

ABOUT THIS REPORT

FMO's integrated annual report was prepared following the principles of the Integrated Reporting framework of the International Integrated Reporting Council (IIRC) and in accordance with the 'core option' of the Global Reporting Initiative (GRI) standards.

We strive to report transparently on our strategy, the way we implement our strategy to create value for our stakeholders and the dilemmas we face along the way.

Stakeholder dialogue

We are aware that FMO operates in a network of organizations and civil society. In this network, our decisions have an impact on others and vice versa. We engage with our stakeholders to find out what matters most to them and improve our decision-making and reporting.

Dialogue with our stakeholders, whether through scheduled meetings or hosting events, ensures that we continue to learn from them. We identify our stakeholders based on their economic relationship with FMO, their interest in and influence on FMO, the extent to which they are affected by FMO's activities as well as the potential for sharing knowledge. To ensure a complete overview, we linked stakeholder groups to the inputs, activities and outputs of our business model.

Stakeholder engagement informs our strategy

Engaging with our stakeholders ensures our strategy and business continue to be aligned with their needs and expectations. As a Dutch Development Finance Institution (DFI), we maintain a close relationship with the Dutch Ministry of Finance and Ministry of Foreign Affairs. Together, we discuss FMO's strategy and operations. In addition, we engage with a wider group of stakeholders on themes that are of strategic importance to FMO.

We are part of several learning communities that share knowledge and look for best practice regarding climate (SDG 13), human rights (an inseparable part of all SDGs) and the harmonization of impact measurement and reporting standards. We have presented our climate approach on several occasions and have taken part in public debates on this subject. We also organized an NGO meeting on climate.

Our interaction with peers, knowledge partners and NGOs helps us develop our knowledge and improve our way of working. Our Management Board (MB) is actively involved in stakeholder dialogue with our key stakeholders. In bilateral settings as well as at public events, members of the MB regularly meet with the following key stakeholders: clients, the Ministry of Finance, the Ministry of Foreign Affairs, investors, the Works Council, partner DFIs, NGOs and the Dutch Central Bank. The day-to-day management of stakeholder relationships is entrusted to stakeholder account managers, who report to MB on a quarterly basis about the content of their discussions.

Stakeholder engagement on human rights

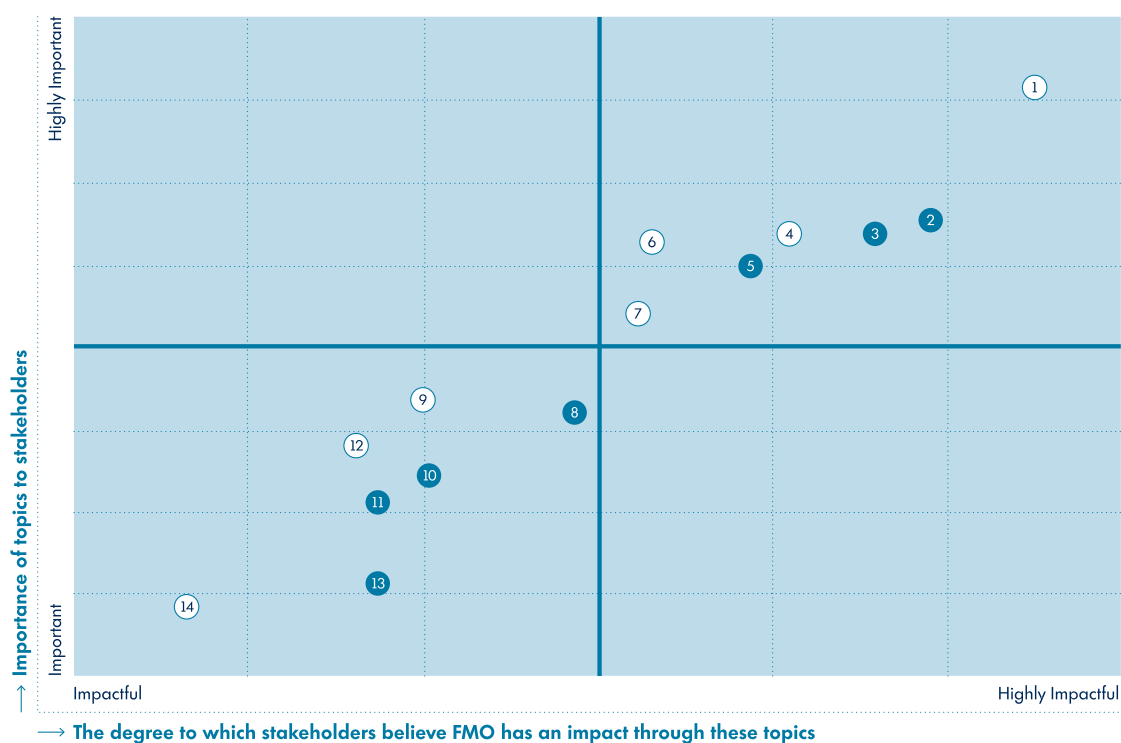
NGOs and other stakeholders have asked us to better explain our investment process and how we safeguard free prior and informed consent (FPIC) and land rights. These are recurring topics we address during scheduled meetings. In September, we organized a human rights exchange for a broad range of stakeholders, including NGOs, to discuss dilemmas in an open and transparent setting. FMO was part of the Dutch Banking Sector Agreement (IMVO Covenant, 2017-2019) that encourages Dutch banks and NGOs to jointly translate the banks' commitment to United Nations Guiding Principles on Business and Human Rights (UNGPs) into concrete actions.

