



FMO

Entrepreneurial
Development
Bank

2019

Sustainability
Bonds
Newsletter

Newsletter no.10



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The Sustainability Bonds Newsletter is published annually. It reports on the allocations of projects selected for Green, Social and Sustainability Bonds. It is sent to investors and is made available via [Green Social Sustainability Bonds](#).

Cover image: Orange farmer of Pampa Baja, a producer of fruits, vegetables and milk in Peru. Pampa Baja's operations generate some 1,400 jobs in the Olmos region (Northern Peru) which can reach up to 2,000 in peak season. Agriculture is the main source of income for about 2.4 million families, representing just over 30% of Peruvian households.

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INTRODUCTION

Our strategy

First and foremost, our priority is to achieve higher impact on three core Sustainable Development Goals (SDGs).

Inequality and climate change are monumental challenges and the work that needs to be done in the emerging economies is extensive. But we also feel excitement and optimism. Because the entrepreneurs we partner with are creative; because the countries we operate in are resilient;

and because new technologies are enabling new solutions. We sincerely believe that the world will come together to solve these challenges because doing nothing is not an option. Read more in our recently launched [Annual Report](#).

OUR VISION

We believe in a world in which, in 2050, more than 9 billion people live well and within the means of the planet's resources.

OUR SDGs



OUR MISSION

We empower entrepreneurs to build a better world.

STRATEGIC GOAL

Your preferred partner to invest in local prosperity.

OUR STRATEGY

- Higher Impact Portfolio
- Deeper Relationships
- Higher Productivity

OUR MARKETS

- Agribusiness, Food & Water
- Energy
- Financial Institutions
- Dutch Business



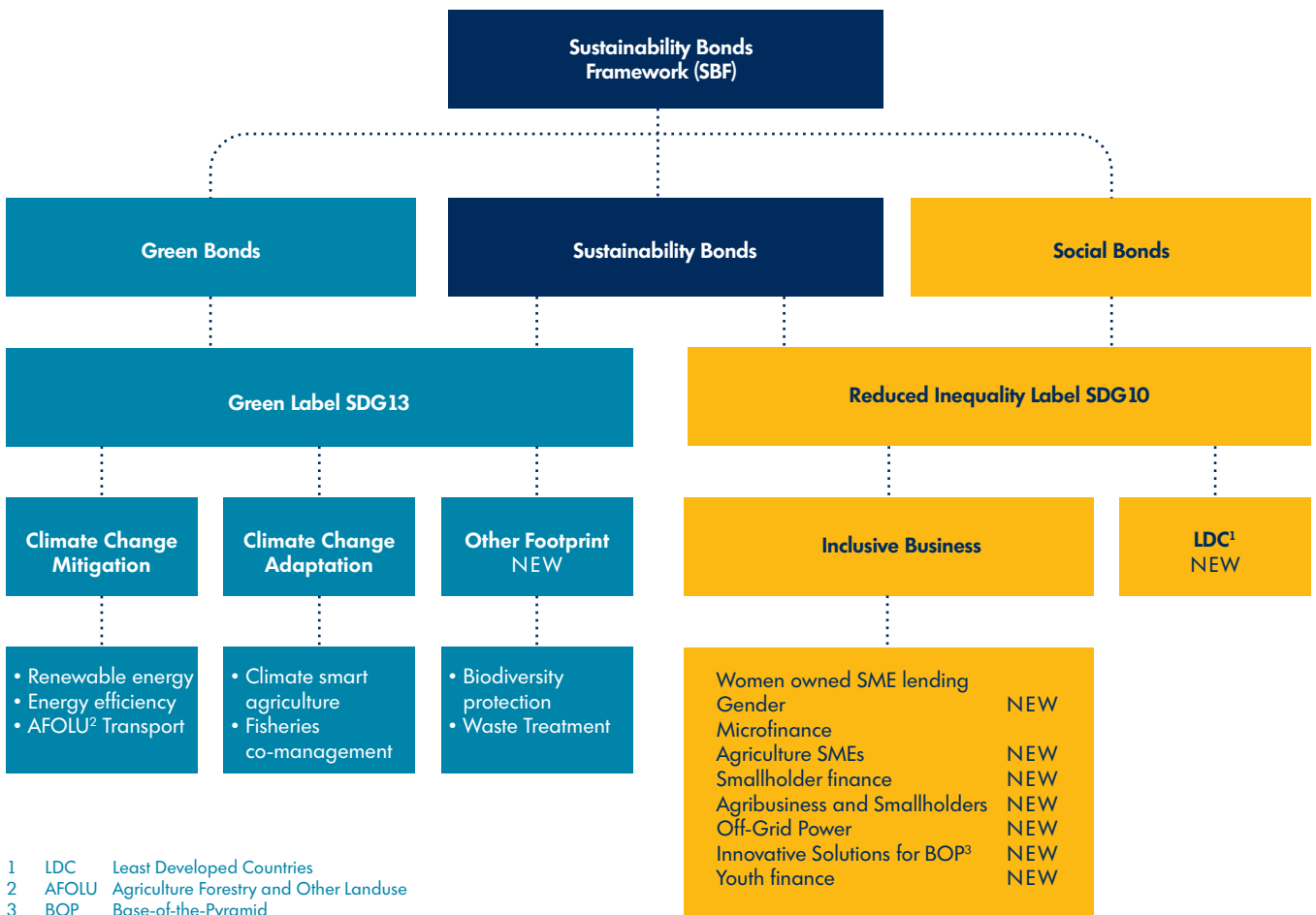
- **Decent work and economic growth (SDG 8):** optimizing the number of jobs supported;
- **Reduced inequalities (SDG 10):** focusing on inclusive finance and least developed countries;
- **Climate action (SDG 13):** growing our "green" portfolio, which is aimed at reducing greenhouse gas emissions, increasing resource efficiency, preserving and growing natural capital, and supporting climate adaptation.

