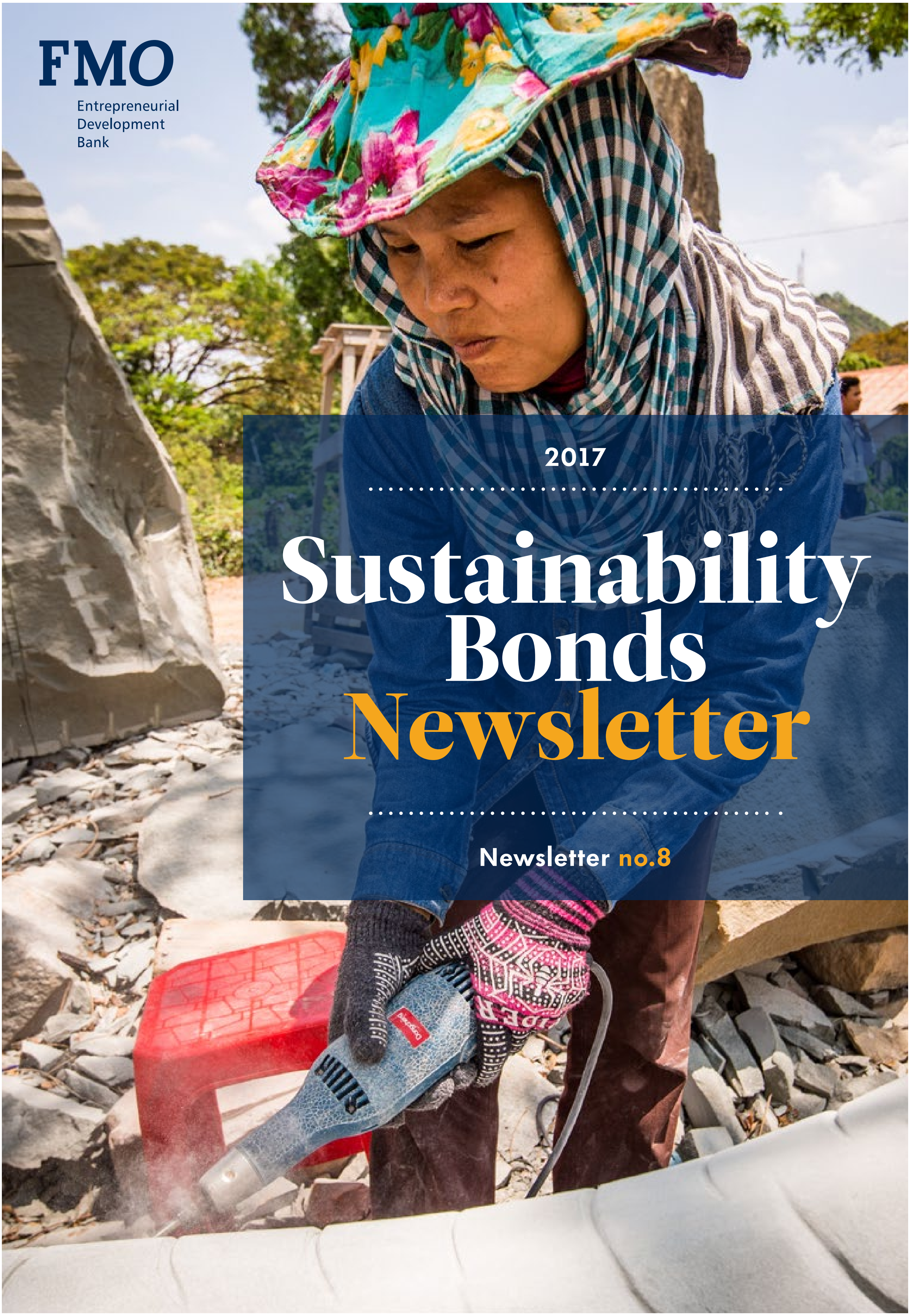
FMO

Entrepreneurial
Development
Bank



2017

# Sustainability Bonds Newsletter

Newsletter no.8

**Newsletter No. 8 October 2017**
The Sustainability Bonds Newsletter is published bi-annually. It reports on the status and disbursements of projects selected for the Sustainability Bonds. It is sent to investors and is made available via www.fmo.nl/sustainability-bonds

**Cover image:** In the picture is Say Sokhim (35) the daughter-in-law of Sem Oun (58). Sem Oun runs together with her husband a sculpture studio in the Batheay village in the Kampong Cham province in Cambodia. Since 2010, she has received four loans from PRASAC Microfinance Institution. She has used it to buy material, to expand the company and to hire employees. This has led to growth of the company and their personal income. Her dream is to grow the company even further for her children, and to buy a family car to visit family in Kampot.

