FMO
Entrepreneurial
Development
Bank

2024

Sustainability Bonds Newsletter

Newsletter no.15

Cover image: Genneia S.A. is one of Argentina's leaders in renewable energy, holding roughly a quarter of the country's installed renewable energy capacity and having a gross installed capacity of approximately 1,230 MW. They have built the largest wind farms in Argentina.

IN THIS ISSUE

ANNEXES

Newsletter No. 15 – April 2024
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 2023

Staying the course

In 2023, the volatile global economic and geo-political circumstances were aggravated by more extreme weather conditions, food crises, the collapse of several major banks, the ongoing war in Ukraine, the war in Gaza, and Sahel coups. All with direct and prolonged, devastating effects on the well-being of entire communities, in particular in FMO's geographies. This instability is often worsened by adverse financial factors in many emerging markets such as higher interest rates, high inflation, and increased sovereign debt.

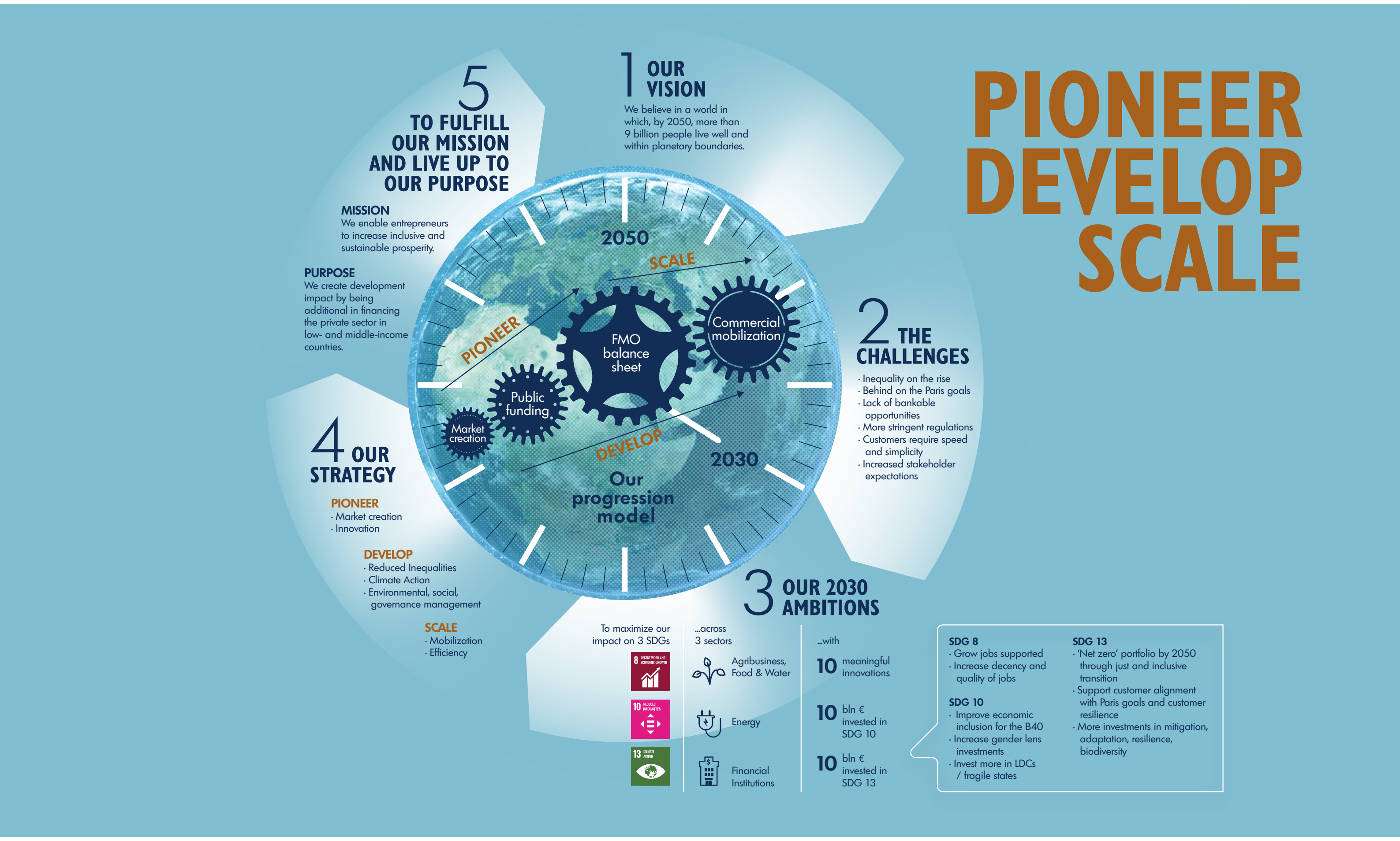
Within this context, FMO's 50+ year mission becomes more relevant by the day: enabling entrepreneurs to increase inclusive and sustainable prosperity. Over the next decade, the World Bank estimates one billion young people — a majority living in emerging markets — will try to enter the job market. If they won't be able to find decent jobs, this will leave millions without hope for a good future. Our investments support jobs in local markets – around 990 thousand direct and indirect jobs in 2023 – and enhance access to energy, food and finance: crucial factors in breaking the downward cycle of poverty and migration.