Update Sustainability Bonds Framework

FMO’s [Sustainability Bonds Framework \(SBF\)](#) was updated in December 2018 to (i) include new categories for green and social projects, with corresponding eligibility criteria in the use of proceeds, and (ii) to allow FMO to issue Green Bonds, Social Bonds or Sustainability Bonds to align with FMO’s Strategy. We will use the proceeds to finance, in whole or in part, existing and future projects that have a positive environmental impact and social projects aimed at reducing inequality.

With the issuance of Green and Social Bonds we intend to strengthen the development of the Green and Social Bond market. Each bond provides investors with an opportunity to contribute to FMO green and inclusive finance (see SDG10 p2) in emerging markets, while enjoying the credit quality (AAA) of FMO as an issuer. For example, in addition, investors benefit from an impact return (avoided GHG emissions, jobs supported with FMO’s investments).

SUSTAINABILITY BONDS FRAMEWORK



1 LDC Least Developed Countries
 2 AFOLU Agriculture Forestry and Other Landuse
 3 BOP Base-of-the-Pyramid

The added eligibility criteria (marked with NEW) do not apply retroactively to FMO’s Sustainability Bonds issued under the previous framework, but is applicable to future bonds, and hence only to future investments.

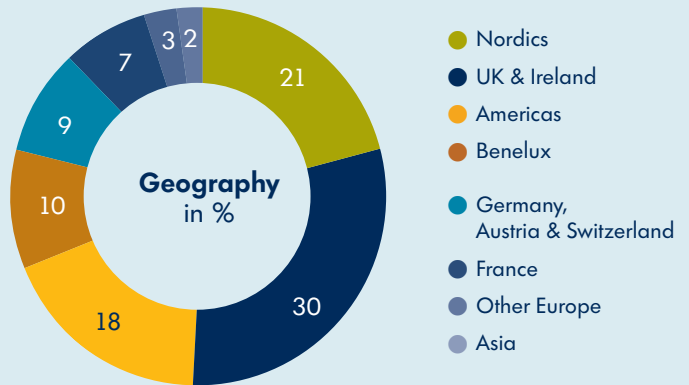
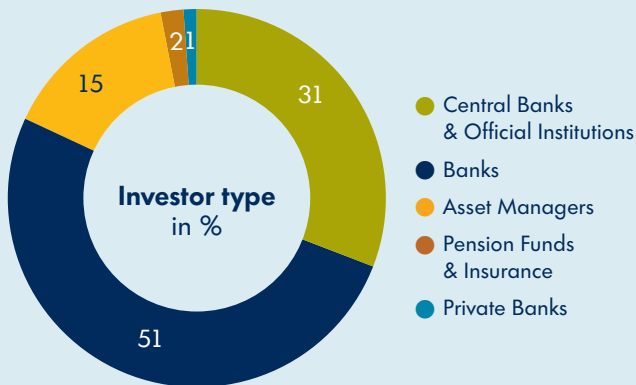
Eligible Reduced Inequality asset categories for future Social and Sustainability Bond assets are aligned. For a further description of the inclusive business categories refer to the [Sustainability Bonds Framework \(SBF\)](#) document.