## In this issue



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# Walking the talk on human rights

**Human rights are a top priority for FMO.** As we invest in the most challenging and fragile economies, we are more likely to face human rights challenges in our projects. Now we have taken the next steps in operationalizing and implementing the **Dutch Banking Sector Agreement** of October 2016 (IMVO Covenant) in the core investment process.

Following an internal review and consultation with our stakeholder community, we have published a new position statement on Human Rights. Our new policy builds on valuable feedback from our stakeholders and we are thankful for their constructive input. Next step is to implement effective processes across our investment cycle so we can walk the talk on human rights.

# FMO, your preferred partner to invest in local prosperity

**We have updated our corporate strategy towards 2025 to align with the Sustainable Development Goals (SDGs) and increase focus and impact in our activities. We are also proud to be EDGE-certified. It demonstrates our commitment to achieving gender equality and inclusion on all levels. Furthermore we successfully issued our third Sustainability Bond.**

## Increase focus for greater impact

In the previous newsletter (no7) we already introduced how at a corporate level our focus on three key SDGs is shaping our strategy. We also decided to stop our debt offering to non-focus sectors and deepen our expertise in Financial Institutions, Energy and Agribusiness. We continue to invest in expertise on environmental and social risk management and engagement, with specialist staff for local stakeholder management and increased focus on human rights.

Engaging commercial investors to co-invest with FMO, both through fund management and syndicated transactions, remains a priority. To this end, we will strengthen our fund management proposition for public sector funds, for which we have established a dedicated public investment management team.

“Our strategy sets out to raise our impact, deepen relationships with clients and stakeholders, and enhance our ability to deliver quality at speed. So, we will be the preferred partner to invest in local prosperity”, says FMO’s CEO Jürgen Rigterink.

## Certification for gender equality

We are proud to announce that we have become Europe’s first development finance institution and the second company in the Netherlands to become EDGE certified. Achieving EDGE Assess level recognizes FMO’s public commitment to gender equality. FMO’s almost 500 staff consists of 51 % men, 49 % women and over 39 different nationalities. FMO actively stimulates diversity because it brings different perspectives and approaches to our work, which contribute to better performance.

Economic Dividends from Gender Equality (EDGE) is the leading global standard for gender equality. EGDE Certification requires a rigorous external assessment of the workplace environment through an employee survey and review of company policy and practice against the international best practice defined by EDGE.
Jürgen Rigterink, commented, “Empowering female entrepreneurs and contributing to achieving Sustainable Development Goal 5 on gender equality is a core part of FMO’s strategy. Over the last year, we have financed several projects such as the Women’s Entrepreneurs Debt Fund and a new USD 7.5 million loan to ASA Pakistan, a leading microfinance institution in Pakistan, to fund women micro-entrepreneurs, as well as organizing a conference with the Global Banking Alliance for Women on the importance of supporting women-owned businesses.”

## Successfully issued third EUR 500 million Sustainability Bond

On Tuesday 23rd May 2017, FMO successfully priced its third EUR Sustainability Bond, a 6-year EUR 500 million transaction. Over 50 investors were involved, highlighting the strong following from FMO’s international investor base as well as broad support from the green investor community. Allocation was dominated by European investors (90%) with the largest proportion (43%) going to Benelux, followed by Germany / Austria / Switzerland at 14%. The Nordic and French investors were not far behind at 13% of allocations each. (Read here the full press release).

Up to June 2017, FMO has disbursed EUR 1,254 million to eligible projects in the period November 2012-June 2017, against a total Sustainability Bond outstanding of EUR 1,675 million. Disbursements in foreign currency are converted into Euro at the exchange rate on the date of the respective disbursement. The committed non-disbursed eligible project portfolio equals EUR 163 million as per June 2017.

