Version 1.0 January, 2023

Principal Adverse Impact Statement

FMO Privium Impact Fund

Purpose & scope

This is the Principal Adverse Sustainability Impacts Statement of FMO Privium Impact Fund effective as of **January 1, 2023**, as per SFDR article 4.

This statement provides insights into the sustainable investment objective of the fund. This is not marketing material. This statement is required by law and is intended to give an overview of how each Principal Adverse Impacts (PAI), mandatory and voluntary will be addressed and reported on by ultimo June 30, 2023.

CONCERNS THE CLASSES OF UNITS

CLASS A
ISIN CODE: NL0011765904
VALOREN: CH31830495
BLOOMBERG: FPIFAUA NA

CLASS B -A
ISIN CODE: NL0013691314
VALOREN: 49111857
BLOOMBERG: FPIFBAE NA

CLASS B -D
ISIN CODE: NL0011765912
VALOREN: CH31833958
BLOOMBERG: FPIFBED NA

CLASS F
ISIN CODE: NL0012135750
VALOREN: CH035027128
BLOOMBERG: FPIFFEA NA

CLASS I -A
ISIN CODE: NL0012818223
VALOREN: CH40798031
BLOOMBERG: FPIFIEA NA

CLASS I -D
ISIN CODE: NL0012939029
VALOREN: CH42104370
BLOOMBERG: FPIFIDE NA

CLASS U -A
ISIN CODE: NL0013380173
BLOOMBERG: FPIFUAU NA

CLASS U -D
ISIN CODE: NL0013380181
BLOOMBERG: FPIFUDU NA

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Summary

FMO Privium Impact Fund considers the principal adverse impacts (PAI) of its investment decisions on sustainability factors as part of its investment due diligence process and procedures. The present statement contains the aggregated principal adverse impacts on sustainability factors of the Fund's underlying investments.

This statement concerns the reference period of **1 January 2022 to 31 December 2022**. Initial reporting on the PAI metrics will be done in June of 2023 at the latest concerning the same reference period.

The Fund aims to make socially and environmentally responsible investments, hereby aiming to provide investors with an attractive financial return while at the same time endeavouring to create impact in Developing and Emerging Economies. Impact is measured according to FMO's impact methodology. In the context of the Sustainable Finance Disclosure Regulation ("SFDR"), the Fund is classified as an Article 9 Fund. The related pre-contractual disclosure is available on the Fund's website , the website of the Fund Manager and as an annex to the Fund's prospectus.

While the Fund strives to achieve positive impact, it is part of the Fund's investment approach to aim to mitigate the negative impacts of the investment decisions on sustainability factors. These negative impacts are also called adverse impacts, whereby the most significant adverse impacts are referred to as principal adverse impacts by the SFDR. These impacts can occur in different areas, such as related to environmental, social and employee matters, human rights, corruption or bribery matters. The Fund aims to address, by avoiding or reducing, principal adverse sustainability impacts when investing.

In this statement we provide more information on the Fund's overall approach to identifying, prioritising, and addressing principal adverse impacts of its investment decisions on various sustainability factors. In line with the Fund's strategy, FMO is responsible for sourcing the investments as well as the required analysis of PAI, the collection of related data and engagement. This means that this statement contains mainly references to FMO materials. Prior to making its investment decision, the Fund's investment committee reviews FMO's analysis on the principal adverse impacts of the proposed investment as well as any mitigating factors and engagement actions for alignment with its own policy on principal adverse impacts. FMO's overall approach and process is reviewed annually by the Fund Manager.

The statement consists of the following four sections:

A. Description of principal adverse sustainability impacts
   This section describes the principal sustainability indicators related to principal adverse impacts on sustainability factors and how the Fund intends to report on each indicator. This is done by way of an explanatory matrix contacting both the mandatory and voluntary PAI the Fund intends to report on, as well as how each specific indicator is embedded in FMO's data collection and monitoring process.

B. Description of policies to identify and prioritise principal adverse sustainability impacts

This section provides information about the Fund's approach to Impact investing and relevant policies on the identification and prioritisation of principal adverse sustainability impacts and indicators. As the Fund is an impact fund, sustainability indicators, factors and risks are considered even before investing, and throughout the investment process. All investments made by the Fund are screened against sustainability factors and are linked to positive and negative investment impacts and indicators to ensure that our investments contribute to positive change.