FMO USD Green Bond February 2019

After having issued EUR 1.8 billion of Sustainability Bonds since 2012, we have launched our first Green Bond on Tuesday 12th February 2019, following the update of FMO's SBF by the end of 2018. Prior to the bond issuance, we hosted a series of investor calls and meetings across Europe, beginning 30th January, to engage with investors and gather feedback on a USD 500 million 5-year Green Bond transaction.

The investor interest was strong, resulting in an order book in excess of USD 700 million in total, with a final spread at mid-swaps plus 17 basis points. The reward for our investor

work was reflected in the transaction's very high quality and diverse orderbook supported by strong demand from green-motivated investors. Bank treasuries represented 51% of allocations, followed by central banks & official institutions (31%), asset managers (15%), insurance companies and pension funds (2%), and private banks (1%). Investors based in the UK & Ireland took 30% of allocations, followed by supportive investors in the Nordics (21%), Benelux (10%), Germany, Switzerland & Austria (9%), France (7%) and other European countries (3%). Offshore US (18%) and Asia (2%) made up the remaining allocations.





Green and Sustainability Bonds outstanding

Since 2012, we have been active in the thematic bond market with the issuance of Sustainability Bonds. FMO has developed a leading role as an established issuer in the Sustainability Bond market, as we have successfully issued three Sustainability Bonds in EUR (€500 million each) and one in SEK (SEK 2.7 billion).

Sustainability Project Portfolio

The Sustainability Bonds allocation report shows that FMO has allocated EUR 1.3 billion to eligible green and inclusive projects in the period November 2012-December 2018, against a total Sustainability Bond outstanding of EUR 1.3 billion. Allocations of foreign currency investments of the eligible project portfolio are converted into EUR at the exchange rate of the reporting date (December 2018). The committed non-disbursed eligible project portfolio equals EUR 117 million as per December 2018.

Green Project Portfolio

FMO has fully allocated its inaugural USD 500 (EUR 441) million Green Bond to eligible green projects contracted during 2018, as illustrated by the Green Bond allocation report. Allocations of foreign currency investments of the eligible project portfolio are converted into EUR at the exchange rate of the reporting date (December 2018). The committed non-disbursed eligible project portfolio equals EUR 252 million as per December 2018.

Yr of Issue	Amount	Tenor	Isin code
2013	EUR 500 mln, 1.25% 13/11/2018 (matured)	5 yr	XS0993154748
2015	EUR 500mln, 0.125% 20/04/2022	7 yr	XS1219963672
2017	EUR 500 mln, 0.125% 01/06/2023	6 yr	XS1622394143
2016	SEK 2,700 mln, 0.75% 29/11/2023	7 yr	XS1527323411
2019	USD 500 mln, 2.75% 20/02/2024	5 yr	XS1953035844

FMO Sustainability Bonds



Industry leading Sustainability Ratings

Sustainalytics

FMO is industry leader based on its overall ESG rating as well as its performance in each of the areas of environmental, social, and governance performance (September 2017).

Oekom

FMO received a rating from the German rating agency Oekom Research that classified FMO as Prime with a C+ score (March 2017).



