate steering on SDG 13 through our Green label, we set an annual target on Green as a percentage of new commitments that influences customer selection, project preparation and investment decisions. FMO's Green definition also recognizes activities that do not directly target climate change mitigation or adaptation yet have a positive impact on the environment, including water efficiencies, water treatment, waste management and biodiversity conservation ('other footprint reduction'). For further information please refer to the '[Green methodology](#)' document that is available on the FMO website, which describes our Green criteria, eligible investments, and our internal green label process.

At the end of 2022 our Green-labelled committed portfolio was €4.4 billion, which was an increase of seven percent over the previous year. For further details regarding our Green label performance in 2022, you can refer to the 'Performance against our strategy' chapter in our [annual report 2022](#).

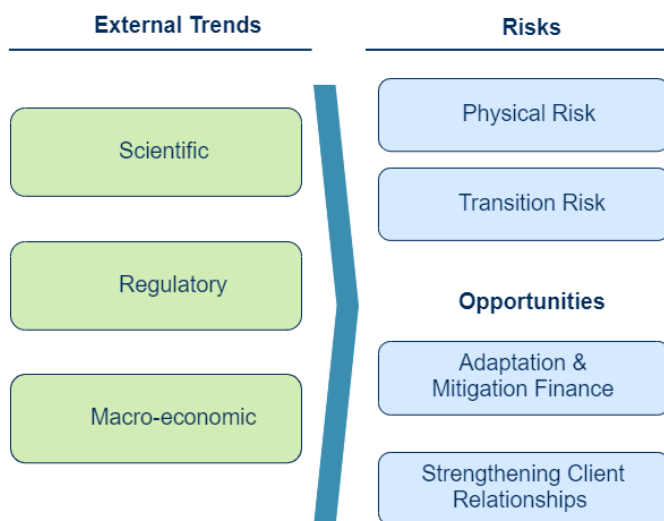
Making high impact by leveraging public funding

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

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

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

FMO's external scan framework



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

Our climate risk methodology

Since 2021 we have been co-developing with an external party our methodology for performing climate risk assessments on a portfolio and investment level, in order to identify exposure to physical and transition risks.

As part of our commitment to Paris alignment for new investments, we will further develop our methodologies and operations to identify physical and transition climate risks for investments, assess such risks, and address them to ensure that the investment does not undermine a country's climate adaptation and resilience objectives.

In the 'Risk Management' section of this report, we provide further information about the progress we made in 2022 with our climate risk methodology.

4. Risk Management

FMO has a comprehensive framework in place to manage and control risk, reflecting its banking license, state support agreement and a mandate to do business in high-risk countries. The purpose of FMO's risk management framework is to support the institution's ambitions while safeguarding its long-term sustainability.

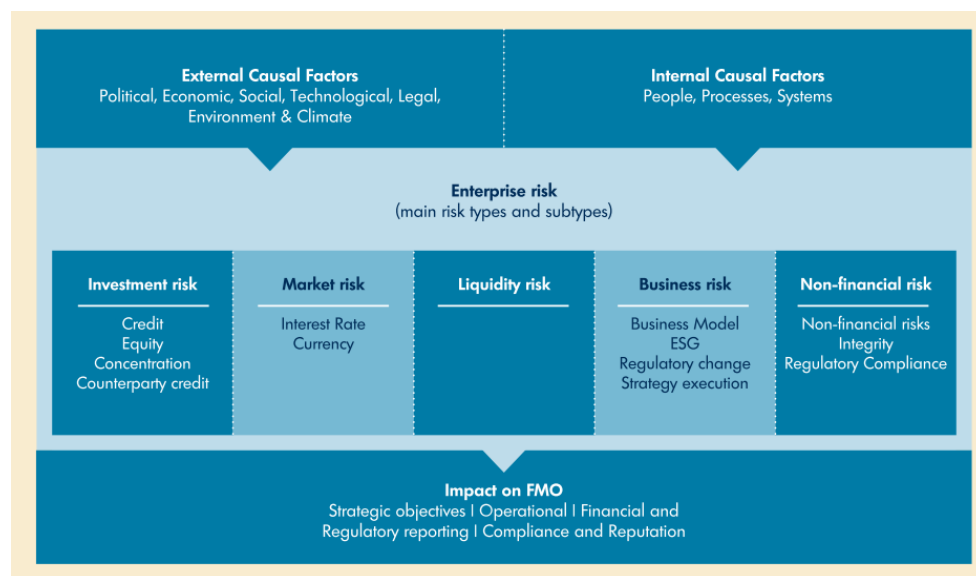
We define risk as the effect of uncertainty on objectives. Risk management practices are integrated across the institution, from day-to-day activities to strategic planning, to ensure both compliance with relevant regulations and adherence to the risk appetite. A sound risk management framework is required to preserve the institution's integrity, which is essential for fulfilling its mission and upholding its good reputation.

