

FMO

Entrepreneurial
Development
Bank

SUSTAINABILITY BOND

2015 NEWSLETTER NO. 4

**“MICROFINANCE IS ONE
OF THE TOOLS THAT
CONTRIBUTE TO THE
DEVELOPMENT OF
A COUNTRY”**



NEWSLETTER NO.4
SEPTEMBER 2015

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 <https://www.fmo.nl/susbonds>

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INTRODUCTION

On Monday, 13th April 2015, FMO has successfully priced its second Sustainability Bond, a 7-year EUR 500 million transaction. This transaction underlines FMO's strategic commitment to the Green and Sustainability Bond market as well as the European SRI investor market. At the same time, this is FMO's first 7-year transaction, extending the curve to its longest reference point of 2022.

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.

FMO's strategy is based on a strong conviction that economic growth that is both inclusive and green will lead to a better world. This is a guiding principle in our selection of sectors, countries and products, as well as in our cooperation with clients and investors. Watch the '[Towards a better world](#)' animation to learn more about the inspiring journey we have embarked on.

FMO has disbursed EUR 569.2 million to eligible projects in the period November 2012 - June 2015, against a total Sustainability Bond outstanding of EUR 1,000 million (ISIN XS0993154748 and XS1219963672). 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 is EUR 345 million as per June 2015.

In FMO's annual report 2014, KPMG has provided limited assurance that the proceeds of the Sustainability Bond are being invested in eligible projects as defined by FMO. See for more information the [2014 FMO annual report](#)
Source: [annual report](#)

SUSTAINALYTICS REVIEW

FMO engaged Sustainability to review its inaugural Sustainability Bond projects in order to assess whether the projects selected by FMO for the bond are compliant with the eligibility criteria.

Based on the assessment of projects, Sustainability is confident that projects selected to receive proceeds from the Sustainability Bond meet the eligibility criteria of the bond.
In addition, Sustainability will do a compliance review

on the first anniversary of its second Sustainability Bond issue in April 2015, which will provide additional assurance that the Sustainability Bonds funding is fully compliant with the use of proceeds criteria. To read the full report [click here](#).

SUSTAINALYTICS OPINION

FMO asked Sustainability to provide verification of FMO's Sustainability Bond framework. FMO would like to ensure alignment with the Green Bond Principles and industry best practices. Sustainability concludes that FMO's Sustainability Bond is robust, credible and transparent. To read the full report [click here](#)

INDUSTRY LEADER IN ESG PERFORMANCE

FMO takes the number one spot within the diversified financials industry in Sustainability's Global Platform. The company ranks at the top of its industry based on its overall ESG rating as well as its performance in the environmental, social, and governance areas.

USE OF PROCEEDS CRITERIA

FMO has adopted Multilateral Development Banks' (MDBs) eligibility criteria for climate change mitigation and adaptation. The mitigation criteria are specific and detailed, creating sufficient clarity for investors regarding the intended use of bond proceeds. FMO provides assurance to investors it will only fund adaptation projects having a positive impact.

The lending practices of microfinance institutions need to be compliant with FMO's ESG policies and

exclusionary criteria. In order to ensure compliance, FMO follows a thorough due diligence process when selecting microfinance institutions. Additionally, an annual review is being conducted on FMO's clients.

STRONG INTERNAL EXPERTISE

FMO's expertise in areas of project selection and measurement makes it highly likely that assets selected for the Sustainability Bond will have a strong impact in the areas of climate change mitigation, climate change adaptation and inclusive finance.