Given the diverse nature of the Fund's investments, PAI are prioritized on the individual project level. For each investment, FMO assesses the environmental, social and governance risks, and identifies where improvements can and should be made. If deemed necessary, an Environmental and Social Action Plan (ESAP) is agreed upon before contracting and becomes part of the financing conditions which are legally binding. Compliance with and material completion of the ESAP is considered by the Fund before making an investment decision.

C. Engagement policies

The Fund does not directly engage with an underlying borrower or in any industry or public policy. Engagements are carried out by FMO on behalf of the Fund. FMO starts engaging with a borrower at the earliest phase and will include improvements on environmental, social and governance issues as a conditional in the contracting documentation when applicable.

FMO has implemented multiple management tools for tracking ESG performance. The principal adverse impacts are considered in each stage of the engagement process and inform the applicable engagement track and subsequent progress monitoring. The Fund considers new investments only when progress has been demonstrated sufficiently on the engagement issues and therefore does not do significant harm to an environmental or social objective

D. References to international standards

The Fund's ESG policy requires that all borrowers comply with FMO's responsible finance approach. This defines the exclusion of certain consumer finance activities, and the adoption of the Borrower Protection Principles (CPPs) which define the minimum standards that end-borrowers should expect to receive when doing business with an entity providing financing to natural persons. In addition, FMO upholds the following standards, amongst others as applicable: IFC Performance Standards, World Bank Group Environmental Health and Safety Guidelines, Equator Principles, OECD Guidelines on Multinational Enterprises, UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work, UN Principles for Responsible Investment, EDFI Principles for Responsible Financing, SMART Campaign Borrower Protection Principles

A. Description of the Principal Adverse Impacts considered by the FMO Privium Impact Fund

The following section describes the principal sustainability indicators related to principal adverse impacts on sustainability factors and how the Fund intents to report on each indicator. The indicators related to principal adverse impacts on sustainability factors, additional indicators the Fund intends to report on as well as how each specific indicator is embedded in FMO's data collection and monitoring process.

It should be noted that as all of FMO's and thus the Fund's investments are made outside the EU in emerging and frontier markets, none of the counterparties are in scope of the EU Sustainable Finance Regulation and thus are not required to disclose information. All current PAI reporting is based on what FMO is already able to record or model through existing methodologies and processes. These PAIs are also the indicators FMO already considers most material for its investments. They have in most case already been gathered before the SFDR was created and commonly provide insights on how individual investments progress.

Even though the gathering of the data and/or information is challenging, FMO and the Fund fully underscore the intentions of the EU regulation, progress is being made to gather more data, or create modelling where there are currently non sufficiently reliable models available.

As this is the Fund's inaugural PAI statement, no calculations or historical comparisons are available. Initial reporting on the PAI metrics will be done in June of 2023 at the latest concerning the 1 January 2022 to 31 December 2022 reference period.

In below overview distinction is made between direct and indirect borrowers or financing. All borrowers in the Renewable Energy and Agribusiness, food and water sectors are considered as direct investments. Financial institutions are considered as indirect, thus indirect financing, as many of the PAIs refer to their portfolio vs their own organisation.

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Adverse sustainability indicator		Metric	Description of policy, measurement and/or intentions
GHG Emissions	1. GHG Emissions	Scope 1 GHG emissions	Amount of greenhouse gases (GHG) emitted through the organisation's operations from direct emissions sources during the reporting period. The GHG Protocol defines direct emissions as emissions from sources that are owned or controlled by the reporting entity. Scope 1 emissions are calculated by dividing the current value of investment by the investee company's enterprise value multiplied with GHG emissions from the investee company. The usage of enterprise value to calculate the "fair share" or "attributed amount" is in line with the PCAF standard. For non-listed companies, the sum of total debt and equity is used to calculate the total value. FMO uses the Joint Impact Model (JIM) to calculate GHG emissions. JIM is a publicly available model, which enables the quantification of indirect jobs, value added, and greenhouse gas (GHG) emissions related to investments of financial institutions with operations in developing countries such as FMO. Using input data such as revenue and power production from investment portfolios, JIM enables users to estimate financial flows through the economy and its resulting economic (value added), social (employment) and environmental (greenhouse gas emissions) impact.
		Scope 2 GHG emissions	Amount of greenhouse gases (GHG) emitted through the organisation's consumption of purchased electricity, heat, or steam during the reporting period.
		Scope 3 GHG emissions	Amount of greenhouse gases (GHG) emitted by the organisation's suppliers and suppliers of suppliers during the reporting period, except from direct energy providers (i.e. scope 2).
		Total GHG emissions	Total of scope 1, scope 2 and scope 3 emissions.