# FMO Sustainability Bonds

## Industry leading Sustainability Ratings

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

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

## Member of the Green Bond Principles (GBP)

**Reporting**

- Use of Proceeds reporting via Sustainability Bond Newsletter
- FMO joined the International Financial Institutions working group on impact reporing harmonization
- Project disclosure on FMO world map

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

**Sustainalytics' 2nd opinion on FMO Sustainability Framework**
Sustainalytics concludes FMO's Sustainability Bond to be robust, credible and transparent. To read the full report click here.

**Sustainalytics' review of eligible projects in 2015, 2016 and 2017**

- All of the Climate Change Mitigation projects were assessed and all of them meet the eligibility criteria.
- All of the Inclusive Finance projects were assessed and all of them meet the eligibility criteria

**EY**
Use of proceeds (financial perspective)

## National pioneer

**First green bond issuer in the Netherlands**

## Partnership

**Partnership FMO and Climate Bond Initiatives**


# Rise of green credit

**A green credit line is proving to be an effective financial instrument which FMO, in cooperation with Central American colleague banks, uses to ensure projects become more sustainable. The loans are conditional on water saving or energy efficiency measures taken by coffee, rice, sugar and peanut growers, for example. And provide them with expert assistance to realise those goals.**

**Ramiro Ortiz**
Vice president of regional banking group Promerica

**Michelle Espinach**
Sustainability Manager at Promerica Costa Rica

'Banks must contribute to society and encourage change. Making lots of money should never be the primary objective,' says Ramiro Ortiz, Vice president of regional banking group Promerica. Latin American banking group Promerica is a major player in Central America and the first to place high priority on sustainability. A recent visit to the Netherlands provided new inspiration.

'My colleagues at other banks think we have gone mad. There is not a single bank in Nicaragua or Central America that is prepared to finance green investments. They fail to see the market we can see.' Ramiro Ortiz cannot suppress his laughter. 'They mock me, saying I've become a Greenpeace lover. In reply I say: It is just common sense.'

Just a few years ago Banpro, Nicaragua's leading agricultural bank, supported by FMO, provided the first green loans to selected large coffee growers. Loans that enable businesses to invest in energy saving measures, replace diesel generators with sustainable energy, or reduce their water consumption. 'That was the first time green investments were ever mentioned in Nicaragua,' says Ortiz. 'There is no awareness of environmental problems. But people see that the climate is changing, and are beginning to understand that less rainfall is not a temporary phenomenon. That is where we come in by financing irrigation systems or solar panels. It doesn't take long for them to see that these are profitable investments.'

Ortiz sees contributing to increased environmental awareness as his greatest challenge. He expects little from the government. 'There is no continuity in policy, no national plan. In such circumstances, sustainability loses out, whereas it ought to be one of our main priorities.' Change must be initiated by the people, by consumers. 'If we can achieve sufficient mass, we can compel governments to take action. Then it also helps that we, as an important financial party, say: we believe in this.'

Banpro's green loans are targeted at its principal clientèle: small and medium-sized enterprises. As is the case nearly everywhere in developing countries, there is also ample scope in Nicaragua for these businesses to use energy far more efficiently than they do at present. But entrepreneurs are cautious about committing their money. Let alone that they apply for a loan to make this possible. This is because environmental measures are seen as a long-term investment, whereas the average SME's prime concern is to stay afloat for the next few years. 'Green loans are good for businesses,' says Ortiz, 'but it is up to us as a bank to convince them of that.' 'Promerica is a pioneering bank in Latin America. They have a vision for their future. FMO stimulates creative approaches to realising that vision.'

Banpro's green loans quickly proved to be a success. The Green Line financing initiative by FMO enables the bank to offer competitive loans, linked to technical expert advice. Says Ortiz: 'Our strategy is to identify the most enlightened producers in a sector and offer them loans. We then invite other businesses to come and take a look. The strong growth in demand is proof that our strategy is effective. Businesses can see the almost immediate benefits of reducing water consumption, or generating their own power. And that planting indigenous shade trees on coffee plantations results in a better product. I would like to speed up the entire process even further, but the pace is determined by the level of awareness. So that is something we need to keep working on.'

In the neighbouring country of Costa Rica, which has a history of pioneering green initiatives and is set to become a carbon-neutral country by 2021, green loans also are proving increasingly successful. 'We launched green loans in 2010,' says Michelle Espinach, the impassioned Sustainability Manager Banco Promerica at Costa Rican. 'But it was an entirely new concept at the time, and we could not match it to a single client. We now have 43 million dollars in outstanding green loans to 186 businesses. We consider this a great success.'