To create more local investment opportunities, FMO is also fostering the new generation of entrepreneurs in emerging markets. We do this by building a new market creation pillar within FMO. Our aim is to help upcoming sustainable businesses grow to the level where they can absorb regular funding, first from us and ultimately from institutional investors. This will allow them to contribute to job creation, local prosperity and climate action on a larger scale. By providing technical assistance and investment partners, we will support the development of these currently unbankable, yet potentially impactful opportunities, into bankable and scalable businesses, starting in Africa.

Maximizing our impact towards the SDGs is the foundation of FMO's strategy towards 2030. This past year marks the first full year dedicated to implementing and working towards the 2030 goals. Staying the course, we had similar priorities as in 2022: growing impactful business, ensuring FMO's foundations are solid, and improving our capabilities.

In 2023, we supported our customers with approximately €2.7 billion in total new investments (2022: €2.4 billion) of which €1.9 billion was made through FMO, €258 million through public funds, and €528 million through direct mobilized funds (2022: €1.8 billion, €153 million, and €457 million respectively). At €13.2 billion, our total committed portfolio remained roughly the same as last year due to the level of loan repayments and exits in our portfolio as well as the negative effects of the EUR/USD exchange rate.

In our recently launched Annual Report 2023, 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 2024 outlook. With the fragile global economic and political situation in some of our markets, we do realize our financial results can be volatile and further growth to maximize our impact will be challenging. But given the immense climate challenge that lies ahead and the huge investments that are needed to support job creation and overall economic development in emerging markets, we see it as our role to be countercyclical and focus on the long term. We invest when others shy away, always with our mission in mind: enabling entrepreneurs to increase inclusive and sustainable prosperity.



OUR SDG FOCUS

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

FMO is required to publish non-financial information under the Non-Financial Reporting Directive (NFRD). FMO discloses how and to what extent investments are aligned with economic activities that qualify as environmentally sustainable under the first two defined environmental objectives (climate change mitigation and adaptation) of the EU Taxonomy Regulation (Taxonomy). Moreover, FMO reports on eligibility in line with the Taxonomy for the remaining four environmental objectives as of this year. Alignment with the remaining four objectives will be disclosed from our 2025 Annual Report.

FMO closely follows the developments related to the sustainable finance regulations in the EU and has been disclosing under EU Taxonomy since 2021. Despite being an EU-based organization, FMO's core business focuses on investing in low and middle-income countries (LMICs). As most of the LMICs are outside of Europe FMO needs to deal with counterparties that do not fall within the scope of the NFRD and, hence, are not required to disclose their Taxonomy eligibility and alignment. As the current Taxonomy regulation stipulates that mandatory disclosure on eligibility and alignment must be based on actual information disclosed by financial or non-financial undertakings subject to the NFRD, FMO reports that zero percent of its balance sheet in 2023 is Taxonomy eligible and aligned. As such, we report a Green Asset Ratio (GAR) of 0 percent.

