

# PRESS RELEASE

The Hague, 29 August, 2019

## Performance on track on impact for FMO H1 2019

<b>Impact targets on main Sustainable Development Goals on track</b> (in millions of Euro <sup>1</sup> )	<b>FMO-A</b>	<b>Dutch Gvt Funds</b>	<b>Mobilized Funds</b>	<b>Total</b>	
• Decent Work and Economic Growth (SDG 8)	586	49	381	1,016	227,000 jobs supported
• Reduced Inequalities (SDG 10)	150	25	66	241	24% of total
• Climate Action (SDG 13)	219	16	105	340	33% of total

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- Total Loan portfolio per H1 2019 amounted to EUR 4.768m (YE 2018: EUR 4.771m)
  - Total Private Equity portfolio (incl. associates) per H1 2019: EUR 1.921m (YE 2018: EUR 1.798m)
  - Operating Income H1 2019: EUR 138m (H1 2018: EUR 174m)
  - Operational Expenses H1 2019: EUR 60m (H1 2018: EUR 52m). Expenses for the year 2019 are on track
  - Net profit in H1 2019: EUR 58m (H1 2018: EUR 124m)
  - Non-performing loans H1 2019: 7.3% (H1 2018: 6.1%)
  - Common Equity Tier 1 ratio: 24.0% (YE 2018: 24.6%)
  - Number of internal employees as per H1 2019: 588 (YE 2018: 512 internal employees)
  - Tender won to manage the Dutch Fund for Climate and Development (EUR 160m, tenor of 18 years), together with SNV, WWF and CFM. DFCD focusses on Mitigation and Adaptation

### Financial results

In the first half year 2019 we had increased interest revenues of 6%; expenses were in line with our plans. The valuation of our PE portfolio was influenced by difficult market circumstances as well as negative FX movements in local markets.

### Total mobilized and FMO investments are largely on track

All our investments are focussed on the private sector as well as on SDG 8 (Decent work and Economic Growth). We invested EUR 586 million ourselves and were able to mobilize third parties to invest with us, representing almost EUR 400 million.

### Investments in Climate Action and Reduced Inequalities are on track

In the first half year of 2019, FMO achieved solid impact results. Our Green investments, contributing towards climate action (SDG 13), amounted to EUR 340 million (33% of total investments).

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<sup>1</sup> In millions of Euro unless indicated otherwise (jobs supported)

Furthermore, FMO invested EUR 241 million (24% of total investments) to help reduce inequality (SDG 10) in the Least Developed Countries (LDCs, EUR 144 million) and towards Inclusive Finance (EUR 98 million, targeting the un(der)banked, the unconnected, youth, women, smallholder farmers and rural populations).

## **The correlation between Economic Developments in Africa and Europe are underestimated**

In July 2019, the Dutch government announced its intention to develop a task force for The Netherlands to infuse economic collaboration with Africa and take away any impediments currently in the way of converting business opportunities. In Africa, the Continental Free Trade Agreement (AfCFTA) was signed by almost all 54 African countries. Once ratified, the CFTA will be the world's biggest free trade agreement since the inception of the World Trade Organization (WTO) in 1995. We experience a strong increase in the interest of Dutch corporates to invest in the different African regions ourselves. Lastly, we are establishing a joint venture between FMO's NL Business unit and RVO to better service the Dutch business community to invest in Africa, alongside other emerging regions. We believe that the aforementioned developments will contribute to further cooperation between African and Dutch corporates.

## **Improving FMO and the Development Finance Sector**

In the first half of 2019 we implemented internal changes to enhance our execution strength. We created an Impact & ESG Department, an Operations Department as well as a Knowledge Management Unit and we changed several reporting lines. FMO's Supervisory Board decided to establish a separate Supervisory Board Committee on Impact & ESG.

We started with 22 mostly IT-related projects to improve the efficiency and quality of the organization of which most are on track.

We launched four new corporate values: *Making the difference, Diversity, Quality and Integrity*. Each value is underpinned by three behaviors that guide us in how we act as an organization. In line with our values FMO has started to report on KPIs for Gender Equality. We refer to page 14 in the Interim Report for an overview.

FMO and fourteen other European Development Finance Institutions (EDFIs) launched a Harmonization Initiative on Responsible Financing and Impact Measurement. This multi-year initiative will design one single method in which all DFIs measure and steer the development impact of their activities, starting with indirect job creation and GHG avoidance. In June, FMO was also voted into the IFC Operating Principles Advisory Board.