	2. Carbon Footprint	Emissions of investee companies expressed as tCO2/€M invested	The carbon footprint are emissions expressed as tonnes of scope 1, 2 and 3 emissions per EUR million invested (tCO2/€M). FMO uses the Joint Impact Model (JIM) to calculate the carbon footprint of investee companies.
	3. Green House Gas intensity	GHG intensity of investee companies	FMO uses the Joint Impact Model (JIM) to calculate GHG intensity of investee companies.
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	While FMO applies a transition period, the Fund does not directly invest in loans to any form non-renewable energy project or company. With respect to FMO's indirect financing through Financial Institutions, FMO can provide loans to banks and non-bank financial institutions that provide loans to coal-fired power projects, coal mines and dedicated thermal coal transport/infrastructure.
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage	Production: FMO monitors energy production from its direct investments/investee companies in the (renewable) energy sector. FMO currently does not monitor renewable energy production supported by the financial institutions it finances. The Fund does not have direct exposure to companies or projects in non-renewable energy production. Consumption: FMO currently does not administer the energy consumption of its borrowers. FMO intends to use the JIM for energy consumption and intends to start data collection.
	6. Energy consumption intensity per high	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	Currently, FMO cannot report on this indicator as energy consumption by FMO's investee companies is currently not part of FMO's core set of indicators. FMO intends to use the JIM for energy consumption and intends to start data collection

	impact climate sector		
Biodiversity	7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas	On biodiversity, FMO upholds IFC Performance Standard 6 on biodiversity and living natural resources. Prior to contracting, all direct investments are screened and assessed for IFC PS 6. If IFC PS 6 is triggered, the E&S risk category becomes A/B+ and a SIS tracking sheet is prepared.
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	FMO's data collection is based on the World Bank's Environment, Health, Safety (EHS) Guidelines. Although this is best practice in emerging markets, these guidelines do not provide data as required by the SFDR. Therefore, FMO cannot report hazardous waste generated by investee companies now. FMO will engage with borrowers to explore possibilities for reporting on this indicator. When FMO is able to report, so will the Fund start reporting on this indicator.
Waste	9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average	FMO's data collection is based on the World Bank's Environment, Health, Safety (EHS) Guidelines. Although this is best practice in emerging markets, these guidelines do not provide data as required by the SFDR. Therefore, FMO cannot report hazardous waste generated by investee companies now. FMO will engage with borrowers to explore possibilities for reporting on this indicator. When FMO is able to report, so will the Fund start reporting on this indicator.

Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	FMO is adopter of the OECD Guidelines for Multinational Enterprises. Violations of OECD Guidelines cover Disclosure, Human Rights, Employment and Industrial Relations, Environment, Combating Bribery, Bribe Solicitation and Extortion, Consumer Interests, Science and Technology, Competition and Taxation. Borrowers are contractually obliged to report violations. In addition, violations are reported by NGOs. Furthermore, FMO is considering a specialized third party since violations are unlikely to be self-reported by FMO borrowers. The third party's results will be manually complemented with FMO's own monitoring information where appropriate.
	11. Lack of processes and compliance mechanisms to OECD Guidelines for Multinational Enterprises monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	FMO's external policy commitments include the IFC Performance Standards, the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. Having an Environmental & Social (E&S) Management System (including a Grievance Mechanism) is a requirement under the mentioned policy commitments. FMO has taken a risk-based approach to implement policy commitments in the portfolio. As of today, relevant monitoring information is recorded in the Sustainable Information System (SIS) for borrowers with a high ESG risk (direct category A, B+ and indirect category A). SIS records a qualitative analysis of the E&S Management System, including the External Grievance Mechanism of high-risk borrowers at the time of onboarding and periodic reviews. FMO's Sustainability Information System (SIS) records a qualitative analysis of the E&S Management System, including the External Grievance Mechanism of high-risk borrowers at the time of onboarding and periodic reviews.

