

Second-Party Opinion

FMO Sustainability Bond Framework 2018

Evaluation Summary

Sustainalytics is of the opinion that the FMO Sustainability Bonds Framework 2018 is credible and impactful and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – (i) Climate Change Mitigation, (ii) Climate Change Adaptation, (iii) Other Footprint, (iv) Investments in Least Developed Countries (LDCs), and (v) Investments in Inclusive Business – are aligned with those recognized by the Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Bond Guidelines 2018. Sustainalytics recognizes that the eligible projects can contribute to decreasing GHG emissions and provide positive social impact in emerging markets. In addition, they will contribute to advancing the UN Sustainable Development Goals.



PROJECT EVALUATION / SELECTION FMO implemented a two-step process for the selection of eligible projects, namely an initial classification by its deal team as ‘green’ or ‘reduced inequality’ (depending on the nature of the project) and a validation process by the FMO “Development Impact Sustainability team.” FMO includes environmental and social risk assessments in the first step of its project selection process. Sustainalytics views this process as in line with market best practice.



MANAGEMENT OF PROCEEDS FMO’s management of proceeds process is aligned with market practice as the bank will hold the net proceeds of any issuance in a separate sub-portfolio linked to FMO’s green finance and inclusive finance lending operations. Pending allocation, the net proceeds will be held in FMO’s liquidity portfolio. The bank intends to fully allocate the bond proceeds no later than 24 months post issuance date.



REPORTING FMO commits to providing investors with an annual allocation and impact newsletter.¹ (i) The allocation reporting will cover progress on the allocation of proceeds on a portfolio basis, along with case studies, while the (ii) impact reporting will cover portfolio-wide estimation on the annual GHG emissions reduction for is direct investments and an estimate number of direct and indirect jobs supported per each target group for all investments. Sustainalytics considers the reporting to be aligned with market practice but encourages FMO to also report on the impact of indirect investments through intermediaries or private equity funds.

Evaluation date	December 2018
Issuer Location	The Hague, Netherlands

Report Sections

Introduction.....	2
Sustainalytics’ Opinion	3
Appendices	8

For inquires, contact the Sustainable Finance Solutions project team:

Lili Hocke (Amsterdam)
 Project Lead
 lili.hocke@sustainalytics.com
 (+31) 20 205 00 40

Jean-Claude Berthelot (Amsterdam)
 Client Relations
 susfinance.emea@sustainalytics.com
 (+31) 20 205 00 15

¹ FMO website: <https://www.fmo.nl/sustainability-bonds>

Introduction

FMO is the Dutch development bank founded in 1970 by the Dutch Government. With operations in over 80 countries, FMO provides financing for businesses, projects and financial institutions in developing and emerging markets, with the aim of supporting sustainable, private sector development. In general, FMO's activities focus on having a large, long-term impact in the following areas: financial institutions; energy; and agribusiness, food and water.

FMO has developed the FMO Sustainability Bonds Framework (the "Framework"), which is an update to the 2017 FMO Sustainability Bond Framework, under which it is planning to issue green, social and sustainability bonds and 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. The Framework defines eligibility criteria in five areas:

1. Climate Change Mitigation
2. Climate Change Adaptation
3. Other Footprint (such as water and waste management, biodiversity)
4. Investments in the Least Developed countries (LDCs)
 - a. Agriculture
 - b. Energy
 - c. Financial institutions
5. Investments in inclusive business
 - a. Microfinance
 - b. Women Owned SMEs (WSME)
 - c. Gender
 - d. Agricultural SMEs
 - e. Smallholder finance
 - f. Agribusiness with smallholders
 - g. Off-grid power
 - h. Innovative solutions for the base of the pyramid (BOP)
 - i. Youth finance

FMO engaged Sustainalytics to review the FMO Sustainability Bonds Framework and provide a second-party opinion on the alignment of the green \ social \ sustainability bond proceeds with the Sustainability Bond Guidelines 2018 (the "SBG"),² as administered by the International Capital Market Association (the "ICMA"),³ and the Framework's environmental and social credentials. This Framework has been published in a separate document.⁴

As part of this engagement, Sustainalytics held conversations with various members of FMO's Development Impact and Sustainability department and Treasury to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of FMO's green \ social \ sustainability bonds. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the FMO Sustainability Bonds Framework and should be read in conjunction with that Framework.

² Sustainability Bonds are aligned with the four core components of both the Green Bond Principles and Social Bond Principles, with the former being especially relevant to underlying Green Projects and the latter to underlying Social Projects.

³ ICMA's Sustainability Bond Guidelines 2018 <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

⁴ FMO website: <https://www.fmo.nl/sustainability-bonds>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the FMO Sustainability Bonds Framework

Summary

Sustainalytics is of the opinion that the 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 highlights the following elements of FMO's Sustainability Bonds Framework:

Use of Proceeds:

- The activities eligible under the use of proceeds categories – (i) climate change mitigation, (ii) climate change adaptation, (iii) other footprint, (iv) investments in the poorest countries and (v) investments in inclusive business – are aligned with those categories recognized as impactful by the Green Bond Principles, the Social Bond Principles and the Sustainability Bond Guidelines. A full list of eligible activities is disclosed in Appendix 1.
- Sustainalytics welcomes that FMO has clearly defined target populations for the social use of proceeds categories, using the IFC's definition and proxies for micro, small and medium sized enterprises.⁵ Investments in the reduced inequality category focus on projects in least developed countries or targeting access to essential goods and services for people at the Base of the Pyramid (BOP),⁶ which Sustainalytics views as impactful. More information on the impact of the eligible projects are provided in section 3.
- In its green categories, FMO uses amongst others a selection of third-party verified sustainable certification systems. While some of the certification schemes have received criticism related to the implementation and control of standards, Sustainalytics considers the schemes to be credible and impactful. A full analysis is available in Appendix 2.
- FMO intends to use the proceeds to (i) refinance existing projects or to repay a bond note issued under the Framework and (ii) to finance future projects or projects committed to but not disbursed before issuance of the respective thematic bond. While FMO does not disclose a lookback period for refinancing, the bank commits to reporting on the share of proceeds dedicated to new and existing projects.

