



FMO

Entrepreneurial
Development
Bank

2023

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Sustainability Bonds Newsletter

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Newsletter **no.14**

Cover image: A female farmer in Ecuador, supported through Banco Pichincha, the largest bank in Ecuador providing personal and corporate banking, as well as microfinance services. Banco Pichincha has the largest microfinance portfolio in the country and reaches 4.6 million Ecuadorians and 70,000 (M)SMEs, with a remarkable portfolio of USD 1 bln in loans supporting women-owned/-led (M)SMEs.

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Newsletter No. 14 – April 2023

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 publicly made available via our website.

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FMO in 2022

Strategy 2030: Ambitious choices in critical times

2022 was a year of upheaval. The Ukraine war – first and foremost a humanitarian disaster – led to political and economic crises across the region and beyond. Inequality rose, the climate crisis continued to unfold, and a global recession began to loom, pushing an increasing number of vulnerable people into food insecurity, reduced energy access and poverty. Combined with the fact that climate change disproportionately affects low- and middle-income countries – with the floods in Pakistan as an example – countless communities and countries face an even bleaker outlook. Since then, we have unfortunately also seen the devastating impact of the earthquakes in Turkey and Syria. Our hearts go out to the victims and all who have been affected, including our colleagues and customers with ties to the region.

At FMO, we believe that - in these critical times - we need to make ambitious choices to create more impact by better serving our customers and taking risks that commercial parties are not (yet) willing to take. Coming out of a two-year period of heavy measures to curb the global pandemic, we set three strategic priorities for 2022: building back business, adapting to regulatory changes, and accelerating the development of our organization.

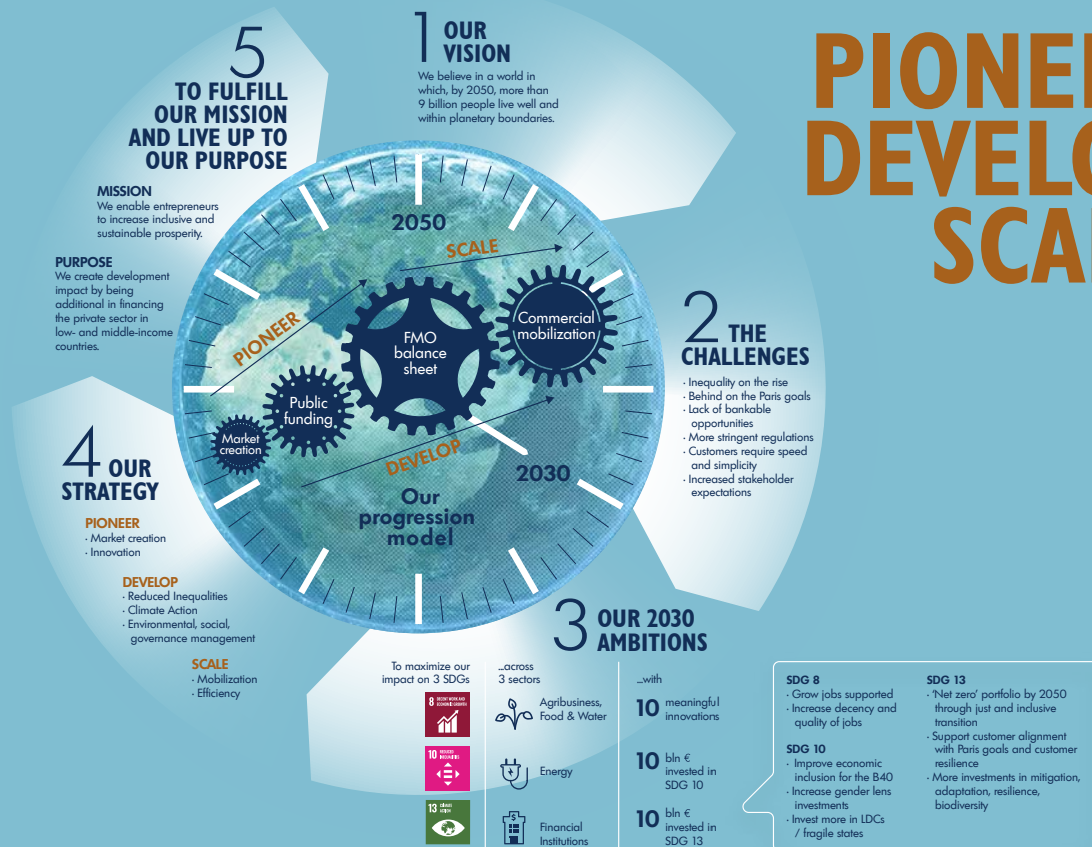
We also set ambitious targets for our total new investment volume of approximately €2.8 billion of new investments. While our overall portfolio

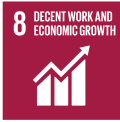
grew, we ended the year at €2.4 billion, nearly €500 million higher than the year before. The €2.4 billion constitutes of €1.8 in FMO investments, €153 million in public funds' investments and €457 million in mobilized funds' investments.