EXCELLENT REPORTING

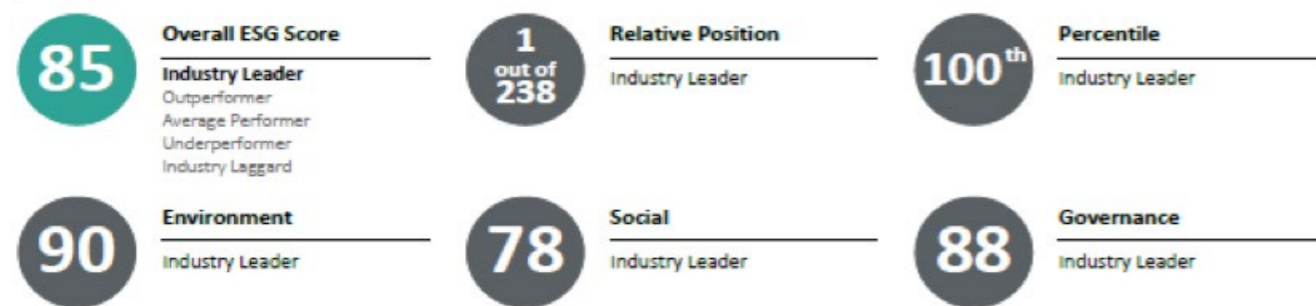
FMO's reporting is very detailed and transparent, which will provide investors clarity about the bond investments.

Source:
Sustainability, Framework Summary and Second Opinion, [FMO Sustainability Bond](#)

SUSTAINABILITY RATINGS



Overall Performance

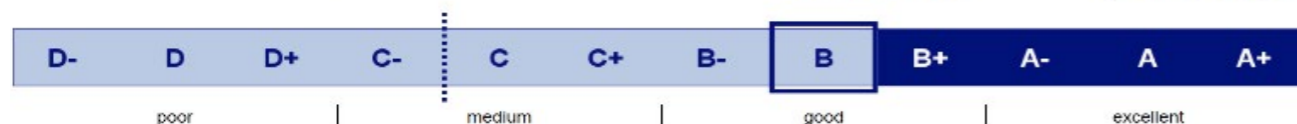


oekom Corporate Rating

Netherlands Development Finance Company

Industry: Financials/Development Banks
GICS Industry: #N/A
Country: Netherlands
ISIN: XS0616465406
Bloomberg Ticker: 1465Z NA Equity

Status: **Prime**
Rating: **B**
Prime Threshold: **C**



USE OF PROCEEDS CRITERIA

Sustainability Bonds are senior unsecured bonds issued under FMO's Debt Issuance Program aimed at financing green and inclusive finance projects. FMO applies strict investment criteria and follows a thorough due diligence process and an integrated environmental, social and governance (ESG) approach. Eligible projects may be financed directly or indirectly, including through financial intermediaries.

GREEN INVESTMENTS

FMO's green eligibility criteria are aligned with the Multilateral Development Banks (MDBs) framework on climate change mitigation and adaptation finance. The eligible projects may include:

- Renewable energy projects such as solar, wind, ocean, geothermal power and hydro;
- Energy efficiency projects in buildings, transportation and industrial.

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)

ENVIRONMENTAL AND SOCIAL REQUIREMENTS

FMO strives to apply core minimum environmental and social requirements to all of its debt and equity financing activities, including all activities which are financed with the proceeds of the Sustainability Bond.

FMO implements additional environmental and social requirements based on its assessment of the risks faced by individual borrowers and/or financing transactions.

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, 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.