Project Evaluation and Selection:

- FMO has implemented a two-step process for the selection of eligible projects, namely an initial classification by its deal team as 'green' or 'reduced inequality' (depending on the nature of the project) and a validation process by the FMO "Development Impact Sustainability team." FMO includes environmental and social risk assessments in the first step of its project selection process. Sustainalytics views this process to be aligned with market best practice.

Management of Proceeds:

- FMO's management of proceeds process is aligned with market practices as the bank will hold the net proceeds of any issuance in a separate sub-portfolio linked to FMO's green finance and inclusive finance lending operations. Pending allocation, the net proceeds will be held in FMO's liquidity portfolio. The bank intends to fully allocate the bond proceeds no later than 24 months post issuance date. Sustainalytics views this process as in line with market practice.

⁵ IFC, verifying accuracy of IFC'S SME Measurement, 2013:

https://www.ifc.org/wps/wcm/connect/635f64804efbe2b18ef5cf3eac88a2f8/IFC_Factsheet_SME_Loan+Size+Proxy_Brief.pdf?MOD=AJPERES

⁶ FMO defines BOP as the portion of the global population that lives on less than USD 8 per day in purchasing power parity (PPP) terms or lacks access to basic goods, services, and income. FMO uses proxies for defining the BOP namely the un(der)banked, the unconnected / poorly connected, smallholder farmers and rural populations, youth, women.

Reporting:

- Aligned with market practice, FMO commits to report on an annual basis on the allocation of proceeds to new and existing projects and allocation of proceeds to green and social categories in a newsletter on its website.
- Regarding impact reporting, FMO commits to report the estimated annual GHG emission reduction of the financed direct investments and the estimated number of direct and indirect jobs financed for its investments. Sustainalytics suggest to also include reporting on the target population of social projects financed and to report on impact of its indirect investments.

Alignment with Social Bond Principles, Green Bond Principles and Sustainability Bond Guidelines 2018

Sustainalytics has determined that FMO's sustainability bond proceeds/transactions align with the four core components of the Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Guidelines. For detailed information please refer to Appendix 3: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Performance of FMO**Contribution of Framework to FMO's sustainability mandate**

FMO was founded by the Dutch government as a development bank focussed on providing financing for businesses, projects and financial institutions in developing and emerging markets, with the aim of supporting sustainable, private sector development. Given its mandate, Sustainalytics is of the opinion that FMO is well positioned to issue sustainability bonds and that the issuance will align with FMO's mandate.

Well positioned to address common environmental and social risks associated with the projects

Sustainalytics recognizes that due to its mandate for private sector development and subsequent focus on developing and emerging economies, FMO is particularly exposed to social and environmental risks associated with the projects. While FMO's use of proceed categories are aligned with those recognized by the Green and Social Bond Principles, Sustainalytics acknowledges that the underlying projects may be exposed to environmental risks related to environmental impacts of agriculture, land change, large scale renewable energy facilities and infrastructure. Social risks surround exposure to human rights violations in emerging economies or least developed countries.

However, Sustainalytics considers FMO's policies and due diligence efforts to be in line with international best practices, strengthening the bank's ability to address and mitigate social and environmental risks in its portfolio. Sustainalytics highlights the following risk mitigation measures by FMO:

- (i) FMO has an extensive exclusion list to avoid financing businesses involved in destruction of high conservation value, unsustainable fishing methods, tobacco, weapons, munition, gambling, forced labour or child labour, ozone depleting substances, PCB's, wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora, pornography and/or prostitution, racist and/or anti-democratic media, nuclear energy, fossil fuels, biofuel from sources that deplete carbon pools and compete with food sources, and transport dedicated to fossil fuel.
- (ii) FMO performs for all its investments thorough social and environmental assessments prior to providing (direct or indirect) financing (E&S risks management procedures: (i.e. site visits, consultants, E&S action plans, contractual agreements, monitoring). All projects are required to comply with strong social and environmental criteria, in alignment with the strict IFC Environmental and Social Performance Standards.⁷ These standards are recognized as best practice internationally, and Sustainalytics considers this due diligence level of particular importance given FMO's involvement in developing and emerging markets, where the environmental and social risks associated with the projects are potentially greater.
- (iii) FMO limits green \ sustainability bond financing to run of river hydro without storage, limiting risk related to community relations and land change related to large reservoir hydro plants.
- (iv) FMO excludes the financing of energy efficiency in fossil fuel-based technology and to Sustainalytics' knowledge does not include projects that pose a risk of fossil fuel lock-in.

⁷ FMO Sustainability Policy, Approved by FMO's Management Board on 23 December 2016 for implementation: <https://www.fmo.nl/policies-and-position-statements>

Section 3: Impact of Use of Proceeds

All five use of proceeds categories are recognized as impactful by the GBP. Sustainalytics has focused on the two social categories below, which were newly added to the FMO Sustainability Framework 2018.

Contribution of inclusive business investments for socio economic-empowerment and reducing social inequalities

FMO intends to use part of the bonds' proceeds to finance inclusive business activities, which FMO defines as expanding the access to goods or services which improve the living conditions of people at the base-of-the-pyramid ('BOP). Sustainalytics highlights the strong alignment of FMO's BOP definition covering the underbanked, unconnected or poorly connected, smallholder farmers and rural populations, youth and women living with less than USD 8 per day in purchasing power parity ('PPP') with both IFC's PPP threshold⁸ and ICMA's Social Bond Principles target populations.⁹ Studies by the World Bank and the IFC indicate that more than four billion low-income individuals are expected to increase their PPP to an estimated USD 5 trillion market¹⁰ mainly due to the socio-economic benefits created by inclusive-market based approaches. As such, inclusive oriented business models are considered catalysts for the inclusion of BOP into the formal global economy via the transformation of low-income individuals into participants of local, regional and global markets as customers and suppliers.¹¹

Sustainalytics considers that FMO's investments into the expansion of inclusive business activities will contribute toward a meaningful reduction of the unmet needs of the people comprising the BOP in terms of socio-economic empowerment, affordable food and nutrition, energy, water, housing, access to finance, ICT services, education, health, clothing and personal care, as well as transport.