Member of the Green Bond Principles (GBP)

Reporting

- Use of Proceeds reporting via Sustainability Bonds Newsletter
- FMO joined the International Financial Institutions working group on impact reporting harmonization
- Project disclosure on [FMO world map](#)



External assurance to ensure alignment with Green Bond Principles and industry best practices

Second Party Opinion provided by Sustainalytics:

“FMO Sustainability Bonds Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Bond Guidelines 2018”

Sustainalytics’ review of eligible projects in 2015-2019

- All of the climate change mitigation projects were assessed and all of them meet the eligibility criteria
- All of the other footprint projects were assessed and all of them meet the eligibility criteria
- All of the inclusive finance were assessed and all of them meet the eligibility criteria

FMOs inaugural USD Green Bond is listed on Bloomberg Barclays MSCI Green Bond Index



National pioneer

First Green Bond issuer in the Netherlands



Partnership

Partnership FMO and Climate Bonds Initiatives





Financing India's solar energy revolution

India faced demand for electricity that outstripped its generation capacity; the country relied heavily on imported coal, and industry and consumers still suffered from frequent power outages. There was a lack of long-term funding for clean energy projects, including rooftop solar panels and wind power, and around a quarter of the population – 300 million people – had no access to electricity.

“It has created cash flows to communities that previously lacked many basic resources.”

The Indian government remains committed to the goal of creating 100 GW of solar power capacity by 2022, an ambitious plan that would require USD 35 billion in capital and entail 95% annualised growth over the next four years. The government also aims to provide 24-hour electricity to the entire country within the next few years. Private and development capital, including from international sources, is already playing an important role.

The government is delivering on ambitious growth targets for solar power generation, and in 2018 overtook the US to become the world's second largest solar energy market.

Funding rooftop power in India

The scarcity of production resources also represents an opportunity for countries and companies to more easily make a development leap to a better diversified energy mix instead of relying only on fossil fuels for their economic growth. This opportunity was seized by Azure Power already in 2009. At that time, the entire country had only 10 MW of installed solar generation capacity, compared with more than 25 GW now.

It is a remarkable growth story, in the course of which power costs for Azure's clients have dropped by 80% over the past five years. FMO has taken an active role in this revolution by financing Azure Power and its sister company Azure Rooftop Power. In 2017, we provided Azure Power with a local currency senior loan facility for the equivalent of USD 30 million, financing that will enable the company to expand its power generation platform rapidly.

In May 2018, together with IFC, Proparco and OEeB, FMO agreed to finance a further USD 135 million of rooftop solar projects, which will provide to 200 MW of power generation capacity. Azure Rooftop Power is delivering rooftop solar power solutions for a wide range of clients, from government institutions to commercial and industrial businesses.

Local challenges, strategic success

Doing business in India is accompanied by inevitable social and environmental risks, for example with regard to land acquisition. It represents a complex and challenging context for companies such as Azure, which has projects installed and operating throughout the country, and it is critical for Azure to adopt a holistic approach towards safety, health, environment and social-related (SHES) issues.

FMO has supported Azure in integrating a social due diligence process and introducing a land acquisition procedure for all new projects. The company has created a dedicated SHES department, headed by a manager overseeing the company's growing portfolio, including ground-mounted and rooftop installations. In a FMO-supported workshop, Azure teams have developed innovative solutions to tackle SHES compliance risks throughout the business, and cash-based incentives are provided to staff to reinforce good practice.

With more than 600 personnel on the ground, Azure is well accustomed to dealing with the many linguistic and cultural differences which make India such a complex market in which to operate, especially when introducing new technologies such as solar panels.

Its growth has directly and indirectly created many jobs in India, including in poorer states such as Uttar Pradesh, and it has created cash flows to communities that previously lacked many basic resources but now benefit from a sustained source of income.

A pioneer in the market, Azure has an established track record of installing solar projects and is making a significant contribution to helping India achieve its clean energy power generation targets. From a wider perspective, sustainable energy resources are set to play a vital role in meeting India's energy needs as the country's economic growth drives increased demand for power.

Progress report on use of the proceeds

More project information can be found on <https://www.fmo.nl/worldmap>

Reporting

FMO will report to stakeholders on an annual basis via the Sustainability Bonds Newsletter in line with the Green Bond and Social Bond reporting templates published during the Green Bond Principles (GBP) 2018 Annual General Shareholder Meeting.

