AAA$_u$

stable

Rating-Committee: 06.09.2017

GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH

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

Rating result

Strengths/Opportunities:

- Strong state comittment to support in the case of financial distress, which is based on an explicit agreement in 1998
- High strategic importance for Dutch development aid policy
- Strong financial profile with solid capital ratios and a strong long-term earnings position
- Know-how, long-term experience and network in financing clients in developing countries

Weaknesses/Threats:

- Loan portfolio mainly classified as non-investment grade
- Volatility of income; volatility of results from equity investments
- Challenging market environment in the developing countries
- Reputational risks notably caused by negative social or environmental impact from the projects financed

Financial data:

Figures (TEUR)	2016	2015
Gross profit	217,702	267,993
Operating result	219,074	214,956
Net income	176,105	174,288
Total assets	8,552,765	8,421,282
CET1 capital ratio	22.7%	22.9%
Total capital ratio	23.9%	23.6%

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The present rating of the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) is an unsolicited rating and the update of our initial rating, dated September 2016. We executed the current rating based particularly on the annual report of 2016 and the FMO investor presentation dated May 2017. Based on this information, we affirm the rating result of FMO at AAA and give the highest rating to FMO's creditworthiness, with a strong financial profile and a strong business profile. The affirmation reflects our unchanged expectation of strong state support of the Netherlands, formalised in an agreement in 1998 between FMO and the Dutch government. Futhermore FMO has a strategic importance for the Netherlands and the Dutch development aid policy. The outlook of the rating remains 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. The main business activity is promoting sustainable private sector growth by financing companies, projects and financial institutions in these countries. Moreover, FMO manages several funds on behalf of the Ministry of Foreign Affairs, which invests in higher-risk projects (amongst others MASSIF fund, Access to Energy Fund, Infrastructure Development Fund) at an early stage. In addition to offering a variety of financial products, the Bank also provides access to their networks. To ensure sustainable growth in the supported countries, the Bank focuses on the key sectors financial institutions, agribusiness and energy, all which have a high development impact. With a committed portfolio of EUR 9.8 billion (2015: EUR 9.3 billion) spread over more than 85 countries, FMO is one of the larger bilateral private sector development banks globally. FMO obtained a full banking license in 2014 and is supervised by the Dutch Central Bank. The Bank employed an average of 404 full-time employees during the year 2016.

With a core tier-1 capital ratio of 22.7 % (22.9 % in 2015) FMO is strongly capitalized and well above the capital requirements, which was set by the Dutch Central Bank for FMO (SREP requirement of 15 % in terms of total capital, furthermore a 1.25 % combined buffer and a 1 % Pillar II guidance). FMO strengthened its equity capital in 2016 due to retained earnings and an increase of available for sale reserves. The slight decrease of the CET1 capital ratio resulted from the growth of the loan and equity portfolio and the increase in Risk Weighted Assets. The leverage ratio equals 25.4 % (2015: 22.6 %), which is also well above the minimum criteria of 3 %.

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**	**06.09.2017**
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

In 2016, the earnings situation of the Bank remained solid and resilient. In a challenging environment, FMO generated an all-time high net profit of € 176 m compared with € 174 m in the previous year. However, the good performance was influenced by a substantial one-off reversal in loan provisions. The total income, primarily driven by the net interest income, dropped from € 320 m to € 300 m. The profitability remained high with a return on equity at 8.3 % (based on GBB-Rating's internal calculations). 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 is assessed unchanged as adequate. The main risk relates to the loan and equity portfolio in developing countries. According to its business model and investment focus in developing countries, the major part of the portfolio is classified as non-investment-grade. In 2016, the Non-Performing Loans (NPL)-proportion of loan portfolio slightly rose from 6.9 % to 7.5 %, mainly driven by non-financial institution corporates exposure. Overall, the quality of the loan portfolio still remains at a credible level, secured by a good collateral position (27 % of the gross amount of loans).

According to FMO's business operations in developing and emerging countries the Bank operates in a challenging market environment. Additionally, reputational risks may arise from environmental, social and governance risks. In 2016, for example, the company was confronted with considerable resistance to the Agua Zarca project in Honduras. The financing of the project has now been discontinued.

The shareholder structure of the Bank is stable and solid. The Dutch state owns 51 % of FMO's shares through the Dutch Ministry of Finance. The remaining 49 % is owned by large Dutch banks (ABN AMRO, ING, Rabobank), Dutch institutions, companies and individuals. We still assess the shareholder structure as constant. There is nothing indicating that the ongoing privatization of ABN AMRO has any impact on the FMO's government, strategy or operations. We deem it highly unlikely that the Dutch state could give up the majority of FMO. Furthermore 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. The FMO's capitalization potential is strong. In addition to having good access to capital markets, the Bank strengthens the capital basis regularly through earnings retention.

Rating drivers

Rating drivers which could lead to a rating downgrade are a deterioration of the Dutch state creditworthiness, the reduction of the majority of the Dutch state or any changes in the states support of FMO (weakening or termination of the agreement between the Dutch state and FMO).

Regulatory disclosure requirements

Name and function of the analysts:

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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
Current rating	06.09.2017	07.09.2017	21.09.2017

Validity:

- Rating: 12 months
- Outlook: 24 months

Subsequent rating changes after notification to client:

- none

Major sources of information for the rating:

- Annual report 2016
- Publicly available information
- FMO investor presentation, May 2017

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 3.0.03) – cluster credit and counterparty credit risk (CRR)
- GBB-Rating, Policy on Performing and Issuing Unsolicited Credit Ratings, 08-2017
- 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 business relationship with FMO

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.