In addition to providing green loans to businesses, Promerica Costa Rica also launched a green credit card to promote responsible consumption. Says Espinach: 'A green cardholder who uses it to buy an aircon unit with the highest energy efficiency rating is charged a lower rate of interest and also benefits from a longer financing period.'

Says Espinach: 'The transport sector is our largest polluter, in terms of CO2 and particulate matter emissions. For this reason we also fund the replacement of old buses with new models, with cleaner engines. Construction runs a close second to transport, however. If we want Costa Rica to be carbon neutral, we will have to change how we build our towns and cities radically. The latest plan is to develop green mortgages to promote green building. To realize resource-efficient buildings, we need to give an incentive to all parties in the value chain. We are developing this product with the support of FMO. I am very enthusiastic about it. It promises to have a real and significant impact, both for our country and for ordinary people.'

Written by Hans van Veen for the Dutch publication P+ magazine
http://www.p-plus.nl/nl

## How does FMO support the Promerica banks?

FMO invited a group of fifteen representatives from the various Promerica banks to undertake an inspiration tour in the Netherlands. 'These banks have already taken significant steps with us and are now ready to move on to the next phase,' says Mareike Hussels, Senior Environmental & Social Officer at FMO. 'A central question was how to become a sustainable bank.' Visits to Triodos Bank and ASN were arranged to help the group find answers to this question, and they also spent time with ING.

Grupo Promerica has been an important client, and strategic partner, of FMO for many years. The success of the first Green Line loans to Nicaragua led to the concept being rolled out across the entire Promerica group. In addition to providing finance, FMO also ensures that external experts help the banks gain essential knowledge. This is done in cooperation with local organisations and consultants, such as the Centro de Produccion mas Limpia (Centres for Green Production) and EcoConsulta.

That is a rather unique approach. While there are other funds and banks also offering green loans, FMO goes a lot further in terms of the cooperation and assistance it provides. Says Hussels: 'You can provide a Green Line, with the condition that it must result in up to 20% increased energy or water efficiency, and then leave it up to the recipient to decide how to do that. But we go further, share ideas, provide experts. This approach ensures enhanced understanding between us. We are proud on both sides of what we have achieved, and we are highly motivated to take it further.'

**About Promerica Group**
The Promerica Group has operations in Ecuador, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, the Dominican Republic,and the Cayman Islands.

**Sector**
Financial Institutions

**Total assets**
USD 13.4 billion

**Green lines**
FMO extended five green lines to Promerica Group entities: Banco Promerica in El Salvador (USD 10 million), in Guatemala (USD 10 million), in Costa Rica (USD 5 million), in Ecuador (USD 10 million) and Banco de la Produccion in Nicaragua (USD 15 million).

**Years of investment**
2016, 2017

**Watch the video**
Green financing – a serious business proposition

# Responsible Investor Award for Integrated Annual Report

**Early June, FMO received recognition for its detailed and clear Annual Report 2016 by winning the Best RI Award by an Asset Owner in the Medium and Small Funds category.**

FMO's Annual Report particularly stood out to the jurors because of its reporting on UN Sustainable Development Goals, which was reflected in only very few reports. Other factors the judges praised were reporting on progress versus targets and on impact, such as the number of jobs supported or emissions avoided. The jury specially referred to FMO's use of interesting case studies and the high level of clarity and legibility of the report.

"We can only be successful as a business, if we are successful at boosting the emerging economies we operate in," says Jürgen Rigterink, Chief Executive Officer of FMO. "We help create jobs, provide economic growth, green economies and reduce inequalities. Our annual report needed to tell that story: how FMO as a business developed, and how the communities we propel, developed with us. We are incredibly proud that our efforts to tell an integrated story are honoured, and even more so, that we are seen to be setting a standard in the responsible investment community."

Every year, a team of experienced researchers qualify the nominated organisations, by looking out for publically available responsible investment reports that were published that year. The analysts assess the best practice based on around 50 key performance indicators. The judge panel, consisting of key actors from the responsible investment community, then evaluate and rank reports based on their experience and knowledge. Thirty-two reports from funds and firms ranging from small to large were shortlisted for one of the categories of the RI Reporting Awards.