In close collaboration with our stakeholders, we updated our strategy toward 2030, titled 'Pioneer – Develop – Scale', derived from our so-called 'progression model'. This model shows our long-term commitment to companies, supporting them from an initial high-risk phase to the point where commercial investors can (partially) take over financing from FMO. In essence, our Pioneer - Develop - Scale strategy towards 2030 will help us maximize what we as a DFI can contribute towards the future world we envision and are working towards.

In our recently launched Annual Report 2022, we reflect on the progress made in line with our three strategic priorities, provide more context into our financial results, and offer insight into our 2023 outlook. Given the current geopolitical conflicts, high levels of inflation and threat of a global recession, the global outlook remains uncertain. While achieving growth and maximizing our impact will be challenging, we see it as our role to be countercyclical and focus on the long term, to invest when others shy away. Ultimately, it is people in emerging markets who suffer the most and we are driven and determined to do everything in our power to support them.

PIONEER DEVELOP SCALE





Decent work and economic growth

By investing in underserved markets, we support job growth, improved labor standards and economic prosperity. Jobs allow people to develop themselves and lift their families out of poverty;



Reduced inequalities

is about promoting social and economic inclusion of all, which we support by investing in the world’s poorest countries and inclusive business;



Climate action

We provide finance to projects that reduce greenhouse gas emissions, increase resource efficiency, preserve and grow natural capital and support climate mitigation. We aim to align our portfolio to a 1.5-degree pathway.

EU TAXONOMY

FMO and the EU taxonomy

As FMO invests outside the EU, none of our counterparties are in scope of the Non-Financial Reporting Directive (NFRD) and, as such, are not required to disclose their Taxonomy eligibility or alignment. As the regulation stipulates that the mandatory disclosure on eligibility must be based on actual information disclosed by financial or non-financial undertakings, and estimates are not permitted, FMO reports that zero percent of its balance sheet in 2022 is Taxonomy eligible (2021: 0 percent).

As FMO’s entire portfolio cannot be assessed for its Taxonomy eligibility, no strategy or weighing has yet been developed for the financing of Taxonomy-aligned activities. Until there is more clarity on the application of the Taxonomy on activities of EU companies outside the EU, we will continue to classify assets, steer, and report based on our Green label. At the same time, FMO will review developments in the Taxonomy framework to determine what can be aligned at each stage and fill data gaps where required. We expect alignment will be more challenging in some sectors than others and will depend on the applicability of sector specific ‘do no significant harm’ criteria in emerging markets.

FMO sees a risk that it could become harder to invest in emerging markets if institutions are not given the flexibility and time to align with the Taxonomy. This could send an incorrect signal that investing in emerging markets is not sustainable. As a response to these concerns, the European Commission has launched a High-Level Expert Group (HLEG) on scaling up sustainable finance in low and middle-income countries. The group’s task is to identify challenges and opportunities of sustainable finance in partner countries and provide recommendations to the European Commission on how to scale up funding from the private sector.

FMO is urging stakeholders to make the Taxonomy more inclusive for companies operating in emerging markets. Based on this study, our disclosures could change materially in the future. Furthermore, a large portion of our investments is focused on SDG 10 (Reduced Inequalities) and SDG 8 (Decent Work and Economic Growth), but these fall outside the scope of the current environmental Taxonomy.

GREEN AND SUSTAINABILITY BONDS

Green and Sustainability Bonds outstanding

Since 2012, FMO has been active in the thematic bond market with the issuance of Green and Sustainability Bonds. FMO has developed a leading role as established issuer in the Sustainability Bond market, as we have successfully issued 5 Sustainability Bonds in EUR (€500 million each) and 1 in SEK (SEK 2.7 billion). So far, we have issued 2 Green Bonds, one in USD (\$500 million) and a SEK 1,500 million Green bond.

