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Entrepreneurial
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Equator Principles Reporting 2014

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Entrepreneurial Development Bank

FMO Follows Equator Principles – and Goes Beyond

FMO recognizes that integrating environmental, social and governance (ESG) returns into our clients' projects is critical to their long-term financial success. ESG is therefore at the heart of our company and strategy.

In 2006, the Netherlands Development Finance Company (FMO) adopted the Equator Principles (EP), which relies on the IFC Performance Standards (IFC PS) to create a risk management framework for determining, assessing and managing environmental and social risks in projects.

FMO believes that good economic, environmental and social (E&S) management, and corporate governance, are interrelated. Therefore, we are convinced that there is a strong business case for the incorporation of E&S issues in business strategies. As a consequence, FMO recognizes the value of considering environmental and social criteria when financing and therefore decided to endorse the Equator Principles. The main objective is to express our commitment to mainstreaming sustainability considerations in financial best practice throughout the sector and effectively apply environmental and social criteria in all financing transactions that FMO concludes.

As stipulated by our Environmental & Social (E&S) policy, FMO has been using the Safeguard Policies / IFC Performance Standards (IFC PS) since the year 2000. Due to the new reporting requirements requested in the third generation of EP (EPIII) to further breakdown the categorized investments by sector, region, and independent review, we have simplified our quantitative reporting to cover the exact scope of the EP III.

Additionally, FMO applies the safeguard policies and the IFC PS to all its financing, including financing under US$10 million and not only our project finance transactions but corporate finance as well. Although indirect investments are not within the scope of Equator Principles, we still work with our financial institution (FI) clients and private equity funds (PEF) in which we invest, to improve how they handle the environmental and social risk in their portfolios. Depending on the risk category, we expect the FIs and PEFs to apply certain environmental and social standards when financing or investing in their clients. Basically, we work with FIs and PEFs to establish and maintain an E&S Management System[1] to ensure that its investments meet (or over time become compliant with) FMO's requirements. Through this, we identify potential value creation that can be achieved with these clients. Therefore, FMO goes further than the Equator Principles' requirements.

EP Projects Categorizes in 2014

In accordance with EPIII reporting requirements, Tables 1 below summarizes the number of projects reviewed according the IFC PS in 2014 for project finance greater than US$10million. Compared to 2013, last year FMO responsibly financed 9 more project finance investments that were greater than US$10 million in total project size. In 2014, FMO did not finance project-related corporate finance greater than US$50 million, therefore no projects are reported in table 2. FMO does not engage in Project Advisory services nor invest in designated countries so these categories are not applicable and thus not reported.

[1] The level of detail and sophistication of this management system and of the monitoring approach will depend on the E&S risk profile of the FI / PEF and the type of financing that they provide.

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Table 1: Number of Project Finance greater than $10mln investments reviewed according to IFC performance Standards that have reached financial close in 2014.

	Project Finance > $10mln		
Total (All non-designated Countries)	27		
Category	A	B+ / B	C
Total	6	20	1*
Sector			
Mining	0	0	0
Oil & Gas	0	0	0
Infrastructure	1	3	0
Power	5	15	1
Other	0	2	0
Region			
Americas	2	4	0
Asia Pacific	2	7	0
Europe, Middle East & Africa	2	9	1
Independent Review			
Yes	6	19	0
No	0	1	1

*Note: *Includes 3 convertible grants*

Table 2: Number of Project-related Corporate Finance greater than $50mln investments reviewed according to IFC performance Standards by FMO that have reached financial close in 2014

	Project-related Corporate Finance > $50mln		
Total (All non-designated Countries)	0		
Total Per Category	A	B+ / B	C
Total	0	0	0
Sector			
Mining	0	0	0
Oil & Gas	0	0	0
Infrastructure	0	0	0
Power	0	0	0
Other	0	0	0
Region			
Americas	0	0	0
Asia Pacific	0	0	0
Europe, Middle East & Africa	0	0	0
Independent Review			
Yes	0	0	0
No	0	0	0

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FMOs ENVIRONMENTAL & SOCIAL POLICY