# Progress report on use of the proceeds

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

The table below presents the Sustainability Bond allocations to eligible projects for disbursements from January 2017 up to and including June 2017. The total available amount represents the total eligible project amount available for Sustainability Bond financing. The total available amount per project is the sum of all disbursements made and the future disbursements to be made to the respective project.

(**AFOLU** = Agriculture, Forestry and Other Land Uses, **RE** = Renewable Energy, **EE** = Energy Efficiency, **FI** = Financial Institution, **MFI** = Microfinance Institution, **WASTE** = Waste management).

The eligible projects funded by Sustainability Bonds until June 2017 can be found by clicking on the List of eligible green and inclusive projects.

FMO has disbursed €1,254 million to eligible projects as per June 2017, against a total Sustainability Bonds outstanding of €1,675 million. We measure our impact on employment and environment, through jobs supported and avoided green house gas emmissions (GHG).

More information on impact methodologies can be found on https://www.fmo.nl/impact/how-we-measure-impact

FMO estimates the environmental impact of FMO's Sustainability Bonds and its EUR 665 million of **direct** green investments (total Sustainability Bond allocation to green EUR 1,008 million) will be an avoidance of approximately 530,000 tons of GHG (SDG13). Please note that some green lines provided to financial institutions were reported as direct green investments. These are restated in this Newsletter as indirect green investments.

The estimated GHG reduction is based on the ex-ante estimates of the annual reductions in an operational year of the direct green investments, multiplied by the ratio between the Sustainability Bond allocation and the Project Size. The committed non-disbursed eligible project portfolio equals EUR 163 million as per June 2017.

The estimated number of (in)direct jobs supported with our sustainability bond allocations will be approximately 335,000 (SDG8).

| Nr | Beneficiary | Sector | Country | Description | Total Available amount | Sus bond allocation 2017 |
|---|---|---|---|---|---|---|
| 1 | AFRICA EMS NYAMWAMBA LTD | RE | Uganda | EMS Africa Nyamwamba Ltd is a company that aims to develop, own and operate a 9.2MW run-of-river Nyamwamba hydropower plant | 7.2 | 1.4 |
| 2 | ALISIOS HOLDINGS S.A. | RE | Costa Rica | Project to develop, construct, and operate 4 20MW wind projects in Costa Rica | 39.7 | 5.3 |
| 3 | BANCO DE LA PRODUCCION S.A. PRODUBANCO | FI | Ecuador | Green Line to on-lend to renewable energy and energy efficiency projects | 2.4 | -5.6[1] |
| 4 | ECO-BUSINESS FUND S.A., SICAV-SIF | FI | Latin America | Debt fund to promote business practices contributing to the sustainable use of natural resources and biodiversity conservation in the LAC region | 16.7 | 16.7 |
| 5 | ELZ SAGLIK YATIRIM A.S. | EE | Turkey | Financing of a green hospital | 20.0 | 2.1 |
| 6 | FINANS FINANSAL KIRALAMA A.S. | FI | Turkey | Green line to mainly finance renewable energy and enegery efficiency projects | 32.5 | 32.5 |
| 7 | FRV SOLAR HOLDINGS IX B.V./ JORDAN | RE | Jordan | Company established for the development, construction and operations of a 50MW solar photovoltaic (PV) power plan | 10.6 | 1.6 |
| 8 | GENERACION RENOVABLE DE HONDURAS S. | RE | Honduras | Company (GENERSA) that is developing, constructing and later operating a 25MW PV solar power project | 14.5 | 3.6 |
| 9 | GLOBAL CLIMATE PARTNERSHIP FUND SA | FI | Europe and Central Asia | The fund provides green lines to banks around the world, including support for implementation and reporting | 37.0 | 18.8 |
| 10 | GREEN FOR GROWTH FUND, SOUTHEAST ASIA | FI | Europe and Central Asia | The first specialized fund to advance energy efficiency and renewable energy in Southeast Europe, including Turkey | 43.2 | -0.3[2] |
| 11 | LAKE TURKANA WIND POWER | RE | Kenya | A SPV to develop, construct and operate a 300MW wind farm near Lake Turkana in Kenya | 35.0 | 8.2 |

1. Sus Bond allocation 2016 equals €8.0 mln (Newsletter No7). FMO exposure sold to syndicated partners in 2017 equals €5.6 mln, available amount €2.4 mln
2. Sus Bond allocation 2017 equals -€0.3 mln, as part of FMO exposure is sold to syndicated partners in 2017

