GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH

AAAu

stable

Rating-Committee: 02.09.2016

Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)

Rating result

The present rating of the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), The Hague, Netherlands, is an unsolicited rating. We executed the initial rating based particularly on the annual report of 2015, the FMO investor presentation dated June 2016 and the interim report dated June 2016. Based on this information, GBB-Rating gives the highest rating to FMO's creditworthiness, with a strong financial profile and strong business profile. Due to the strategic importance of the FMO for the Dutch development aid policy and an explicit state support, formalised in an agreement in 1998, we also assume strong state support of the Netherlands. The outlook of the rating is stable.

FMO, hereinafter also referred to as 'Bank', is the Dutch development bank, founded in 1970 as a public-private partnership. As part of the Dutch government's international development agenda, the mandate of the Bank is to provide financing in developing countries, primarily in the 55 poorest countries in the world. The main business activity is promoting sustainable private sector growth by financing companies, projects and financial institutions in these countries. Furthermore, FMO manages several funds on behalf of the Ministry of Foreign Affairs, which invests in higher-risk projects (MASSIF fund, Access to Energy Fund, Infrastructure Development Fund) at an early stage. To ensure sustainable growth in the supported countries, the Bank focuses on three key sectors: financial institutions, agribusiness and energy, all which have a high development impact. With a committed portfolio of EUR 9.3 billion spread over 85 countries, FMO is one of the larger bilateral private sector development banks globally. FMO obtained a full banking licence in 2014 and is supervised by the Dutch Central Bank. The Bank employed an average of 372 full-time employees during the year 2015.

FMO has solid capital ratios as well as a good risk bearing capacity. The FMO CET1 ratio strengthened in 2015 from 21.3 % to 22.9 % due to retained earnings and the successful issuance of € 175 m. subordinated notes. In the first half of 2016, the Bank further improved its ratio to 23.8 %. The earnings position in 2015 was characterised by a significant increase of the net interest income driven by the growth of the loan portfolio and the positive impact of the dollar appreciation. In 2015, FMO generated an all-time high net profit of € 174 m, compared to € 124 m. in the previous year. In contrast, net profit decreased in the first half of 2016 as compared to the same period last year due to higher value ad-

Strengths/Opportunities:

- High strategic importance within the scope of Dutch development aid policy and high state comittment to support, which is based on an explicit agreement in 1998
- Solid capital ratios
- Sound and sustainable profitability
- Good expertise and long-term experience in financing clients in developing countries
- Conception and definition of instruments measuring impact and footprint of new investments in 2015

Weaknesses/Threats:

- Volatility of results from equity investments
- Challenging market environment in the developing countries with partly political instability
- Reputational risks notably caused by negative social or environmental impact from the projects financed

Financial data:

Figures (€ x '000)	2015	2014
Gross profit	267,993	160,798
Operating result	214,956	149,372
Net income	174,288	124,376
Total assets	8,421,282	7,087,644
CET1 capital ratio	22.9%	21.3%
Total capital ratio	23.6%	21.3%

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Summary:

	Rating
Financial profile	strong
- Long-term earnings position	strong
- Sustained capital position	strong
Business profile	strong
- Strategy and market	strong
- Risk profile	adequate
- Capitalisation potential	strong

(strong > adequate > acceptable > deficient > problematic > insufficient)

Rating history:

Rating	Outlook	Date
AAA_u	**stable**	**02.09.2016**

Rating Scale:

Rating	Rating categories
AAA_u	highest financial standing
$AA+_u/AA_u/AA-_u$	very high financial standing
$A+_u/A_u/A-_u$	high financial standing
$BBB+_u/BBB_u/BBB-_u$	good financial standing
$BB+_u/BB_u/BB-_u$	satisfactory financial standing
$B+_u/B_u/B-_u$	financial standing scarcely adequate
$CCC+_u/CCC_u/CCC-_u$	financial standing no longer adequate
CC_u/C_u	inadequate financial standing
D_u	moratorium / insolvency proceedings

justments and a very challenging market environment. Overall, the profitability has been good and solid over the recent years and was influenced by low funding costs and high investment yields of the emerging market loan portfolio. The Bank's financial profile is determined by a strong long-term earnings position and a strong sustained capital position.