Year of Issue	Amount	Tenor	Isin code
Sustainability Bonds			
2016	SEK 2,700 mln, 0.75% 29/11/2023	7 year	XS1527323411
2017	EUR 500 mln, 0.125% 01/06/2023	6 year	XS1622394143
2020	EUR 500 mln, 0.125% 01/04/2027	7 year	XS2150158405
2022	EUR 500 mln, 3% 25/10/2027	5 year	XS2548490734
Green Bonds			
2019	USD 500 mln, 2.75% 20/02/2024	5 year	XS1527323411
2020	SEK 1,500 mln, 0.86% 27/03/2028	8 year	XS2146570077

Key features FMO Sustainability Bonds Framework



FMO HAS INDUSTRY LEADING SUSTAINABILITY RATINGS

Sustainalytics

In 2022, FMO has received the 2nd highest rating out of 987 banks and the 2nd highest rating out of the total population assessed (out of 15,125 organizations).

ISS ESG

In 2022, ISS ESG confirmed again the Prime status of FMO



FMO IS A MEMBER OF THE GREEN BOND PRINCIPLES (GBP)

Reporting

- Reporting through guidelines that recommend transparency, disclosure and reporting
- Use of Proceeds and impact reporting via Sustainability Bonds Newsletter
- 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 2021, Social Bond Principles 2021 and Sustainability Bond Guidelines 2021”

Sustainalytics’ review of eligible projects in 2015-2022

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

Reasonable assurance

FMO has obtained since 2019 limited assurance from EY on Green investments. The reasonable assurance on Green Investments is an integrated part of the overall assurance engagement on the sustainability information in the FMO annual report and therefore no specific assurance is provided on the Green Investments standalone. Please refer to the combined independent auditor’s and assurance report. Investors can invest in green and social projects without running project risks and benefit from an impact return (Avoided GHG emissions and jobs supported).



IMPACT

Partnership FMO and Climate Bonds Initiatives

Harmonization

FMO works closely with other Development Finance Institutions (including the EDFIs) in multiple work streams, amongst others refinement of Project and Portfolio level Paris Alignment, human rights guidance and harmonized data collection from our clients.

Signatory

- Equator Principles
- Principles for Responsible Investment (PRI)
- UNEP FI Principles for Responsible Banking
- Partnership for Carbon Accounting Financials (PCAF)
- Partnership FMO and Climate Bonds Initiatives

Climate action plan

FMO published in 2022 its Climate Action Plan. Our overall climate action is framed by our commitment to a “net zero portfolio” by 2050, striving toward 1.5°C pathway alignment at both a portfolio and investment level, carefully balancing both social and environmental considerations and taking into account the need for a just and inclusive transition.



NATIONAL PIONEER

First Green Bond issuer in the Netherlands





Both Green and Reducing Inequalities: A Win-Win Transaction

To contribute to financial inclusion and climate action, FMO arranged a USD 116.75m syndicated loan for long-standing client Banco Pichincha, the largest universal bank and largest microfinance bank in Ecuador. The proceeds of the loan will be dedicated to financing women-owned SMEs and financing green clients or projects, thereby contributing to reducing inequalities and addressing climate change. Banco Pichincha and FMO's work align as the bank is a pioneer in financial inclusion with a well-defined gender strategy and a clear mission to include more people in the financial system in Ecuador. Banco Pichincha is a leader in sustainability, having signed the UN Principles for responsible business and joined the Net Zero Banking Alliance.

Financing the reduction of inequality

FMO signed and disbursed a USD 50 mln loan facility in local currency for our long-standing client Northern Arc Capital in India. Northern Arc's mission is to provide efficient and reliable access to debt capital to financial institutions and non-financial corporates that support low-income households and small businesses. They act as a financial intermediary between companies without material access to the capital markets and larger domestic and international investors on the funding side and have enabled over USD 13 billion of financing to over 400 partner institutions. They have positively impacted over 54 million lives, of which more than 42 million were women. Half of the latest loan facility will be utilized for on-lending in the MFI space.



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) 2021 Annual General Shareholder Meeting.

The reporting currency is USD as the majority of FMO’s asset is denominated in USD (about 80%). The FX rate at issuance date is used to report the USD outstanding of the issued Green/Sustainability Bonds.