Minimum Requirements

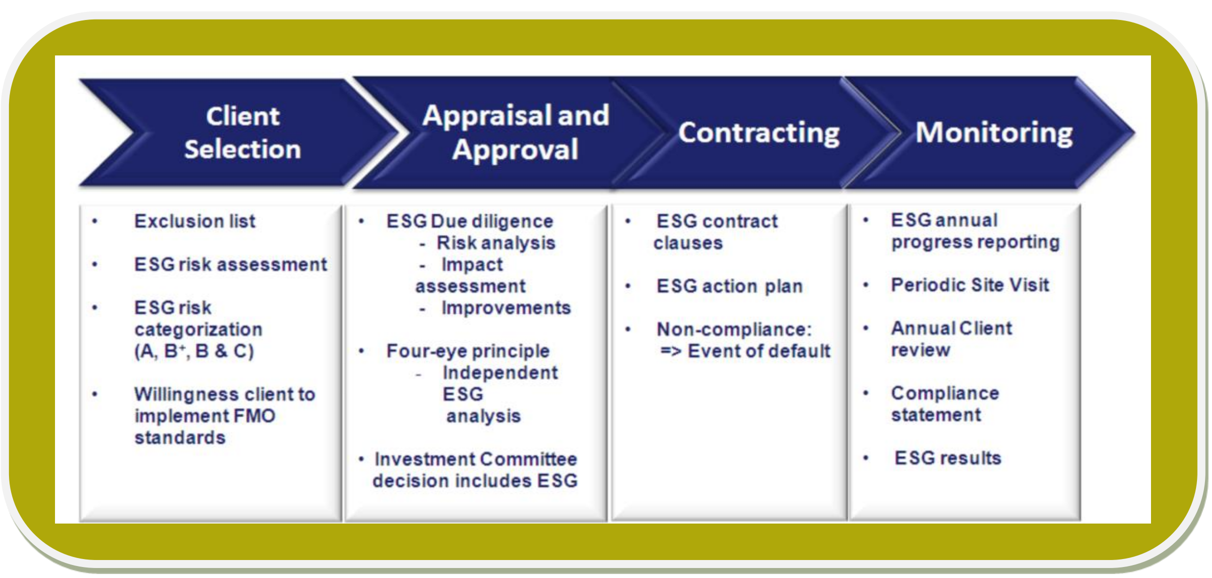
FMO can work with a broad array of privately owned companies, financial institutions (FI) and private equity funds (PEF). It chooses not to select clients which are part of our Exclusion List. The Exclusion List relates to activities that are not supported by development banks such as FMO due to their unacceptable nature (i.e. child labor). See FMO's website for the full list. Moreover, FMO also requires its FI and PEF clients to apply this Exclusion List to the clients they select in their portfolio.

ESG Integration into Investment Process

FMO considers ESG issues integrated into the organisation. Almost all departments involved in the credit process have ESG expertise or exposure to ESG issues. Investment managers are responsible for addressing ESG issue with low risk clients and work together with E&S officers on high risk clients. The same applies to the credit analysts in the credit department. Legal counsels work together with deal teams to incorporate ESG clauses in the contracts and our portfolio management departments work on monitoring ESG actions and reporting that clients have to undertake.

FMO evaluates (on a risk based approach) all of its financing against the IFC Performance Standards regardless of asset class and amount of investment. Should ESG gaps be identified at our clients we work with them to develop an Environmental and Social Action Plan (ESAP) and/or Corporate Governance Plan to close these gaps according to the IFC PS and our Corporate Governance Policy. Within our investment directorate there are E&S officers who participate in the deal teams together with the investment officers to carry this out. E&S staff all report directly to their team managers/directors who together are all responsible for ensuring that FMO implements its E&S policy. Ultimately, management and supervisory board are responsible for FMO's ESG targets. FMO currently has an organisation wide target where we aim to achieve an implementation of at least 85% of our ESG action items due in reporting year, which is tracked in an internal IT system called SusTrack. This is one of FMO's non-financial targets, which is included in the annual report.

