

FMO

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Bank

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Sustainability Bond Newsletter

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The Sustainability Bond Newsletter is published bi-annually. It reports on the status and disbursements of projects selected for the Sustainability Bond. It is sent to investors and is made available via www.fmo.nl/sustainability-bonds

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INTRODUCTION

On 1 January 2016, the 17 United Nations Sustainable Development Goals (SDGs) officially came into force. FMO fully supports this shared plan of action for people, planet and prosperity. Through its mission and activities, FMO contributes directly and indirectly to the achievement of the SDGs. We directly contribute to the SDGs at three distinct levels:





1. FMO Goals

FMO directly contributes to **SDG 8** via our target on number of jobs supported. Through our environmental, social and governance (ESG) standards we support our clients to improve on business integrity, a healthy working environment and sustainability. We contribute to **SDG 13** by doubling the amount of avoided GHG emissions by investing in renewable energy projects and enabling blended structures like Climate Investor One and ElectriFi. We seek to reduce inequalities (SDG 10) by investing in some of the world's poorest countries and we are pursuing inclusive business aimed at people earning less than 8 USD per day – the Base of the Pyramid – often including women and smallholders.

2. Focused portfolios

FMO sector portfolios contribute to additional SDGs. SDG 2 is impacted positively by investments across the agribusiness valuechain in an environmentally viable and socially inclusive manner. We offer financing solutions for renewable energy projects, off-grid solutions, refurbishments and efficiency improvements (SDG 7). Gender equality (SDG 5) is promoted through a variety of deals. To enhance impact, we further seek to maximize the volume of catalyzed funds through commercial or blended structures where other parties are encouraged to join our investments thereby contributing to SDG 17.

3. International standards and internal policies

Adhering to international standards on environmental, social and governance (ESG) risk management and taking an active approach to client engagement, we pave the road for SDG delivery. We actively challenge the businesses we invest in to meet and maintain high levels of environmental and social performance.

4. Sustainability Bonds Outstanding

On Tuesday, 22nd November 2016, FMO has successfully issued its third and inaugural 7 years SEK 700 million Sustainability Bond. This transaction underlines FMO's strategic commitment to the Green and Sustainability Bond market. The main rationale for Sustainability Bond issuance in SEK is to further diversify our sustainable investor base and to achieve currency diversification in our funding portfolio.

The proceeds of the Sustainability Bonds support the financing of green and inclusive finance projects according to FMO's Sustainability Bond framework, which is aligned with FMO's long term strategy of fostering inclusive and green growth.

So far, FMO has disbursed € 1,062 million to eligible projects in the period November 2012-December 2016, against a total Sustainability Bond outstanding of € 1,071 million (ISIN XS0993154748, XS1219963672 and XS1527323411). 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 € 183 million as per December 2016.

EY, FMO's external auditor, has performed an assurance engagement with a limited level of assurance on the sustainability information in specific chapters of FMO's 2016 Annual Report. This includes the statement 'We issued our third sustainability bond, this time denominated in Swedish krona with a total size of SEK 700 million (equivalent to € 74 million), proceeds of which shall be used to fund green and inclusive finance projects. FMO has disbursed € 1.1 billion to eligible projects in the period November 2012 – December 2016'. The scope of the assurance engagement is therefore broader than the mentioned statement and no specific assurance is provided on this statement. Please refer to the combined independent auditor's and assurance report as included in FMO's 2016 annual report.

KEY FEATURES

FMO SUSTAINABILITY BONDS



Industry leading Sustainability ratings

Sustainalytics:

FMO takes the number one spot out of 395, within the diversified financials industry in Sustainalytics' Global Platform.

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.

Oekom:

FMO received a rating from the German rating agency oekom research that classified FMO as "Prime" (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 reporting 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



“Syndication and green financing to support SMEs in Ecuador.”





GREEN CASE

Syndication and green financing to support SMEs in Ecuador

Challenges and opportunities for the private sector

With one of the highest population densities in South America, Ecuador is a relatively small but significant country that has experienced declining poverty levels and growing social equality in recent years. Still, its market environment remains challenging due to low oil prices in a fully dollarized economy. Continuous improvement of its investment climate and strong private sector activity are essential for Ecuador to diversify its economy and facilitate higher quality jobs. The financial sector plays an important role here as it could provide finance not only to corporates but also to small and medium-sized enterprises (SME) and starting entrepreneurs.