NAME

Parque Eolico Tres Hermanas
S.A.C

SECTOR

Renewable Energy

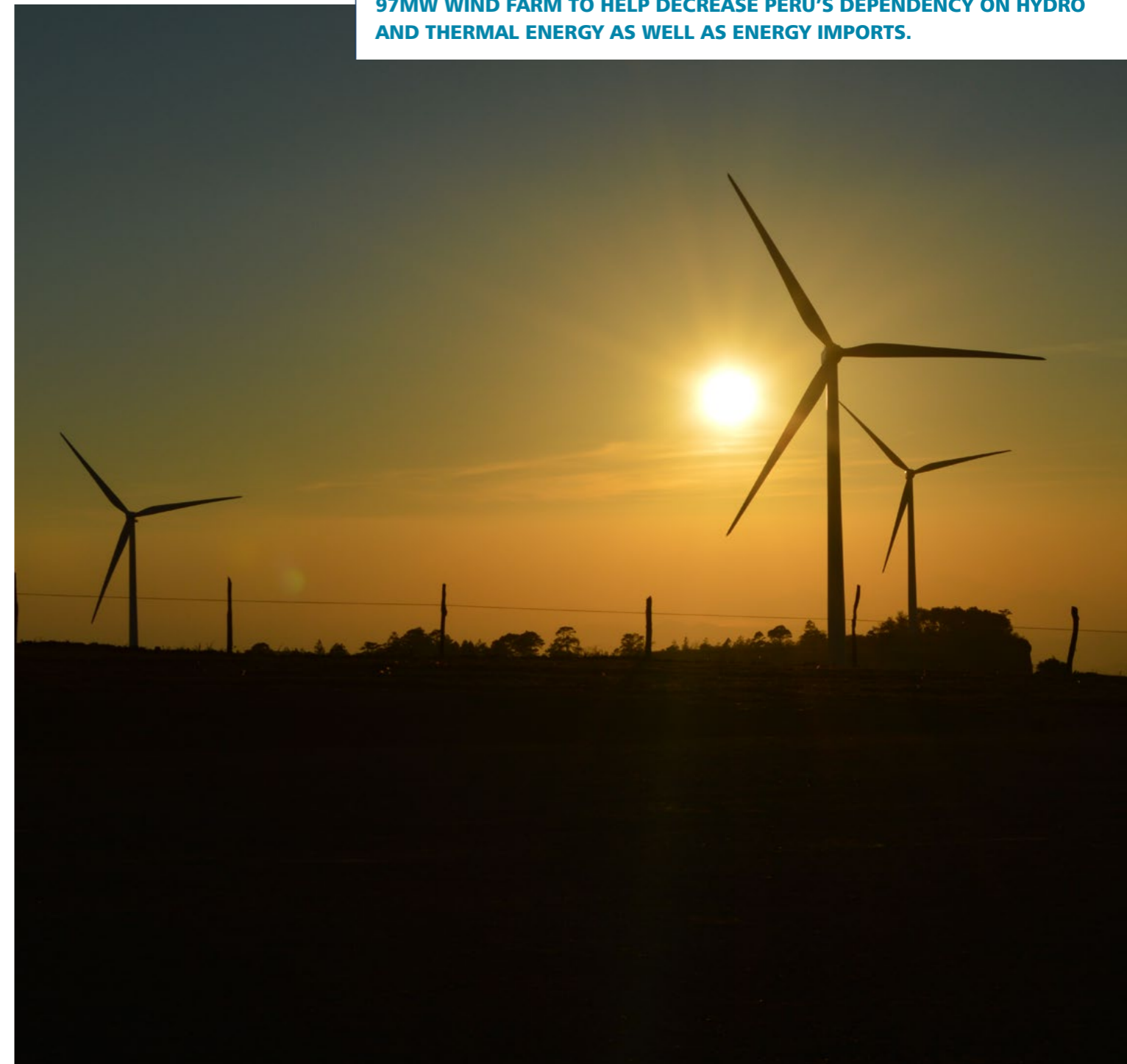
FMO INVESTMENT

US\$ 11 mln

WIND ENERGY FOR PERU

WIND FARMS TO DIVERSIFY ENERGY CAPACITY IN PERU

FMO WILL PROVIDE LONG TERM FINANCING TO THE TRES HERMANAS 97MW WIND FARM TO HELP DECREASE PERU'S DEPENDENCY ON HYDRO AND THERMAL ENERGY AS WELL AS ENERGY IMPORTS.