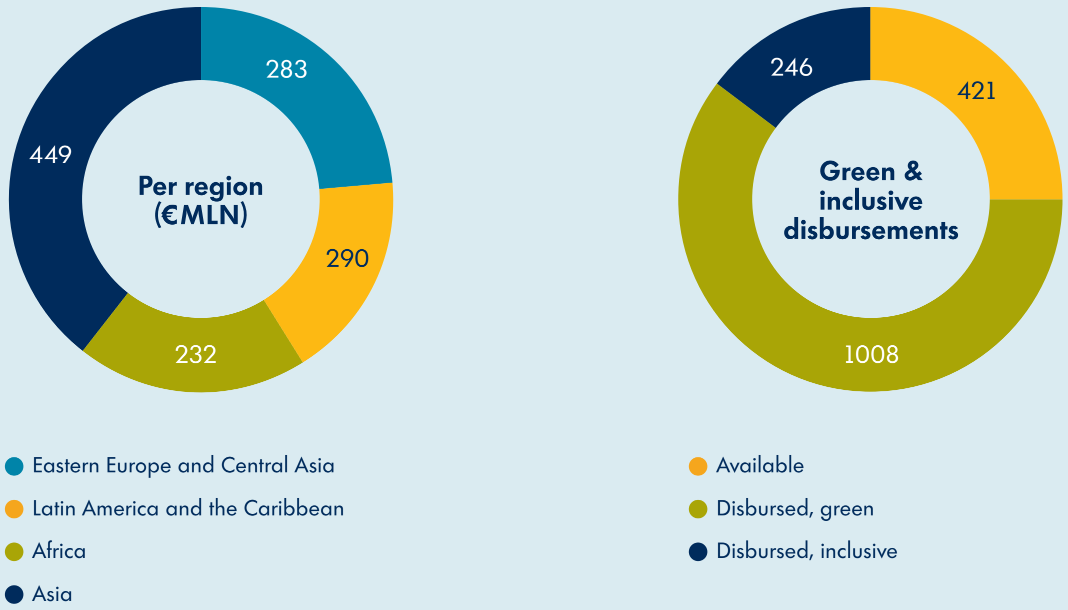
| Nr | Beneficiary | Sector | Country | Description | Total Available amount | Sus bond allocation 2017 |
|---|---|---|---|---|---|---|
| 12 | LISI FO LLC | EE | Georgia | Project to construct more resource efficient apartments for the middle class in Tbilisi | 8.9 | 5.5 |
| 13 | LUBILIA KAWEMBE HYDRO LIMITED | RE | Uganda | Company to develop, construct and operate a 5.4MW run-of-river hydro plant Uganda | 4.6 | 0.9 |
| 14 | MABANI SEVEN COMPANY LIMITED | EE | Ghana | Mabani Seven Company Ltd and develops a mixed-use real estate project with the name "The Exchange" in Accra, the capital city of Ghana | 39.0 | 6.7 |
| 15 | MIRA POWER LIMITED | RE | Pakistan | Project to fund a greenfield run of the river hydro | 15.4 | 2.2 |
| 16 | NEPAL HOSPITALITY AND HOTEL PVT LTD | EE | Nepal | The Project is considered a Greenfield energy efficiency project as the efficient architectural design exceeds available standards and complies with high-energy efficiency certification or rating schemes | 2.7 | 2.5 |
| 17 | SOLU HYDROPOWER PRIVATE LIMITED | RE | Nepal | Essel Clean Solu Hydropwer Private Limited, a company established for the development, construction and operations of the Lower Solu Hydropower Project | 21.7 | 2.5 |
| 18 | TORORO SOLAR NORTH LIMITED | RE | Uganda | Company to develop, construct, operate and maintain a 10MW PV Solar Plant in the East of Uganda | 6.8 | 4.6 |
| 19 | UEP PENONOME II S.A. | RE | Panama | UEP Penonome II S.A. is a project company that will develop, construct and operate the 215 MW Penonome II wind farm | 18.4 | -2.3[3] |
| 20 | ZAHRAT AL-SALAM FOR ENERGY | RE | Jordan | Company to develop, construct and operate a 10MW solar photovoltaic (PV) power plant in Jordan | 3.6 | 3.4 |
| | GREEN TOTAL | | | | 441.7 | 106.6 |
| 21 | AMRET CO. LTD | MFI | Cambodia | Deposit-taking microfinance institution in Cambodia with a focus on agriculture and poor women in rural areas | 21.3 | 3.4 |
| 22 | BANCO INTERNACIONAL S.A (ECUADOR) | FI | Ecuador | The loan will be used for on lending to WMSEs, therefore supporting economic growth and jobs | 23.8 | 23.8 |
| 23 | BANCO MULTIPLE ADEMI, S.A. | MFI | Dominican Republic | Microfinance institution in Dominican Republic | 15.9 | 15.9 |
| 24 | FONDI BESA JSC | MFI | Albania | Largest microfinance institution of Albania | 5.0 | 2.5 |
| 25 | KOMPANION BANK CJSC | MFI | Krygzstan | Local currency loan to MFI focusing on rural areas | 7.1 | 0.9 |
| 26 | PARTNER MIKROKREDITNA FONDACIJA | MFI | Bosnia & Herzegovina | Leading MFI in Bosnia focusing on the agricultural sector | 5.0 | 1.5 |
| 27 | PT MITRA BISNIS KELUARGA VENTURA | MFI | Cambodia | The funds will be utilized to finance the growth of the microfinance portfolio in rural areas of Java | 13.4 | 13.4 |
| 28 | WOMEN ENTREPRENEURS DEBT FUND LP | FI | Global | This Fund is providing financing via targeted financial institutions to women owned or controlled SME's in emerging markets | 30.7 | 6.1 |
| | INCLUSIVE TOTAL | | | | 122.2 | 67.4 |
| | GRAND TOTAL | | | | 564.0 | 174.0 |

