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Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

Primary Credit Analyst:
Remy Carasse, Paris + 33 14 420 6741; remy.carasse@spglobal.com

Secondary Contacts:
Marko Mrsnik, Madrid + 34 671 501 691; marko.mrsnik@spglobal.com
Juan P Fuster, Madrid; juan.fuster@spglobal.com

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Major Rating Factors

Issuer Credit Rating
AAA/Stable/A-1+

Strengths:	Weaknesses:
• Almost certain likelihood of government support in the event of financial distress. • Formal agreement with the Dutch state, which has a maintenance obligation on its operations and a financial security obligation on its commitments. • A historically strong financial profile.	• High-risk lending profile. • Volatile income stream.

Outlook

The stable outlook on Dutch development bank Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) mirrors that on the Netherlands (unsolicited; AAA/Stable/A-1+). This reflects S&P Global Ratings' expectation that the formal agreement with the Dutch government regarding state support of FMO will remain in force.

Downside scenario

We would lower our ratings on FMO following a similar rating action on the Netherlands. In the unlikely event that we were to reassess FMO's integral link with and critical role for the Dutch government, and therefore see a lower probability of extraordinary government support, we could lower our ratings on FMO to below those on the Netherlands.

Rationale

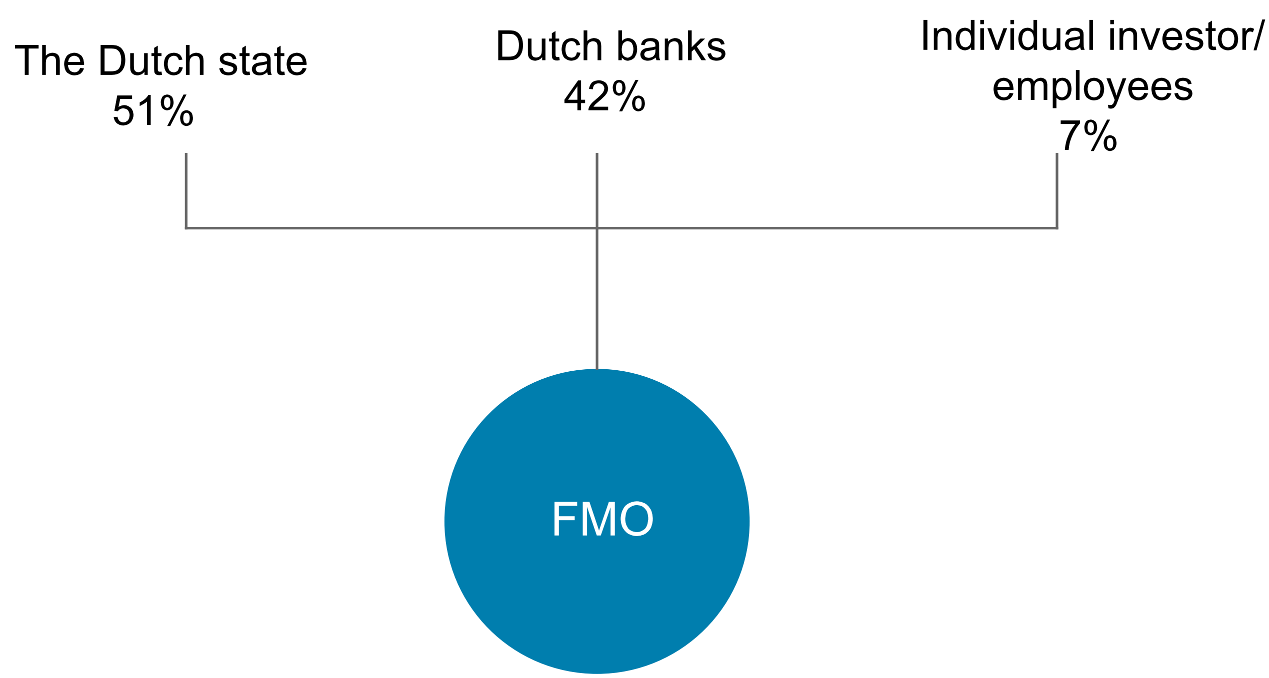
We equalize our ratings on FMO with those on the Netherlands. Based on our view of FMO's critical role for and integral link with the Dutch government, we consider that there is an almost certain likelihood that the government would provide timely and sufficient extraordinary support to FMO in the event of financial distress. We do not assess a stand-alone credit profile for FMO because we do not see the likelihood of government support as subject to transition risk. As a result, we expect that the ratings and outlook on FMO will move in line with those on the Netherlands.

Majority state-owned FMO plays a critical role in promoting private-sector growth in developing countries. Our view of almost certain government support for FMO hinges on the bank's:

- Critical role as the key government vehicle for promoting private-sector growth in developing countries, a public-policy goal in the Netherlands; and
- Integral link with the Dutch government, which exercises control of and strong support for FMO, despite partial ownership. We base this on the government's obligation to maintain FMO's operations, its liquidity injections, commitment to preserve FMO's solvency, and track record of providing support to the entity.

Chart 1

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



Source: FMO.

The 1998 agreement with the government formally codifies sovereign support to FMO. Established in 1970, FMO is a public-private development bank. Its majority shareholder is the Dutch government (51%), with the remaining shares held by large Dutch banks (42%), alongside employers' associations, trade unions, and individual investors (7%). The Netherlands' long-term commitment to, and support of, FMO is demonstrated by the sovereign's obligation in most circumstances to safeguard the company's solvency. Under Article 7 of the agreement (Maintenance Obligation), the Dutch state is committed to covering all losses from operations that cannot be covered by general or specific provisioning and reserves. Under Article 8 (Financial Security Obligation) of the agreement, the Dutch state shall prevent situations arising in which FMO is unable to meet its commitments on time. Commitments include funding raised in capital markets. FMO's creditors have no direct recourse to the Dutch government. Instead, the government has an obligation to FMO. We understand that, although the state does not explicitly guarantee FMO's individual obligations, it views its maintenance and financial obligations as equivalent to an explicit guarantee. The duration of the 1998 agreement is indefinite and its termination by either party requires 12 years' notice.