In the context of the Dutch Banking Sector Agreement (DBA), FMO contributed to the working groups on Enabling Remediation, on the sector analysis of the palm oil value chain and on Increasing Leverage. As part of the latter, several NGOs, with support from FMO and the Dutch Ministry of Foreign Affairs, organized a learning session on shrinking civic freedoms and the position of human rights defenders. Publications of the working groups are available on the [DBA website](#).

Moreover, we engage with NGOs in our investment process when looking for expertise on human rights in local contexts. Unfortunately, for a few projects in our portfolio we identified human rights violations despite our best efforts to support clients to improve their ESG (environmental, social and governance) performance in line with international standards. In these cases, NGOs hold us accountable. We work with our clients and other stakeholders to overcome these issues. In this annual report, we included an overview of high ESG risk clients that are currently not adequately managing their ESG risks or are materially behind schedule, as well as case studies of projects where human rights were violated.

Material topics

In 2018, we carried out a materiality survey following the standards of the Global Reporting Initiative. This resulted in 14 topics, ranked by FMO's key stakeholders in order of importance, and degree to which they believed FMO had an impact.¹ The top right quadrant represents material topics that are perceived as highly important and impactful.



Categories:

- Responsible & Impact Investing
- FMO Operations

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| <ol style="list-style-type: none"> 1. Development impact through responsible investing 2. Financial sustainability and risk appetite of FMO 3. Transparency & accountability of FMO's activities 4. Environmental footprint of FMO's investments 5. Business integrity of FMO 6. Promote ESG best practices 7. Human rights | <ol style="list-style-type: none"> 8. Client satisfaction 9. Responsible taxation of FMO's investments 10. Environmental impact of FMO's operations and business travel 11. Employee engagement at FMO 12. Role in public debate 13. Data protection and privacy 14. Animal welfare |
|--|--|

¹ A more detailed explanation of the assessment is included in 'How we report'. For a full list of topics and subtopics please see the GRI general disclosures table.

In 2019, we concluded – based on stakeholder dialogue and desk research – that these topics were still most relevant to our stakeholders and therefore material for FMO. Although overall the materiality matrix shows the same material topics as last year, for FMO's Management Board a few topics have become more material. First, the organization invested heavily in Know Your Customer (KYC) procedures. These should ensure that FMO does not facilitate corruption, organized crime, or terrorism. Following an investigation by the Dutch Central Bank in 2018, we realized we needed to increase our efforts and attention towards our KYC approach and other compliance matters. KYC is included as a sub-topic under the material topic 'business integrity'. In chapter Our performance we explain our approach to business integrity and KYC. Second, FMO has received increased scrutiny from stakeholders and the media with respect to ESG, including human rights. As a result, we have increased our efforts to improve internal management information and external transparency on ESG as you will read in this report. Third, we welcome the increased attention from investors towards climate-related matters. In the Our Commitments chapter we explain our approach in relation to the recommendations of the Task Force for Climate-related Financial Disclosure (TCFD).