The risk management framework is based on the 'three lines model' that we described in the 'Governance' section of this report.

Risk appetite and taxonomy

The Risk Taxonomy defines the main risk types and risk subtypes FMO is exposed to in the pursuit of its objectives. This common set of risk categories, types and subtypes facilitates the structuring of other elements of the risk management framework, such as the Risk Appetite and Risk Policies. The Risk Appetite defines appetite bandwidths, alert and tolerance levels for main risk types and subtypes. The Risk Appetite Framework (RAF) is reviewed by the Management Board and approved by the Supervisory Board on an annual basis. If necessary, it can be revised during the year in case of material developments or a change in the strategic goals.

FMO's Risk Taxonomy

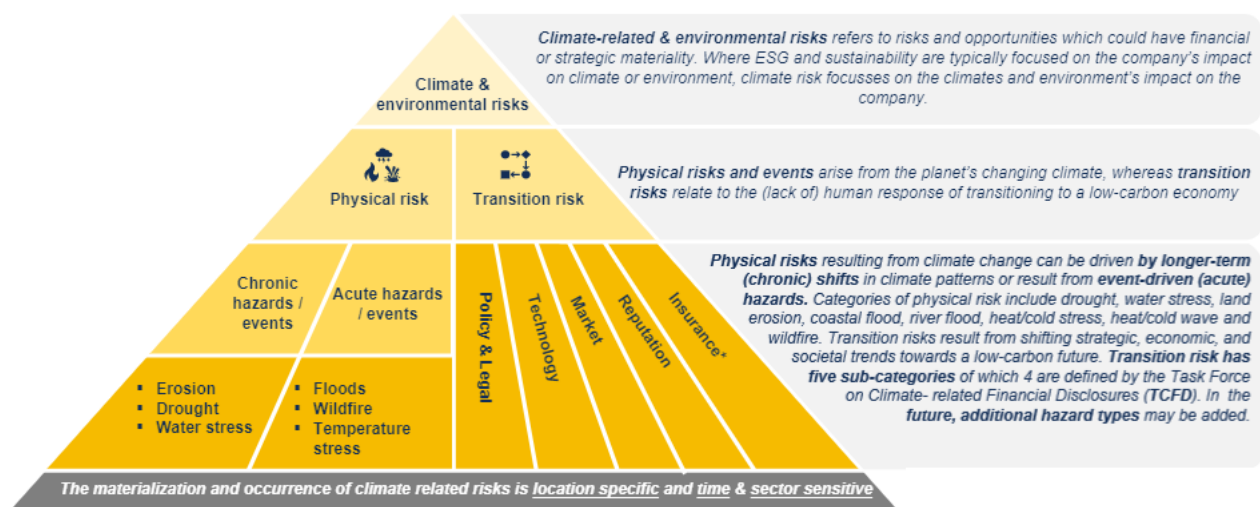


For further information about our approach to Risk Management please refer to the Risk Management chapter in our [annual report 2022](#).

Integrating climate risk with our Risk Management Framework

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

FMO's Climate Risk Framework



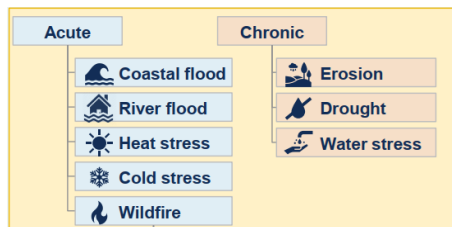
FMO defines climate risk as the risks posed by direct exposure to climate change, or indirect exposure through counterparties that may potentially be affected by or contribute to climate change. These include two strongly interlinked perspectives:

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

Based on the recommendations of the TCFD, we use the following definitions for transition and physical risks:

Physical risks result from climate change, and they can be driven by chronic (long term) shifts in climate patterns or result from acute (event driven) hazards. Categories of physical risks include coastal flood, drought, water stress, land erosion, coastal flood, river flood, heat/cold stress, heat/cold wave, and wildfire.