The Taxonomy regulation requires FMO to disclose a breakdown of the different asset classes held on its balance sheet. In accordance with the European Commission's guidance, exposure to non-NFRD undertakings, which constitutes FMO's investment portfolio in LMICs are not considered either.

FMO supports the intention of the EU Taxonomy to redirect capital flows towards sustainable development investments. However, when analyzing the regulatory framework, gaps have been identified preventing the use of this framework as a steering instrument for sustainable activities outside of the EU.
For example, the direct application of the Taxonomy with regards to investments in LMICs is limited given that its requirements and thresholds have been developed with the needs of European markets in mind. Also, the Taxonomy's "Do No Significant Harm" (DNSH) principle refers to EU laws and regulations which promote consistency within the European regulatory framework. However, this presents a challenge for European investors investing in LMICs where different regulatory frameworks apply. Additionally, data and disclosure requirements might be challenging to deliver by companies located in LMIC at the level required by the Taxonomy regulation. FMO is urging stakeholders to make the Taxonomy more inclusive for companies operating in emerging markets so that the EU Taxonomy could function as an effective tool to reorientate capital flows towards sustainable investments in LMICs.

GREEN AND SUSTAINABILITY BONDS OUTSTANDING

Year of Issue	Amount	Tenor	Isin code
Sustainability Bonds			
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
2023	SEK 1,500 mln, 3.394% 22/06/2028	5 year	XS2639075154
2023	USD 500 mln, 4.75% 15/11/2028	5 year	XS2718201275

Key features FMO Sustainability Bonds Framework

MSCI	Sustainalytics	Moody's Analytics	ISS ESG
ESG RATING AA Unsolicited Rating	**ESG RISK RATING** 4.6 - Negligible Risk (ranked 2nd out of 1,026 banks)	**MOODY'S ANALYTICS SCORE** 67 (ranked 4th out of 22 in the sector) Unsolicited Rating	**ESG CORPORATE RATING** C+ (Prime)

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 REVIEW 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 2023 and Sustainability Bond Guidelines 2021"

Sustainalytics' review of eligible projects in 2015-2023
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 and limited assurance
Each year, FMO requests EY as external auditors to perform a review of the sustainability information reported by FMO. It involves the application of sustainability policies, applied criteria, reporting, appropriateness and processes. More info can be found in our annual report.

IMPACT

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
- 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
Following the launch of our Climate Action Plan in 2022, we rolled out the required actions. This included work streams dedicated to further developing our Paris alignment approach, our data strategy, KPIs for our climate strategy and preparing to operationalize our climate risk approach. We expect most to be ready for operationalization in early 2025.

NATIONAL PIONEER

First Green Bond issuer in the Netherlands

Renewable Energy from the Pampas

FMO's customer Genneia is one of Argentina's leaders in renewable energy, holding roughly a quarter of the country's installed renewable energy capacity and having a gross installed capacity of approximately 1,230 MW (866 MW coming from wind and solar plants). As true pioneers in the country, the company has also built the largest wind farms in Argentina. Most recently, FMO announced a USD 85 mln syndicated facility to support Genneia. Acting as lead arranger and agent, FMO contributed a total of USD 45 mln as lender to this facility. The funding will be used to finance the construction of two greenfield renewable energy projects: a 60 MW photovoltaic solar plant, and a 140 MW wind farm.

Watch the video

Financing the reduction of inequality

FMO signed a USD 25 mln loan in local currency with its customer Banco Múltiple Ademi ('Ademi'), a market leader in the MFI sector in the Dominican Republic, serving the base of the pyramid segment through financial education programs, adequate financial products, and digital services to the unbanked. This deal marks the return and continuity of FMO's partnership with Ademi, which started in 2011. The financing will be used to provide loans to microfinance entrepreneurs primarily in rural areas or for women-led businesses (85%) and to support SMEs, which are Ademi clients that have grown from the MFI sector to more structured companies (15%).