Allocation reporting

- The progress on allocation of use of proceeds for new and existing projects on a portfolio basis
- The bond allocations are based on outstanding portfolio and 85% of the committed non-disbursed project portfolio, per region, Multilateral Development Banks category

Impact reporting

We will continue to report on impact on a portfolio basis for the direct green investments (avoided GHG emissions) and the jobs supported with our investments. FMO will report annually on the Use of Proceeds (UoP), each year after publication of the annual report.

- An estimation of annual GHG emission reduction from direct green investments on a portfolio level
- An estimation of the number of (in)direct jobs supported with our investments on per target group

The table below outlines the UoP reporting changes;

Item	Until 2018	From 2019
Frequency	Semi-annually	Annually
Impact	Portfolio level	Portfolio level
Use of Proceeds	Sustainability Bond allocations to disbursed eligible project portfolio	Sustainability Bond allocations to outstanding + 85% of committed non-disbursed eligible project portfolio
Templates	FMO reporting framework	Use templates released during GBP 2018

Sustainability Project Portfolio

The Sustainability Bonds allocation report shows that FMO has allocated EUR 1.3 billion to eligible green and inclusive projects in the period November 2012-December 2018, against a total Sustainability Bonds outstanding of EUR 1.3 billion. Allocations of foreign currency investments of the eligible project portfolio are converted into EUR at the exchange rate of the reporting date (December 2018). The committed non-disbursed eligible project portfolio equals EUR 117 million as per December 2018.

Green Project Portfolio

FMO has fully allocated its inaugural USD 500 (EUR 441) million Green Bond to eligible green projects contracted during 2018, as illustrated by the Green Bond allocations report. Allocations of foreign currency investments of the eligible project portfolio are converted into EUR at the exchange rate of the reporting date (December 2018). The committed non-disbursed eligible project portfolio equals EUR 252 million as per December 2018.

Impact

We measure our impact on employment and environment, through jobs supported and avoided greenhouse gas emissions (GHG). More information on impact methodologies can be found [here](#).

FMO estimates the environmental impact of FMO's Sustainability Bonds and its EUR 841 million direct green investments (total Sustainability Bonds allocation EUR 1.15 billion) will be an avoidance of approximately 790,000 tons of GHG (SDG13).

FMO estimates the environmental impact of FMO's Green Bond and its EUR 322 million direct green investments (total Green Bond allocation EUR 441 million) will be an avoidance of approximately 200,000 tons of GHG (SDG13).

The estimated GHG reduction is based on the ex-ante estimates of the annual reductions in an operational year of the direct green investments, multiplied by the ratio between the Sustainability / Green Bonds allocation and the Project Size.

The estimated number of (in)direct jobs supported with our Sustainability Bond allocations will be cumulative approximately 385,000 (SDG8).

The estimated number of (in)direct jobs supported with our Green Bond allocations will be cumulative approximately 128,000 (SDG8).

FMO GREEN BONDS ALLOCATION REPORTING 2018

Report date: December 2018

Use of Proceeds for Eligible Green Projects

Eligible Green Project Portfolio	Amount (mEUR)	Allocation of Green Bonds (in period)	Amount (mEUR)
Climate Change Mitigation		Green Bonds	
	Total		
Renewable Energy	241	2019: XS1953035844	441
Agriculture, forestry and landuse	42		
Energy efficiency	19		
Lower-carbon and efficient energy generation	20		
Mixed	90		
Total Climate Change Mitigation	412		
Other Footprint			
	Total		
Biodiversity	7		
Pollution mitigation	14		
Conservation of natural resources	8		
Total Other Footprint	29		
Total Eligible Green Project Portfolio	441	Total issued Green Bonds	441

Percentage of net proceeds of Green Bonds allocated to Eligible Green Project Portfolio	100%
Existing projects ¹	43%
New projects ²	57%

¹ Existing projects = outstanding green project portfolio for projects contracted in 2018 per reporting period (Dec-18)

² New projects = committed non-disbursed green project portfolio for projects contracted in 2018 as per reporting period (Dec-18)