Contribution of investments in LDCs to improve access to basic services

FMO intends to invest part of the bonds' proceeds toward financing segments of the private energy sector (wind, solar, run-of-river hydro, off grid solutions and energy efficiency improvements), financial institutions (SME banks, microfinance, leasing companies, insurance and fintech) and agribusinesses (inputs, primary production, processing, trade and distribution) in least developed countries as defined by the United Nations (UN).¹² The definition of least developed countries (LDC) takes into consideration the following indicators, which reflect long-term structural difficulties:

- GDP per capita
- The health of the population measured as under-five mortality rate, percentage of population undernourished and maternal mortality ratio
- Education of the population measured by gross secondary school enrolment ratio and adult literacy rate
- Economic vulnerability measured by an exposure index (population, remoteness, merchandise export concentration, share of agriculture, hunting, forestry and fishing in GDP and share of population living in low elevated coastal zones) and shock index (instability of exports of goods and services, victims of natural disasters and instability of agricultural production)

Given that access to modern energy is one of the main challenges of LDC, with average electrification varying from 30% in African LDCs to 73.6% in the Asia Pacific LDCs (2016 data),¹³ Sustainalytics considers FMO's investments in the energy sector to contribute to sustainable electrification in LDCs to be meaningful in the local context. Moreover, access to financial services such as savings accounts, debit cards or credit are still

⁸ Inclusive Business at IFC, document and definition available at: https://www.ifc.org/wps/wcm/connect/53e7f5f0-2ee4-40ca-a331-2aed7d182991/iBiz+2-pager_FY17.pdf?MOD=AJPERES

⁹ ICMA's Social Bond Principles and target populations available at: <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

¹⁰ The Next 4 Billion, Market Size and Business Strategy at the Base of the Pyramid, document available at: https://www.ifc.org/wps/wcm/connect/3c2787004cc75e6094d7b59ec86113d5/Pub_009_The%2BNext%2B4%2BBillion.pdf?MOD=AJPERES

¹¹ Inclusive Business and IFC, document available at: https://www.ifc.org/wps/wcm/connect/53e7f5f0-2ee4-40ca-a331-2aed7d182991/iBiz+2-pager_FY17.pdf?MOD=AJPERES

¹² United Nations, Least developed Countries, accessed December 2018: <https://www.un.org/development/desa/dpad/least-developed-country-category.html>

¹³ United Nations, Energy access and main challenges in the LDCs, April 2018: <https://www.un.org/ldcportal/energy-access-and-main-challenges-in-the-ldcs/>

FMO Sustainability Bonds Framework

unavailable for many people in developing countries, with two billion people worldwide lacking access to regulated financial services (2015 data),¹⁴ indicating the importance of financial institutions in LDCs.

In addition, agriculture is the main sector of the LDC economies and underpins food security, export earnings and rural development.¹⁵ FAO studies name low productivity, rigid production and trade structures, a limited skills base, poor infrastructure, and inadequate institutional and policy frameworks amongst others as reasons hampering LDCs' ability to compete in world markets and in their home markets, leading to rising food import bills.¹⁶ Agriculture accounts for 40–80% of employment in LDCs, with an average of 60%, as well as 25% of value added in their economies.¹⁷ Given the importance of agriculture in food security and economic development of LDCs, Sustainalytics is of the opinion that FMO's financing in the agricultural sector can contribute to food security, employment and international competitiveness.

Overall given the credible sources used for its definition of LDCs and the named focus sectors, Sustainalytics believes that FMO's investments in LDCs are well-positioned to contribute to a positive social impact.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. The green \ social \ sustainability bonds advance the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Climate Change Mitigation	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
	9. Industry Innovation and Infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.
	11. Sustainable Cities and Communities	11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries
	13. Climate Action	13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning
Climate Change Adaptation	13. Climate Action	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
Other Footprint	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.
	12. Responsible consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Investments in the poorest countries &	1. No Poverty	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership

¹⁴ <https://blogs.worldbank.org/voices/five-challenges-prevent-financial-access-people-developing-countries>

¹⁵ Commodities and Trade Division Food and Agriculture Organization of the United Nations, The Role of Agriculture In The Development of Least-Developed Countries and Their Integration Into the World Economy, 2002: <http://www.fao.org/3/a-y3997e.pdf>

¹⁶ Ibid.

¹⁷ United Nations Conference on Trade And Development, The Least Developed Countries Report 2015:

https://unctad.org/en/PublicationsLibrary/lcd2015_en.pdf

FMO Sustainability Bonds Framework

Investments in inclusive business		and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.
	2. Zero Hunger	2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round
	5. Gender Equality	5.5 Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life
	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
	10. Reduced Inequalities	10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average
	17. Partnerships for the Goals	17.1 Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection

Conclusion

FMO developed the FMO Sustainability Bonds Framework, an update to the 2017 FMO Sustainability Bond Framework, under which it is planning to issue green, social and sustainability bonds and use the proceeds to finance projects that have a positive environmental impact and social projects aimed at reducing inequality. The proceeds will be used to refinance existing projects, repay a bond note issued under the Framework or to finance future projects or projects committed to but not disbursed before issuance of the respective thematic bond.

The eligible categories for the use of proceeds (i) Climate Change Mitigation, (ii) Climate Change Adaptation, (iii) Other Footprint, (iv) Investments in Least Developed Countries (LDCs), (v) Investments in Inclusive Business are aligned with those recognized by the Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Bond Guidelines 2018. Sustainalytics considers that the eligible projects can contribute to decreasing GHG emissions and provide positive social impact in emerging markets. FMO uses recognized definitions of target populations, including base-of-the-pyramid populations, LDCs, SMEs and Micro enterprises for its social investments.

In addition, Sustainalytics considers FMO’s processes for project selection and evaluation to be aligned with market best practice and considers FMO’s management of proceeds and allocation reporting to be aligned with market practice. While FMO reports impact on its direct investments, Sustainalytics encourages FMO to report also on the impact of indirect investments through intermediaries and private equity funds. Based on the above, Sustainalytics considers the FMO Sustainability Bonds Framework to be credible and transparent.