COUNTRY: PERU

INVESTMENT INFORMATION

COMPANY

Parque Eolico Tres Hermanas S.A.C

SECTOR

Renewable Energy

AMOUNT ARRANGED

US\$ 43 mln

FMO INVESTMENT

US\$ 11 mln

YEAR OF INVESTMENT

2015

FINANCIAL PRODUCTS USED

FMO-A (senior debt)

TENOR

18 years, including 2 years grace

NUMBER OF LOANS TO THIS CLIENT

US\$ 9 million FMO-A senior loan to the adjacent wind farm Parque Eolico Marcona SAC

IMPACT AND PERFORMANCE



Total project size:
US\$ 226 million for 97.1 MW



Jobs supported:
70-90 jobs during construction



GHG avoidance:
316,139 tons annually, of which
26,142 tons attributable to FMO



Energy provision to 315,852
households, of which 26,232
attributable to FMO



Inclusive project which will
increase generation capacity

WINDS OF CHANGE

Tres Hermanas is one of the first major wind projects in Peru developed by one of the largest Spanish construction and renewable energy groups ACS. The project will contribute to the increase and diversification of installed capacity in Peru, a country with significant potential for renewables and a stable framework. The project was awarded a 20-year Renewable Energy Supply Concession under Peru's Renewable Energy auction in 2011, and thereby contributes to Peru's objective to produce at least 5% of its energy from (non-hydro) renewables. So far, over 95% of Peru's energy production comes from natural gas-fired and hydro-power plants.

The developer of the project is Cobra Instalaciones and Servicios, an experienced and well established contractor in Latin America, and a 100% subsidiary of the Spanish construction company ACS with a focus on renewables.

FMO's participation in the project was of great importance as an 18-year tenor was not available in the desired quantity from local players. The financing structure was set up to both approach the concession length and fit sponsor's needs. The risk profile is mitigated through unlimited and unconditional sponsor support until project completion.

Once in operation, Tres Hermanas and adjacent wind farm Marcona, which is the first commercial-scale wind project to achieve commercial operations in the country, will be Peru's largest wind farm by installed capacity at 129.5 MW.

INVESTING IN POSITIVE ENVIRONMENTAL IMPACT

Tres Hermanas will contribute to the development of Peru and will serve as an example to showcase that wind energy plants are becoming a suitable commercial option in Latin America, encouraging the development of similar projects to supply energy from renewable sources, while reducing the impact of Greenhouse Gas (GHG) emissions on the environment.

The project is expected to reach 315,852 households, of which 26,232 attributable to FMO, and avoid 314,770 tons of GHG annually, of which 26,142 attributable to FMO.

The project is under construction and is expected to complete in December 2015.

FMO is the Dutch development bank. FMO has invested in the private sector in developing countries and emerging markets for more than 45 years. Our mission is to empower entrepreneurs to build a better world. We invest in sectors where we believe our contributions can have the highest long-term impact: financial institutions, energy and agribusiness. Alongside partners, we invest in the infrastructure, manufacturing and services sectors. With an investment portfolio of EUR 8 billion spanning over 85 countries, FMO is one of the larger bilateral private sector development banks globally. www.fmo.nl

MEET SIM SENACHEERT, CEO OF PRASAC MICROFINANCE INSTITUTION (CAMBODIA)



Prasac is the largest microfinance institution in Cambodia, offering households, as well as micro, small, and medium-sized enterprises customized and innovative banking products and services. Committed to responsible banking for all its stakeholders and with a current clientele that is 85% female, Prasac reported a gross loan portfolio of over US\$ 580 million serving over 250,000 borrowers and 370,000 depositors in 2014. Prasac is also the first MFI to offer ATM services to its clients. In 2015 Prasac earned an "A" grade and was the recipient of not less than three MFI awards. Sim Senacheert, Chief Executive Officer at Prasac tells us more about Prasac's success and his vision on the microfinance sector.

IN 2013, THE MFI SECTOR IN CAMBODIA WAS ONE OF THE BEST PERFORMING GLOBALLY, DELIVERING HIGH RETURNS AND HIGH GROWTH. HOW WOULD YOU EXPLAIN SUCH A SUCCESS?