Categories of physical risks



Transition risks result from shifting strategic, economic, and societal trends towards a low-carbon future. In our definition, transition risk has the following five sub-categories (one to four are based on the TCFD recommendations):

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

As a first step of our process to integrate climate risk with our overall Risk Management Framework, we performed a mapping exercise to identify how climate risk may affect other existing risks categories in our RAF. Additionally, we started embedding climate risk in several other risk policies and existing processes (such as our investment process, liquidity risk policy, and market risk policy). Lastly, in 2022 we started working on defining the climate risk related Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs); you can read further information in the 'Metrics and targets' section of this report.

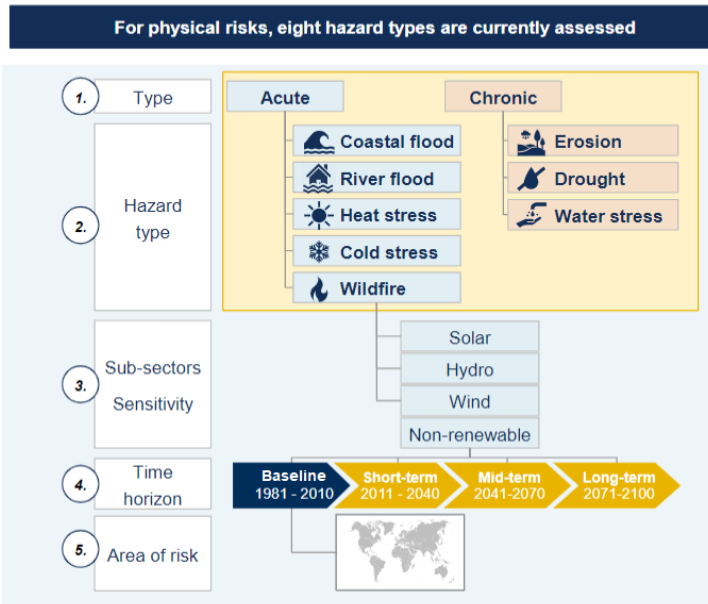
FMO's Climate Risk methodology

Since 2021 we have been co-developing with an external party our methodology for performing climate risk assessments on a portfolio and investment level, in order to identify exposure to both physical and transition risk. In 2022 we started piloting our methodology by performing a portfolio scan in our four sectors (Financial Institutions, Energy, Agriculture, Food and Water, and Private Equity).

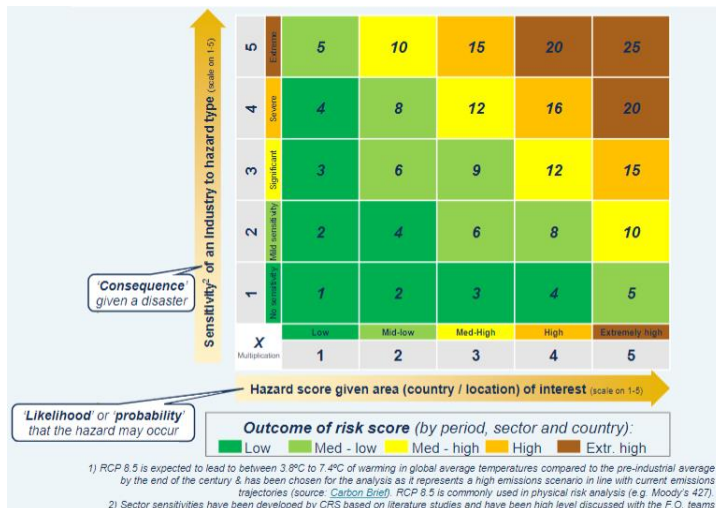
The pilot scan is a high-level assessment of potential physical and transition risks in a portfolio in the short, medium, and long term. We are expecting this scan to provide us with an initial understanding of climate-related and environmental risk exposures in industries and geographies, and to indicate if there are any risk concentrations in a portfolio. Risk areas identified by the portfolio scan will be followed up by a more in-depth analysis of specific transactions, industries, or geographies. This is in line with the recommendations set out by the TCFD and the ECB Guide on climate-related and environmental risks.