Banking experience throughout the continent

Banco de la Producción S.A. Produbanco (Produbanco) is the third largest bank in Ecuador, majority-owned by Promerica Financial Corporation (PFC or the

Promerica Group) since 2014. The Promerica Group has operations in Ecuador, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, the Dominican Republic, and the Cayman Islands. The group is a long standing client of FMO.

Support through syndication

In 2016, FMO provided two facilities to Produbanco. The first was a syndicated term facility to be on-lent to SMEs for which FMO provided US\$ 15 million and catalyzed US\$ 28.75 million from Blue Orchard, US\$ 13.75 million from Symbiotics, and US\$ 2.5 million from Atlantic Forfaitierungs AG – all new lenders to Produbanco. This brought the total loan amount up to US\$ 60 million, an excellent achievement in difficult market circumstances.

Additionally, FMO provided a US\$ 10 million facility to Produbanco through a so-called green line, provided to be on-lent to green projects only. These pro-

jects can range from renewable energy solutions (e.g. solar panels) to efficiency projects in a broad variety of sectors, for example replacement of machinery or the upgrading of production processes. FMO’s first green line in Latin America was closed with PFC’s subsidiary in Nicaragua in 2014. The success of this project led to an alliance between the Promerica Group and FMO for the further roll-out of this concept to other countries. As part of this alliance, a green-line technical assistance project was set up to investigate further opportunities to introduce more green and value-add products to Promerica’s clients. After Nicaragua and Costa Rica, Ecuador is the third country in which the Promerica Group is pioneering in green lending.

Company

Banco de la Producción S.A. Produbanco (*Produbanco*)

Sector

Financial Institutions

Country

Ecuador

FMO arranged investment

US\$ 60 million five-year syndicated term facility

FMO investment

US\$ 15 million and US\$ 10 million ‘green line’ loan facility

Year of investment

2016

“A notable growth path in a country where performance remains challenging.”

.....
Amret Co. creates opportunities in poor rural areas.

Photo:
Amret Co.





INCLUSIVE CASE

An impressive growth story to reach the rural poor in Cambodia

For more than 10 years, FMO has provided a range of products and services to Amret Co., a microfinance institution in Cambodia. Amret serves micro, small, and medium enterprises and reaches out to the lower segment of the market with the aim to contribute to the country's economic and social development.

When FMO and Amret started their relationship in 2006, Amret still was a smaller microfinance institution, serving 141.000 clients through 41 branches, with an average loan amount of US\$ 125 and a total assets base of US\$ 38 million. Today, Amret has a client base of 304.000, a total assets base of US\$ 622 million and offices across all provinces (141 branches). FMO's first financing was done through an equity stake and thereafter several loans from the MASSIF fund, which FMO manages on behalf of the Dutch government. Over time, FMO provided various services to improve Amret's capacity by means of adequate environmental, social and corporate government training. Through the years, Amret transitioned into a top 3 Microfinance Institution (MFI) in Cambodia and the microfinance sector as a whole is one of the

best performing microfinance sectors globally. In addition to its growth, Amret was one of the first MFIs in Cambodia to obtain the Smart Campaign Consumer Protection Principles license. Amret and FMO are now working on a project which will take Amret to a next stage of development, introducing new parties to Amret and the successful market.

This is a notable growth path in a country where performance remains challenging. Although the country has seen two decades of economic growth, Cambodia still is listed as one of the world's 55 poorest countries and faces a number of economic and social challenges. About 75% of its adult population lives in the country side, where about half of the people have never experienced more than primary levels of education. Farming remains their

main source of income -often through informal structures- and families have to live from less than US\$ 100 per month.

Women play an important role in these rural families, which is why about 75% of Amret's borrowers is female. Amret's activities are organized towards financing their businesses in, for instance, small scale trading and services. Amret is developing with its clients to provide larger loans. The next step for Amret is to develop and encourage the use of mobile banking, e-wallets and money transfer, doing business in the rural areas, thereby expanding their financial inclusion in the rural areas further. In this way, Amret aims to serve Cambodia's poorest people in a most modern and convenient manner.

PROGRESS REPORT ON USE OF THE PROCEEDS

More project information can be found on www.fmo.nl/project-list

The table below presents the Sustainability Bond allocations to eligible projects where disbursements were made in 2016. The total available amount represents the total eligible project amount available for Sustainability Bond financing

AFOLU = Agriculture, Forestry and Other Land Uses,
RE = Renewable Energy,
EE = Energy Efficiency,
FI = Financing Instruments,
MFI = Microfinance Institution,
WASTE = Waste management.