	12.Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	As FMO collects data on number of male and female employees and employee wages but not wages of male and female employees separately, FMO cannot report the unadjusted pay gap. FMO is discussing this topic for alignment and progress with other European Development Finance Institutions (EDFIs). FMO has committed to gender equality in its Sustainability Policy, which is its leading policy instrument in guiding positive impacts on environmental, social and governance issues. Assessment and management of gender impacts and risks are guided by the IFC Performance Standards. Performance Standard 2 requires investee companies to ensure non-discrimination and equal employment opportunities (including pay) and the occupational health and safety of both women and men.
	13. Board gender diversity	Female board members expressed as a percentage of all board members.	FMO has committed to gender equality in its Sustainability Policy, which is its leading policy instrument in guiding FMOs positive impacts on environmental, social and governance issues. Assessment and management of gender impacts and risks are guided by the IFC Performance Standards. Performance Standard 2 requires investee companies to ensure non-discrimination and equal employment opportunities and the occupational health and safety of both women and men. To contribute positively to the inclusion of women as participants in the economy, FMO proactively seeks investments that support women as entrepreneurs, reach women as end-users of goods and services and include women in the labour market. Additionally, FMO supports initiatives and networks for women in leadership positions, such as the Global Banking Alliance for Women, and are actively seeking opportunities to consider female candidates to nominate to the Boards of investee companies.

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	14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	Following FMO's exclusion list criteria, FMO will not finance any business or trade involved in weapons and munitions if these form a substantial part of a company's primary operations, or a financial institution, investment fund or company's financed business activities. "Substantial" means more than 10 % of a financed institution's/company's consolidated balance sheet or earnings. For Financial Institutions, "Substantial" means more than 10% of a Financial Institution's underlying portfolio volume.
	15 -18	PAIs related to Sovereigns and Supranational or Real Estate	PAIs 15 to 18 are non- applicable to the portfolio of the Fund as there are no investments in this spectrum
Voluntary PAI 1	Rate of accidents	Number of accidents	Borrowers are contractually obliged to report serious incidents such as fatalities, serious injuries and accidents. In addition, serious incidents are reported by NGOs and via FMO's Independent Complaint Mechanisms. The Serious Incidents Register is used to monitor serious incidents across FMO's portfolio. In all such cases, a root cause analysis (RCA) is requested from the borrower in order to promote learning and prevention. FMO may also conduct portfolio level RCAs to improve processes with respect to borrower incident management.
Voluntary PAI 2	Emissions of ozone-depleting substances	Tonnes of ozone depleting substances equivalent per million EUR invested, expressed as a weighted average	Following FMO's exclusion list criteria, FMO will not finance any business or trade involved in ozone depleting substances.

B. Description of policies to identify and prioritise principal adverse impacts on sustainability factors

This section provides information about the Fund's approach to Impact investing and relevant policies on the identification and prioritisation of principal (adverse) sustainability impacts and indicators. As the Fund is an impact fund, sustainability indicators, factors and risks are considered even before investing, and throughout the investment process. All investments made by the Fund are carefully screened against sustainability factors and are linked to positive and negative investment impacts and indicators to ensure that our investments contribute to positive change

Identifying principal adverse impact

The Fund first considers principal adverse impacts of its investment decisions on sustainability factors as part of its investment due diligence process and procedures. For sustainable investments this means ensuring that the investments do no significant harm to any environmental or social objective. By mapping the Principal Adverse Impact framework to FMO's extensive analysis of local and international environmental, social and human rights regulations, each investment is thoroughly screened on potential significant harm and excluded from FMO's portfolio and therefore FPIF's portfolio if the criteria are not met.

FMO requires, that all borrowers comply with applicable environmental, social and human rights laws in their home and host countries. In addition, FMO upholds a number of (inter)national standards as included in FMO's Sustainability Policy and its Sustainability Policy Universe.

With respect to the management of environmental and social impact, the primary standards that guide FMO's relationship with borrowers are the IFC Environmental and Social Performance Standards and the associated World Bank Group Environmental Health and Safety Guidelines. They cover the larger part of the ESG requirements in the OECD Guidelines on Multinational Enterprises, which also reference the UN Guiding Principles on Business and Human Rights.

Subject to its applicability criteria, FMO also applies the Equator Principles which are based on the IFC Performance Standards. The IFC Performance Standards guide FMO's human rights due diligence with respect to borrowers. FMO requires borrowers to assess the likelihood and severity of impact on human rights as part of their assessment of social and environmental impact, and to implement mitigation measures in line with the IFC Performance Standards. As part of the Sustainability Policy Universe FMO has published several position statements including ones on Human Rights, and Gender which aim to further clarify FMO's views and actions.