FMO SUSTAINABILITY BONDS ALLOCATION REPORTING 2018

Portfolio date: December 2018

Use of Proceeds for Eligible Sustainability Projects

Eligible Sustainability Project Portfolio	Amount (mEUR)	Allocation of Sustainability Bonds (in period)	Amount (mEUR)
Green projects		Total	Sustainability Bonds
Renewable energy	786	2015: XS1219963672	500
Energy Efficiency	119	2016: XS1527323411	266
Mixed	181	2017: XS1622394143	500
Agriculture, Forestry and landuse	46		
Waste and wastewater	21		
Total Green projects	1,153		
Social projects		Total	
Microfinance	78		
Women Owned SMEs	44		
Total Social Projects	122		
Total Eligible Sustainability Project Portfolio	1,273	Total issued Sustainability Bonds	1,266
Percentage of net proceeds of Sustainability Bonds allocated to Green Projects			90%
Percentage of net proceeds of Sustainability Bonds allocated to Inclusive Projects			10%
Percentage of net proceeds of Sustainability Bonds allocated to Eligible Sustainability Project Portfolio			100%
Existing projects ¹			91%
New projects ²			9%

¹ Existing projects = outstanding sustainability project portfolio for projects contracted in 2012-2017 per reporting period (Dec-18)

² New projects = committed non-disbursed sustainability project portfolio for projects contracted during 2012-2017 as per reporting period (Dec-18)

FMO GREEN BOND IMPACT REPORTING 2018

Portfolio based Green Bond report according to the Harmonized Framework for Impact Reporting

Portfolio date: December 2018

Eligible Project Category	Signed Amount (in EUR mln)	Share of Total Portfolio Financing	Eligibility for Green Bonds	GHG emissions avoided in tCO ₂ eq
a	b	c	d	e
Climate change mitigation	412	94%		
Renewable Energy	241	55%	100%	141,776
Agriculture, forestry and landuse	42	10%	100%	56,084
Energy efficiency	19	4%	100%	2,501
Lower-carbon and efficient energy generation	20	5%	100%	
Mixed	90	20%	100%	
Other Footprint	29	7%		
Biodiversity	7	2%	100%	
Pollution mitigation	14	3%	100%	
Conservation of natural resources	8	2%	100%	
Total	441	100%	100%	200,361

FMO SUSTAINABILITY BONDS IMPACT REPORTING 2018

Portfolio based Sustainability Bonds report according to the Harmonized Framework for Impact Reporting

Portfolio date: December 2018

Eligible Project Category	Signed Amount (in EUR mln)	Share of Total Portfolio Financing	Eligibility for Sustainability Bonds	GHG emissions avoided in tCO ₂ eq
a	b	c	d	e
Green Investments				
Renewable energy	786	68%	100%	699,086
Energy Efficiency	119	10%	100%	42,529
Mixed	181	16%	100%	7,510
Agriculture, Forestry and landuse	46	4%	100%	34,525
Waste and wastewater	21	2%	100%	6,178
Social projects				
Microfinance	78	6%	100%	
Women Owned SMEs	44	3%	100%	
Total	1,275	100%	100%	789,828

a Eligible category

b Signed amount represents the amount legally committed by the issuer for the portfolio or portfolio components eligible for Green \ Sustainability Bonds financing

c This is the share of the total portfolio cost that is financed by the issuer

d This is the share of the total portfolio costs that is that is Green / Sustainability Bonds eligible (debt funded)

e Sample of impact indicators (impact for debt funded part) for direct green investments

'-GHG emissions avoided in tCO₂eq

Use of Proceeds criteria

Green investments

FMO looks for investments in the following three “Green” categories:

- **Climate Change Mitigation:** An activity is mitigating climate change if it contributes to either reducing GHG emissions into the atmosphere, or sequester GHG emissions from the atmosphere. If the project or activity relates to energy efficiency, it should achieve at least 20% reduction in energy consumptions or GHG emissions
- **Climate Change Adaptation:** An activity is considered as climate change adaptation if the intention of the activity or project design is to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience
- **Other Footprint:** This category includes those activities that do not directly target climate change mitigation or adaptation yet have a positive impact on the environment including water, waste and biodiversity

FMO’s green eligibility criteria are aligned with the Common Principles for Climate Mitigation Finance and the Common Principles for Climate Adaptation Finance

Eligible projects may include:

- Renewable energy projects such as solar, wind, ocean, geothermal power and hydro
- Energy efficiency projects, such as improvements in existing buildings, upgrade heating controls, IFC EDGE certified building projects
- Waste management
- Agriculture, forestry and other land use

Inclusive business investments

(as part of outstanding Sustainability Bonds)

Inclusive finance focuses on expanding access to affordable and responsible financial products and services to the poor and vulnerable populations. This includes microfinance as well as directly financing organizations that are often unable to gain access to financial products and services such as small- and medium-sized enterprises.