Our materiality assessment shows that our strategy and reporting continue to meet stakeholders' expectations. There is consensus among our stakeholders on the importance of sustainable economic growth, reducing inequalities (both part of Development impact through responsible investing), and climate action (Environmental footprint of FMO's investments). Furthermore, our stakeholders confirm the importance of financial sustainability and risk appetite. A strong balance sheet and profitable operations allow us to further increase our investments for impact. They also allow FMO to act as a catalyst by attracting partners to co-finance our businesses and projects. Finally, the results confirm that being accountable and transparent is conditional to our role as a development bank.

Stakeholder engagement on material topics

The following table provides an overview of our key stakeholders, which topics are most material to them, how we engage with each and how this engagement contributes to realizing our long-term objectives.

Stakeholder group	Most material topics	Frequency and means of engagement	How the relationship contributes to FMO's long-term objectives
Clients - Our clients are companies, financial institutions, private equity fund managers, and infrastructure and energy project developers in developing countries.	Development impact Financial sustainability Client satisfaction	Frequent business meetings, specific events or conferences	We actively seek clients and projects with high potential for positive impact in terms of economic growth, social progress and environmental sustainability. We support our clients to realize their positive impact.
State of the Netherlands - We were founded as a public-private partnership with 51% of our shares held by the State of the Netherlands, through the Ministry of Finance.	Development impact Financial sustainability Transparency and accountability	Regular meetings with Ministry of Finance and Ministry of Foreign Affairs	As part of the Dutch government's international development agenda, our mandate is to promote private sector development in developing countries. The Dutch government also guarantees our financial commitments and entrusts us with the management of a number of government funds that have strong synergies with the overall FMO strategy.
Shareholders - The remaining 49% of our shareholders' capital is provided by commercial banks, trade unions and other private sector parties.	Financial sustainability Development impact Transparency and accountability	Annual General Meeting of shareholders	Our shareholders provide the basis for our financial sustainability.
Employees - Includes Directors, Management Board and Executive Committee.	Development impact Financial sustainability Environmental footprint of FMO's investments	Scheduled works council meetings, department meetings, town hall meetings	Our employees and management contribute to the realization of FMO's objectives. Directors and managers are involved in annual strategy review to ensure we continue to realize our mission.

Stakeholder group	Most material topics	Frequency and means of engagement	How the relationship contributes to FMO's long-term objectives
Investors - Includes bond investors, public investors and commercial partners who help us mobilize private capital through syndicated loans, unfunded risk participations or funds advised on by FMO Investment Management, as well as the institutional and private investors that invested in these funds.	Development impact Transparency and accountability Business integrity	Roadshows, frequent meetings	We offer investors access to our expertise on responsible investing in emerging markets while providing our clients with increased access to long-term financing and diversified lending.
Partner Development Finance Institutions (DFIs) - Includes international financial institutions and multilateral banks.	Development impact Financial sustainability Promote ESG best practices	Scheduled business meetings	Our financing partners co-finance with us and deliver valuable local knowledge about the markets in which we operate.
Non-governmental organizations (NGOs) - Includes international organizations with corporate/local presence that represent environmental and human rights advocates, knowledge centers and banking whistle blowers.	Environmental footprint of FMO's investments Human rights Development impact	Scheduled meetings	Through engaging with NGOs we aim to improve our ESG investment policies and practices. We are stepping up our efforts on the environment through our 1.5 degree pathway, human rights performance standards and venture capital initiatives.
Local communities and clients of clients ¹ - As FMO is active in 91 countries, we work with NGOs to gain deeper understanding of local community needs. Moreover, our clients engage with their stakeholders in accordance with IFC Performance Standards.	Environmental footprint of FMO's Investments Human rights Development impact	Ad hoc meetings	We continue to improve our way of working so that our clients can create jobs (directly and indirectly in the value chain), manufacture products and deliver services in a more environmentally sustainable and socially responsible way. Local communities and clients of clients represent the people who put development impact into action.
Supervisor and regulator - Dutch Central Bank (DNB).	Financial sustainability Transparency and accountability Business integrity	Regular meetings	The Dutch Central Bank supervises that we manage risks in adherence to our risk appetite. A recent example were DNB findings in 2018 regarding our KYC procedures, which have led us to implement improvements. Our In Control Framework ensures continuous measurement and monitoring of the drivers in our risk universe.
Knowledge partners - Universities, NGOs, independent consultants who execute development impact evaluations.	Environmental footprint of FMO's Investments Promote ESG best practices Development impact	Scheduled meetings	Through scheduled consultation, knowledge partners help us develop relevant knowledge in order to finance innovative and impactful projects.