Banco Ademi supports microentrepreneurs such as local convenience store owners and smallholder coffee farmers.

Progress report on use of the proceeds

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

Reporting

FMO reports to stakeholders on an annual basis via the Sustainability Bonds Newsletter in line with the ICMA Green Bond and Social Bond reporting templates.

The reporting currency is USD as the majority of FMO's asset base is denominated in USD (about 80%). For the respective non-USD green and sustainability Bonds, the FX rate at issuance date is used to convert the issuance amounts to USD outstandings . For the eligible ESG assets, allocations are converted into USD at the exchange rate of the reporting date (December 2023).

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
- For Sustainability Bonds, we will allocate 70% of the bond proceeds to green assets and 30% to social assets

Impact reporting

We will continue to report on impact on a portfolio basis for the direct green investments (current Avoided GHG emissions) and the (in)direct jobs supported with our investments.

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

REPORTING ON USE OF PROCEEDS

Item	From 2019
Frequency	Annually
Impact	Portfolio level
Use of Proceeds (UoP)	ESG 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

Green Bond and Sustainability Bond Portfolio

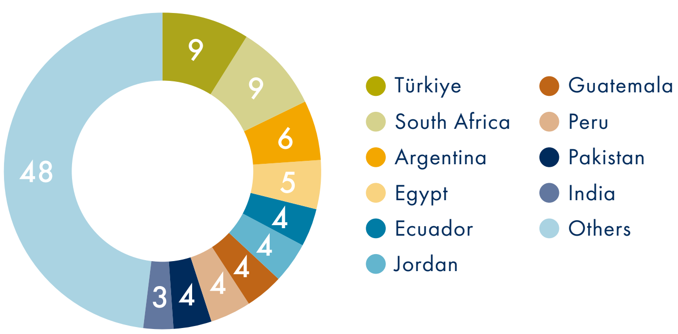
The ESG Bond allocation overview shows that FMO has fully allocated the proceeds of its Green and Sustainability Bonds per December 2023. Moreover, FMO reports an excess of eligible ESG assets of USD 342 million Green and USD 571 million Social (FMO could allocate 342 million of new green funding to green projects). In addition, as per February 2024, USD 500 million of Green Bond will mature which will allow refinancing of green assets.

ESG BOND ALLOCATION OVERVIEW (IN USD MILLION)

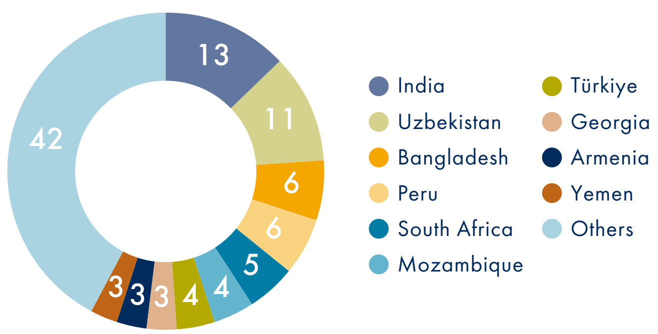
Eligible ESG Assets		**share/ green bond**	**share sustainability bond**	**ESG Bond Liabilities**		
Green Assets	**2360**	**100%**	**70%**	**Green outstanding liabilities**		**2,019**
Climate change mitigation				Green Bonds	XS1953035844 USD Feb-2024	500
Renewable Energy	1218	51.6%	36.1%		XS2146570077 SEK Mar-2028	152
Green loans & Green Funds	817	34.6%	24.2%		XS2639075154 SEK Jun-2028	140
Agriculture, forestry and landuse	156	6.6%	4.6%		XS2718201275 USD Nov-2028	500
Energy efficiency	95	4.0%	2.8%	Sustainability bonds (70% green)	XS2150158405 EUR Apr-2027	378
Lower-carbon and efficient energy generation	8	0.3%	0.2%		XS2548490734 EUR Oct-2027	349
Climate Change Adaptation						
Activities adressing climate vulnerability	52	2.2%	1.5%	**Room for new Green Bond funding**		**341**
Other Footprint						
Pollution mitigation	11	0.5%	0.3%			
Biodiversity	2	0.1%	0.1%			
Conservation of natural resources	2	0.1%	0.0%			
Social assets	**882**		**30.0%**	**Social outstanding liabilities**		**311**
Social FI loans (mixed)	233		7.9%	Sustainability bonds (30% social)	XS2150158405 EUR Apr-2027	162
Least Developped Countries	232		7.9%		XS2548490734 EUR Oct-2027	149
Microfinance	213		7.2%			
Gender: Women-owned SME	76		2.6%	**Room for new Social Bond funding**		**571**
Agricultural SME lending	52		1.8%			
Smallholder Finance	35		1.2%			
Youth finance	21		0.7%			
Innovative solutions for the BOP	20		0.7%			
Total Social Projects	**3,242**					**3.242**