I think that the success stems from many factors. First, the government and the central bank's support for microfinance activities, second the belief of lenders and funders in the microfinance sector and third our clients. As you may know microfinance started some 15, 20 years ago so our clients have experience and know how to use debts and manage their assets. The Cambodian economy and political stability are also favorable factors to our success. Cambodia benefits from a high growth rate (currently between 7-8%) and from a top down standpoint, the governance as well as the management and institutional infrastructures in place with internal audit and control for instance allow us to grow.

WHAT IS YOUR VISION OF THE MFI SECTOR IN ASIA AND HOW DO YOU THINK IT WILL EVOLVE IN THE LONG-TERM?

I think that especially in Cambodia, microfinance is moving in the right direction because of the good regulations and the experience and commitment from all stakeholders (government, shareholders, management). For Cambodians microfinance will go up a notch, by offering services that go beyond microfinance such as credit transfers for example. In the region we see growing interest and in most countries it is one of the tools that contribute to the development of a country. I expect that it will expand further in the region.

IN YOUR VIEW, WHERE DO YOU SEE PRASAC IN 5 YEARS? WHAT IS PRASAC'S AMBITION?

I foresee that we move up to the higher market, touching the small and medium sized enterprise (SME) segment, we will diversify our products and services not only for existing but also for new clients. We will of course focus on microfinance activities, but I think that as a microfinance institution we won't be that different from a bank.

WHAT DOES GOOD CORPORATE GOVERNANCE MEAN TO YOU?

I think corporate governance is very important as without it, we would not be able to grow and sustain our current level of performance. It is very important

to us for having a system of checking and balance in the institution, to have internal controls in place, otherwise we simply cannot grow and expand our operations. It is also an important factor for client trust and overall public confidence if we have proper and good corporate governance in place.

PRASAC ENJOYS A POSITIVE REPUTATION IN THE MARKET, OUTSTANDING FINANCIAL PERFORMANCE AND WAS RECENTLY AWARDED THREE MFI AWARDS. WHAT IS THE SECRET TO YOUR TREMENDOUS SUCCESS?

This is a tough question. I think the secret is that everyone in the company is focused on servicing the client, we strive to inspire staff to provide good service to clients and to do their best. Our success does not only come from clients but also from stakeholders, shareholders that support our strategy and provide guidance. The management of staff, the embassies' support, and our good relationship with our financiers for the past few years have also been a big factor.

WHAT CHALLENGES DO/DID YOU ENCOUNTER AS AN MFI IN SUCH A COMPETITIVE MARKET? WHAT ARE YOUR LESSONS LEARNED?

Competition is a bit tough but at the same time it's good because we constantly need to improve ourselves and be the best. We will still grow and gain competitive advantage as the demand in the market increases. However, we have a large office network (second largest in the country), we have more staff that have client relations expertise and are able to meet their preferences and demands.

One thing I would like to add is that most of our competitors are quite small and lack capacity to grow from a technical and financial perspective. Currently seven microfinance institutions share 90 - 95% of the market.

Sim Senacheert serves as the Chief Executive Officer and President of PRASAC Microfinance Institution Ltd. He started working with PRASAC in 1995 as a Credit Officer and was promoted to various positions such as Accountant, Branch Manager, MB Trainer and Supervisor and Finance Manager. Since 1995, he has attended several training courses related

to microfinance operations and management. He is also an accredited Microfinance Training of Trainer certified by ADBI, TDLC of the World Bank, and UNCDF. Sim Senacheert holds Bachelor and Master's Degrees in Business Administration and obtained a Diploma in Accounting and Finance in 1994.