FMO has almost fully disbursed its outstanding Sustainability Bonds (€ 1,071 mln) into eligible projects as per December 2016 (€ 1,062 mln). We measure our impact on employment and environment, through jobs supported and avoided green house gas emissions (GHG). More information on impact methodologies can be found [here](#).

The eligible projects funded by Sustainability Bonds until December 2016 can be found by clicking on the List of [eligible green](#) and inclusive projects.

FMO estimates the environmental impact of FMO's Sustainability Bond and its €734.5 million direct green investments (total Sustainability Bond allocation €895.5 million) will be an avoidance of approximately 515,000 tons of greenhouse gas (GHG, SDG 13). 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 estimated number of (in) direct jobs supported with our sustainability bond allocations will be approximately 300,000 (SDG8). The committed non-disbursed eligible project portfolio equals €183 million as per December 2016.

Nr.	Beneficiary	Sector	Country	Description	Total Available amount	Sus bond allocation 2016
1	Access Uganda Solar Ltd.	RE	Uganda	Access Uganda Solar Ltd. is a company which will construct, own and operate a 10 MW Solar Power Project	4.7	4.7
2	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	7.4	4.2
3	Alisios Holdings S.a.	RE	Costa Rica	Project to develop, construct, and operate 4 20MW wind projects in Costa Rica	39.8	24.8
4	Al-Ward Al-Joury For Energy	RE	Jordan	Company to develop, construct and operate a 10MW solar photovoltaic (PV) power plant in Jordan	3.7	0.6
5	Al-Zanbaq For Energy Generation Psc	RE	Jordan	Company to develop, construct and operate a 10MW solar photovoltaic (PV) power plant in Jordan	3.7	0.6

*Please note that some direct green investments have been reported as indirect in previous newsletters

Nr.	Beneficiary	Sector	Country	Description	Total Available amount	Sus bond allocation 2016
6	<u>Apollo Investment Partnership li</u>	RE	South Africa	South African focused renewable energy fund managed by African Infrastructure Investment Managers (AIIM)	16.5	0.0
7	<u>Armstrong Se Asia Clean Energy Lp</u>	RE	Asia	Private equity fund investing in small-scale renewable energy generation and resource efficiency projects in South East Asia	14.5	1.8
8	<u>Banco Bac San Jose S.a.</u>	FI	Costa Rica	Green Line to on-lend to renewable energy and energy efficiency projects	4.4	4.4
9	<u>Banco De La Produccion S.a. Produbanco</u>	FI	Ecuador	Green Line to on-lend to renewable energy and energy efficiency projects	8.0	8.0
10	<u>Berkeley Energy Wind Mauritius</u>	RE	India	Renewable energy fund manager investing in Asian and African emerging markets	19.9	1.0
11	<u>Elgon Hydro Siti (Pvt) Limited</u>	RE	Uganda	Company to finance the construction of the 5 MW Gulpur Hydropower project, a greenfield run of the river hydro	4.8	2.1
12	<u>Elz Saglik Yatirim A.s.</u>	EE	Turkey	Financing of a green hospital	20.0	6.8
13	<u>Falcon Ma An For Solar Energy</u>	RE	Jordan	Company to develop, construct and operate a 21MW solar photovoltaic (PV) power plant in Jordan	6.8	2.6
14	<u>Global Climate Partnership Fund Sa</u>	RE	Europe And Central Asia	The fund provides green lines to banks around the world, including support for implementation and reporting	18.2	4.5
15	<u>Green For Growth Fund, Southeast</u>	RE	Eca	The first specialized fund to advance energy efficiency and renewable energy in Southeast Europe, including Turkey	43.6	9.4
16	<u>Gul Ahmed Wind Power Limited</u>	RE	Pakistan	Company developing a 50 MW wind power generation plant in Pakistan	16.2	10.0
17	<u>Heksagon Kati Atik Yonetimi Sanayi</u>	WASTE	Turkey	Heksagon Kati Atik S.A. (HKA) is the first private solid waste management company in Turkey that converts municipal solid waste, animal waste and packaging waste into commercial organomineral fertilizer, compost and biogas	22.5	15.0
18	<u>Itezhi Tezhi Power Corporation</u>	RE	Zambia	Project to develop a 120MW base-load hydro power plant being developed at the site of the existing Itezhi Tezhi dam on the Kafue River in Zambia.	29.4	19.6
19	<u>Jordan Wind Project Company Psc</u>	RE	Jordan	Project to construct a wind farm in Jordan	25.5	1.6
20	<u>Lake Turkana Wind Power</u>	RE	Kenya	A SPV to develop, construct and operate a 300MW wind farm near Lake Turkana in Kenya	35.0	23.7
21	<u>Lereko Metier Sustainable</u>	RE	South Africa	Fund invests in energy efficiency, renewables, water and waste management in South and Southern Africa	7.9	0.1
22	<u>Lubilia Kawembe Hydro Limited</u>	RE	Uganda	Company to develop, construct and operate a 5.4MW run-of-river hydro plant Uganda	4.8	1.4
23	<u>Mabani Seven Company Limited</u>	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	16.1	0.8
24	<u>Mecanismos De Energia Renovable S.a</u>	RE	Honduras	Company doing energy investments in renewables	11.0	8.7
25	<u>Metro Power Company Ltd</u>	RE	Pakistan	Company to develop, construct and operate a greenfield 50MW wind power project in the Jhimpir area, in the Gharo-Keeti Bander-Hyderabad wind corridor zone, in Pakistan	17.4	0.1
26	<u>Mira Power Limited</u>	RE	Pakistan	Project to fund a greenfield run of the river hydro	16.1	3.1