Physical risk portfolio assessment - pilot

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



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



Challenges with our Climate Risk methodology

We should mention that we faced some challenges during the pilot phase of our Climate Risk methodology. Regarding data input and quality, we found that data is often not available at the required level of granularity, which created challenges for our data analysis. Additionally, our data collection process will need to be improved over time.

Nonetheless, despite of these challenges, the initial results of the pilot are promising. We will continue improving and updating our methodology, and we aim to embed the climate risk assessment in our regular investment processes after the successful completion of the pilot.

Our first internal Climate Risk report

In 2022 we published our first internal Climate Risk report with the intention to provide management with the required updates and understanding of the impacts of climate risks and opportunities on the organization. We will be generating the internal Climate Risk report on a frequent basis, as new insights and developments will continue to emerge.

5. Metrics and Targets

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

GHG emissions

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

We report on:

- *Absolute GHG emissions from FMO's own operations* associated with heating and electricity used in our office buildings, as well as staff travel. These are much smaller than our financed absolute emissions but show how our own operational footprint.
- *Financed absolute GHG emissions* generated through our investments. These give an understanding of our portfolio's overall emissions and opportunity to reduce them.
- *Financed avoided GHG emissions* as a result of our investments, for example through the power production of a new solar park. These emissions quantify our contributions to climate change mitigation activities, which cannot be fully captured by absolute emissions. For example, a school and a solar park might both have low absolute emissions, but the solar park supports climate change mitigation by avoiding emissions of fossil fuel fired power plants.

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

The financed absolute GHG emissions are reported in line with the Global GHG Accounting and Reporting Standard for the Financial Industry published by the Partnership for Carbon Accounting Financials (PCAF). The majority of FMO's financed absolute GHG emissions are estimated through economic modeling using the [Joint Impact Model \(JIM\)](#). While we continue to improve our GHG emission data collection, in many of our markets such data is not yet readily available. The JIM allows us to have a view on our portfolio and sources of emissions in the meantime.

Absolute GHG emissions from FMO's own operations

The carbon footprint of our own operations amounted to 3.89 ktCO₂e (2021: 0.42 ktCO₂e). Scope 1 emissions amounted to 0.09 ktCO₂e, which came from lease cars used by our employees. Scope 2 emissions amounted to 0.03 ktCO₂e connected to district heating that we obtain for our head office. Scope 2 emissions related to the use of electricity were equal to zero since we purchase electricity from renewable sources. Scope 3 emissions amounted to 3.77 ktCO₂e, mainly from staff travel. As we serve customers around the world, 90 percent of our own emissions resulted from air travel. The easing of COVID-19 measures increased staff travel and office use, which significantly increased our carbon footprint compared to the past two years¹. FMO offsets the operational emissions by investing in VCS REDD+ certified forestry credits².

Financed absolute GHG emissions

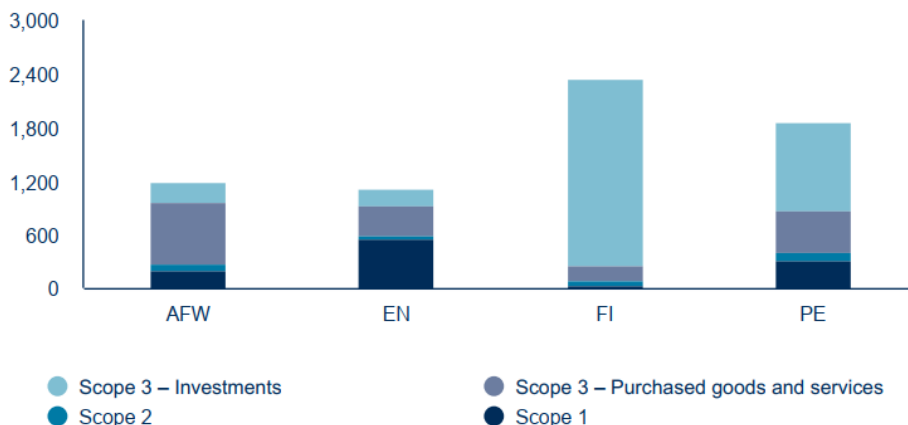
Our outstanding portfolio resulted in an estimated 6,530 ktCO₂e absolute GHG emissions (2021: 5,355 ktCO₂e), of which 1,108 ktCO₂e were Scope 1 emissions, 270 ktCO₂e were Scope 2 and 5,153 ktCO₂e were Scope 3. The scope 3 emissions consist of two main GHG Protocol categories: purchased goods and services (1,643 ktCO₂e) and investments (3,510 ktCO₂e) related to emissions in the portfolios of our customers, which are particularly relevant for FIs. Overall, 89 percent of emissions were attributed to our own balance sheet, while 11 percent were attributed to funding from public funds.