Appendices

Appendix 1: List of eligible criteria

Table 1 Eligible activities under climate change mitigation

1. Renewable Energy		
1.1 Electricity Generation	<ul style="list-style-type: none"> • Wind power • Realization of geothermal power generation - no net positive impact established yet • Realization of geothermal power generation (<100g CO2/kWh) - net positive impact needs to be established • Solar power (concentrated solar power, photovoltaic power) • Biomass or biogas power that does not decrease biomass and soil carbon pools (only if net emission reductions can be demonstrated) 	
	<ul style="list-style-type: none"> • Realization of 2nd generation waste biomass or biogas power generation (ie. From agri waste or landfills) because it does not decrease biomass and soil carbon pools (preferably with demonstrated expected annual GHG avoidance) • Ocean power (wave, tidal, ocean currents, salt gradient, etc.) • Realization hydropower generation with Power Density (installed capacity / inundated area) > 4 W/m2 and power plants producing < 20MW • Run-off river hydro power generation without storage 	
	<ul style="list-style-type: none"> • Solar water heating and other thermal applications of solar power in all sectors • Thermal applications of geothermal power in all sectors (<100g CO2/kWh) • Wind-driven pumping systems or similar • Thermal applications of sustainably produced bioenergy in all sectors, incl. efficient, improved biomass stoves (excluding bioenergy derived from sources that deplete terrestrial carbon pools or compete with food sources) 	
	<ul style="list-style-type: none"> • New transmission systems (lines, substations) or new systems (e.g., new information and communication technology, storage facility, etc.) and mini-grid to facilitate the integration of renewable energy sources into the grid • Renewable energy power plant retrofits • Improving existing systems to facilitate the integration of renewable energy sources into grid 	
	2. Lower-carbon and efficient energy generation	
	2.1 Transmission and distribution systems	<ul style="list-style-type: none"> • Retrofit of transmission lines or substations and/or distribution systems to reduce energy use and/or technical losses, excluding capacity expansion
	2.2 Power Plants	<ul style="list-style-type: none"> • Waste heat recovery improvements. • Energy-efficiency improvement in existing bioenergy plants
	3. Energy efficiency	
	3.1 Brownfield energy	<ul style="list-style-type: none"> • Industrial energy-efficiency improvements through the installation of more efficient equipment, changes in processes, reduction of heat losses and/or

efficiency in industry	<p>increased waste heat recovery (excluding investments in fossil fuel technology)</p> <ul style="list-style-type: none"> • Installation of co-generation plants that generate electricity in addition to providing heating/cooling (excluding investments in fossil fuel technology) • More efficient facility replacement of an older facility (old facility retired) (excluding investments in fossil fuel technology)
3.2 Brownfield energy efficiency in commercial, public and residential sectors (buildings)	<ul style="list-style-type: none"> • Energy-efficiency improvement in lighting, appliances and equipment • Substitution of existing heating/cooling systems for buildings by co-generation plants that generate electricity in addition to providing heating/cooling (excluding investments in fossil fuel technology) • Retrofit of existing buildings: Architectural or building changes that enable reduction of energy consumption
3.3 Brownfield energy efficiency in public services	<ul style="list-style-type: none"> • Energy-efficiency improvement in utilities and public services through the installation of more efficient lighting or equipment (excluding investments in fossil fuel technology) • Rehabilitation of district heating systems • Utility heat loss reduction and/or increased waste heat recovery • Improvement in utility scale energy efficiency through efficient energy use, and loss reduction (excluding investments in fossil fuel technology)
3.4 Vehicle energy efficiency fleet retrofit	<ul style="list-style-type: none"> • Existing vehicles, rail or boat fleet retrofit or replacement (including the use of electric or hydrogen technologies, etc.)
3.5 Greenfield energy efficiency in commercial and residential sectors (buildings)	<ul style="list-style-type: none"> • Use of highly efficient architectural designs, energy efficiency appliances and equipment, and building techniques that reduce building energy consumption, exceeding available standards and complying with high energy efficiency certification or rating schemes • Use of highly efficient architectural designs, energy efficiency appliances and equipment, and building techniques that reduce building energy consumption, exceeding available standards and complying with high energy efficiency certification or rating schemes
3.6 Green Buildings	<ul style="list-style-type: none"> • Green Buildings certified by LEED (only LEED Gold or Platinum certification qualifies) or IFCs EDGE Tool¹⁸ • Green Buildings, not yet certified or certified under other schemes
3.7 Energy Audits	<ul style="list-style-type: none"> • Energy audits to energy end-users, including industries, buildings, and transport systems
4. Agriculture, forestry and land use	
4.1 Agriculture	<ul style="list-style-type: none"> • Reduction in energy use in traction (e.g. efficient tillage), irrigation, and other agriculture processes • Agriculture projects that do not deplete and/or improve existing carbon pools (Reduction in fertilizer use, rangeland management, collection and use of bagasse, rice husks, or other agricultural waste, low tillage techniques that increase carbon contents of soil, rehabilitation of degraded lands, etc.) • Projects or companies that lead to expanded sustainable/green output in line with one of the following certification schemes (company or project needs to be or become certified): UTZ Certified, Roundtable on Sustainable Biomaterials (RSB), The Intercultural Federation of Organic Agriculture Movements (IFOAM), Proterra, Soil Association or Bonsucro.
4.2 Afforestation and	<ul style="list-style-type: none"> • Sustainable forest management activities that increase carbon stocks or reduce the impact of forestry activities

¹⁸ IFC EDGE Tool: <https://www.edgebuildings.com/>

reforestation, and biosphere conservation	<ul style="list-style-type: none"> Biosphere conservation projects (including payments for ecosystem services) targeting reducing emissions from the deforestation or degradation of ecosystems FSC and/or PEFC Certification Rainforest Alliance Certification
4.3 Livestock	<ul style="list-style-type: none"> Livestock projects that reduce methane or other GHG emissions (manure management with biodigestors, etc.)
4.4 Biofuels	<ul style="list-style-type: none"> Production of biofuels (including biodiesel and bioethanol) (excluding from sources that deplete carbon pools or that compete with food sources)