## **Challenges we face**

To make the world realize that the biggest challenges we are facing are Climate Change and Inequality, we sincerely believe that we as an industry of DFIs can make the difference. We will need to broaden our view and be part of the solution around the following challenges:

- As a DFI industry: the need to improve our accountability and transparency efforts around our achievements and challenges;

- In our local markets: the need for local governments to understand that good governance is an essential cornerstone for economic development;
- In our (DFIs) home markets: the need for policy development to take a long-term view on the challenges we face in our global economy;
- In the private sector of our (DFIs) home markets: the perceived risk profile of (doing business in) emerging markets, which generally reflects neither the entrepreneurial appetite nor the opportunities we encounter in emerging markets;
- In the global economy: political and monetary developments in our emerging countries, as well as trade wars on a global scale, which currently lead to lower returns than we were used to, especially in the Private Equity portfolio.

### **Our outlook: healthy pipeline yet local markets under pressure**

Our overall pipeline of investment opportunities looks healthy and we expect to see the effects of several important initiatives, amongst which in Venture Capital and Forestry, which we ramped up in H1 of 2019.

The financial performance at year-end 2019 will show mixed results. Although our loan portfolio will continue to show growth, we experience high liquidity in certain syndication markets amongst DFIs in particular.

The valuation of our Private Equity portfolio continues to be influenced by difficulties in the emerging markets and developing economies. The economic, political and monetary developments (incl. local currency FX rates) in the following geographies - Turkey, South Africa, Nigeria and India - have impacted the valuation of our Private Equity portfolio in the first half of 2019. We also note that at a global level, valuations of Banks and Insurance companies have been under pressure, resulting in lower valuation of our investments in financial institutions. Overall, we expect that the financial performance of the Private Equity portfolio will remain challenging in the short term. This leads us to conclude that the overall target for operating income for 2019 will not be met.

By and large, we believe that we are on track for our 2019 budgeted numbers for investments on SDG 8, SDG 10 and SDG 13, as well as for our operational costs, interest revenue and service fees.

For more information, please see our [half year report](#).

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Entrepreneurial  
Development  
Bank

### **About FMO**

FMO is the Dutch entrepreneurial development bank. As a leading impact investor, FMO supports sustainable private sector growth in developing countries and emerging markets by investing in ambitious projects and entrepreneurs. FMO believes that a strong private sector leads to economic and social development and has a more than 45-year proven track-record of empowering people to employ their skills and improve their quality of life. FMO focuses on three sectors that have high development impact: financial institutions, energy, and agribusiness, food & water. With a committed portfolio of EUR 9.7 billion spanning over 85 countries, FMO is one of the larger bilateral private sector developments banks globally. For more information: please visit [www.fmo.nl](http://www.fmo.nl)

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### Financial performance

In the first half of 2019 FMO posted a net profit of EUR 58 million. The net profit was influenced by mixed results in our two main business activities.

Our loan portfolio continues to show a strong performance, with an increase in average volumes by EUR 0.5 billion, which resulted in an increase of interest income with 6.0%. On the other hand, our Private Equity business continues to experience difficulties in the emerging markets and developing economies. The economic, political and monetary developments (incl. local currency FX rates) in the following geographies - Turkey, South Africa, Nigeria and India - have impacted the valuation of our equity portfolio in the first half of the year. An important factor which led to the depreciation of our investments in funds in these countries are related to local currency devaluations. We also note that at a global level, valuations of specific sectors, such as the financial sector, have been under pressure. This has negatively impacted the valuation of our investments in financial institutions. This led to an overall decrease in our operating result. The impairment charges on our loan portfolio in 2019 returned to normalized levels. In 2018 we reported a net release of EUR 15 million, which was the result of a combination of releases on stage 3 provisions as well as recoveries on credit impaired exposures.

		H1 2019	H1 2018	Change
<b>Profit &amp; Loss account (x €m)</b>	Operating income	138	174	-36
	Operating expenses	-60	-52	-8
	<b>Operating result</b>	<b>78</b>	<b>122</b>	<b>-44</b>
	Impairment charges on financial instruments	-14	15	-29
	Share in the result of associates	2	3	-1
	Income tax expenses	-8	-16	8
	<b>Net profit</b>	<b>58</b>	<b>124</b>	<b>-66</b>
<b>Balance sheet (x €b)</b>	Net loans	4.8	4.3	0.5
	Equity investment portfolio (incl. associates)	1.9	1.8	0.1
	Total assets	9.3	8.3	1.0
	Shareholders' equity	3.0	3.0	-
	Debentures & notes	5.8	4.9	0.9
<b>Ratios at end of period (%)</b>	Non-Performing Loans (NPLs)	7.3%	6.3%	1.0%
	Return on average shareholders' equity	3.8%	8.6%	-4.8%
	Common Equity Tier 1 (CET 1)	24.0%	25.8%	-1.8%