Our portfolio Scope 1 and 2 emissions declined from 1,408 ktCO₂e in 2021 to 1,377 ktCO₂e in 2022. Scope 3 emissions increased from 3,947 ktCO₂e in 2021 to 5,153 ktCO₂e in 2022. The amounts reported may not be fully comparable across years because of differences in data quality and data coverage. To estimate the attributed impact, we rely on our customer's latest available information. We continue to implement improvements to ensure we have the most recent and highest data coverage to increase comparability across the years.

¹ The absolute GHG emissions from FMO's own operations do not include any (additional) emissions as a result of employees working from home, such as (increased) electricity use and heating in home offices.

² VCS is the Verified Carbon Standard, a standard for certifying carbon emissions reductions. REDD+ refers to the focus on Reducing Emissions from Deforestation and forest Degradation, including sustainable management of forests

Financed absolute GHG emissions per investment area (in ktCO₂e)



In our EN portfolio, most Scope 1 emissions come from the remaining investments we have in fossil fuel-fired power plants. When direct emissions data are unavailable, the emissions estimates based on economic models cannot distinguish between different types of energy investments. In particular, this means that Scope 3 emissions are likely overestimated for renewable energy investments.

The AFW portfolio is diverse, giving rise to different sources of GHG emissions. Manufacturing and processing of food products leads to CO₂ emissions from energy usage. Primary agricultural production can have significant non-CO₂ emissions such as methane emissions from livestock and nitrous oxide emissions from fertilizers. The AFW portfolio also includes a few financial institutions focused on providing loans to SME agribusinesses, which have Scope 3 emissions related to their investments. Emission removals, which mainly come from forestry projects, have not been included yet since we are still in the process of implementing relevant calculation tools.

In the FI portfolio Scope 1 and 2 emissions are limited as these mainly pertain to the energy use by the investee banks' office buildings. Most emissions stem from the investee banks' loan portfolios in sectors such as agriculture, manufacturing and energy. Within their portfolios, the JIM-based estimates show that 57 percent come from their customers' Scope 1 and 2 emissions and 43 percent from emissions related to their customers' Scope 3 emissions from purchased goods and services. Specific use of proceeds, such as green credit lines, cannot yet be taken into account in emission estimations due to a lack of data.

The PE portfolio contains equity investments in businesses, projects and funds. One source of emissions is the remaining equity investments in fossil fuel-fired power plants. For equity investments in financial institutions and funds, the majority of emissions come from underlying portfolio companies in the energy, manufacturing and agriculture sectors.

Financed avoided GHG emissions

In 2022, our current portfolio resulted in an estimated 1,439 ktCO₂e avoided GHG emissions (2021: 1,329 ktCO₂e). Some 79.3 percent of these came from energy, 20.6 percent from PE and the remainder from AFW. The majority of avoided emissions come from our debt and equity portfolio in on-grid renewable power projects. These account for 83 percent of total avoided emissions (1,191 ktCO₂e).

For further information about our GHG emissions, please refer to the 'Performance against our strategy' chapter in our [annual report 2022](#).

We are committed to reducing our power generation emissions

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

As part of our plan, we commit to reducing our Scope 1 power generation linked CO₂e emissions by 50 percent from 2021 until 2030. In line with our [Position Statement on Phasing Out Fossil Fuels in Direct Investments](#), we will no longer invest in fossil fuel power generation plants, unless a case would meet strict transition criteria, and we will implement additional fossil fuel restrictions for our indirect investments, as described in our joint commitment to the [EDFI Climate and Energy Statement](#).

For further information about our target, please refer to Appendix 1 in our [Climate Action Plan](#) that is available on the FMO website.

Climate risk related KPIs and KRIs

In order to steer FMO's climate related risk exposure, we need to define the appropriate Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs). In 2022 we started defining FMO's climate risk KPIs and KRIs, as well as the related appetite level, based on the TCFD recommended metrics for banks. Our final decision on which KPIs and KRIs to use will be consistent with FMO's ambition level and climate strategy.