5. Non-energy GHG reductions

5.3 Air conditioning and refrigeration	<ul style="list-style-type: none"> Retrofit of existing industrial, commercial and residential infrastructure to switch to cooling agent with lower global warming potential
5.4 Industrial processes	<ul style="list-style-type: none"> Reduction in GHG emissions resulting from industrial process improvements and cleaner production (e.g. cement, chemical), excluding carbon capture and storage (excluding investments in fossil fuel technology) Reduction in GHG emissions resulting from industrial process improvements and cleaner production (e.g. cement, chemical) demonstrated by >20% GHG efficiency or resource efficiency improvement (excluding investments in fossil fuel technology)

6. Waste and wastewater

6.1 Wastewater	<ul style="list-style-type: none"> Treatment of wastewater if not a compliance requirement as part of an industrial process (only if net emission reductions can be demonstrated).
6.2 Waste	<ul style="list-style-type: none"> Waste management and waste-to-energy projects that reduce methane emissions and generate energy (e.g. incineration of waste, landfill gas capture, and landfill gas combustion) Waste-recycling projects that recover or reuse materials and waste as inputs into new products or as a resource (only if net emission reductions can be demonstrated). Sanitation projects with proper waste treatment if it replaces open defecation.

7. Transport

7.1 Urban transport modal change	<ul style="list-style-type: none"> Urban mass transit Non-motorized transport (bicycles and pedestrian mobility)
7.2 Transport oriented urban development	<ul style="list-style-type: none"> Integration of transport and urban development planning (dense development, multiple land-use, walking communities, transit connectivity, etc.), leading to a reduction in the use of passenger cars
7.3 Inter-urban transport	<ul style="list-style-type: none"> Railway transport ensuring a modal shift of freight and/or passenger transport from road to rail (improvement of existing lines or construction of new lines) - no GHG avoidance estimate available (excluding transport dedicated to fossil fuels) Waterways transport ensuring a modal shift of freight and/or passenger transport from road to waterways (improvement of existing infrastructure or construction of new infrastructure) - no GHG avoidance estimate available Railway or Waterways transport ensuring a modal shift of freight and/or passenger transport from road to rail or water (improvement of existing lines or construction of new lines) if 3rd party verified GHG avoidance

estimated aligning with the IFI harmonized GHG accounting approach for Transport Modal Shift¹⁹

8. Low-carbon technologies	
8.1 Products or equipment	<ul style="list-style-type: none"> Projects producing and/or distributing components, equipment or infrastructure dedicated for the renewable and energy efficiency sectors
8.2 R&D	<ul style="list-style-type: none"> Research and development of renewable energy or energy efficiency technologies
9. Cross-cutting issues	
9.1 Support to national, regional or local policy, fully or partially dedicated to climate change policy or action	<ul style="list-style-type: none"> Mitigation national, sectorial or territorial policies/planning/action plan policy/planning/institutions Energy sector policies and regulations (energy efficiency standards or certification schemes; energy efficiency procurement schemes; renewable energy policies) Systems for monitoring the emissions of greenhouse gases Education, training, capacity building and awareness raising on climate change mitigation/sustainable energy/sustainable transport; mitigation research Other policy and regulatory activities, including those in non-energy sectors, leading to climate change mitigation or mainstreaming of climate action
9.2 Other activities with net greenhouse gas reduction	<ul style="list-style-type: none"> Any other activity not included in this list for which the results of an ex-ante greenhouse gas accounting (undertaken according to commonly agreed methodologies) show emission reductions
9.3 Financing instruments	<ul style="list-style-type: none"> Carbon Markets and finance (purchase, sale, trading, financing and other technical assistance. Includes all activities related to compliance-grade carbon assets and mechanisms, such as CDM, JI,²⁰ AAUs,²¹ as well as well-established voluntary carbon standards like the VCS or the Gold Standard. Greenline financing for purely renewable energy and/or water/material/pollution/energy efficiency >20% improvement (re)-financed through a financial intermediary (earmarked with use-of-funds clause) Greenline financing for non-renewable energy and non-energy efficiency financing through new financial intermediaries or similar (e.g. earmarked lines of credit; lines for microfinance institutions, cooperatives, etc.) (earmarked with use-of-funds clause) Greenline (co)-financing for renewable energy and energy efficiency (re)-financing through financial intermediaries that are existing Green Partners (Green for Growth Fund (GfGF)²² and Climate Global Partnership Fund (CGPF)²³ (earmarked with use-of-funds clause)
Eligible activities under climate change adaptation	
10. Climate Change Adaptation	
10.1 Activities Addressing Climate Vulnerability	<ul style="list-style-type: none"> Activity or technology that addresses the local climate vulnerability by strengthening the resilience or communities, goods, or ecosystems to

¹⁹ The IFI harmonized GHG accounting approach for Transport Modal Shift 2015: https://www.thegef.org/sites/default/files/file_attach/Joint-IFI-RE-GHG-Accounting-Approach.pdf

²⁰ <https://unfccc.int/process/the-kyoto-protocol/mechanisms>

²¹ <https://carbonmarketwatch.org/2012/05/30/ji-and-aau-surplus/>

²² <https://www.ggf.lu/>

²³ <https://www.gcpf.lu/investing-in-renewable-energy-and-energy-efficiency.html>

climate change (see the 'Adaptation Examples' tab or the MDB Climate Finance Report²⁴ for examples)

Eligible activities under Other Footprint

11.1 Biodiversity	<ul style="list-style-type: none"> Financed activity is either contributing to conserving/increasing biodiversity, or the core business/aim of the project is to conserve or increase biodiversity The transition to, or maintenance of, silvo-pastoral systems, if no conversion of natural land is involved.
11.2 Pollution mitigation	<ul style="list-style-type: none"> Financed activity is either contributing to pollution mitigation (beyond regulatory compliance) or the core business/aim of the project is to mitigate pollution (beyond regulatory compliance) Waste water treatment as the core business of the project (not part of specific industrial process) Company's core business is cleaning up hazardous waste sites (ie. soil remediation and mine rehabilitation)
11.3 Conservation of natural resources	<ul style="list-style-type: none"> Financed activity is contributing to or the core aim of the project is to conserve natural resources (ie land, water, forests, materials) Recycling /solid waste collection and treatment as the core business of the project Company's core business is the remanufacture of products (or extend their lifecycle in other ways), servitisation or complete circular economy business models