Nr.	Beneficiary	Sector	Country	Description	Total Available amount	Sus bond allocation 2016
27	<u>Mohammed Enterprises Tanzania Ltd</u>	EE	Tanzania	Company producing sisal fiber used to replace synthetic products	15.4	15.4
28	<u>New Forest Company (Tanzania) Ltd.</u>	AFOLU	Tanzania	Company doing forestry investments in the East African Forestry sector	4.5	0.7
29	<u>New Forests Company Ltd.</u>	AFOLU	Uganda	Company doing forestry investments in the East African Forestry sector	9.0	0.2
30	<u>Odeabank A.s.</u>	FI	Turkey	FMO financing will be used to finance renewable energy projects, which is a strategic growth area for the bank	33.5	33.5
31	<u>Palma Guinee S.a.</u>	EE	Guinea	Greenfield energy efficiency project which allows for reduced energy consumption for heating and air conditioning	9.5	1.5
32	<u>Parque Eolico Tres Hermanas S.a.c.</u>	RE	Peru	Project to construct a 97 MW wind farm in Peru	9.8	0.9
33	<u>Renew Wind Energy (Rajasthan 3)</u>	RE	India	Company to develop, construct and operate a 100.8MW wind power plant situated in the State of Rajasthan	15.0	8.3
34	<u>Shamsuna Power Company Llc</u>	RE	Jordan	Company to develop the construction and operation of a 10MW solar photovoltaic (PV) power plant	3.4	0.2
35	<u>The Lereko Metier Reipp Fund Trust</u>	RE	Africa	Fund investing in solar and wind	0.3	0.2
36	<u>Tororo Solar North Limited</u>	RE	Uganda	Company to develop, construct, operate and maintain a 10MW PV Solar Plant in the East of Uganda	6.9	1.5
37	<u>Usher Eco Power Limited</u>	RE	Asia	Usher Eco will become the first company in the world to set up a commercial scale silica extraction plant for producing "green" high quality precipitated silica from rice husk ash	13.0	2.9
38	<u>Yes Bank Limited</u>	FI	India	Green bond issued by YES BANK to finance Green Infrastructure including solar and wind projects	46.4	46.4
39	<u>Zahrat Al-Salam For Energy</u>	RE	Jordan	Company to develop, construct and operate a 10MW solar photovoltaic (PV) power plant in Jordan	3.7	0.8
Green Total					686.1	269.9
40	<u>Cjsc Finca Bank</u>	MFI	Kyrgyzstan	Microfinance institution in Kyrgyzstan	9.1	2.8
41	<u>Financiera Confianza S.a.a.</u>	MFI	Peru	Financiera Confianza is one of the largest microfinance providers in Peru and part of the network of BBVA Microfinance Foundation	18.2	18.2
42	<u>Kompanion Bank Cjsc</u>	MFI	Kyrgyzstan	Local currency loan to MFI focusing on rural areas	72	6.2
Inclusive Total					34.4	27.3
Grand Total					720.5	297.2