Figure 1: How E&S is incorporated into FMO's credit approval process



As seen in Figure 1 above, FMO's E&S process is integrated into its investment process. Clients are screened against FMO's Exclusion List and the IFC PS and if needed assessed on their willingness to comply with the IFC PS. An initial E&S evaluation is incorporated into the initial in principle approval. An E&S Analyst (Four Eye Principle) in the credit department evaluates this proposal which is then forwarded to the investment committee for approval with advice and conditions. Should approval be granted, due diligence is carried out by an E&S officer in the deal team who then provides input for the Finance Proposal (FP). The FP is evaluated by the E&S Analyst and forwarded to the Investment Committee with E&S advice. Lastly, progress on the ESAP is monitored annually with periodic site visits to assist clients with any outstanding environmental and/or social challenges.

FMO makes a distinction between on the one hand Direct Investments, being corporates or project finance companies and on the other hand Indirect Investments, being Financial Institutions (FIs) or Private Equity Funds (PEFs). The categorization for Direct Investments is elaborated on below.

DIRECT INVESTMENTS

All our direct investment clients (including those in which we take equity) are required to comply with national E&S law as a minimum standard, and with the Environmental and Social Performance Standards, as developed by the International Finance Corporation (IFC), member of the World Bank Group, whichever stricter.

To help our direct investment clients establish sound E&S practices, we use a practical framework. The framework comprises of four parts: (1) Risk Categorization of clients, (2) Establishing applicable requirements, (3) Environmental and Social Action Plans and (4) pricing incentives.

(1) Risk Categorization of Clients

All new and existing clients are subject to a Risk Categorization of their (potential) Environmental and Social impacts. There are four risk categories A, B+, B and C:

A = high risk: Projects / clients with potential significant adverse social or environmental impacts which are diverse, irreversible or unprecedented.

B+ = medium high risk: Clients with potential adverse social or environmental impacts that are generally beyond the site boundaries, largely reversible and can be addressed through relevant mitigation measures.

B = medium risk: Clients with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

C = low risk: Projects with minimal or no adverse social or environmental Impacts.

The categorization of clients into the A, B+, B, or C category is largely based on an assessment against the applicable IFC Environmental and Social Performance Standards. At the same time, we cooperate closely with the European Development Finance Institutions (EDFI's) with the purpose to harmonize our definitions and requirements.

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(2) Applicable Requirements

Below table provides an overview of the minimum requirements per category of company. For direct investment clients in category A and B+, an assessment of the E&S practices is required as part of FMO's due diligence. All FMO's higher risk clients are required to implement an Environmental and Social Management System (ESMS). This ESMS is customized for each type of client.

Direct Investments	**A**	**B+**	**B**	**C**
Risk / impact	**High**	**Medium / high**	**Medium**	**Low**
IFC Performance Standards (PS)	Often project finance with PS 1-8 triggered	Often corporate finance with PS 1-4 triggered, and potentially high risk aspects (PS 5-8)	Corporate in medium risk sector PS 1-3	Corporate in low risk sector
Requirements	- IFC Performance Standards - ESAP (usually)	-IFC Performance standards -ESAP (if necessary)	-IFC Performance Standards -ESAP (on request)	-National Law -No ESAP

(3) Environmental and Social Action Plans

Based on the outcomes of the assessment carried out, an Environmental and Social Action Plan (ESAP) is to be agreed upon as necessary, with clear and practical milestones to be achieved within a certain period of time. The ESAP would normally allow clients a three year period at the maximum to reach full compliance with the requirements. For clients in category B and C, no in-depth assessment is required. However, on a voluntary basis we try to identify potential value creation that can be achieved with these clients.

The ESAP is, in cooperation with the client, made "SMART", i.e. Specific, Measurable, Achievable, Realistic and Time-Bound, and included in the loan documentation. Non-compliance with key milestones of the ESAP constitutes an event of default under the loan documentation. For FMO's direct equity transactions, the ESAP shall be firmly agreed and under implementation before disbursement of FMO's funds and the E&S principles applied by the company shall be firmly constituted in the Shareholders Agreement.

Effective implementation of the ESAP adds value to the client, it mitigates E&S risks and it contributes to E&S development impact that FMO achieves through its financing.

(4) Pricing Incentives/Penalties

FMO can support the E&S business case in structuring its financial products. From a risk-return perspective, FMO is able to support implementation of major milestones of the ESAP by offering pricing incentives and/or requiring pricing penalties (in case of non-compliance with the Environmental and Social Action Plan).