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, MDB category

Impact reporting

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

The table below outlines the reporting characteristics of the Use of Proceeds

REPORTING ON UOP

Item	From 2019
Frequency	Annually
Impact	Portfolio level
Use of Proceeds (UoP)	Sustainability Bond allocations to outstanding + committed non-disbursed eligible project portfolio
Templates	Use templates released during GBP 2021
Reporting Ccy	USD

- The actual 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

Sustainability Bond Portfolio

The Sustainability Bonds allocation report shows that FMO has allocated USD 1.91 billion to eligible green and inclusive projects as per December 2022, against a total Sustainability Bonds outstanding of USD 1.91 billion. Allocations of foreign currency investments of the eligible project portfolio are converted into USD at the exchange rate of the reporting date (December 2022).

Please be informed that as per December 2022 we will allocate 70% of the sustainability bond proceeds to green and 30% to social projects (vs 80% green and 20% social previously). The change reflects the rapid growth and interest amongst the bond investor and issuer communities on creating positive impact through social cause.

Green Bond Portfolio

The Green Bond allocation report shows that FMO has allocated USD 652 million to eligible green projects as per December 2022, against a Green Bond outstanding of USD 652 million. Allocations of foreign currency investments of the eligible project portfolio are converted into USD at the exchange rate of the reporting date (December 2022).

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 on <https://www.fmo.nl/impact/how-we-measure-impact>

The environmental impact of FMO’s Sustainability Bond and its USD 876 million direct green investments (total Sustainability Bond allocation USD 1.9 billion) is an actual avoidance of approximately 499,915 tons of GHG (SDG 13).

The environmental impact of FMO’s Green Bond and its USD 401 million direct green investments (total Green Bond allocation USD 652 million) is an actual avoidance of approximately 244,070 tons of GHG (SDG 13).

Since 2020, FMO reports avoided GHG emissions in line with the PCAF Global Standard for the entire portfolio. The actual GHG reduction is based on the annual reductions in an operational year of the direct green investments, multiplied by the ratio between the Sustainability / Green Bond allocation and the Project Size.

Since 2020, FMO has launched the Joint Impact Model (JIM) to measure employment and environmental impact among its portfolio of investments. The model is used to estimate the number of supported Direct and Indirect jobs reported in this newsletter. The model has been developed in a joint effort with partner development finance institutions that agreed on harmonizing their methodology and assumptions. The

model has been made publicly available for impact investors, bilateral and multilateral development banks and other interested parties. It works using input/output modelling, combining the latest available macroeconomic statistics from several reliable sources, and it gives fair estimation on key indicators such as direct and indirect jobs supported, GHG emissions and total value added supported by clients in the portfolio.

The numbers published in this newsletter are comparable across institutions using this model.

The JIM aligns with the PCAF Global Standard.

For more information, please visit: <https://jointimpactmodel.com/>.

FMO SUSTAINABILITY BONDS ALLOCATION REPORTING 2022

Portfolio date: December 2022

Eligible Sustainability Project Portfolio

Green projects	Amount (in mUSD)	Allocation of Sustainability Bonds	Amount (in mUSD)
Renewable Energy	816	2020: XS2150158405	540
Mixed	408	2017: XS1622394143	561
Agriculture, forestry and landuse	59	2016-2017-2018: XS1527323411	314
Energy efficiency	49	2015: XS2548490734	498
Conservation of natural resources	6		
Activities adressing climate vulnerability	10		
Total Green projects	1,339	70.5%	
Social projects			
Least Developed Countries	190		
Microfinance	161		
Mixed	86		
Gender: Women-owned SMEs	67		
Agriculture SME lending	32		
Youth Finance	23		
Smallholder Finance	6		
Total Social Projects	574	29.6%	
Total Eligible Sustainability Project Portfolio	1,913		
Total assets	1,913	Total issued Sustainability Bonds	1,913

Percentage of net proceeds of Sustainability Bonds allocated to Eligible Sustainability Project Portfolio	100%
Existing disbursed projects ¹	87%
Committed not disbursed projects ²	13%

¹ Existing disbursed projects = outstanding sustainability project portfolio for projects contracted in 2012-2022 per reporting period (Dec-22)

² Committed not disbursed projects = committed non-disbursed sustainability project portfolio for projects contracted during 2012-2022 as per reporting period (Dec-22)

FMO GREEN BONDS ALLOCATION REPORTING 2022

Report date: December 2022

Use of Proceeds for Eligible Green Projects

Climate change mitigation	Amount (in mUSD)	Allocation of Green bonds	Amount (in mUSD)
Renewable Energy	340	2019: XS1953035844	500
Mixed	190	2020: XS2146570077	152
Agriculture, forestry and land use	52		
Lower-carbon and efficient energy generation	6		
Total Climate Change Mitigation	588		
Climate Change Adaptation	Total		
Activities addressing climate vulnerability	59		
Total Climate Change Adaptation	59		
Other Footprint	Total		
Biodiversity	5		
Total Other Footprint	5		
Total Eligible Green Project Portfolio	652	Green funding	652