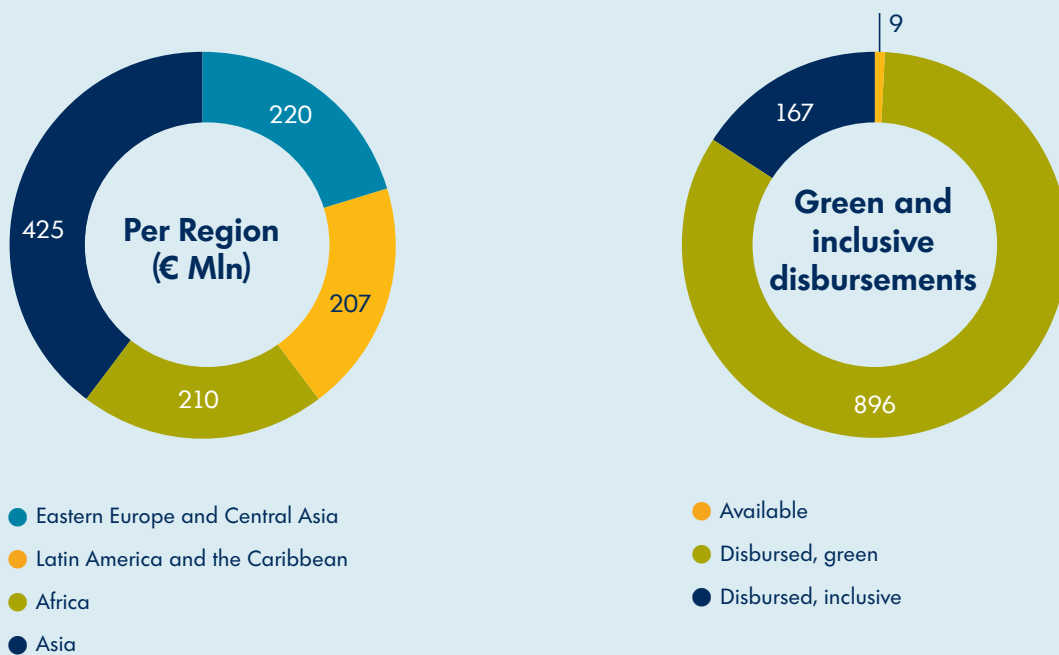
The total Sustainability Bond proceeds allocated to eligible green and inclusive projects in the period November 2012 – December 2016: €1.1 billion

Green Total	895.5
Inclusive Total	166.8
Grand Total	1,062.3

Click on the following [link](#) to retrieve the total list of eligible projects

USE OF PROCEEDS

The pie charts illustrate the allocation of the €1,071 million FMO Sustainability Bonds per region and green and inclusive assets.



Green Bond Principles

FMO is a member of the Green Bond Principles (GBP) - voluntary guidelines which encourage transparency, disclosure and integrity in the green bond segment. The principles were published by 13 international banks on 13 January 2014.

The publication followed a broad market consultation involving investors, environmental groups and issuers, including FMO. The GBP represent an attempt to standardize the green bond market, providing a reference best practice for any market participant.

Annexes:

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 Reduction.** An activity will be classified as other footprint reduction if it does not directly target climate change mitigation or adaptation, yet is, however related to sustainable development with a positive impact on the environment. Although FMO is focusing on measuring one footprint indicator (GHG avoidance) at this time, we still recognize the value add of investing in projects that significantly reduce other footprint areas like water, waste, biodiversity destruction, since these are integral to sustainable development

Inclusive investments

Inclusive finance includes but is not limited to microfinance. It focuses on expanding access to affordable and responsible financial products and services to low income and vulnerable populations. This also includes organizations that are often unable to gain access to financial products and services such as micro- and small-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 the financing of micro, small- and medium-sized enterprises (MSMEs) through financial intermediaries in developing and emerging markets. Thus far, FMO has only included microfinance projects. Projects are classified as microfinance if they meet the following criteria:

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

FMOs green eligibility criteria are aligned with the Common Principles for Climate Mitigation Finance, the Common Principles for Climate Adaptation Finance and the International Development Finance Club (IDFC) “Other Environmental” activities. Currently, we do not have projects part of the Other Footprint category being funded with FMO Sustainability Bonds.

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

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.

LEGAL NOTICE

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

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

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