A wide range of financial products and services are incorporated within the remit of inclusive finance including savings, credit, insurance, remittances, and payments (source: [UNPRI](#)).

Eligible projects include microfinance institutions (MFIs), and financing of micro, small- and medium-sized enterprises (MSMEs) through financial intermediaries in developing and emerging markets in which FMO operates. To be eligible for the use of proceeds, financial institutions should:

- Specifically target one or more of the following populations: females; rural populations who are focusing on agricultural production and agricultural value chains; economically excluded individuals; and low-income populations who earn less than USD 8 per day; and
- Be identified as an SME, as defined by the International Finance Corporation (IFC), as outlined in the below table.

Projects are classified as microfinance if they meet the following criteria:

- End-client should meet two of the three criteria to qualify: the number of employees < 10; turnover < USD 100,000; total assets < USD 100,000
- If before mentioned data under bullet 1 is not available, the end-client average loan size should be less than USD 10,000 (source: IFC)

Projects are classified as SMEs if they meet the following criteria:

- End-client should meet two of three criteria to be eligible for the Sustainability Bonds (see below table): 1) 10 < number of employees < 300; 2) USD 100,000 < turnover < USD 15,000,000; 3) total assets < USD 100,000; or
- If data mentioned in point ‘a’ is not available, then the SME average loan size should be between USD 10,000 or more, but less than USD 1,000,000 (10,000 < USD < 1,000,000)

Management of Proceeds

The net proceeds of any issue under the SBF are held within FMO's Treasury in a sub-portfolio that is linked to FMO's lending operations in the fields of green finance and inclusive finance. As long as the notes issued under the SBF are outstanding, the balance of the sub-portfolio will be reduced by amounts corresponding to the financing or refinancing of eligible projects, or to repay a note issued under the SBF.

Pending allocations, the net proceeds of the notes will be held in FMO's liquidity portfolio and may temporarily be used for different purposes in case of liquidity stress situations. FMO expects the bond proceeds to be fully allocated within 2 years from the issue date.

Projects eligible to be financed with the proceeds of FMO's Green \ Social \ Sustainability Bonds include projects that meet the eligibility criteria described above and are:

- Projects committed after the issuance of Green \ Social \ Sustainability Bonds; or
- Projects committed before the issuance of Green \ Social \ Sustainability Bonds but funded (disbursed) after the issuance of the Bond



Process to define Green Transactions

All transactions that apply for the Green Transaction label (except straightforward) are discussed with FMO's Green team of climate specialists.

POTENTIALLY GREEN PROJECTS

- ✓ Deal team and client underpin green benefits
- ✓ Strategic deal with replication potential
- ✓ FMO's green panel determines eligibility
- ✓ Final approval by FMO's sustainability team

STRAIGHTFORWARD GREEN PROJECTS

- Renewable energy*
- REDD
- Manufacture of clean tech components

FOLLOWING PARTNERS

Multilateral Development Bank (MDB) partner counts transaction as green and provides documentation to underpin

YES

GREEN PROJECTS

* Geothermal power projects follow the 'potentially green' process, as project GHG emissions may in some regions be significant, causing no net GHG emission reduction. In this case they will not be classified as green.

Legal notice

Nothing in this report constitutes an offer to sell securities (unaudited information). Persons who offer, sell or recommend investments in securities issued by FMO must act in accordance with the laws and regulations applicable to them, which may restrict such actions.

This report has been issued pursuant to the terms of certain Sustainability Bonds issued under FMO's debt issuance programme. Further information on this programme can be found at www.fmo.nl/investor-relations.

The information contained in this report has been summarized and should not be considered definitive. FMO has no obligation to update the information contained in this report.