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 in the period January 2015 until June 2015. **RE** = Renewable Energy, **EE** = Energy Efficiency, **MFI** = Microfinance Institution

FMO estimates the environmental impact of FMO's Sustainability Bonds and its EUR 330.0 million direct green investments (total Sustainability Bond allocation EUR 569.2 million) will be an avoidance of approximately 289,000 tons of greenhouse gas (GHG). 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 345 million as per June 2015.

EXAMPLE PROJECT SAVINGS RELATED TO SUSTAINABILITY BOND ALLOCATION:

- EUR 100 million project
- Project savings of 100,000 tons of CO₂eq per year
- Total FMO financing is EUR 20 million
- Total Sustainability Bond allocation is EUR 10 million (i.e., 10% of total project size)
- Total attribution to the Sustainability bond would be 10,000 tons of CO₂eq per year (i.e., 10% of total GHG savings).

Nr	Beneficiary	Sector	Country	Description	Total FMO financing	Sus bond allocation 2015
1	APOLLO INVESTMENT PARTNERSHIP II	RE	SOUTH AFRICA	South African focused renewable energy fund managed by African Infrastructure Investment Managers (AIIM)	23.8	0.1
2	ARMSTRONG SE ASIA CLEAN ENERGY LP	RE	ASIA	Private equity fund investing in small-scale renewable energy generation and resource efficiency projects in South East Asia	11.9	0.8
3	BANCO DE LA PRODUCCION S.A.	RE	NICARAGUA	FMO has provided a greenline to finance small-scale renewable energy investments such as the use of agricultural waste for energy generation, water efficient coffee processing equipment or drip irrigation.	13.5	13.5
4	BERKELEY ENERGY WIND MAURITIUS	RE	INDIA	Renewable energy fund manager investing in Asian and African emerging markets	21.0	4.2
5	COMPAGNIE IVOIRIENNE DE PRODUCTION	EE	IVORY COAST	Clean energy technology to enhance the efficiency of an existing power plant by generating 25.5% more power, without any incremental gas consumption and no further greenhouse gas emissions	25.0	1.7
6	GLOBAL CLIMATE PARTNERSHIP FUND SA	RE	EUROPE AND CENTRAL ASIA	The fund provides green lines to banks around the world, including support for implementation and reporting	18.1	4.5
7	INVERSIONES EOLICAS DE OROSI DOS	RE	COSTA RICA	Company to build and operate a 50MW wind power project	22.2	2.7
8	ITEZHI TEZHI POWER CORPORATION	RE	ZAMBIA	Project to develop a 120MW base-load hydro power plant being developed at the site of the existing Iteszi Tezhi dam on the Kafue River in Zambia.	32.2	9.8
9	JORDAN WIND PROJECT COMPANY PSC	RE	JORDAN	Project to construct a wind farm in Jordan	23.4	9.7
10	KHI SOLAR ONE (PTY) LTD	RE	SOUTH AFRICA	First concentrated solar power project in sub-Saharan Africa	21.9	0.5