% of Eligible ESG Assets allocated to net proceeds of outstanding ESG Bonds	72%
% of ESG Bonds net proceeds allocated to Eligible ESG Assets	100%
Existing disbursed projects	84%
Committed not disbursed projects (incl. 85% haircut)	16%

Eligible Green Assets (in %)



Eligible Social Assets (in %)



Khan Bank, Mongolia's leading universal bank, provides comprehensive banking and access to finance services to individuals, SMEs, and corporate customers across almost all of both urban and remote Mongolia, reaching ~80% of all households.

FMO ESG BONDS IMPACT REPORTING

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

In the below table, we report the overall impact figures from our total Eligible ESG assets. For bond investors, a dedicated table is available in order to facilitate capturing the information at a bond level.

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 our 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/.

IMPACT REPORTING 2023

Eligible ESG Asset	Signed Amount (in USD mln)	Direct Jobs Supported	Indirect Jobs Supported	GHG emissions avoided in tCO_2e
		a/	b/	c/
Green assets	**2,360**	**6,763**	**109,324**	**996,161**
Climate change mitigation				
Renewable Energy	1,218	3,673	45,298	921,948
Green loans & Green Funds	817	501	35,587	0
Agriculture, forestry and landuse	156	1,038	5,510	74,213
Energy efficiency	95	384	14,513	0
Lower-carbon and efficient energy generation	8	679	203	0
Climate Change Adaptation				0
Activities adressing climate vulnerability	52	361	5,451	0
Other Footprint				0
Pollution mitigation	11	66	2,690	0
Biodiversity	2	7	7	0
Conservation of natural resources	2	53	65	0
Social assets	**882**	**2,337**	**100,437**	**0**
Social FI loans (mixed)	233	526	13,516	0
Least Developped Countries	232	807	46,807	0
Microfinance	213	682	23,119	0
Gender: Women-owned SME	76	157	8,134	0
Agricultural SME lending	52	55	4,748	0
Smallholder Finance	35	71	2,595	0
Youth finance	21	33	1,490	0
Innovative solutions for the BOP	20	6	27	0
Total	**3,242**	**9,100**	**209,761**	**996,161**

a/ 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.
b/ Estimates of indirect impact are based on industry averages. In reality indirect effects will be different at the individual company level due
c/ Sample of impact indicators (impact for debt funded part) for direct green investments -GHG emissions avoided in tCO_2e

ESG Bond type	For each amount of (in USD mln)	Direct Jobs Supported	Indirect Jobs Supported	GHG emissions avoided in tCO_2e
Green bond	10	29	463	4,220
Sustainability Bond	10	28	666	2,954

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 Framework 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 Framework 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 Framework.

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;

Kılıç Deniz is a leading global supplier of various Mediterranean fish species. Based in Turkey, Kiliç stands out due to its focus on sustainable practices within the aquaculture value chain, having taken considerable steps to be a leader in climate mitigation and adaptation.

Walo Storage, developed by AfricaREN in Senegal is the first battery storage project in the region dedicated to frequency regulation. It will help Senegal generate 16MW of green energy and avoid ~21,000 tons of CO_2 annually.

Process to define green and social[1] 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