[3] Sus Bond allocation 2017 equals -€2.3 mln, as part of FMO exposure is sold to syndicated partners in 2017

The total Sustainability Bond proceeds allocated to eligible green and inclusive projects in the period November 2012 – June 2017: EUR 1,254 billion.

| | |
|---|---|
| GREEN TOTAL | 1,007.6 |
| INCLUSIVE TOTAL | 246.5 |
| GRAND TOTAL | 1,254.1 |

Click on the following link to retrieve the total list of eligible projects




## Sustainability Bonds outstanding

| Year of Issue | Amount | Tenor | Isin code |
|---|---|---|---|
| 2013 | EUR 500 mln, 1.25% 13/11/2018 | 5 year | XS0993154748 |
| 2015 | EUR 500 mln, 0.125% 20/04/2022 | 7 year | XS1219963672 |
| 2017 | EUR 500 mln, 0.125% 01/06/2023 | 6 year | XS1622394143 |
| | | | |
| 2016 | SEK 1,700 mln, 0.75% 29/11/2023 | 7 year | XS1527323411 |

# USE of proceeds criteria

## Green investments

FMO looks for investments in the following two “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

FMOs green eligibility criteria are aligned with the Common Principles for Climate Mitigation Finance and the Common Principles for Climate Adaptation Finance and the International Development Finance Club (IDFC) “Other Environmental” activities.

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 finance 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 below.

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 the Sustainability Bonds are allocated within FMO's Treasury to a special sub-portfolio that is linked to FMO's lending operations in the fields of green finance and inclusive finance. So long as the Sustainability Bonds are outstanding, the balance of the sub-portfolio will be reduced by amounts matching disbursements in respect of eligible projects. Pending such disbursement, the net proceeds of the Sustainability Bonds will be held in FMO's liquidity portfolio and may temporarily be used for different purposes in case of liquidity stress situations.

Besides being active as an issuer of Sustainability Bonds, FMO is also keen to make environmentally and socially responsible investments in its liquidity portfolio. The socially responsible objectives are integrated in FMO's investment policy, both positive and negative screening. FMO bought its first green bond in 2011. Currently, approximately 30% of FMO's long-term liquidity portfolio is invested in sustainable bonds, in line with the target.

### Eligible projects include:

- Projects committed after the issuance of the Sustainability Bond;
- Projects committed before the issuance of the Bond but funded (disbursed) after the issuance of the Sustainability Bond;
- Projects funded (disbursed) within 12 months before the issuance of the Bond.

# Process to define green transactions

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

### POTENTIALLY GREEN PROJECTS

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

### STRAIGHTFORWARD GREEN PROJECTS

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

### FOLLOWING PARTNERS

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

**YES**

**GREEN PROJECTS**

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