¹ Not included in materiality survey, please refer to How we report

Connectivity table

The table below links the material topics to our key performance indicators, targets and performance.

In € million unless stated otherwise

Mission: We empower entrepreneurs to build a better world Strategy: Be the preferred partner to invest in local prosperity						
Material topics	Contributing to the SDGs	Page nr.	Key performance indicator	2019 performance	2019 target	2018 performance
Development impact through responsible investing	SDG 8	48, 49	Total investment volume	2,857	2,905	2,637
		48	Of which			
	SDG 17	56, 57	For FMO's balance sheet	1,692	1,750	1,873
		55, 56	Public funds	297	195	135
		49, 50	Mobilized funds	868	960	629
SDG 10	57, 58	Reducing inequalities investments (% of total volume)	28%	27%	36%	
			Dutch Business investments	47	100	30
Environmental footprint of FMO's investments	SDG 13	50, 51	Green investments (% of total volume)	34%	32%	36%
Promote ESG best practices	SDG 3, 5, 8, 10, 12, 13, 14, 15	52-54	ESG target performance (% risks managed) ¹	98%	90%	95%
Human rights	SDG 3, 5, 8, 10, 12, 13, 14, 15	54	Number of new admissible complaints received	0		1
		33	Number of investments for which human rights were assessed during due diligence	308		n/a
Transparency & accountability of FMO's activities	n/a	-	Transparency Benchmark (latest score)	76%		191 points (out of 200; TB 2017)
Business integrity of FMO	n/a	61	Number of alleged employee-related integrity issues	2		0
		60, 61	Number of alleged client-related integrity issues reported to Compliance	21		26
		60, 61	Number of alleged client-related integrity issues closed by Compliance	9		18
Financial sustainability and risk appetite of FMO	n/a	109	Profit & Loss account			
		109	Operating income	330	370	297
		109	Operating expenses	-130		-107
		109	Impairments	-92		-23
		109	Net profit	120		151
		160	Underlying net profit	96		108
		108	Balance sheet			
		181	Net loans	5,031		4,771
		139	Equity investment portfolio (incl. associates)	2,165		1,797
		108	Total assets	9,412		8,490
		108	Shareholders' equity	3,127		2,984
		143	Debentures & notes	5,808		5,140
		-	Ratios at end of period			
		179	Non Performing Loans (NPL %)	9.8%		8.4%
108	Return on average shareholders' equity (%)	3.9%		5.2%		
108	Return on assets (%)	1.3%		1.8%		
174	Common Equity Tier 1 (CET 1 %)	21.8%		24.6%		
Other		58	Client satisfaction (NPS score)	75.5	70.0	69.5
		59	Employee engagement (score)	7.4	8.0	7.4
		61	Realized delivery on project portfolio (%)	87%	85%	n/a

¹ Scope of the target is limited to a sub-set of 40 new clients with an A or B+ E&S risk category or those supported by a corporate governance specialist that were contracted in 2017 or 2018, where FMO was in the lead.

² In 2019 we introduced this new human rights indicator. For years we have performed E&S due diligence, including human rights, for all high E&S risk clients. At year-end 2019, for 308 clients in our portfolio E&S due diligence including human rights was performed. Of these 308 clients, the majority was already in our portfolio per year-end 2018. We are unable to differentiate the comparative figure for the portfolio per year-end 2018. Please refer to 'Our investment process' to read how we have strengthened the human rights lens in our due diligence practices in recent years.