Full details are available in the ESG Policy published as per 1 January 2023[link]. The Fund Manager is the owner of this policy and reviews it at least annually. In addition, the Fund Manager reviews FMO's related processes and policies to identify and prioritize principal adverse impacts as well as their application in Fund investments on an annual basis.

Prioritizing principal adverse impact

For each investment, FMO assesses the environmental, social and governance risks, and identifies where improvements can and should be made. If deemed necessary, an Environmental and Social Action Plan (ESAP) is agreed upon before contracting and becomes part of the financing conditions which are legally binding. Compliance with and material completion of the ESAP is considered by the Fund before making an investment decision.

The PAIs on which the Fund will be able to report on during the first reporting year, are also the PAIs which are deemed to be most material. Next to these, FMO is making progress towards gathering more data points which are also relevant for example for capturing climate risk and its path towards Paris alignment. The voluntary PAIs are selected based on the same principle: these are already deemed material topics by FMO and data and/or information is gathered. If data is not directly available from the borrower, information may be modelled for example via the Joint Impact Model (JIM), or information may be gathered via third party providers. In section A of this document per PAI the data source is explained and reference, including weblinks, is made where necessary to underlying models, methodologies or third-party providers (when available).

The JIM measures indirect jobs supported of the investments and the footprint effects of such investments. It calculates how a capital investment is expected to influence production, economic growth, jobs and greenhouse gas emissions in a country. The JIM uses macroeconomic and greenhouse gas emission databases, giving fair estimations – based on historic country averages – of the impact of FMO's investments on the economy and GHG emissions levels of a country. The JIM is a portfolio-level tool that relies on modelling, using statistics reflecting sector and country averages. Impact results from the JIM can be considered robust at the portfolio level.

C. Engagement policies

Borrower engagement

FPIF itself does not directly engage with an underlying borrower. Engagements such as these are carried out by FMO (as representative of FMO Investment Management and the Fund).

As described in FMOs Annual Reports, FMO has implemented five management tools for tracking ESG performance. The principal adverse impacts are considered in each stage of the engagement process and inform the applicable engagement track and subsequent progress monitoring:

1. The **ESG performance target** applies to the high-risk portfolio (‘target list’) and aims to have at least 90% of high and medium risks managed at a satisfactory level.
2. For borrowers with contractually agreed **Environmental and Social Action Plans** (ESAPs), FMO monitors progress towards ESAP implementation to ensure that FMOs investments comply with FMOs policies and standards within a reasonable time-period.
3. All high and medium E&S risks of high-risk borrowers, which are not yet managed at a satisfactory level, are included in **the E&S Management gap table**. By identifying gaps, FMO is able to focus FMOs attention on engaging with FMOs borrowers to resolve these.
4. The **Serious Incidents Register** is used to monitor borrower reports of adverse events across FMOs portfolio such as fatalities, serious injuries and environmental accidents. In all such cases, a root cause analysis (RCA) is requested from the borrower in order to promote learning and prevention. FMO may also conduct portfolio level RCAs to improve FMOs processes with respect to borrower incident management.
5. FMOs **Independent Complaint Mechanisms** enables the resolution of disputes, organizational learning and the improvement of FMOs current and future operations.

FMO accepts that when it first starts working with a borrower, the ESG performance may be below standard. FMO does, however, expect performance to improve over time in line with agreed action plans. Most borrowers show good progress towards these plans. FMO works with these borrowers to address such gaps, in order to fully realize their positive impact potential. The Fund accepts new participations in FMO loans when progress has been demonstrated sufficiently on the most material PAIs and therefore does not do any significant harm to an environmental or social objective.

In case insufficient progress is ascertained, FMO will attempt to bring the borrower back on track within a reasonable timeframe. In some instances, however, E&S impacts are irreversible. In other cases, a management gap may be the result of a bigger (financial) problem the borrower is facing which requires the restructuring of a loan or a full exit.

Beyond financing, FMO also offers advisory services and technical assistance to support borrowers in building profitable and sustainable businesses. This consists of support in the design and implementation of ESG risk mitigation measures, master classes and events, capacity development and sector initiatives that enhance ESG industry standards.