Table 2: Activities financed in least developed countries

Category	Eligibility	Definition
Agribusiness, food & water	<ul style="list-style-type: none"> Inputs: Seeds, Animal feed, Fertilized Primary production: Crops, Livestock, Production, Fishing Processing: Crushing, Storage, Handling, Packaging Trade: Trading, Exporting Distribution: Logistics, to Retail <p>Excluding activities that do not align with good agricultural practices or which contribute to deforestation.</p>	Investing across the agribusiness value chain – enhancing food security, supporting sustainability, efficient water usage, and promoting inclusive development
Energy	<ul style="list-style-type: none"> Wind Solar Hydro (Run-of-river) Off-grid solutions Resource efficiency & refurbishment <p>Excluding investments in fossil fuel-based technologies</p>	Investing in long-term projects in the areas of generation and distribution – promoting the transition to a low-carbon system and safeguarding energy security.

²⁴ <http://www.ebrd.com/2017-joint-report-on-mdbs-climate-finance>

FMO Sustainability Bonds Framework

Financial Institutions	<ul style="list-style-type: none"> • SME Banks • Microfinance • Leasing companies (excluding leasing for fossil fuel technologies) • Insurance companies • FinTech 	Investing in long-term financing solutions, increasing access to finance and supporting financial inclusion
-------------------------------	---	---

Table 3: Inclusive business definition and categories

Category	Eligibility	Definition
Microfinance	FMO's financing is earmarked for on-lending to micro-enterprises	Micro-enterprise loans are defined as loans to businesses with an original loan amount < EUR 10,000
Agricultural SME lending	FMO's financing is earmarked for on-lending to agricultural SMEs.	Agricultural SMEs are defined as SMEs active in primary production or the agricultural value chain. Proxy for SME: loan size between EUR 10,000 and EUR 1,000,000.
Smallholder Finance	FMO's financing is earmarked for on-lending to smallholders.	Smallholder farmers are defined as marginal and sub-marginal farm households that own and/or cultivate relatively small plots of land, have low access to technology, limited resources in terms of capital, skills, and risk management, and depend on family labor for most activities. (FAO)
Agribusinesses working with smallholders	<p>The agribusiness client:</p> <ul style="list-style-type: none"> i. sources at least 30% of its inputs from smallholders AND ii. provides technical and/or financial support to its smallholder suppliers. <p>Financing is earmarked to investments for inputs from smallholder farmers or technical and/or financial support to smallholder suppliers</p>	Smallholder farmers are defined as marginal and sub-marginal farm households that own and/or cultivate relatively small plots of land, have low access to technology, limited resources in terms of capital, skills, and risk management, and depend on family labor for most activities. (FAO)
Youth Finance	FMO's financing is earmarked for young entrepreneurs or for youth-specific financial products/services (e.g. education loans). Youth is defined as people under 35.	Youth finance is defined as people under 35
Off-grid power	FMO's financing is earmarked for off-grid power	Off grid in energy means stand-alone power systems or mini-grids that provide energy to e.g. households, communities, businesses and agriculture in remote and/or peri-urban areas. It includes businesses active in a range of products and solutions, such as pico and solar home systems, as well as (improved) cook stoves, agricultural appliances and mini-grids
Innovative solutions for the BOP	Investments in businesses that use innovative models (including Fintech) to bring essential goods, services and livelihood opportunities to the BOP. At least 30% of the revenue of the business	The general FMO definition of inclusive business applies.

FMO Sustainability Bonds Framework




	comes (or is expected to come) from the BOP activity. Financing is earmarked to BOP activity.	
Gender: Women-owned SME	FMO's financing is earmarked for women-owned MSME lending.	A women-owned business is an enterprise which is: (a) at least for 51% owned by a woman or by women, or (b) (i) at least for 20% owned by a woman or by women, (ii). with a woman as CEO, COO, President or Vice President and (iii). if such enterprise has a board of directors, with at least 30% of such board of directors comprised of women. (IFC)
Gender: Other	The investment qualifies otherwise as an inclusive business investment AND at least 2/3 of the end-beneficiaries are women	As an example, an investment in a microfinance institution would qualify for the gender label if at least 2/3 of the clients of the MFI are women.
Inclusive business funds (equity or debt)	Investments in funds with at least 50% of their investments expected to be in inclusive businesses. Financing is earmarked to inclusive businesses.	Inclusive businesses are any of the categories of businesses defined above.

Appendix 2: Assessment of Certifications

Sustainalytics has conducted an analysis of the certification schemes that are considered eligible under the FMO Sustainability Bond Framework 2018 regarding their minimum standards, social and environmental risk considerations related to the activities certified, verification of standards and risk mitigation, whether they include third-party expertise and a multi-stakeholder process and qualitative considerations.

Table 4: Certification schemes eligible under the green categories

	The Roundtable on Sustainable Biomaterials	The Intercultural Federation of Organic Agriculture Movements	UTZ Certified
Background	The Roundtable on Sustainable Biomaterials (RSB) is an international initiative that promotes and supports the sustainability of biomaterials production and processing, bringing together companies, farmers, NGOs, and inter-governmental agencies. While the RSB was set up in 2007 as a means of ensuring the sustainability of liquid biofuels for transport, in 2013, it expanded its scope to include biomaterials.	The Intercultural Federation of Organic Agriculture Movements (IFOAM) is an NGO that represents more than 160-member organizations, including farmers, producers, traders, research and lobby organizations, environmental and consumer NGOs and companies. Its main purpose is to promote knowledge, principles and practices about organic agriculture. The Family of Standards contains all standards endorsed as organic by the Organic Movement.	The UTZ Label is a global certification system for coffee, cocoa, tea and hazelnuts. The UTZ certification incorporates environmental, social, farm management and farming practices considerations. UTZ merged with Rainforest Alliance in January 2018.
Clear positive impact	Promoting sustainable biomaterials.	Promoting sustainable practices for organic agriculture.	Promoting sustainable practices in Coffee, Cocoa Tea and Hazelnut farming and trading.