Percentage of net proceeds of Green Bonds allocated to Eligible Green Project Portfolio 100%

Existing disbursed projects¹ 76%

Committed not disbursed projects² 24%

¹ Existing projects = outstanding green project portfolio for projects contracted in 2018-2022 per reporting period (Dec-22)

² New projects = committed non-disbursed green project portfolio for projects contracted in 2018-2022 as per reporting period (Dec-22)

FMO SUSTAINABILITY BOND IMPACT REPORTING 2022

Portfolio date: December 2022

Eligible Project Category	Signed Amount (in USD mln)	Share of Total Portfolio Financing	Direct Jobs Supported	Indirect Jobs Supported	GHG emissions avoided in tCO ₂ e
a/	b/	c/	d/	e/	f/
Green investments	1,348	70%			
Renewable Energy	816	43%	1,537	23,946	499,915
Mixed	408	21%	153	13,111	
Agriculture, forestry and landuse	59	3%	223	3,953	
Energy efficiency	49	3%	163	8,991	
Conservation of natural ressources	6	0%	71	228	
Climate Change Adaptation	10		207	1,387	
Social projects	566	30%			
Least Developed Countries	190	10%	691	25,533	
Microfinance	161	8%	283	13,259	
Mixed	86	5%	208	6,559	
Gender: Women-owned SME	67	4%	46	2,598	
Africultural SME lending	32	2%	33	1,373	
Youth finance	23	1%	50	1,532	
Smallholder Finance	6	0%		616	
Total	1,913	99%	3,665	103,086	499,915

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/ Direct jobs refer to the number of full-time equivalent employees, as defined at a local level, working for the customer company or on a project.

e/ Estimates of indirect impact are based on industry averages. In reality indirect effects will be different at the individual company level due to differences in individual company characteristics.

f/ Sample of impact indicators (impact for debt funded part) for direct green investments -GHG emissions avoided in tCO₂e

FMO GREEN BOND IMPACT REPORTING 2022

Portfolio date: December 2022

Eligible Project Category	Signed Amount (in USD mln)	Share of Total Portfolio Financing	Direct Jobs Supported	Indirect Jobs Supported	GHG emissions avoided in tCO ₂ e
a/	b/	c/	d/	e/	f/
Climate change mitigation	588	90%			
Renewable Energy	340	52%	1,191	7,641	243,998
Mixed	190	29%	392	11,686	
Agriculture, forestry and landuse	52	8%	944	2,270	72
Lower-carbon and efficient energy generation	6	1%	34	15	
Climate change adaptation	59				
Activities adressing cliamte vulnerability	59	9%	131	661	
Other Footprint	5	1%			
Biodiversity	5	1%	7	332	
Total	652	91%	2,698	22,606	244,070

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/ Direct jobs refer to the number of full-time equivalent employees, as defined at a local level, working for the customer company or on a project.

e/ Estimates of indirect impact are based on industry averages. In reality indirect effects will be different at the individual company level due to differences in individual company characteristics.

f/ Sample of impact indicators (impact for debt funded part) for direct green investments -GHG emissions avoided in tCO₂e

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

FMOs 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

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 (MFI), 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 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:

- The end-client should meet two of three criteria to be eligible for the Sustainability Bond (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 the Green \ Social \ Sustainability Bond; or
- Projects committed before the issuance of the Green \ Social \ Sustainability Bond but funded (disbursed) after the issuance of the Bond;



An MSME client of **Khan Bank**, Mongolia's leading universal bank and largest commercial bank reaching ~80% of households across almost all of both urban and remote Mongolia



d.light Solar is a designer, distributor and financier of solar lighting products as well as solar home systems (SHS) servicing markets in Africa and India. D.Light has sold over 20 million solar lanterns and over 300K SHS through the “pay as you go” (PAYGO) model.

Process to define green and social¹ projects

IMPACT

- Green and Reduce Inequality (RI) definition
- IFI definition of climate finance

INVESTMENT

- Apply for green and RI label
- Exclusion list
- ESG standards

CREDIT

- Approve green and RI label
- Take note of green and RI label
- Impact narrative

TREASURY

- Consider for thematic bond
- Green label
- RI label
- Issue mgt

¹ Social projects aiming at reducing inequality