Data received by FMO from its borrowers is stored in a dedicated Sustainability Information System or in the Serious incidents Register. Reporting is based on the data and information stored in these systems. The Joint Impact Model is used to calculate the Fund's attainment of its sustainable objectives as well as its progress on the principal adverse indicators and is based on data available in the Sustainability Information System or otherwise modelled where specific data is not (yet) available. The JIM methodology is publicly available via its dedicated website. In the Sustainability Information System adherence to the exclusion list is also registered as well as progress on any potential ESAP.

Industry and Public Policy Engagement

FPIF itself does not directly engage in any industry or public policy engagement. Engagements such as these are carried out by FMO (as representative of FMO Investment Management and the Fund).

FMO works closely with other Development Finance Institutions (DFIs) to ensure ESG approaches are more harmonized. Greater harmonization creates a level-playing field, helps to create greater impact and leads to efficiencies for borrowers working with multiple DFIs. The various European Development Financial Institution (EDFI) harmonization work streams range from topics on how to include the Fossil Fuels exclusions, EU Sustainable Finance Regulation effects and the update of the Direct Investments E&S harmonized standards.

Furthermore, FMO is a member or signatory of many industry initiatives or sector organisations for the same purpose: to enhance harmonization and find solutions for often challenging requirements for the markets in which it operates. Industry organisations range from the Nederlandse Vereniging van Banken (NVB), the Global Impact Investing Network (GIIN), the Partnership for Carbon Accounting Financials (PCAF), to the UNEP FI / EBF Working Group on Banking and Taxonomy. A comprehensive list if made available via the FMO Annual Report (2021 report, page 97). The FMO Annual Report also includes examples of topics addressed. In the 2021 report, FMO stated it participated in various EDFI harmonization work streams, including the Fossil Fuels exclusions and the update of the Direct Investments E&S harmonized standards. Furthermore FMO worked closely with other EDFIs towards improving alignment on human rights DD and it has been an active member of the EDFI Human Rights Working Group.

D. Reference to international standards

The Fund’s ESG policy aligns with FMOs policies and procedures in full. The FMO Sustainability Policy formulates that FMO requires all borrowers comply with applicable social and human rights laws in their home and host countries. FMO’s responsible finance approach defines the exclusion of certain consumer finance activities, and the adoption of the Borrower Protection Principles (CPPs) which define the minimum standards that end-borrowers should expect to receive when doing business with an entity providing financing to natural persons. In addition, FMO upholds the following standards, including in its own operations, as applicable:

- IFC Performance Standards
- World Bank Group Environmental Health and Safety Guidelines
- Equator Principles
- OECD Guidelines on Multinational Enterprises
- UN Guiding Principles on Business and Human Rights
- ILO Declaration on Fundamental Principles and Rights at Work
- UN Principles for Responsible Investment
- EDFI Principles for Responsible Financing
- SMART Campaign Borrower Protection Principles

With respect to the management of social impact, the primary standards that guide FMO’s relationship with borrowers are the IFC Environmental and Social Performance Standards and the associated World Bank Group Environmental Health and Safety Guidelines. They cover the larger part of the ESG requirements in the OECD Guidelines on Multinational Enterprises, which also reference the UN Guiding Principles on Business and Human Rights. Subject to its applicability criteria, FMO also applies the Equator Principles which are based on the IFC Performance Standards.

The IFC Performance Standards guide FMO’s human rights due diligence with respect to borrowers. FMO requires borrowers to assess the likelihood and severity of impact on human rights as part of their assessment of social and environmental impact, and to implement mitigation measures in line with the IFC Performance Standards. In case environmental, social or human rights impacts are identified that the IFC Performance Standards do not sufficiently address, FMO will identify and agree on mitigants by referring to the other standards above as relevant.

FMO Position Statements formulate FMO’s choices in relation to a societal issue. These position statements further define what FMO will do, in relation to for example gender or human rights. With these Position Statements FMO further clarifies how it approaches its social responsibility.

Pursuant to Dutch law and regulations, FMO's investee companies – including their owners, directors, managers, and other key staff – need to comply with FMO's policies on business integrity and anti-money laundering. Guided by the OECD Convention on Combating Bribery and the UN Convention against Corruption, FMO maintains a zero-tolerance policy regarding bribery and corruption. FMO's Know Your Borrower (KYC) Policy describes these policies.