Minimum standards	The RSB sets minimum requirements in the areas of legality, planning, monitoring and continuous improvement, GHG emissions, human and labour rights, rural and social development, local food security, conservation, soil, water and air management, use of technology, inputs and management of waste, land rights and chain of custody.	Each standard, which is a part of IFOAM, has its own set of minimum requirements.	UTZ establishes a minimum threshold for impact through mandatory points and additional points, and requires farmers to go beyond by demonstrating compliance with an increasingly large proportion of both mandatory and additional points.
Directly addressing social and environmental risk	The RBS certification addresses key risks such as human and labour rights, supply chain, resource management, and land and biodiversity use through its criteria.	The IFOAM standards addresses different risk, including such as soil, pesticide, synthetic fertilizers and land use, through its criteria.	UTZ addresses key risks such as human rights, child labor, pesticide use and biodiversity use through its criteria.
Verification of standards and risk mitigation	Certified entities undergo a self-assessment process and, afterward, receives a visit from a third-party auditor. Annual audits will also take place after the validation.	Certified entities undergo third-party verification according to the specific IFOAM standard.	Certified entities undergo third-party verification to ensure compliance with criteria and continuous improvement.
Third -party expertise and multi-stakeholder process	RSB is a full member of the ISEAL Alliance and respects its Codes of Good Practice for multi-stakeholder sustainability standards. RSB's benchmarks are available with Rainforest Alliance, the Sustainable Agriculture Network, the Forest Stewardship Council, Bonsucro and the IFC Performance standards.	IFOAM maintains an Organic Guarantee System, which is a non-profit independent evaluation program that provides customers with trusted organic labels. The Standards Requirements Committee is responsible for developing the IFOAM Standards Requirements (COROS), which serve as the basis for the approval of standards under the IFOAM Family of Standards. COROS was developed jointly by IFOAM, FAO and UNCTAD.	Standard setting is aligned with the ISEAL Standard Setting Code.
Performance Display			
Accreditation	<ul style="list-style-type: none"> • ASI • SGS Global Services 	<ul style="list-style-type: none"> • Argencert SA • AsureQuality Limited • Australian Certified Organic • Bioagricert 	<ul style="list-style-type: none"> • 60 UTZ approved certification bodies split by country and by relevant commodity (coffee, cocoa, tea,

		<ul style="list-style-type: none"> • Biocert International PVT Limited • BIOGRO New Zealand LTD • CCPB SRL • Doalnara Certified Organic Korea, LLC • Hong Kong Organic Resource Centre Certification Limited • IBD Certifications Ltd. • iCOOP Certification Center • Japan Organic & Natural Foods Association • LETIS S.A. • NASAA Certified Organic Pty. Ltd. • Organic Agriculture Certification Thailand • Organic Food Development & Certification Center of China • Organizacion Internacional Agropecuaria S.A • Social Certification Services Pvt. Ltd 	<p>hazelnut, herbals. Rooibos)</p>
Qualitative considerations	<p>The RSB certification is considered strong by organizations such as WWF, IUCN and NRDC. In 2017, RSB certified 50 industrial facilities and 56 784 hectares of farmland.</p>	<p>In 2016, IFOAM was formed out of 40 governmental bodies, 297 companies and 245 civil society organizations. In total, IFOAM has around 800 affiliates in 117 countries.</p>	<p>UTZ has been criticized for lack of setting minimum wages criteria and for potentially allowing for genetically modified coffee, even though these plants are not yet available. Global recognition across 131 countries around the world. There are 987,000 UTZ Certified farmers in the UTZ programme with more than 368,000 workers on the UTZ certified farms in 41 producing countries and more than 3.4 million hectares of UTZ certified crops. The UTZ name or label is present on more than 15,000 products in 131 countries worldwide.</p>

	Proterra	Soil Association	Bonsucro
Background	The Proterra Certification is owned and	The Soil Association is a UK charity that has developed	Bonsucro was developed out of the Better

	independently run under the Proterra Foundation umbrella.	the world's first organic certification system, now including standards for food and drink products, farming, beauty and wellbeing products, fashion and textiles products, forestry and food service.	Sugarcane Initiative, an international multi-stakeholder NGO whose purpose is to lower the environmental and social impacts of sugarcane production. The Bonsucro Production Standard aims to ensure that the sugarcane production and sugarcane derived products are sustainably produced.
Clear positive impact	Promoting sustainable soy production.	Promoting sustainable practices in farming and growing, abattoirs and slaughtering, livestock markets, fisheries, hides, leathers & skins, aquaculture, seaweed, food and drink, catering, forestry, health and beauty and textile products.	Promoting sustainable sugarcane production.
Minimum standards	<p>Proterra sets minimum standards in 5 areas as it follows:</p> <ul style="list-style-type: none"> • Protection of the Amazon and other High Conservation Value Areas • Good labour practices including workplace safety, equal opportunities, protection of children and absence of forced or analogous forms of labour. • Protection of the rights of communities, indigenous people, and small holders • Good Agricultural Practices regarding soil fertility, water management and reduced input of fertilisers and pesticides • Rigorous Non-GMO requirements (<0.1% to adventitious 0.9% GMO maximum) 	<p>The Soil Association sets minimum standards per each category on agricultural principles, environmental principles, food processing principles and social principles such as:</p> <ul style="list-style-type: none"> • limiting the types and quantities of pesticides and fertilizers used • building soil fertility and soil stability, and • maintaining and increasing ecological diversity within and around cropped land • the respect of good traditional and pastoral grazing systems • the respect and crop integration within the local climate and topography 	The Bonsucro Production Standard sets minimum requirements in the areas of legal compliance, biodiversity and ecosystem impacts, human rights, production and processing and continuous improvement.
Directly addressing social and environmental risk	Proterra directly addresses key risks such as environment protection, child labour, forced labour, indigenous peoples' rights, soil fertility, inclusion of GMOs.	The Soil Association directly addresses key risks such as environmental protection, chemicals use and the compliance with the UN Convention for Human Rights and the core standards of the International Labour	Bonsucro addresses key risks such as human and labour rights, ecosystem management, biodiversity and land use through its criteria.