The risk profile as a whole is assessed as adequate. The main risk relates to the loan and equity portfolio in developing countries. Total credit risk exposure increased in 2015 to € 9.3 b. (2014: € 8.0 b.). According to its business model and investment focus in developing countries, the major part of the portfolio lies in the non-investment-grade segment. In contrast, the portfolio is determined by a good collateral position (29 % of the gross loan portfolio) and low write-downs as a result of active management and focus on recovery. Although the total loan portfolio increased in 2015, the quality and the proportion NPL % of loan portfolio (6.8 % to 6.9 %) remained largely stable.

FMO has a stable shareholder structure. The Dutch state owns 51 % of FMO's shares through the Dutch Ministry of Finance, a share of 42 % is owned by the large Dutch banks ABN AMRO, ING and Rabobank, and the remaining share of 7 % is owned by Dutch institutions, companies and individuals. We assess the shareholder structure as constant and believe it highly unlikely that the Dutch state (over the Dutch Ministry of Finance) could give up the majority of FMO because the state guarantee can only be terminated with 12 years notice. Based on this explicit support agreement ("Agreement State - FMO of 16 November 1998"), the Dutch state is committed to supporting the Bank if necessary. Additionally, the Bank has access to capital markets and strengthen the capital basis regularly through earnings retention.

Rating drivers

The most important rating drivers which could lead to a rating downgrade are a deterioration of the Dutch state creditworthiness or any changes in the states support of FMO (weakening or termination of the agreement between the Dutch state and FMO). Furthermore, a reduction of the majority stake of the Dutch state could lead to a negative rating action. A deterioration in the economic and political situation of the developing countries as well as the increase in loan default could lead to a negative impact on the earnings position and therefore also on the rating action.

Regulatory disclosure requirements

Name and function of the analysts:

- Stefan Koll, Lead Rating Analyst, GBB-Rating, Cologne
- Philipp Krohs, Rating Analyst, GBB-Rating, Cologne

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Members of the Rating Committee:

- Sebastian Podporowski, Certified Public Accountant
- Manfred Kühnle, Certified Public Accountant
- Bernd Bretschneider, Managing Director GBB-Rating, Köln

Date	Rating Committee	Notification	Issue
First rating	02.09.2016	02.09.2016	16.09.2016

Validity:

- Rating: 12 months
- Outlook: 24 months

Subsequent rating changes after notification to client:

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Major sources of information for the rating:

- Annual report 2015
- Publicly available information
- FMO investor presentation, June 2016

Statement about the quality of information available (including potential restrictions):

- The quality and extent of information were suitable to obtain a comprehensive picture of the bank and to assign an objective, transparent and professional credit rating

Applicable rating methodology, rating type and release:

- Unsolicited rating without participation of the rated company
- Methodology for Rating Banks and Building Societies (Version 3.0.02) – cluster credit and counterparty credit risk (CRR)
- GBB-Rating, Policy on Performing and Issuing Unsolicited Credit Ratings, 04-2016
- www.gbb-rating.eu/en/presse/eu-veroeffentlichungen/Pages/default.aspx

Meaning of the rating category:

- www.gbb-rating.eu/en/ratings/ratingskala/Pages/default.aspx

Business relationship:

- There is no (further) business relationship

Legal remarks

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Future events are uncertain. Ratings are based on predictions of these and thus inevitably rely upon estimates. Therefore they solely represent statements of opinion rather than statements of fact or investment advice.

Credit ratings are performed with proficiency and due professional care. Ratings are based on publicly available information and possibly the information provided by the rated company. This information is used in reaching an opinion about the future viability as well as the strengths and weaknesses of the rated company as of the date of rating issuance.