Exclusion criteria

In addition to eligibility criteria, the Fund also applies FMO's exclusion list: FMO and its borrowers will not finance any activity, production, use of, trade in, distribution of or involving:

01 Forced labor or child labor

- Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.
- Persons may only be employees if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

02 Any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as:

- Ozone depleting substances, PCB's (Polychlorinated Biphenyls) and other specific, hazardous
- pharmaceuticals, pesticides/herbicides or chemicals;
- Wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES); or
- Unsustainable fishing methods (e.g., blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length).

03 Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations.

04 Destruction of High Conservation Value areas

Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost. High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance. For more information, please visit the HCV Resource Network.

05 Radioactive materials and unbounded asbestos fibers

This does not apply to the purchase of medical equipment, quality control (measurement) equipment or any other equipment where the radioactive source is understood to be trivial and/or adequately shielded.

06 Pornography or prostitution

07 Racist and anti-democratic media

08 In the event that any of the following products form a substantial part of a company's primary operations, or a financial institution, investment fund or company's financed business activities.

- alcoholic beverages (except beer and wine);
- tobacco;
- weapons and munitions;
- gambling, casinos and equivalent enterprises.

"Substantial" means more than 10 % of a financed institution's/company's consolidated balance sheet or earnings.
For Financial Institutions, "Substantial" means more than 10% of a Financial Institution's underlying portfolio volume. The percentages are on the level of FMO's exposure to the institution or company. The Fund will always hold a significantly smaller portion of the loan.

Historical comparisons

The earliest historical comparison will be provided in June 2024.

Integration of Principal Adverse Impact in FMO investment analysis

FMO applies an integrated process of project sourcing, financial analysis, ESG analysis, alignment with impact targets, minimum criteria, governance controls and engagement. During this process FMO considers the level at which the borrower can be considered sustainable and whether there are any minor or significant gaps. If material gaps are identified ESG conditions may be contractually agreed upon, for example in an Environmental and Social Action Plan. In section A a more detailed description of each PAI is provided.

Process

1. **Borrower selection:** Each new project needs to contribute to at least one of the three key SDGs FMO focusses on. The project and/or business is filtered through FMO's country screening, exclusion list and the viability of the project and/or the business is investigated. The financing is than checked for its ' additionality', meaning that FMO can provide resources and share best practices that are critical for sustainable development and otherwise would not have been available to the company or project.

2. **Clearance in principle:** Here the initial assessment of risks and opportunities is completed. This step includes an initial Environmental and Social review to flag any serious risks or significant harm to stakeholders or the surrounding environment. These standards are based a.o. on the IFC Performance Standards and ILO labor standards. This includes freedom from forced and child labor, freedom from discrimination at work, freedom of association and the right to collective bargaining. Furthermore, a Know-Your-customer assessment is completed to ensure that the borrower complies with anti-money laundering, anti-corruption and anti-terrorist financing regulations. During this step of the investment process the governance structure is also assessed.

3. Due Diligence: FMO performs an on-site visit, including visits to key stakeholders. ESG improvements are discussed with the borrower and a more detailed human rights risk assessment is conducted as informed by the results from step 2. This includes on-the-ground research and consultation with local civil society.

4. **Decision, disclosure and disbursement:** After investment approval, FMO discloses proposed investments for 30 days prior to contracting. This gives stakeholders the opportunity to share their concerns and feedback. ESG requirements and conditions are included in the loan documentation to ensure that they are legally binding. Disbursement can than take place upon achievement of the conditions.

5. **Monitoring:** Throughout the lifetime of the investment, FMO monitors performance and progress and works with borrowers to ensure implementation of ESG requirements

Annex I. Reporting template

Indicators applicable to investments in investee companies						
Adverse Sustainability Indicator		Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions				
		Scope 2 GHG emissions				
		Scope 3 GHG emissions				
		Total GHG emissions				
	2. Carbon footprint	Carbon footprint				
	3. GHG intensity of investee companies	GHG intensity of investee companies				
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector				
	5. Share of non-renewable energy consumption	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable				

	and production	energy sources compared to renewable energy sources, expressed as percentage				
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector				
Biodiversity	7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas				
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average				
Waste	9. Hazardous waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average				
	Optional Environmental PAI: Emissions of					

	ozone-depleting substances					
SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTIONAND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises				
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises				

	Guidelines for Multinational Enterprises					
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies				
	13. Board gender diversity	Average ratio of female to male board members in investee companies				
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons				
	Optional Social PAI: Rate of accidents	Number of accidents				