FMO supports business and financial institutions in emerging markets. FMO provides private-sector institutions in developing and emerging countries with capital and skills. This forms part of the general policy of the Netherlands' Ministry of Development Cooperation, and therefore qualifies as a strategically important activity. FMO arranges loans, equity investments, guarantees, and other investment promotion activities. In addition, it manages several off-balance-sheet development funds on behalf of, and at the risk of, the Dutch government. FMO manages the following government funds that finance high-risk projects in developing countries:

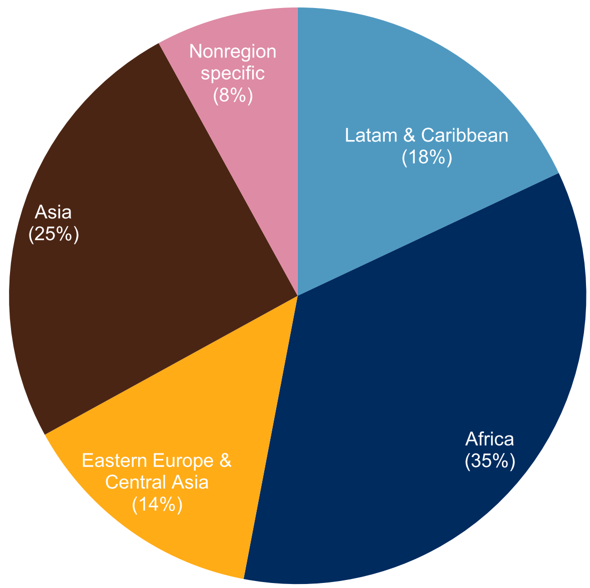
- MASSIF: A fund aiding the development of micro, small, and midsize enterprises via financial institutions;
- Building Prospects: The long term financing of funds earmarked for infrastructure projects in low-income countries; and
- AEF: A fund financing energy projects.

COVID-19 has hit FMO's portfolio quality significantly. The global pandemic has worsened economic conditions in emerging economies, hitting in turn FMO's asset quality as the development bank is particularly exposed to these markets. For the first time in its history, FMO reported a net loss of €280 million in first-half 2020. Nevertheless, FMO continues to be well-capitalized with a total capital ratio of 22.8% at June 30, 2020--exceeding the required minimum of 14%. In our view, the almost certain likelihood of extraordinary support by the state supports FMO's market access at low funding costs: FMO issued a seven-year, €500 million sustainability bond in April 2020, with a 0.125% coupon. In addition, FMO has been eligible for the European Central Bank's (ECB's) public-sector purchase programs since they began in 2015, which enhances its funding position.

FMO has developed a financial and nonfinancial response package to support its clients in the wake of COVID-19. This includes payment holidays to existing customers with short-term liquidity needs, who can apply for loans offering additional liquidity, and remote advisory services. FMO has also scaled up the investments made through NASIRA, a program benefiting from European Commission guarantees, which provides risk-sharing to financial institution customers to unlock lending to migrant, female, and young entrepreneurs during and after the pandemic.

Chart 2

FMO's Total Committed Portfolio By Region



Latam--Latin America. As per Dec. 31, 2019. Source: FMO.

FMO plays a key role in the government's sustainable development initiatives. In 2019, FMO won the tender to manage the €160 million Dutch Fund for Climate and Development on behalf of the Dutch Ministry of Foreign Affairs, and it will do so in a consortium with SNV Netherlands Development Organization, the World Wide Fund for Nature, and Climate Fund Managers. We believe this is further evidence of the critical public-policy role FMO plays with respect to wider national policy objectives and its direct partnership with the government. In line with the Dutch government's policy objectives toward the U.N.'s sustainable development goals (SDGs), FMO's total committed portfolio increased to €12.7 billion for decent work and economic growth (SDG 8), €3.8 billion for reducing inequalities (SDG 10), and €4 billion for supporting climate action (SDG 13) in first-half 2020.

FMO's full banking license enhances its access to the international capital markets and widens its financing options. A fully licensed bank since 2014, FMO can benefit from any emergency monetary policy measures that the ECB adopts. Moreover, within the ECB's public-sector purchase programs (PSPP), securities issued by FMO remain eligible for the Eurosystem's expanded asset purchases. In our view, the inclusion of FMO's securities does not have a significant impact on its already-favorable borrowing conditions, partly because only slightly more than one-third of the funding portfolio is denominated in euros. Nevertheless, we think that including FMO's securities in the ECB's PSPP benefits FMO's funding options. FMO is subject to the EU's Bank Recovery and Resolution Directive, as implemented under Dutch law, with the competent resolution authority being the Dutch central bank.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Netherlands, Nov. 13, 2020

Ratings Detail (As Of December 16, 2020)*	
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	
Issuer Credit Rating	AAA/Stable/A-1+
Commercial Paper	
Foreign Currency	A-1+
Senior Unsecured	AAA
Issuer Credit Ratings History	
25-Nov-2015	AAA/Stable/A-1+
26-May-2015	AA+/Positive/A-1+
29-Nov-2013	AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
EMEA Sovereign and IPF; SovereignIPF@spglobal.com