Nr	Beneficiary	Sector	Country	Description	Total FMO financing	Sus bond allocation 2015
11	LEREKO METIER SUSTAINABLE	RE	SOUTH AFRICA	Fund invests in energy efficiency, renewables, water and waste management in South and Southern Africa	4.6	0.2
12	PALMA GUINEE S.A.	EE	GUINEA	Greenfield energy efficiency project which allows for reduced energy consumption for heating and air conditioning	9.0	3.0
13	PARQUE EOLICO MARCONA S.A.C.	RE	PERU	Project to construct a 32 MW wind farm in Peru	8.3	8.3
14	PARQUE EOLICO TRES HERMANAS S.A.C.	RE	PERU	Project to construct a 97 MW wind farm in Peru	8.9	8.9
15	RENEWABLE ENERGY ASIA FUND 'A' L.P.	RE	ASIA	Fund that invests in small hydro, wind, geothermal, solar, landfill gas and biomass projects in Asian developing markets	10.0	1.2
16	SHAMSUNA POWER COMPANY LLC	RE	JORDAN	Company to develop the construction and operation of a 10MW solar photovoltaic (PV) power plant project located in the Aqaba Special Economic Zone in Jordan	3.3	1.4
17	SINDICATUM RENEWABLE ENERGY COMPANY	EE	ASIA	Company that develops, owns and operates clean energy projects in South and South-East Asia.	24.8	4.3
18	SOLEQ HOLDINGS	RE	ASIA	Fund that will invest in solar assets in Thailand, Malaysia, Indonesia, Vietnam and the Philippines	15.8	3.2
19	THE LEREKO METIER REIPPP FUND TRUST	RE	AFRICA	Fund investing in solar and wind	7.6	0.1
GREEN TOTAL					305.3	78.2
20	AMRET CO. LTD	MFI	CAMBODIA	Deposit-taking microfinance institution in Cambodia with a focus on agriculture and poor women in rural areas	18.0	8.7
21	BAI TUSHUM BANK CJSC	MFI	KYRGYZSTAN	Company that primarily funds (M)SMEs, mainly involved in agricultural and trading activities, in rural and urban areas (38% of the borrowers are females).	8.3	3.3
22	BANCO SOLIDARIO S.A. BANCOSOL	MFI	BOLIVIA	One of the two largest Bolivian Microfinance institutions	19.3	15.6
23	CJSC MDO IMON INTERNATIONAL	MFI	TAJIKISTAN	Microfinance institution (MFI) with a leading position	6.9	0.4
INCLUSIVE TOTAL					52.5	28.0
GRAND TOTAL					357.8	106.2

The total Sustainability Bond proceeds allocated to eligible green and inclusive projects in the period November 2012 - June 2015:

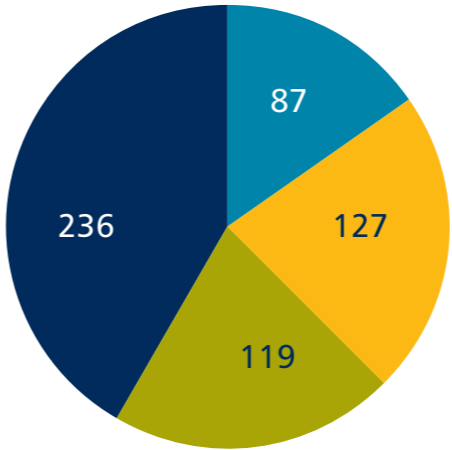
GREEN TOTAL	453.8
INCLUSIVE TOTAL	115.5
GRAND TOTAL	569.2

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

USE OF PROCEEDS

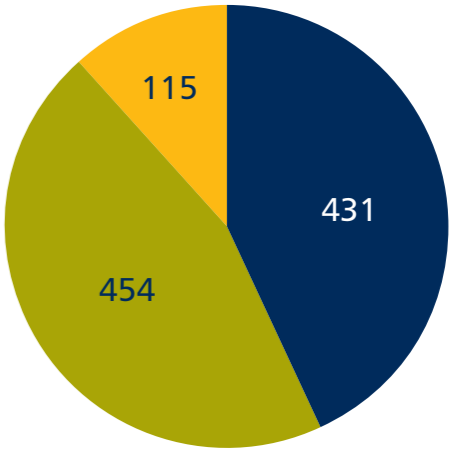
The pie charts illustrate the allocation of the EUR 1,000 million FMO Sustainability Bonds per region and green and financial inclusion assets.

PER REGION (EUR MLN)



- Eastern Europe and Central Asia
- Latin America and the Caribbean
- Africa
- Asia

GREEN AND INCLUSIVE DISBURSEMENTS



- Available
- Disbursed, green
- Disbursed, inclusive

Total disbursed 57%

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.

PROCESS TO DEFINE GREEN TRANSACTIONS

All transactions that apply for the Green Transaction label (except straightforward) are discussed with FMO's Climate Business Knowledge Street (CBKS) 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

YES



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.

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.