		Organization (freedom to associate, the right to organize and the right to bargain collectively).	
Verification of standards and risk mitigation	Certified entities undergo third-party verification to ensure compliance with criteria and continuous improvement.	Certified entities undergo third-party verification to ensure compliance with criteria and continuous improvement. The Soil Association licenses every stage from production on the farm, through processing, to distribution to the consumer.	Certified entities undergo third-party audits to ensure compliance with criteria.
Third party expertise and multi-stakeholder process	Standard setting is aligned with the ISEAL Standard Setting Code.	Standard setting is aligned with the ISEAL Standard Setting Code.	Bonsucro is a full member of the ISEAL Alliance and respects the ISEAL Code of Good Practice for Setting Social and Environmental Standards and the Impacts Code.
Performance Display			
Accreditation	Food Chain ID	Soil Association Certification Ltd. (SACL)	<ul style="list-style-type: none"> • Cert-ID • SGS • Control Union • SCS Global • LRQA
Qualitative considerations	Methodology and criteria not disclosed. No indication on the scope of applicability of the standard worldwide. Proterra poses restrictions on deforestation similar to those of the RTRS.	<p>Soil Association Certification Ltd. (SACL) is one of the nine approved organic certification bodies in the UK, approved by the UK Department for Environment, Food and Rural Affairs.</p> <p>The Soil Association Certification is UK's leading organic certifier covering over 70% of organic products.</p>	Bonsucro has certified around 3.37% of global sugarcane production and covers 3.70% of global area of sugarcane, having 207 member organizations in over 20 countries. The standard is considered to establish minimum requirements rather than leasing practices.

Appendix 3: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	FMO
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	FMO Sustainability Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	December 2018
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	FMO Sustainability Bond May 2017

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs and SBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The activities eligible under the use of proceeds categories (i) climate change mitigation, (ii) climate change adaptation, (iii) other footprint, (iv) investments in the poorest countries and (v) investments in inclusive business are aligned with those categories recognized as impactful by the Green Bond Principles, the Social Bond Principles and the Sustainability Bond Guidelines. FMO use the proceeds to (i) refinance existing projects or to repay a bond note issued under the Framework and (ii) to finance future projects or projects committed to but not disbursed before issuance of the respective thematic bond. FMO in its green categories uses amongst others third party verified sustainable certification systems. While some of the certification schemes have received criticism related to the implementation and control of standards, Sustainalytics considers the schemes to be credible and impactful.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input checked="" type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input checked="" type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (<i>please specify</i>): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|--|--|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |

- | | |
|--|---|
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

FMO implemented a two-step process for the selection of eligible projects, namely a 'green' or 'reduced inequality' labeling process (depending on the nature of the project) in which eligibility is assessed against a wide set of internal sustainability criteria, and a validation process in which bond proceeds are allocated to approved projects. FMO includes environmental and social risk assessments in the first step of its project selection process. Sustainalytics views this process as in line with market best practice.

Evaluation and selection

- | | |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|---|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Aligned with market practice, FMO will hold the net proceeds of sustainability bond issuances within FMO's Treasury in a sub-portfolio. Unallocated proceeds will be held according to FMO's liquidity portfolio.

Tracking of proceeds:

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner

- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

Additional disclosure:

- Allocations to future investments only
- Allocations to both existing and future investments
- Allocation to individual disbursements
- Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Other (*please specify*):

4. REPORTING

Overall comment on section (if applicable):

Aligned with market practice, FMO commits to report on an annual basis on the allocation of proceeds, including allocation to new and existing projects and to green and social categories in a newsletter on its website.

Regarding impact reporting, FMO commits to report the estimated annual GHG emission reduction of the financed investments and the estimated number of direct and indirect jobs financed for its direct investments. Sustainalytics suggest to also include reporting on the target population of social projects financed and to report on impact of its indirect investments.

Use of proceeds reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (*please specify*):

Information reported:

- Allocated amounts
- Sustainability Bond financed share of total investment
- Other (*please specify*):

Frequency:

- Annual
- Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

FMO Sustainability Bonds Framework

Frequency:

- Annual
 Semi-annual
 Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings
 Energy Savings
 Decrease in water use
 Number of beneficiaries
 Target populations
 Other ESG indicators (please specify): number of direct and indirect jobs financed

Means of Disclosure

- Information published in financial report
 Information published in sustainability report
 Information published in ad hoc documents
 Other (please specify): website
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

FMO website: <https://www.fmo.nl/sustainability-bonds>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion)
 Certification
 Verification / Audit
 Rating
 Other (please specify):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental and social sustainability or other aspects of the issuance of a Sustainability Bond, such as the establishment/review of an issuer's Sustainability Bond framework. "Second Party Opinions" may fall into this category.

FMO Sustainability Bonds Framework

- ii. **Verification:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally and socially sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against an external green and social assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. **Rating:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Sustainability Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Sustainability Bond frameworks / programmes.

Disclaimer

© Sustainalytics 2019. All rights reserved.

The intellectual property rights to this Second-Party Opinion (the “Opinion”) are vested exclusively in Sustainalytics. Unless otherwise expressly agreed in writing by Sustainalytics, no part of this Opinion may be reproduced, disseminated, comingled, used to create derivative works, furnished in any manner, made available to third parties or published, parts hereof or the information contained herein in any form or in any manner, be it electronically, mechanically, through photocopies or recordings, nor publicly released without the “Green Bond Framework” in conjunction with which this Opinion has been developed.

The Opinion was drawn up with the aim to provide objective information on why the analyzed bond is considered sustainable and responsible, and is intended for investors in general, and not for a specific investor in particular. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, the information is provided “as is” and, therefore Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date, nor assumes any responsibility for errors or omissions. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, nothing contained in this Opinion shall be construed as an investment advice (as defined in the applicable jurisdiction), nor be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds’ use of proceeds.

The client is fully responsible for certifying and ensuring its commitments’ compliance, implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider in 2017". In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit www.sustainalytics.com

Or contact us info@sustainalytics.com

